Qualified opportunity funds (QOFs) tracked by Novogradac report an equity investment of $24.40 billion at the end of 2021, a jump of $6.88 billion in the final six months of the year, according to the Novogradac Opportunity Zones Investment Report: Data Through Dec. 31, 2021. In this week's Tax Credit Tuesday podcast, Michael Novogradac, CPA, and Novogradac partner John Sciarretti, CPA, discuss data from the report and the implications for the opportunity zones incentive. They begin with an overview of the information, then discuss the impact of the expiration of the five-year benefit on QOF investment, before looking at the types of investments being made and the top states and cities for planned investment. They wrap up with a look at the ranges of QOF sizes and an explanation of the services to help those involved in the OZ incentive.

Summaries of each topic:

Transcript

[00:00:10] **Michael J. Novogradac, CPA:** Hello, I'm Michael Novogradac and this is Tax Credit Tuesday. This is the Tuesday, February 15th, 2022, podcast. In today's podcast, we're going to talk about investment dollars in opportunity zones, including trends and other highlights. Our conversation is going to draw on data that was released in a special Novogradac report published today, which includes data about qualified opportunity fund capital-raising through Dec. 31, 2021. Now this report is available for purchase on our website and I've also written a blog post about some of the data. I will provide links to both the report and my blog post in today's show notes.

So what's the headline takeaway from our report? Well, the headline takeaway is that qualified opportunity funds that are being tracked by Novogradac reportedly raised more than $24 billion in equity, the specific total is $24.4 billion. That's an increase of nearly $7 billion over what we reported that had been invested at the end of June. Now, let me make an important caveat: As many of you already know, Novogradac does get its data from qualified opportunity funds that voluntarily provide that information to us as well as from Securities and Exchange Commission filings and other public sources. So we know our amount doesn't represent the total investment in opportunity zones, in part because our report doesn't include proprietary or private funds owned and managed by their principal investors. I will note in other reports over multiple years, including one by the White House Counsel and the number of advisers, the total amount of estimated equity raised has generally been three to four times the amounts that are being reported in our surveys.

Now, getting back to the current report, I won't bury you in numbers, but here's some things that are important. The dollars we're reporting as invested in qualified opportunity funds at the end of 2021 are nearly 40% higher than the amount in our midyear report. Interestingly, the number of qualified opportunity funds that Novogradac tracks was up only about 15%, so you can see that the equity raised is going up much faster than the number of funds that we're tracking. The report that we released today has a variety of data in a variety of areas, including what types of investments being made, and by that, I mean, residential, commercial, hospitality, operating businesses, renewable energy. There are five major categories that we track. The report also discusses which states and cities have the most planned opportunity zones investment, which is one of the topics in my blog post.

Now, if you get the report, you'll also get a look at the dollar amounts that various funds are raising. So for instance, how many have raised over $100 million and then there's other threshold categories as well. We also report how many qualified opportunity fund managers have raised more than $100 million and the difference obviously between funds and managers is a qualified opportunity fund manager could have multiple funds and then the aggregate raised more than $100 million and maybe not necessarily raised over $100 million for any one fund. We also include information on what percentage of funds invest in a single business or a single property, as opposed to having a fund focus on multiple businesses or multiple properties.

Now, once again, you can get the report: You can order the report on our website. However, in today's podcast, we're going to talk about some of the investment data and joining me on the podcast is my partner, John Sciarretti, from our Dover, Ohio, office. John is the head of our Opportunity Zones Working Group and is the opportunity zones technical editor for the Novogradac Journal of Tax Credits. He also chairs one of our two annual opportunity zones conferences. As many of you know John from prior episodes of Tax Credit Tuesday, he knows a lot about opportunity zones and has great insight on the state of the marketplace.

In today's podcast, we're going to talk about this surge in investment and also to what extent the December 31st, 2021, deadline for the 10% basis step up played a role. Then we'll talk about areas of investment and how they're changing, followed by discussion of the top cities and states for investment and what that data tells us about the opportunity zone incentive. And then we're going to wrap up with a look at the growing popularity of large multi-asset qualified opportunity funds and what the growing number of high-dollar funds could mean. That's obviously a lot to discuss, so if you're ready, let's get started.

So John, welcome back to Tax Credit Tuesday.

