Opportunity Zones Marketplace Updates

Investment in qualified opportunity zones tracked by Novogradac surpassed $30 billion as of June 30, according to a special report published today. In today's podcast, Michael Novogradac, CPA, and Novogradac partner John Sciarretti, CPA, discuss highlights of the report, as well as other opportunity zones (OZs) issues. They begin by discussing key takeaways from the report, then look at how the economy–with higher interest rates and low unemployment–is affecting the OZ investment space. After that, they talk about some long-term trends that are highlighted in the special report and look at the top cities and top states for planned investment. They wrap up the discussion by talking about OZ extension legislation and decertification regulations.

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Transcript

[00:00:00] **Michael Novogradac, CPA:** Hello, I'm Michael Novogradac. And this is Tax Credit Tuesday. This is the August 9, 2022, podcast.

Today, I'm excited to announce that Novogradac has published its semiannual report on equity raised by qualified opportunity funds. The report covers equity raised by funds through June 30, 2022, the midpoint of this year. Now the big-picture takeaway from the report is that qualified opportunity funds being tracked by Novogradac report having raised nearly $30.5 billion through June 30, 2022. This is an increase of more than $6 billion since the end of 2021, an increase of 25%.

Our report points out that most of that $6 billion was invested in the first three months of the year, so the second quarter of 2022 did see a bit of a slowdown. Novogradac is tracking nearly 1,500 qualified opportunity funds, of which more than 1,000 have reported to us or publicly the dollar amount of equity that they've raised. Now, if you want more specifics beyond this podcast, I've written a blog post on our website with some additional details, but for even more detail, I do encourage you to buy the report. I'll provide links to both of those in today's show notes.

Our report on equity raised includes information that's important to stakeholders in the opportunity zone space, obviously. The report clearly demonstrates that the equity invested in opportunity zones is continuing to grow in spite of some of the minor aspects of the tax incentive having expired. To be clear though, the data that we collect is not comprehensive. It's not exhaustive. Novogradac data comes from our rolling collection of information from funds that voluntarily provide information to us or other public sources. This list contains single- and multi-asset funds, but the report does not include many proprietary or private funds that are owned or managed by their principal investors. That's a long way of saying that the Novogradac report provides a look at a portion of the overall investment in opportunity zones. I'll note that a report from two economists at the University of California provided data from digital tax filings at the end of 2020 and their findings were that the investment total was approximately three times the amount reported by Novogradac. That is in keeping with what we've said repeatedly, that overall opportunity zones investment is likely three or four times what we capture in our reports. That said, the Novogradac report does provide an apples-to-apples comparison for investment, allowing us to identify trends and gain insight into equity being invested in opportunity zones.

Now, my guest today I'm excited to have back is my partner, John Sciarretti, from Novogradac's Dover, Ohio, office. John, as repeat listeners know, has been a guest on the podcast several times before to discuss the benefits of investing opportunity zones, as well as some of the challenging tax issues that must be navigated. John also regularly appears on the podcast to discuss our semiannual equity raise reports, as he's doing today. John is the lead partner for the Novogradac Opportunity Zones Working Group and frequently chairs our opportunity zones conferences.

Now in today's podcast, we're going to discuss some of the highlights from our report being released today, obviously, as well as discuss some long-term trends that our equity raise report reveals and why John believes those trends are happening. We'll also talk about how the current high-inflation, low-unemployment economy is affecting investment in opportunity zones and we'll wrap up with the discussion of the top cities and states for planned opportunity zones investment, as well as hear from John about some current issues that are important to those involved in opportunity zones and how the Opportunity Zones Working Group is helping to address them.

As you can see, or at least as you can hear, there's a lot to discuss. So, if you're ready, let's get started.

John, welcome back to Tax Credit Tuesday.

[00:04:21] **John Sciarretti, CPA:** Glad to be back here, Mike.

Overview of report

[00:04:23] **Michael Novogradac, CPA:** So, in the opening, I discussed some of the top-level takeaways from today's report, including the equity investment total and how many qualified opportunity funds that we're tracking. I'd love it if you could share with our listeners some of your key takeaways from the report.

