Opportunity Zone Funds for Collective Impact

Community Real Estate Fund

A Community Real Estate Fund is a type of investment that fits all of the rules including the 1940 Investment Act and Securities laws. Regulation Crowdfunding or a Direct Public Offering (DPO) could be used to raise capital. With a DPO, a community could focus its marketing efforts such that residents within a zone and other citizens are invited to invest. The entity could be an LLC, partnership, or REIT—a company that owns, operates, or finances income-producing real estate. It would likely be set up as a pass-through entity in this case.

Additionally, a Community Real Estate Fund could partner with a charitable community land trust to lower net costs of acquisition and preserve land for certain uses. This might be urban revitalization, workforce or affordable housing, agricultural land preservation, or historic preservation. In this way the land trust would acquire an easement on a property and by acquiring part of the rights in the property that would lower the net costs to the Fund of buying the property. As long as it's operated in a way that's consistent with the easement, the Fund could continue to operate or lease it out within the Zone to help make it more cost effective and serve the community.

Hybrid Real Estate/Business Fund

This is a slightly different, yet related, strategy to the above. To comply with the 1940 Law, one exemption is real estate. However, what if a Fund wants to invest in both real estate and business? It is possible to do this, but it would not qualify under a Community Real Estate Fund. Instead, as long as it's not in the Securities investing business and no more than 40% of its assets are investment Securities. For example, let's say a business is invested in half real estate and half portfolio controlled or majority interest companies. This meets the 1940 Act exemption. It qualifies under the OZ law and can raise capital via public offering or a private offering.

Holding Company

A Holding Company is one that invests the majority of its assets in shares of a portfolio controlled company. This is essentially the Berkshire Hathaway model. It's a holding fund and excluded from the 1940 Act. A Fund is deemed to be in the business of its subsidiaries and Securities-business, including investing in minority or non-controlling interests, and cannot be its primary business. An example of this might be mom and pop retail shops without succession plans for retirement. When they are of age with retiring owners, a Fund could be setup to acquire these businesses, so as not to lose the character of your downtown.

Private Fund

This Fund model can work under the OZ structure, the 1940 Act and work under the Securities law regulating stock. A Private Fund is the most common type of model with 99% of OFs meeting this and sharing profit with investors. It can have no more than 100 investors and may not advertise or broadcast widely. However, you *can* have a private fund that is responsive to the community. You can ensure that what it does is beneficial to the community and influence it with community representatives' governance. Sometimes a Fund that is intended to be a true community capital fund–a fund that is intended to raise capital from the community–may start off seeded from accredited investors. This might be Phase I or a multi-phase project that may result in a true community raise of public capital at a later date and can be very helpful to begin this way.

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