[00:05:02] **John Sciarretti, CPA:** Thanks, Mike, it's great to be back.

Big-Picture View of QOF Data

[00:05:04] **Michael J. Novogradac, CPA:** It's always great to have you join us and share your insights. So I did want to start with a big picture view of the data. As you know, we report that qualified opportunity fund investment was nearly $7 billion in the last half of 2021, which is by far the most money raised in any reporting period since started tracking the data, or I should say the most money *reported* being raised, since we started tracking the data. Did that total surprise you?

[00:05:36] **John Sciarretti, CPA:** No. Mike, I wasn't really surprised. I think all the stars were aligned for 2021. The stock market was at all-time highs with lots of talk of a looming correction. 2021 was also a breaking year for, M&A transactions. There were three trillion M&A transactions in the United States in 2021, which was double the prior year, so lots of gains out there. Inflation was up and expected to go higher and making real estate attractive investment, more attractive than the stock market as folks want to diversify into 2022. So pop that up with a more mature incentive with more awareness about opportunity zones as we go year after year. And more opportunities, so that maturity also brings on more investment. And then as you mentioned briefly, as it was the last year that received the five-year benefit. So all that to get all that taken together, I think you get a banner year and we did.

Five-Year Benefit and Effect on QOF Investment

[00:06:39] **Michael J. Novogradac, CPA:** You mentioned that five-year benefit. Maybe for our listeners that aren't as informed about opportunity zones, maybe explain what that five-year benefit was, the one that expired.

[00:06:52] **John Sciarretti, CPA:** Sure. So the opportunity zones statute provided that if you held onto an investment for five years, that you get a 10% basis boost, which essentially means that only 90% of your original gain that you defer is taxable in 2026. So all deferred gains become taxable in 2026 and so you have to have at least five years before that date and 2021 happened to be the last year in which an investor would have five years before that 2026 date, so any investments going forward, you still get the deferral until 2026. You still get the 10-year hold benefit, but you don't qualify for that 10% basis boost or 10% decrease in the gain that's accessible. You know, we may get an extension. There has been some talk about extension and that'd be great, because if we did get extension, there were some bills proposed where folks would have another two years, so 2028 would be the inclusion date and it would give folks more room to have that five-year investment. But for now it’s over.

[00:08:05] **Michael J. Novogradac, CPA:** I will note with respect to that legislation, I would say most legislation would extend that date on a retroactive basis, so it's such that existing investors, those that invest now going forward before the legislation passes, if it does pass, would be eligible. Some might say that that isn't needed because you've already made the investment, but that legislation they propose that way in part so investors don't wait to invest, until such legislation passes. So hopefully if that legislation does pass, it would be retroactive and wouldn't serve as a temporary limitation or hinder some from investing now.

But with that said we both get lots of questions about this 10% basis step-up. of how important that was to the end-of-last-year numbers. And to what extent do we think investment raising might slow? And I know I myself look at the investor market and think that the success of the last six months of 2021 definitely is attributable to the 10% basis step up in part. But also the fact that these types of funds are better understood by more investors and more investment advisers definitely plays a role in the large increase and the greater importance that plays could lead to even more capital raising in the future. What are your thoughts?

[00:09:26] **John Sciarretti, CPA:** I think it certainly had an effect on the timing of investments, meaning that those who could have waited until 2022 to invest given the 180-day investment period, they didn’t, because why not accelerate that? So it clearly had an effect on the timing of investments. I don't think it was a deciding factor on whether to ever invest or not in opportunity funds. The 10% benefit doesn't have a huge effect on yield. We've done the math and the 10% benefit typically is less than 50 basis points on an IRR, after-tax IRR, and when you look at the OZ increment itself, the expected OZ increment ranges between 300 and 400 basis points on a project. And so that's a 30% to

40% increase on an after-tax yield. If you assume the after-tax yield's 10% would be a 30% to 40% increase. So you know, that 50 basis points might bring down a 40% increase to a 35% increase. It's good, it helps, but probably not enough to make the decision whether to ever invest or not. So I think it did accelerate investment and I think it does help. I mean, more is more, right? When you're talking about spurring investment in the low-income communities every little bit helps. But again I don't think that it would be a deciding factor on folks not to invest since that five-year benefit's over.