[00:04:41] **John Sciarretti, CPA:** Well, real estate continues to be the darling of investment. Residential and commercial continue to be two major areas of investment for qualified opportunity funds–more than half of the qualified opportunity funds on our list have at least some interest in investing in residential real estate. The average amount of equity raised by a QOF continues to go up. It's $27.8 million in this report. And that average has gone up every time that we've published our report. With respect to geography, more than three-fourths of QOFs are focused on a single city, but most of the equity has been raised by funds that focus on multiple projects in multiple cities, which is your larger funds, multi-asset funds and we'll discuss a little bit more about that later.

Effects of economy on qualified opportunity funds investing

[00:05:29] **Michael Novogradac, CPA:** Great. Thank you for that, John. I do notice that, and our listeners will hear or read more about this in my blog post if they go there and even more about it if they buy the report, but there is almost a barbell aspect to the fundraising. On one end, you have large funds raising large amounts of capital and investing in many communities. On the other end, you have a large number of funds in terms of quantity of funds, raising smaller dollar amounts and investing in a single city or a single project. So, it's interesting to see the two extremes in terms of the equity market.

So, one thing I did want to discuss a little bit more is how you're seeing the economy affecting investment in qualified opportunity funds. I mentioned in the opening that for the funds Novogradac is tracking, there is a large dollar amount in the first quarter of this year and then the investment slowed a bit during the second quarter of the year, although the amount raised did remain quite substantial. I don't want to look past the fact that $6 billion invested in opportunity zones is a lot of capital to have been invested in the first six months of the year. But you work with a lot of opportunity funds and I was wondering what you're seeing in the opportunity zone development space in terms of the effect of the economy, the high-inflation, low-unemployment, on the ability to find investments for investing opportunity fund capital.

[00:07:05] **John Sciarretti, CPA:** Right, Mike. So, talking to my clients and understanding with their fundraising, how their fundraising is going, I was not surprised by the slowdown in the second quarter. As you said, there were $6 billion that was raised over the six months and four of that was raised in the first quarter and you kind of understand it. I mean, there's lots of uncertainty in the economy. Many sponsors, I think, and I know, based on some of my clients are in the wait-and-see mode. Inflation, like you mentioned, interest rate fears and the supply-chain challenges that everybody talks about, including construction labor, which is a big challenge, have caused upon sponsors to just kind of hit the pause button on new projects and wait until perhaps these delays are solved. I don't know if prices will come down, but perhaps they'll be confident that rents can rise to the community's higher prices, but I've seen a pause and even in current projects, sponsors have pushed a pause button again. Some of the increased cost and the delays have caused budget gaps, which made them go out and seek more capital, more financing needed for the project and so, it's reasonable to see where this uncertainty has slowed down the investment in the second quarter of this year. Hopefully, it's all temporary and I have a suspicion that it may be temporary, but we'll wait and see.

[00:08:32] **Michael Novogradac, CPA:** I think you really hit the nail on the head when you mention this uncertainty. You think about inflation driving up development costs and that's pretty quick, higher inflation pretty quickly reveals itself in projections and pro formas. There's a higher development costs and obviously there's also a higher interest rates as opposed to six or nine months ago, but certainly not as high as you might otherwise think, given the interim and short-term inflation rates. Then the question, of course, becomes as you were mentioning, to what extent will you see that in higher rents and projected rental income? And theoretically an inflationary environment, you would expect to be seeing some sort of core layering increase in estimated rental income and the rest. And then you layer in the potential for a recession and what effect that could have and you have a lot of uncertainty there, so it's certainly not a surprise that development takes, I won't say a pause, but there's a closer underwriting, and a little bit of a slowdown until some trends can start to be narrow or identified.

Recurring trends and why they happen

And speaking of trends being narrowed or identified, this is the fourth time that we've issued the semiannual report and we have been reporting on data since May of 2019. There are some trends that have been evident for the entire time, so if you could share with our listeners the trends that you see that have been evident for the entire time and what I always find kind of more interesting is why you think they're consistently showing up in the reporting.

