



## **HB 4010: Disconnect from federal Opportunity Zone tax provisions**

Testimony for the House Committee on Revenue – John Calhoun – 2.6.2020

**This program has been sold as a creative way to bring investments to depressed communities seeking revitalization, but as Bennett has pointed out, this program targets areas that are already getting investments. The promoters of QOZ funds tout investment in great properties that made sense without the added tax benefits as seen by the quote on the screen. Cresset Capital which is raising \$53 million for a 24 story ultra-luxury apartment building in Portland promotes that it will be located in the #1 Qualified Opportunity Zone census tract in the Country – downtown Portland. Cresset has raised another \$450 million for a fund with multiple investments around the country.**

**The money is going to investments like the Ritz Carlton Hotel in Portland which will have the highest room rates in the city and condos selling for millions.**

**Despite publicity about this being a program for distressed communities or small towns, the preponderance of the capital will go to thriving urban areas not small town Oregon.**

**Some proponents of Opportunity Zones claim that this tax break on profits will create a market for investments that are otherwise not going to happen. But from the investor's perspective, to get this tax benefit, he has to put his money into a project with a pretty good probability that it can be sold in 10 years for considerably more than what was invested. Otherwise there are no capital gains and therefore no tax benefit. Ten years is a long time during which you cannot sell your asset. A lot can and often does change. So, unless you take the approach of Cresset Capital that you only invest in projects that you expect will have a strong return before the tax incentive, you are taking on inherent, unnecessary risk. Investors are always considering alternative ways to invest.**

**The stock market is the primary alternative since it provides almost instant liquidity, diversification, and over the long term a 7-10% annual return. That means that riskier real estate generally needs higher returns. In fact, expected real estate returns over time are in the 10-12% range.**

**The national QOZ funds are promoting a 10% annual pre-tax return. Hundreds of these funds are aggressively selling across the country. I get an email or see an on-line ad almost every day from one of them. I had a conversation a few weeks ago with one of your colleagues. This legislator told me that he was discussing retirement options with a financial advisor. The advisor started to sell him on a national Opportunity Zone fund showing the reach of these funds.**

What this means is that cities like Burns, Klamath Falls, and Hermiston are not just competing with Portland for investments by Oregonians, but also Seattle, Houston, Atlanta, Denver and every other hot growth area in the country. It also means that investing in workforce housing at an expected return of 3-4% in a distressed area of Oregon is not an attractive alternative for most investors, even if the eventual sale of the property is tax free. Capital will flow to investments with the highest returns and lowest risk.

The New York Times interviewed an Oregon entrepreneur, Mr. Paul DeMoret, that sold his business here, but invested, not in a local opportunity zone, but one in North Carolina and one in Arizona. If we do not pass HB 4010 we will reward his investments in these other states with a reduction in his Oregon taxes. We lose revenue for his children's schools, but other states get the investment. Why should we do this?

We believe that under current law, the majority of the Oregon revenue loss will come from investments in the other 49 states, not in Oregon, because of the sales and marketing power of these national funds. Meanwhile investors in other states will invest in Oregon, because these same funds are not promoting state tax reductions, just the federal ones.

We would be happy to participate in the study group to see if this or another approach is the best way to support, low-income or work force housing.