[00:10:50] **Michael J. Novogradac, CPA:** I agree 100% with that. And with the recent inflation number at 7.5% year over year, that actually highlights the central benefit of opportunity fund investing, which is the basis step-up for holding the asset for 10 years. And in inflationary times, that basis step-up becomes all that much more valuable to investors. So thanks for those insights, John. I now wanted to move on to some of the other observations where we dig into the data and what it reveals. So if we could start, maybe if you could share with our listeners what we learned about the types of investment that qualified opportunity funds are making, that is the types of businesses or projects that they're investing in.

Types of Investments Being Made

[00:11:40] **John Sciarretti, CPA:** So, newsflash: real estate certainly hasn't been knocked off the podium, Mike.

[00:11:47] **Michael J. Novogradac, CPA:** Yeah, that was a surprise.

[00:11:51] **John Sciarretti, CPA:** But in residential still is by far the biggest category with an additional, $6.8 billion, almost $7 billion, invested in 2021 in residential real estate. I mean, this is consistent with the wider marketplace. When you look at multifamily in general, 2021 was a record year. It was 128% increase over 2020, there was $335 billion in investing in multifamily. So, you know, our increase in multifamily that we see in opportunity zones is consistent with that wider marketplace. Commercial-only investments, they actually doubled. There's a lot of mixed-use in our reports, but when we look at funds that are just looking at commercial investments, no residential, it doubled from last year, 2020 to 2021: $800 million to $1.6 billion. So that's an increase, a nice increasing trend. And that typically tends to be office and retail, which are evenly split, in being the most common types of commercial-only investment. Industrial products only make up about 12% of all commercial investments in our survey. So it's clearly office and commercial investments that lead the way. Hospitality itself is trending upward: It also doubled year over year and this is hospitality only. So these are funds that are only doing hospitality, which as you know, there was a pause, during 2020 but, but it did double, year over year from $300 million to $600 million, so that's been an increasing trend as well. There's lots of hospitality in mixed-use product projects. I see in my own client base, a number of my clients are doing multifamily and mixed-use projects, they also have a hospitality component in a lot of those projects. Hospitality itself, funds that had any sort of target of hospitality, totaled $3.5 billion in

2021, $3.5 billion investment and that increased from $2 billion from 2020. So again, a really nice increase in targeted hospitality. Operating businesses investing remains pretty flat year over year. Funds focusing on operating businesses in our survey have raised $216 million through 2021, which is not huge when you're looking at $25 billion. Operating businesses, we've talked about this in the past, that it's a different investment model, different investment structures, the operating rules in opportunity funds aren't as conducive to operating companies as they are to real estate,and especially as it relates to the multi-investor funds that we track. I expect there's probably much more operating business investments in opportunity zones through proprietary and private funds and as you talked about in the front end of this podcast, tracking the private funds, but my guess is that allowing the entrepreneur sort of rollover gains from selling one business into another business and they're proprietary funds. And so we're not seeing that, but at least in our universe, pretty flat and not a huge percentage of what we're tracking. And when you look at operating business, they're also normally less capital intensive in the early stages, most likely or less capital-intensive as money sort of tends to be invested in smaller chunks over a longer period of time. And so I think that alone, you're going to see the less investment in operating businesses than you are in real estate. But again, I think there's a lot of operating business investment that just is under the radar, Mike.

[00:15:41] **Michael J. Novogradac, CPA:** I totally agree with that about the operating businesses and what's under the radar because obviously, we have a lot of clients that are investing in operating businesses that aren't in the survey. Then your point about the capital needs, the fact that any types of real estate generally have large capital needs early on, whereas operating business and the like generally need capital over time and then as we've discussed lots of times before, as well, clearly the regulatory process that didn't create regulations as conducive to operating businesses as we would've liked. And we've definitely continued through the Opportunity Zones Working Group, through your leadership, encouraged Treasury to clarify and modify some of the regulations to allow more opportunity fund investing to go to operating businesses. Obviously, we haven't seen any such change yet, but certainly that could be coming. So thank you for all of those insights. I would say it's also interesting to see that a notable amount of residential rental that is workforce housing-related and/or affordable housing related. So that is, nice to see and even much of the market-rate housing isn't sort of high-end market rate housing, it's market rate, but it's definitely more economical, market-rate housing versus a higher-end market rate housing. But definitely the investor pool of investment amounts going into residential rental do make up a wide perspective of residential rental housing development.