[00:10:13] **John Sciarretti, CPA:** Yeah. So, I talked about at the top that real estate has always been the most popular investment, at least in our survey, which we think mimics the wider marketplace. Residential being the most popular real estate investment, when you look at the equity that's been raised and reported in our report, 75% of all the equity that's been raised has been raised by funds that have at least some focus on residential development. So, that's not surprising, I mean, that asset class has been the popular asset class and real estate itself is more conducive to the operating rules of the opportunity zones incentive, right? It doesn't move, right? It's a place-based investment and real estate doesn't move. It tends to be a longer-term investment. This has a 10-year hold when you get the most benefit and it's a little easier to stay into compliance in general, because it is a place-based asset in a place-based incentive program. So, I'm not surprised that real estate continues to be the lion’s share of equity raised.

[00:11:24] **Michael Novogradac, CPA:** I will actually insert there. I don't want to go on a tangent, but part of that does have to do with the regulations as they were developed by Treasury because as we did through the Opportunity Zones Working Group make a lot of recommendations that would've made it easier for operating businesses, for capital to be raised by operating businesses, so more businesses would be eligible as well, easing compliance burdens. We aren't going to give up all hope that sometime down the road, we couldn't see some of those regulatory changes be adopted to allow more investment to go to operating businesses. But I don't want to go on a tangent, so I'll give back to you.

[00:12:00] **John Sciarretti, CPA:** No. I agree. Indeed, we did make lots of recommendations and we got some of them and I think Treasury's looking. So, it's a little more difficult of a rubric to fit operating businesses into place-based incentive, but we did get some good safe harbors. And I tend to think that when you look at the new markets program, right, the beginning, it had a tilt toward real estate that's a lot bigger than what it is now and it did have the CDFI incentivize through application and the other folks to kind of lean the other way. And it'd be nice to see, like you said, more conducive operating roles, as well as maybe some incentive in the future to lean a little more toward operating businesses, but that's something we'll have to wait and see.

Housing's not bad, right? There are 120,000 housing units projected in the funds that we survey. That's no small sum.

[00:12:50] **Michael Novogradac, CPA:** And then when we look at the residential rental, I also look at that and wonder how much of that would've made its way toward commercial if we didn't have a pandemic where almost everyone's working from home or large portion of America's working from home. Obviously, hospitality took a hit and then the notion of investing in office and retail in the midst of a pandemic was certainly a bit more challenged. As we over time move more into an economy that maybe it's not post-pandemic, but the impact of the pandemic isn't as impactful in a variety of areas of the economy to what extent we might start to see a bit of a rise in a commercial as compared to residential.

[00:13:41] **John Sciarretti, CPA:** Yeah, I think you're right. I mean, you look at the office sector and it's still in the midst of a reset, obviously. It's interesting when you look at our report, retail–not by much–but retail jumped over office in this report. And again, I think it's just the fact that people are trying to figure out the whole office strategy and there may be some time before that sort of picks up, but one thing that I didn't see is a big rise in industrial investment. You think with all of the mail-order retail and you see it, right? You drive down the road and you see these big warehouses being constructed and I have a sneaking suspicion that some of those are in opportunity zones, but you know, they may be proprietary funds or Fortune 500 companies that are building these things and we don't see them in our report. Like you said at the top of the program here that our report are multi-asset funds that tend to be public information sourced and so I think there's probably more industrial than what we're seeing in our numbers, because just looking around the country at the warehouse space that's being built, but we don't have any real evidence of that.

When you look at operating businesses, we did have a 7% increase in this report. It's not a big number: I think it's like $963 million invested in operating businesses, but 7% is 7% and I think that's a nice trend. Again, we'd like to get a little more clarity around some of the rules or at least some incentive to invest in operating business that might help that grow. But the other thing about operating business that I think that's worth pointing out is that when you look at real estate, you usually have large chunks of capital that come in at the front end of an investment or a project, where operating businesses, you have smaller chunks of the business grows into the capital raise. And so again, it's not real conducive to investing a gain in 180 days and so that's probably some other reason as well. Just the nature of an operating business.

It's interesting to see that renewables had a nice little jump–it went from $676 million in our report to $1.3 billion. And I expect that we might see a whole lot more than that. We do a lot of work in the renewal space and there's some incentive, well, actually there's extension in the ITC credit in this new inflation bill or the name of that bill escapes me.

