GRUBB PROPERTIES
Perspective drives performance.

Top ten questions to ask when investing in an Opportunity Zone Fund

Qualified Opportunity Zone ("QOZ") investing represents one of the greatest confluences of tax incentives, capital deployment opportunities and community impact made available to investors in decades. The essence of the program is the promotion of the reinvestment of capital gains into low-income areas by providing significant tax benefits to investors. When a person reinvests a capital gain into a qualified opportunity fund ("QOF"), they receive three tax benefits:

1. Deferral of the recognition of the original gain until 2026
2. 10% reduction in the tax liability on the original gain, if invested in 2021
3. Tax-free appreciation on their investment in the QOF if the investment is held for 10 years

Grubb Properties launched its first QOF in 2019 and has since raised more than $200 million in the program. But Grubb was investing in these areas long before there was any tax incentive for their investors. In fact, the first Link Apartments® project in the Grubb Properties portfolio – Link Apartments® Manchester – which was developed in 2012, sits in a location which has since been designated a QOZ.

By the time QOZ legislation was implemented, Grubb Properties already had four Link Apartments® sites in service or development in QOZs. As of 2020, we have completed ten new investments under the program and are excited to continue to grow our portfolio in 2021 and beyond.

The first step is to determine whether this investment vehicle is right for you or for a portfolio of investments that you manage. Here are ten questions you should know the answers to before making any big decisions.

01

Has the sponsor completed development projects in QOZ locations before?

You will want to know how much experience the sponsor has in QOZ locations. QOZ locations are, by definition, low-income Census tracts, which inherently makes them riskier investment locations than traditional market locations. While many QOZ locations are in path-of-growth areas and present great investment opportunities, knowing how to navigate the needs of an emerging and changing community is critical.

02

Is the sponsor a fund manager, developer, or both, and what is their track record?

A fund manager who also takes accountability as the developer provides another layer of certainty in QOZ markets, especially when their track record is transparent, and you can see how well they have performed. A "boots on the ground" approach to QOZ investment is important to maintain control in a project and to ensure both that the requirements of the QOZ program are met and that the investment achieves its anticipated returns. If the sponsor is not a fund manager and a developer, understanding how they are engaged with the asset to ensure compliance and return is imperative.

03

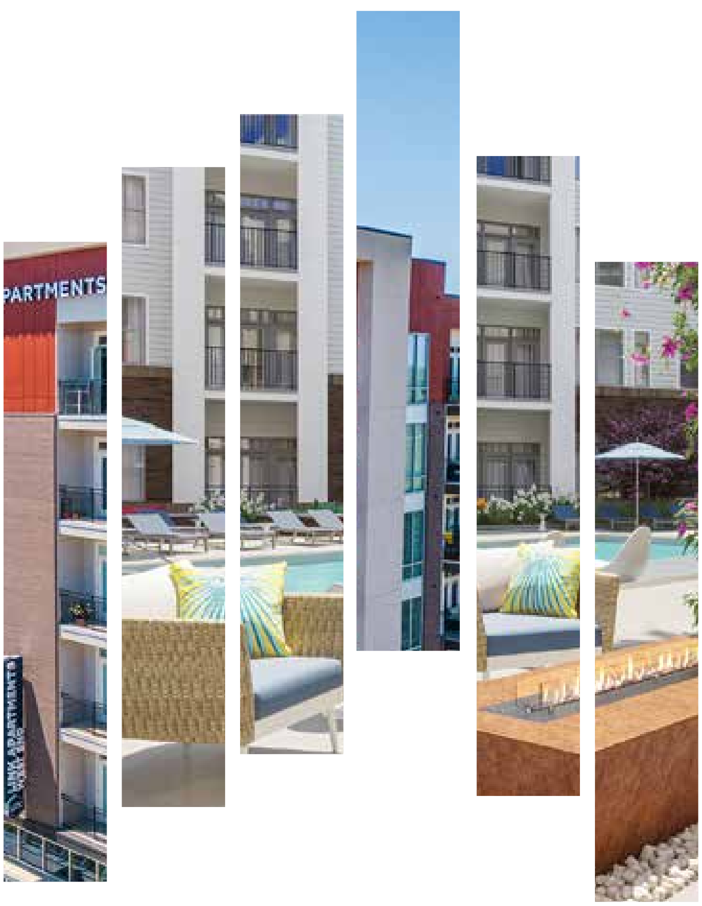
What are the ongoing tax requirements for the investors – will they receive K-1s or 1099s?