Now one area that I did find particularly interesting in the report was the list of the top 20 states targeted for investment among the funds reporting to us, along with the top 40 cities where there's plans to be making investments. What are your thoughts about the top 20 states? And let's talk about the top 20 states first, then we'll talk about the cities.

Top States for Planned Investment

[00:17:51] **John Sciarretti, CPA:** Yeah. So the neat thing is when you look at the top states or the states in general this opportunity zone investment has been widely dispersed across the country, which was, if not the primary goal, one of the primary goals of the incentive. Twenty percent of the states only make up 40% of the planned investment, so that's a nice ratio there. Eleven states have at least $500 million in planned investment, so you look at that disbursement across the country, there's a whole lot of states getting a whole lot of money. California remains No. 1. California has been No. 1 since the beginning of our survey, but the total investment targeted to California is $2.4 billion, which is $1 billion more than the next in line, Arizona. And Arizona is at $1.3 billion invested. They're the No. 2 state in our survey and Arizona actually jumped from the fourth spot in 2020 to the second spot in 2021 and I think this is consistent with the marketplace as well. There's lots of investment going on in Arizona in 2021, especially in Maricopa County, five Arizona cities in Maricopa County are all in our top 40 cities with the most investments. So Arizona is really getting a lot of opportunity zone investment.

And No. 3, we have Texas. Texas jumped from the No. 5 spot in 2020 to No. 3 in 2021. And again, this is consistent with the wider market place. There's lots of investment going on in North Texas in 2022, as Dallas-Fort Worth were ranked No. 1 in multifamily investing for all of 2021, so it's consistent with the higher percentage of multifamily deals being done within the state of Texas. So, we're seeing a lot of opportunity zone investment. Then at No. 4, we have New York, which slipped year over year. You remember New York was No. 2 behind California for quite some time and they slipped the No. 4 and this latest survey. It might have something to do with the recent decoupling, I don't know, but I suspect it's market-driven as well. So that's the ranking of the states and then rounding it up in fifth place is Florida and they were in the eighth spot in 2020. And so Florida, again, has jumped a couple of spaces and seen a lot of investment in, again, multifamily investment. When you look at Florida, the statistics actually doubled year over year from 2020 to 2021. And so again, that's consistent with the general marketplace.

[00:20:48] **Michael J. Novogradac, CPA:** Yeah, I sort of think of it also as what are the states that are most heavily populated? California, the most populous state in the country, not a surprise that they have the most opportunity fund investing and you think about California, Texas, New York, Florida, they're high-population states. They're obviously every year, every four years, when you have a presidential election, those are key states because of all the electoral votes. But Arizona was really the one that was a little bit more of a surprise to see how much investment is going into Arizona that we're tracking. I should say surprise, just in the sense that comparatively, population wise, it doesn't kind of fit in with that general narrative. But definitely, I wasn't surprised because obviously seen lots of clients are investing in Arizona and the residential rental market in Maricopa County particularly has been sort of very high driven, high year-over-year rent increases and the rest. So it's actually great to see more investment going into Arizona and Maricopa County in particular and seeing more residential rental housing getting developed in Arizona to help ease the burden of existing tenants, be it market-rate or low-income tenants.

So you talked a bit about the cities. The blog post I wrote at does highlight the fact that there are 20 cities that have at least $200 million in planned opportunities zones investment. What, if anything more, do you want to share about details at the city level?

Top Cities for Planned Investment

[00:22:26] **John Sciarretti, CPA:** Well, Washington, D.C., jumped up to first place in the city investments and in the last survey, they were in fifth place. So there was a lot of increased investment in D.C., $752 million to date, so I thought that was an interesting insight and the biggest movers, the other big mover is New York City. It actually went from, in 2020, New York City was first and it actually dropped to third in the top cities. So it's kind of consistent with New York state dropping out a bit. Nashville saw a huge jump. Nashville went from 10th place in 2020 to fourth place in 2021 and Nashville has over $600 million in opportunity zone investment based on our survey. And then Phoenix, as we talked about, is the fourth or the fourth one that's a big mover. They went from 14th place in 2020 to sixth place. So Phoenix sort of led the charge for the state of Arizona and those four other cities in Maricopa County that all had lots of investment that pushed Arizona to that second spot. But again, widely dispersed. I think the top 40 cities in our survey represent 23 different states. So it's good to see that this is varying across states and I think that, again, it's one of the main objectives of this is having investment move away from the coast and in the middle of America and I think you do see some of that in our surveys as well.