[00:16:13] **Michael Novogradac, CPA:** Inflation Reduction Act.

[00:16:14] **John Sciarretti, CPA:** Yeah, Inflation Reduction Act. But there's also specific incentives to put solar in low-income areas. And so you expect that might pair well with the opportunity zone if some of these zones might be designated or these low-income areas that are in opportunity zones might have a better chance of getting solar development or wooing solar development. So, I expect that number's going to keep going up. Myself, I've seen in my own practice a number of renewable deals in the last six months without the new incentives than in previous years in my practice. And so, I expect we're going to see the renewable energy opportunity zones investments increase.

[00:16:55] **Michael Novogradac, CPA:** Good observation. And I agree with that as well, because it looks like the Inflation Reduction Act will be approved by the House this Friday and it will be the topic of a future podcast. So, it's the week after next is the current schedule for our listeners.

Reasons for more small funds, but more equity raised by large funds

Maybe say a few things, I mentioned at the beginning, the sort of barbell aspect of the fundraising in terms of a handful of funds raising really large dollar amounts and then a large number of smaller, single-city or single-business investments. What are your thoughts there?

[00:17:32] **John Sciarretti, CPA:** I mean, I think the way of the business climate, the big always seem to get bigger. It's just, you look at any industry, there are a small number of players that have the lion's share of the market share. And we look at, to put some numbers around this, we look at funds that have raised at least $100 million in equity is what we term as a large fund. We have 63 of those funds out of the 1,097 funds that are in our report. So only 63 and they raise 60% of the equity and I just think it's a resource thing, right? You have, your distribution network is across the country, you have lots more resources and perhaps lots more by way of pipeline and the partnerships that you have with some of the developers and that are national type developers. And so you're going to have these big funds and that's, like I said, it's consistent with all industry.

The smaller funds, I guess my take on that would be there's not a high barrier to entry. Real estate tends to be local and the single-asset investment in an uncertain economy probably gets a little more love because folks seem like they have more control underwriting that asset versus a blind fund. So, I mean that would be my take. I don't have any evidence of that, but that would be my take.

[00:18:50] **Michael Novogradac, CPA:** I tend to think of it as well. I think of it as the barbell aspect, if you will, of the funds' structures and what we're seeing there is to me, it's almost if you think about an investor, he's either looking for diversification with their opportunity funds–they want to invest in a big fund with a lot of investments, they can get that geographic, they can get that diversification, or they want to actually see what it is they're going to invest in. And that lends itself to a single-asset, single-business, single-city, single-location fund. So, you kind of see the investors, those sort of two extremes, if you will, so it's not too surprising when you see the results, but you never know how much of that is just a retroactive narrative. And as you point out what other factors are driving that.

Cities, states with most planned investment

But another item that I always find interesting and I know a lot of our listeners and a lot of the buyers at the report find interesting, is which cities or states are expect to have the most planned investment. According to our report, no surprise, California, New York and Texas are top states. Arizona is also kind of rounds out the four in terms of top states for planned investment. Then we look at cities. Washington, D.C., New York City, Los Angeles and Phoenix are the top four cities and I'm just curious: When you read the report and see some of the other cities and states that are in the report making kind of the top list, what surprises you or doesn't surprise you? And some of the reasons why you think particular communities are being targeted for more investment beyond just the fact that you look at a state like California and OK, you've got the largest population in the country, you're probably going to be toward the top of that list. But share with us some of your thoughts.