When investing in a QOF, investors must consider their ongoing obligations for tax reporting, particularly if they are using the program as a tool to diversify their portfolio into real estate. Many funds are structured as partnerships which produce K-1 tax obligations at the federal level and often require tax filings in states where properties are located, even if it is not the investor's state of residence. These obligations can be time-consuming and expensive for tax preparation. Other structures, including REITs and other corporate structured entities, will produce 1099s, a much simpler tax form, though they may not get the benefit of partnership tax treatment. Understanding these differences and how they fit into your portfolio is important for you and your tax advisor.

04

When will the fund close and what does that mean for investors' holding periods?

QOFs that are set up to take in capital over multiple years can create a longer realization timeline for investors if the fund's strategy is a portfolio sale after all investors have achieved their 10-year hold. Alternatively, such funds may leave it up to the investor to sell their investment after achieving their own holding period. Such strategies can provide flexibility for investors, but also increase their management responsibility. In contrast, a "vintage year" fund in which all investors invest in the same calendar year can provide a more hands-off approach for investors when it comes time to realize their investments.



05

How does the fund's strategy take into account its investors' deferred tax obligations?

It is important to ask if the fund intends to have a refinance or other cash event in late 2026 or early 2027. Investors will owe their deferred tax obligations with their 2026 tax filings, and, based on the generally illiquid nature of QOZ investments, investors won't be able to count on selling their investments to pay tax on their deferred gains, and any such sale wouldn't get the 10-year benefit of the program if it were sold. As an investor, you will need to know if a fund does not intend to create a cash event around the time taxes are due and will need to be aware of any deferred tax obligations and prepare accordingly.

06

How many projects are targeted and where are they located?

The construction of the fund is critical. Understanding the investment strategy, approach and methods used by sponsors and fund managers to build the fund's portfolio is one of the most important aspects of the investment. If the investment is in a single asset, is the investor confident enough in the asset and strategy to take a non-diversified risk? If the fund intends to invest in multiple assets, is there diversification in the markets the fund will target to create a well-rounded portfolio? Knowing the answers to these questions will help you assess what works best for your portfolio.

07

What is the fund's projected return?

Is the fund manager promising a return that seems too good to be true? Internal Rate of Return, or IRR, is a common measure for evaluating real estate investments and is heavily influenced by the amount of time an investment is held. The same project with the same return profile held for five years versus ten years would result in a very different IRR. It should be a red flag for investors if a manager is not adjusting its IRR targets for a longer-than-normal holding period. Additionally, long term appreciation, often represented by an equity multiple, can be more powerful in the QOZ program based on the tax forgiveness for gains realized after the 10-year holding period.

08

What are the terms of the fund – what types of fees are charged to investors and what is the manager's share of profits?

Real estate funds will almost always have an asset management fee and carried interest. These are the primary ways the manager is compensated. The asset management fee is a small, yearly fee generally seen as supporting the manager's ongoing operations, while the carried interest is a performance-based incentive earned by the manager for passing pre-defined return targets. If a manager is charging higher fees or taking more carried interest in a QOZ investment than one of their other funds or investments, the investor should understand why. Additionally, investors should look out for QOZ investments that charge additional fees, such as acquisition and disposition fees, and understand fully how the manager is getting compensated.

09

Which service providers does your fund manager use?

Has your fund manager engaged sophisticated legal and tax counsel with relation to their investments? The QOZ program is still relatively new and remains an evolving area of investment with a complicated set of rules and requirements. Receiving proper counsel in navigating the program is just as important for the fund as it is for its investors. Make sure to review who is associated with a particular fund offering and check that there is appropriate representation from experts.

10

Transparency – How often does your fund send updates and what types are they?

Good, responsive investor relations and quality reporting are an important aspect of keeping track of your investment and understanding the fund's value. Make sure reporting is comprehensive, transparent, and regular so that you are informed about your fund's performance.

If you are interested in investing in QOZs, 2021 is the time to do it. After the end of the year, the benefit of the discount on investors' deferred tax obligations under the program will no longer be available. Grubb's 2021 QOF will be our investors' last chance to save 10% on their deferred gains. Our innovative product and investor-friendly structure are designed to make QOZ investing simple and profitable, while delivering the community impact the program was designed to create.

Contact us if you would like to explore this opportunity or need further information about investing, or visit us at grubbproperties.com.

Clark Spencer
Senior Vice President, Investments
(704) 405-5156
cspencer@grubbproperties.com

James Holleman
Director, Investments
(704) 405-1646
jholleman@grubbproperties.com

GRUBB PROPERTIES
Perspective drives performance.

LINK APARTMENTS®