Range of QOF Sizes

[00:24:04] **Michael J. Novogradac, CPA:** Yeah, the diversity, the geographic diversity that's revealed in our survey is quite impressive. And it really speaks well to the adaptability of the incentive in a variety of geographies. And one of the other items, I think that I found interesting and an area I'd like to touch on, is according to the data that we've collected about two-thirds of opportunity funds have raised $10 million or less. I'll say that again: That about two-thirds of the opportunity funds that we're tracking have raised $10 million or less. On the other end of the barbell, 53 funds have raised more than $100 million. So I was wondering, John, maybe you could share with our listeners some of the reasons why there are so many smaller funds, as well as why some of the larger funds have been so successful in raising large amounts of equity.

[00:25:08] **John Sciarretti, CPA:** I can give you my guess.

[00:25:11] **Michael J. Novogradac, CPA:** Your educated guess, which isn’t a guess.

[00:25:17] **John Sciarretti, CPA:** Real estate, right? Real estate tends to be local, right? And so you're going to get a lot of smaller funds across the country. they're looking at maybe one asset and raising money for one asset or a couple assets. And they're not the big national funds. They're folks that the investors are comfortable, because they are comfortable investing local and the funds tend to be smaller and there's more of them. There's not a huge barrier to entry to get into this marketplace. I think the rules are complicated enough that you have to hire the right professional. We've seen a lot of folks that haven't, as you look at the PLR requests out there that we see every day, but other than that, you know, there's not a huge barrier to entry to get into the opportunity zone marketplace. You indicated that 53 funds raised greater than $100 million. That statistic is huge in that there were only 32 the last time we issued our report. So went from 32 over $100 million to 53 over $100 million. So we have a lot of larger funds that reached, that's the high watermark, $100 million. So year over year, when you look at it, on our report, 5% of the QOFs that we track have raised 55% of the equity and that's up a bit from the last report in 2020 where 5% of the QOFs had raised 53% of the equity. And so again, you're going to see the larger QOFs have a higher percentage of the equity because there is this sort of big difference between the small QOFs and in the large QOFs. Actually seven funds, less than 1% of our survey in the number of funds have raised greater than $500 million. So that's less than 1% of the funds and they make up 35% of the equity raised, when you look at it across the aggregate, those seven form 35% of the equity raised in those funds. A small percentage, as I look at what I know about the marketplace and even some of my own clients, a small percentage of the funds really have the capacity to invest on a national level and have embraced the incentive, right? So there's a lots of large private equity funds out there, but there's really a small number that have embraced this incentive and have that capacity to invest on a national level. And those that have are at a competitive advantage, I think, over some of the smaller funds in that they do have the ability to have a larger distribution network, they probably have a deeper pipeline and so you're going to see the big get bigger. And as we saw it's just a couple bits that went from, like I said, 53% to 55%, those larger funds. But I think in general, you're going to see them creep up, but I think we'll always have the smaller funds, the $10 million funds, the $20 million funds, just because real estate investing is local and you're always going to have, you know, those smaller funds, too.

[00:28:16] **Michael J. Novogradac, CPA:** No, I totally agree with you in terms of the insights as to what the data reveals. I made the reference to the barbell because I look at sort of one end of the barbell, the sort of smaller funds as you noted, they're generally single property or only a couple of properties and oftentimes in the same city or county or geographic area that's localized. And some investors want to know specifically what they're investing in and they want to be able to kick the tires. They want to be able to look at the actual expectations with respect to that particular property and really understand the actual asset that's being invested in versus the asset category. And then obviously they don't end up with diversification from investing in that one fund, but they can get a better sense of and form their own opinion about that particular business or project that's being invested in. And they can still get diversification by investing in multiple $10 million funds and create their own diversification by having lots of opportunity fund investments.