[00:20:42] **John Sciarretti, CPA:** Yeah, well, I think, you had mentioned Washington, D.C., is top of the list in cities and I think they have planned investment of $1 billion and I do know that Washington, D.C., city government has their act together with respect to opportunity zones. They did a nice job of promoting their opportunity zones, but Washington, D.C., is a hot real estate market, right? I mean, so I think that's what's really drawn the capital there. When you look at all these cities, like you mentioned that Arizona is top of the list from a state perspective. Phoenix, Scottsdale, Goodyear, Mesa, they're all top 40 cities and they're hot markets. I mean, it's a great migration where everybody's looking where people move and housing is popular and you have residential real estate being one of the most favorite investments in this program at this point. And so it's understandable that Arizona, with all those cities that are growing, and then Arizona itself as well, as a state, these cities do have their act together in promoting other incentives and the like to woo investment into the city. Twenty cities and that's what I think's nice about this program is that it really is geographically dispersed. Twenty cities across the country have more than $300 million a planned investment and that's up from $200 million in 20 cities from our last report at the end of 2021. And so it's nice to see that dispersion across the country. There's only really one change in the makeup of the top 10 states that we saw. From last report to this report, the states, the top six stayed the same. There was some movement in order, but even some movement where it looked like my state, Ohio, we dropped one spot. We were at 10, as far as the 10th state with the most, 10th place for most equity raised, but we moved to 11 where Tennessee topped us by one place there. But you know, Ohio has increased their state credit and for this year they've increased it from $50 to $75 million and they have two application cycles and they're allowing investors who are not residents of Ohio to invest and they're allowing developers to actually syndicate this credit. So these are some flexible changes in Ohio program and so they must have known that they would dropped to 11th place because they did a great job of putting some more cinnamon there and we're hopeful that we jumped back up there some reports in the future, but that's, what's going on in Ohio.

So when you look geographically, states in the West, and I'll include Texas in the Western states, they hold four of the top eight spots in opportunity zones. So that's an interesting anecdote from the report.

[00:23:27] **Michael Novogradac, CPA:** No, that definitely is. And I would also note for any opportunity fund managers that are listening to the podcast, we do release to the individual opportunity fund managers where they themselves rank in terms of funds raised. For a variety of regulatory and other reasons we don't release that publicly in terms of providing a list of ranked opportunity fund managers, but there's any manager that wants to know where they rank, based upon our data, please reach out to John or me.

So John, so thank you for that, all those insights in terms of area and geography and the rest. I will also note you were talking about the top 10 states in terms of how they ranked, when you look at the cities, of the top 40 cities, the report has included the 29 cities have made it in the top 40 consistently over time across our various reports and there are 11 cities that keep kind of bubbling in and out. Not 11 cities, but each report has up to 11 cities that are changing kind of across the report, so it's been interesting to monitor the top 40 cities in terms of targeted investment.

Other significant OZ issues

But let's go a little bit broader. I wanted you to share anything else you think that listeners might be interested in concerning opportunity zones. Either some takeaway from the report or beyond the report.

[00:24:48] **John Sciarretti, CPA:** Yeah. Well, there's been a couple of things since I was last a guest on your program, Mike, that are happening in the statutory and regulatory front.

We have proposed legislation to modify and extend the incentive. Sen. [Tim] Scott and Sen. [Cory] Booker co-sponsored the Transparency, Extension and Improvement Act that's out there and it does five things. It extends the deferral period of the OZ incentive through 2028. So that'd be two years and it enables, by doing that two years, it enables taxpayers to take advantage of, at least at this point, well actually it's the 10% and the 5% benefit, but you have to invest pretty quickly if it does pass in order to get the 5%, but it does provide that incentive back into the mix. And one thing, it does reinstate reporting requirements that were included in the original bill. If you remember, they were stripped, due to this Byrd Bath, what they call it, and so it does reinstate those reporting requirements and it also sunsets some of the higher-income tracts. So, that's something that I know folks might be interested in, were interested in, that some of the tracts were just maybe on the upswing before they were designated and so it would limit some of the higher tracts above 130% median family income. It also gives us a fund of funds structure where currently a qualified opportunity fund can't invest in another qualified opportunity fund, so this provision would allow a fund to do that which would provide smaller communities and projects with the financing they need. I mean, I think that's the objective there. And then, lastly, it created this sort of community dynamism fund and it provides grants to states that drive private and public capital to these opportunity zones.

So all good stuff. The Opportunity Zones Working Group, we have been actively working to make recommendations to proposed legislation, which we think would maybe help make more consistent what we think their objectives are. And I think that the co-sponsors welcome those comments, so we've been actively working through that in conjunction with the Economic Innovation Group. So that's been a lot of work and a lot of fun over the last few months in our working group.