And then the other extreme is where the investors don't want to do that level of upfront sort of due diligence, so they don't want that much knowledge per se, about the individual transaction that the money is going into. But do want diversification and the larger funds provide a large amount of diversification as you pointed out, because obviously the larger funds are investing in multiple businesses and projects across multiple geographic areas and as a consequence there is that diversification benefit. So it is interesting to see the investor market, the capital-raising market, start to diversify in terms of having products for all types of investors. And it'll be interesting to watch over the coming few years how that does continue to evolve.

So I do appreciate the insights that you've provided so far, John, on the investment side. And I'm going to ask you to share your email in a moment for any clients who might want to be reaching out to you. I would encourage both investors and fund managers and funds themselves to reach out to you if they're not already a client, because as you noted, unfortunately every year we end up getting a handful of clients, I guess we're happy to get the clients, but we're not so happy about the reason why we're getting them because they've run into some sort of issue that they didn't realize was a requirement within opportunity fund investing and may have been fund management and they ended up coming to us and through private letter rulings to the IRS and the rest, many of these issues we can get resolved. Others, unfortunately there's a few that can't get resolved and that's obviously a very bad and then there's even this recent inspector general report that identified a number of discrepancies in tax filings with the IRS. Now, the IRS is going to be sending out letters to lots of funds to address those, to get feedback on those discrepancies and we're still digging into what all that means. So it definitely is important that these various funds have sophisticated tax accounting and other legal advisers. And obviously Novogradac can do the work on the tax, audit and accounting and a lot of compliance side. Maybe John, if you want to share any more thoughts there before I ask you to share your email address.

Opportunity Zones Services

[00:32:02] **John Sciarretti, CPA:** As far as our services. I mean, we're in the filing season now, so we're doing lots of audits, funds and tax returns. But we do a lot of compliance and on the front end and in transaction advisory work, doing models for folks, making sure that these projects are going to qualify for opportunity zones because it's good to put the right controls in place upfront, when you're making your investment, based on the best projection that you can have at that time so to make sure you have no problems later. So we do a lot of diligence around qualified businesses and actually issue reports around the qualification of the business and then we do that going forward as well. I say more clients than not like to have that assurance on an annual basis that their qualified businesses still qualify and their investors appreciate that as well. So we do a lot of what we call agreed-upon procedures reports, where we're doing the diligence around the opportunities zone businesses, which again, roll up to the 90% test. So we spend a lot of time doing those reports, normally before year end, so we do have time to make any changes we need to make. This year is the last year for the, I guess this past year was the last year, for that penalty waiver that was gracious that we had during COVID. So this is a lot of funds that had hiccups that, whether it would it to COVID or otherwise, to where they may have not been able to invest or maybe invested in the wrong asset and they had a penalty and that penalty was waived, but that only lasted until this year. So you really got to make sure that your investments are qualified on this next testing date, so I encourage you to reach out to us. We'd be glad to help.

[00:34:00] **Michael J. Novogradac, CPA:** Thank you John. And I won't go into all the nuances of the relief that expired at the end of last year and how it might not be as expansive as many think it is. Maybe you could talk a bit about our upcoming conference in Long Beach and the Opportunity Zones Working Group.

[00:34:18] **John Sciarretti, CPA:** So April 21st and 22nd, we have an opportunity zones conference in Long Beach. And my partner, Brett Parker is actually chairing that this time, but I'll be there and it's a great opportunity to connect with investors and funds and developers and really some of the brightest professionals in the industry. So please do consider attending that conference on April 21st and 22nd in Long Beach. And right now the information you can find on our website, novoco.com in the events section of the way.

And then I do want to say a little bit about our working group. Do consider joining our opportunity zone working group. We have a little less than 100 members, but probably 300 folks that are involved in it and it's a chance to collaborate with industry stakeholders and really play a part in key legislative and technical issues and technical issues that we solve collectively, around the incentive, including the opportunity to have a voice on emerging issues with the incentive. And Mike talked a bit about some of the issues with operating businesses and we're going to continue to try to get those rules a little more relaxed, a little more clear for operating businesses to take advantage of this incentive. And so that's one of the things that we're doing. We're always doing our part and trying to get this incentive more usable, extended, all we can do with our government contacts and including Treasury. So do consider joining our group and have a voice in this industry and you can contact me or you can contact Karen Destorel of our office for more.