[00:27:05] **Michael Novogradac, CPA:** Let me just, I was just going to say, in terms of likelihood of passage.

[00:27:10] **John Sciarretti, CPA:** Yeah. I was going to address that. Yeah. So we think that the best opportunity is perhaps in a tax extenders bill, which we expect in November. Even if a lame-duck session, traditionally, we've gotten an extenders bill. And so, having a tax title, we think that bill would be the likely place for this proposal to be inserted and or bill to be inserted and we're encouraged by the legislative landscape. I mean, you might be able to speak to that a little bit, Mike, but I think in general, we're encouraged that we have a pretty good chance of seeing that extension.

[00:27:45] **Michael Novogradac, CPA:** No, I definitely think there's a good chance of there being a year-end tax bill, a bipartisan bicameral. Obviously, all tax bills, they have to be bicameral, having a bipartisan tax bill at the end of the year. The election results obviously will have an impact on having a lame-duck session tax bill, but there are a number of expiring tax provisions that, irrespective as to how the election turns out in terms of who controls the Senate and the House in November, that there'll be some motivation to get together and pass a tax bill before the end of the year and that would be a great vehicle for some of the provisions included in this bill to be included. Whether or not all of them get included, that's generally speaking less likely, but you know a significant number of them. And we know that it getting an extension of the ability to invest in opportunity zones and getting extension of the 5% and 10% gain exclusions would be a goal of many members of Congress. So, we'll be obviously watching that closely as yearend approaches.

[00:28:48] **John Sciarretti, CPA:** Right. And there's a chance that 5% they could modify that, right? So, folks could still, because right now, even if it passed this year, you'd have to invest this year, which gives you a month.

[00:28:59] **Michael Novogradac, CPA:** That's right. That's right.

[00:29:00] **John Sciarretti, CPA:** From November. And so, there's a chance that they could modify that so folks can get 5%.

[00:29:05] **Michael Novogradac, CPA:** And that's happened in the past with other bits of tax legislation when you introduce it and you're contemplating it getting enacted earlier in the year. And by the time you get to the end of the year, all of a sudden, the dates have to be adjusted a bit to give time for the provision to be effective as originally intended. So, I definitely think that's and that's why I mentioned that the legislation’s been introduced, it'll be modified in some way, I’m guessing it’s included as part of a larger tax bill, there will be modifications to it in order to ensure that it achieves what it is that the supporters intended to achieve.

[00:29:39] **John Sciarretti, CPA:** Right. The other thing I wanted to mention, Mike, I said there were two things that happened since I was a last a guest, that these certification regulations have been added to the regulatory plan. And this was just a couple of weeks ago and it's a big deal. It doesn't sound like a big deal, but it's a big deal because we as an Opportunity Zone Working Group have proactively provided our recommendations as to what these regulations should contain. There's a placeholder for them in the regulations, but we don't have rules and when you look at what's happened over the last few years with the pandemic and now uncertainty in the economy, some folks had plans that just aren't going to work out and they like to feel comfortable that they understand how they can get out without any sort of penalty or perhaps IRS suggestion that they weren't in it for the right reasons.

So that's a voluntary certification and we did provide our recommendations to our Treasury and IRS contacts and they were welcomed, as to what these regulations should say, as well as involuntary decertification for folks that perhaps aren't doing the right things for the wrong reasons. We suggested clear guidelines there, too, and clear guidelines to protect funds that perhaps have issues that are no fault of their own, that they can feel comfortable that they're not in this involuntary decertification. So, we're hopeful that IRS and Treasury take our recommendations to heart. There's no reason to think that they wouldn't, because we have a track record of them being very willing to listen to us and these sorts of issues. And because we have this sort of large working group that is a collection of lots of folks in the industry, right? We have funds, we have legal counsel, we have some government groups and lots of developers. So, folks that see, they understand the marketplace and what works and what doesn't. So, so we're excited for that. Our members really appreciate the working group for the fact that we keep abreast of emerging issues that are happening, like these proposed legislation and proposed regulations. And they get a chance to provide input to shape these rules. And so, they really appreciate that. They also enjoy our working sessions, which we spend a lot of time resolving technical issues where they're coming up with recommended practices where things aren't so clear and they feel comfortable going at or sort of addressing things as a group versus going it alone where they don't have that insight. So, we've had a lot of happy members around certain technical issues as well. So, the working group itself is open to anyone. It's not a closed working group and, there are, if you go to our website under the opportunity zone portal, there is a link there that you can learn a little bit more about the working group. Then you can always reach out to me or Karen Destorel on how you would join and what that routine is to get to join the working group.

[00:32:35] **Michael Novogradac, CPA:** Thank you for that, John, because there's a variety of reasons why we have various members in the working group and there's so much that you can get out of it. Obviously, there's the education part of it, which you mentioned, and then there's the working sessions, which is there's education in terms of the monthly calls. Then there's the working sessions, which is a maybe a 201 from a 101, but also there's the ability to identify what others are doing. And as you point out, there's a large number of areas where it's not entirely clear, the regulatory guidance and the rest, and it's an opportunity to identify what others are doing. I always like to say in these sort of areas, if it's something that's unclear, you want to be traveling in a herd, you want to know what the rest are doing so that there is a degree of comfort in numbers there. So that's something that's always really valuable for a large number of members.

Then obviously there's a whole networking aspect of it as well, in terms of getting to meet and discuss issues with other that are active in opportunity zones. And then, many members also really want to have an impact on what the regulatory guidance is and the rest and the fact that the Opportunity Zones Group has so many members and works so closely or submits comments and the rest to Treasury in the rest various ideas and concepts have a little bit more impact that with the numbers that are supporting Opportunity Zones Working Group recommendations.

And I thank you for your leadership since before the bill became law, when it was still working its way through Congress and reviewing each version of the legislation, it's made comments. So, it's been a good number of years that you've been working in opportunity zones and your dedication to it has really made the resource a lot more effective than it might otherwise have.

[00:34:23] **John Sciarretti, CPA:** And I'd be remiss if I didn't mention Jason Watkins. I mean, I couldn’t do it without him. He's a good partner in that group and I'm just so glad to have him around.

[00:34:32] **Michael Novogradac, CPA:** Now Jason does a wonderful job. And for future members of the working group, I'll look forward to you meeting Jason on one of our working group calls.

So John, thank you for all that information. Please do stick around for our Off-Mike segment of the podcast, where I get to ask you some fun questions that aren't directly related to tax incentives, although they might have some linkages. I will provide John's email address in the show notes and also provide links to the reports you can buy it and also provide links to the blog post that gives a brief overview of the report and perhaps most importantly, we'll provide a link to the Opportunity Zones Working Group so you can become a member if you're not already, a member of the Opportunity Zones Working Group. And obviously you can also just Google any of these items with Novogradac and it’ll probably come up in the top few searches.

And to our listeners, please be sure to tune into next week’s episode of Tax Credit Tuesday. My partner Dirk Wallace will be on the podcast to discuss recent guidance from the Treasury Department on how state and local or state, local and tribal governments can use Coronavirus State and Local Fiscal Recovery funds for affordable housing production and renovation. You might not be that familiar with those funds. Those in the affordable housing space have been fairly familiar with it, but you might not be. The American Rescue Plan Act actually provided $350 billion in Coronavirus State and Local Fiscal Recovery funds and encouraged state and local tribal governments to use some of that $350 billion for the development, repair and operation of affordable housing. Getting that money into affordable housing had been a bit of a challenge, but recent guidance provided expanded flexibility to use those funds to finance long-term affordable housing loans, as well as expanding the eligible uses, or at least the clearly eligible uses for the funds as regards affordable housing. So, during the podcast, Dirk and I are going to discuss the guidance and how developers of affordable housing can benefit from the funding that's now available. And we do expect this funding to have–it's actually having–a major impact on financing affordable housing. So, if you are involved in affordable housing, you'll certainly want to tune in.

And I'll also note that the following week we're currently scheduled to discuss the Inflation Reduction Act of 2022 and as John mentioned, there's a significant funding for renewable energy and a lot of the incentives can relate and be cross connected with community development, affordable rental housing, historic preservation and the like, so you won't want to miss that episode.