[00:36:09] **Michael J. Novogradac, CPA:** Great, thank you for that, John. And just as an example of the types of items that we talk about, you give a pretty good overview, but I did mention earlier in this podcast, I made a sort of passing reference to the recent Treasury Inspector General of Tax Administrations noncompliance report on opportunity zones. I'd say it's a potential noncompliance report, and we're going to discuss that in a reasonable amount of detail at our next Opportunity Zones Working Group meeting and share our thoughts as to how it might end up impacting current and future funds. So that's just one of the, there are lots of reasons to be members of the group, and that would just be a one of them. So John, maybe you could now share your email address. I know there are probably a lot of developers, investors, fund managers and other stakeholders in opportunity zones who want to be reaching out to you so you can share that real quickly and I will, of course include it in the show notes.

[00:37:05] **John Sciarretti, CPA:** So my email is John.Sciarretti@Novoco.com.

[00:37:26] **Michael J. Novogradac, CPA:** Great. Thank you, John. And I'll also note that if you just try to spell out John at Novogradac opportunity zones, he'll show up. So I'll also include in the show notes links to the qualified opportunity fund investment report, my blog post, the upcoming conference, as well as the Opportunity Zones Working Group information.

So to our listeners, please do be sure to tune in next week's episode of Tax Credit Tuesday. I'm going to be speaking with my partner, Tanya Johnson, also out of our Dover, Ohio, office. Tanya works with quite a few real estate developers that are new to low-income housing tax credit financing. Now during the course of the podcast, we're going to discuss some of the frequently asked questions that she gets and she's going to share what she thinks every developer of low-income housing tax credit-financed housing should know and she's also going to share what she often finds for new low-income housing tax credit developers that they don't know. She's going to share many of the knowable unknowns from those that are new to low-income housing tax credit development. If you're a developer, investor or any stakeholder for affordable rental housing, you're surely going to want to tune in, it is targeted toward those issues that we find new LIHTC developers aren't as sensitive to as they should be, but it's also a good refresher course for those that are experienced in LIHTC development, to ensure that they're aware of some of these knowables that are often unknown by those that need to know them and it's also good for more experienced developers to have their property managers, project managers, I should say and others tune in.

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Off-Mike Section

So now I'm pleased to reach our Off-Mike section, where listeners can get some off-topic advice and words of wisdom from our podcast guests. So John, thank you for putting an extra duty here to go beyond tax incentive discussions, even though I'm sure we can be applying this to our tax-incentive practice. And I'll start, I have three questions for you, I wanted to start with a question about setting goals. Everyone sets goals or at least lots of people set goals and I was wondering if you had a tip or two or one of the key tips that you would want to share as to how to have success in setting goals and obtaining the goals you set.

[00:40:11] **John Sciarretti, CPA:** I do. So I think, the most important thing, Mike, is to make sure you set aside serious time for reflection. We're all pretty busy in our daily tasks, so I think you really need to set that time or request it so that the goals that you do choose are your own and not with someone else's sort of telling you what you should do. And then I just sort of rely on one of my favorite authors, Peter Drucker, who said it best. And he's the one who came up with the SMART system that I'm sure most folks have heard of. That goals need to be specific. They need to be measurable. They need to be attainable. They obviously need to be realistic and you need to have a timeframe for achieving those goals. That's I think that's one of the best pieces of advice that Peter Drucker left us with. Then lastly, obviously, you've got to hold yourself accountable for the goals that you set. So that would be my advice around both.

[00:41:08] **Michael J. Novogradac, CPA:** No, thank you for that. I'm a big believer in the SMART system with respect to goals, all parts of all key aspects of setting goals. But I also like what you talked about in terms of setting aside time to reflect on goals. I often try to remind myself that I can do more by doing less, achieve more doing less. And it's more all about trying to ensure that you're prioritizing things in the right way and not confuse activity with progress. Sometimes I myself can get caught up in activity and have to sit back and take that reflection time and realize that I might have a lot of activity, but am I really making progress? So thank you for that. The next question that I had is there's constant changes in any business or profession or the rest. And how do you go about identifying and adjusting to changes in your profession?

[00:42:16] **John Sciarretti, CPA:** Yeah, I'm glad you said identify because I think that's first and foremost. The most important thing is you've got to recognize the changes, as they're coming. I'd say I do a lot of reading, keeping up with industry trends, but I think most importantly is just stay connected, for us and staying connected with our clients. As a service provider, changes in our profession really start with our client's changing needs. It's information that's not always volunteered by our clients. And so you have to continuously ask the right questions and be proactive and in order to understand what their needs are and their needs change and really that's the first part of the changes from a service perspective I see, that we change and adapt or our clients changes. In order for us to deliver the superior service that we always strive to deliver, we have to continuously be proactive and continually strive to adapt to our client's needs and changes.

And then secondly, on the legislative front, Mike, I've learned a lot from you, watching you on a legislative front, you know, just really staying connected there. Being aware of new goals and legislation, I say goals because a lot of times we help shape new legislation and existing programs that best serve our clients and the communities that they serve. And so being very proactive, being in the tax credit world, being very proactive and connected to the legislative front of our business is a really important strategy of staying adaptive to change. When you look at changes, a lot of people don't accept change. They're negative about it. And as things change, I think it really important to be positive about change and opportunity, get excited about it because really change is an opportunity. And as you get older in your profession, sometime it gets harder to get excited about changes. But I've tried to stay positive as things change and look for the opportunities in that change. And that served me well over the years.

[00:44:27] **Michael J. Novogradac, CPA:** I agree with everything you said, those are all good insights. I'm always kind of reminded also about the importance of not always doing the same as you did before and try to be focused on what did you do last year or what did you do before that you should keep doing and what things should you look at and say, well, area those really needed anymore and really thinking through is this what I should be doing? And, Zig Ziglar has this story, I think it's Zig Ziglar that he talks about this cook whose parents made a certain meal. I can't remember what type of meat it was, but they used to always cut off each end of the meat before they put it in the oven. And so when they sort of grew up and started cooking the same meal, they did the same thing and then one time one of the parents comes over and sees them cutting off the ends and ask them why they're doing it. And they said, well, you always did it that way. And they said, that's because our pan was too small, it wasn't large enough, so why are you cutting off the ends? I just thought that was such a great story about how sometimes you get caught up in doing what you did and not thinking about why am I doing it? And do I still need to do it? So anyway, it's a funny story. If it wasn't Zig Ziglar, but somebody else who told the story, I apologize to them.

So maybe I'll close here John with what would you tell the 20-year-old version of yourself? So that would have been what, like two or three years ago?

[00:46:05] **John Sciarretti, CPA:** Yeah. I have a few 20-year-olds that are around me constantly that I'm always giving advice to namely my kids.

[00:46:14] **Michael J. Novogradac, CPA:** Yes.

[00:46:15] **John Sciarretti, CPA:** I have a lot to tell them and a lot of it, they don't want to hear it. But 20-year-old, I would say that the best advice for a 20-year-old and an a 55-year-old, is to take responsibility for yourself and others. That's really, I think, the most important advice I've ever gotten. If you want to give your life meaning and have a happy life, simply take responsibility rather than looking for someone else to blame when things happen. You're really in charge of every situation that you're in and you can either go to the positive or to the negative and it's best to take the responsibility and do what you can to make it better. If you choose to get to work to making things better on a continuous basis, I think you're going to have a happy life and that applies to your professional life, your personal life, it's very easy to be negative and point fingers today. It seems to be the way of the world. And I don't think this message it out there enough that we all have to take personal responsibility.

[00:47:24] **Michael J. Novogradac, CPA:** Well, thank you for that. That's very good advice and I couldn't agree more about your point that you may not control what is going on all around you, but you definitely control how you respond to it. And how you respond to it does have an effect on what's happening around you. So I really appreciate that, responsibility theme.

So thank you, John, for joining us. I really appreciate it. Thank you for joining me for this bonus segment. To our listeners. I'm Michael Novogradac, thanks for listening.

Additional Resources

Email

[John Sciarretti]

QOF Report

[Novogradac Opportunity Zones Investment Report: Data Through Dec. 31, 2021]

Blog Post

[Novogradac Report: QOF Investment Up Sharply in Final Six Months of 2021; 20 Cities Have $200 Million or More in Planned Investment]

Novogradac Conference

[Novogradac 2022 Spring Opportunity Zones Conference]

Working Group

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