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Off-Mike segment

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. So, John, I'll start with a question that I like asking podcast guests with respect to the fact that the areas in which we all work are constantly changing. I always like to ask, how do you keep informed and up to date?

[00:38:11] **John Sciarretti, CPA:** Well, it's the part of is the beauty of being in a large firm with a small-firm mentality when it comes to communicating changes in trends in the industry. We do a great job and we have, what, 700 experiences all the time and in the marketplace and we have protocols in place that we do a great job of disseminating that information. So, it's fantastic that we're able to operate in that small-firm mentality. Of course, I'm a regular listener to Tax Credit Tuesday, Mike, and a regular reader of the Journal of Tax Credits. And so I do get lots of information with respect to changes in industry or opportunities coming as all of our clients do as well, so I'm glad for that. Lastly, I think the best information comes from constantly engaging with my clients and asking them how we can. We find a lot about what's going on in the industry and how we might fit in and add value to our clients and it just takes that constant communication, which happily I've been able to have with my clients.

[00:39:15] **Michael Novogradac, CPA:** Thank you for that. And thanks for the Tax Credit Tuesday plug and the Journal of Tax Credits. I'd also note that for those involved in predevelopment, we also have our breaking news emails. So, you should make sure that you're signed up for our breaking news emails. And I guess part of what you were saying in terms of knowing how to keep up to date is really about showing up in terms of talking to your partners, talking to Novogradac employees, being very engaged, attending conferences and the rest. So, it really is focusing on using your time in areas that are additive in close proximity to the areas that you practice.

So another question that I frequently ask has to do with what you know now about professional success and how to succeed that you didn't know when you were 25. There's different versions of this question. What advice would you give your 20- or your 25-year-old self? What do you know now about professional success that you didn't know then, so take this question, whichever direction you'd like to take it.

[00:40:23] **John Sciarretti, CPA:** It was only five years ago. Mike.

[00:40:32] **Michael Novogradac, CPA:** I was going to let our listeners guess as to how long ago it was and I won't say five dog years, either.

[00:40:37] **John Sciarretti, CPA:** There you go.

[00:40:39] **Michael Novogradac, CPA:** You're a little bit younger than that.

[00:40:42] **John Sciarretti, CPA:** I think probably the No. 1 thing is patience, right? I mean, you don't have a lot of patience when you're 25 and I've learned that a successful career is a marathon, not a sprint and it took me a long time to realize that you want everything now. And so that's probably the main thing that I didn't know when I was 25. Also, and it kind of relates to this, is there, you sort of understand when you're older, that there's only two things you can control your attitude and how hard you work. Bad things are going to happen and so I've learned over the years not to get discouraged. I try to look at things as opportunities, which a lot of times, they become opportunities. It might take a few years to look back and see that, but I do think that's realization that only your attitude and hard work is what you can control. And then I'd say lastly, there was a book years back that was popular: "All I need to know, I learned in kindergarten." It was a fantastic book, right? So, so the ones that resonated me from that book is stuff that I think is relevant for a successful career and it was things like share, play fair, clean up your own mess. That's the best one, right? It's like, don't point your fingers and clean up your own mess. And then be aware of wonder. Those are, there was a whole list of things, but I mean, I just remember those four. Be aware of wonder is something that I try to do in my career and it keeps the excitement in what we do. And so, those are the best advice that I think things that I think about now that I clearly wasn't thinking about when I was 25 years old. And so that would be my take.

[00:42:15] **Michael Novogradac, CPA:** Got it. Well, thank you for that. And I really like your focus on controlling what you can control. I know there will be a variability out there, but definitely the harder you work, the luckier you get. So, there's a lot to be said for the obviously the benefits of hard work, but recognizing that there is a luck component, as well. So, thank you again, John, and to our listeners. I'm Mike Novogradac. Thanks for listening.

Additional Resources

Email

Email John Sciarretti

Special Report

Novogradac Opportunity Zones Investment Report: Data Through June 30, 2022

Blog Post

Latest Novogradac QOF Report Shows OZ Investment Surpasses $30 Billion

Opportunity Zones Working Group

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