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Emerging Breakthrough in Opportunity Zones: It Provides the Easiest Path to Immediate Cash Flow

AXEL ADLER, CENTENNIAL ADVISERS

It is difficult for anyone to deny the positive impact the opportunity zones (OZ) incentive has had across the United States by driving job creation, attracting investment and revitalizing distressed communities. With just less than two years remaining to reap the full benefits of the incentive, the OZ continues to offer a powerful advantage for investors seeking to reinvest their capital gains into tax-advantaged real estate.

While the incentive is often associated with large funds taking on massive ground-up developments, the prospect of pooling resources with numerous other investors has been unappealing to some. These challenges, along with the complexity of the program, has led a small number of investors to “reengineer” the process. Their strategy offers five key performance attributes unavailable in other OZ investments:

1. total control over investment decisions,
2. a selection of stable long-term corporate-backed tenants,
3. the desire to realize immediate cash flow,
4. the ability to acquire and operate new construction with minimal effort, and
5. only targeting properties in “golden” OZs that offer tenant synergies and improving demographics.

Control Over Investment Decisions

Penny Darst and Tim Shield, two first-time commercial real estate investors, spent years exploring OZs but never felt confident enough to take the plunge.

“We started looking into opportunity zones in 2019, but we were hesitant to invest in a big fund. We weren’t sure if it was legitimate, if we’d make money, or if the whole thing could fall apart,” Darst said. By establishing their own qualified opportunity fund (QOF), they were able to take charge of their investment. “We wanted control—not just over our money, but over the entire process—and that’s exactly what we got,” Shield said.

Instead of paying layers of acquisition, management and disposition fees that eat into profits, they retained 100% of their returns. Moreover, they had the flexibility to diversify across multiple regions rather than being locked into a single, preselected development. Additionally, as the sole decision makers, they had the flexibility to hold the property for the full term of their

QOF or to trade the property multiple times should their investment objectives change.

Corporate-Backed Tenants

A key consideration for OZ investors is their ability to invest in a new building with a corporate-backed long-term lease and a reliable tenant, ensuring immediate cash flow and financial stability from day one while meeting the active trade or business requirement. Traditional triple-net-leased properties, widely favored by passive real estate investors, do not qualify under OZ regulations. However, there is a unique approach that allows investors to maximize OZ benefits while maintaining the simplicity and reliability associated with traditional triple-net lease investments. By structuring leases that are mutually beneficial to landlord and tenant, an investor can ensure compliance while still offering the security of strong, creditworthy tenants.

“It just made perfect sense to me,” said one tax and business lawyer about the strategy’s appeal. We could invest in a brand-new building, with a lease backed by a national credit tenant for the next 15 years. The fact that they pay the rent like clockwork allows me to sleep at night.”

Immediate Cash Flow

One successful business owner of more than 20 years began thinking about retirement around the time the Tax Cuts and Jobs Act passed in 2017. As he prepared to sell his company, he conducted extensive research on how to leverage OZs to maximize the proceeds from his sale. Using the same approach as Darst and Shield, and drawing inspiration from the lawyer’s three successful OZ acquisitions, business owner structured his investment to acquire multiple OZ properties as soon as his business sale was finalized. The ink on his sale agreement was barely dry when, just seven days later, he was already receiving cash flow from a brand-new, corporate-backed Starbucks. “I had the chance to not only make a smart investment decision, but I could

also use my business sale to make a positive impact,” he said. “While those two things were very important to me, the fact that I was able to receive cash flow virtually immediately made it a no-brainer.”

New Construction

Not everyone is comfortable with a hammer in their hand or enjoys the quiet solitude of fixing a broken pipe. The key requirement is significant investment or significant improvement to property to qualify for OZ benefits reduces investor access and limits the potential for neighborhood improvement. Fortunately, the IRS provided guidance in its 2019 directive that has given a growing number of less “handy” or construction “savvy” investors the ability to do good while investing their capital gains proceeds.

A business owner operating three growing companies found this strategy to be the only OZ investment model that made sense for him. “Every other OZ investment I’ve ever seen either was a piece of dirt where I had to build something, or I was going to wait and pay to watch someone else do it,” he said. “This strategy allows me to get the best of everything, I get a developer who values their long-term relationship with a tenant that wants to do and take care of everything to protect their brand. I wouldn’t have invested in opportunity zones without this strategy. I didn’t have the time or desire to do anything else.”

Golden Opportunity Zones

The last component is location and all OZs are not created equal. “Golden OZs” are the 10% of OZs where the area is perfectly situated for tenant success. One such gem is the Tahoe-Reno Industrial Center (TRIC) in Sparks, Nevada, the largest industrial park in the world and home to Tesla, Google, Walmart and Home Depot. With one-day truck access to major western states, it’s a logistics powerhouse. Seeing the potential, one client secured an \$8 million deal in the park. “The construction boom was undeniable, and industrial

demand was shifting east from Reno,” said the client. “This location made perfect sense.” Additionally, some of the most recession-resistant, high-growth OZs are found near major universities, where thriving research parks, strong job markets and built-in consumer demand create ideal investment conditions. In West Lafayette, Indiana, our clients secured a brand-new, 15-year lease with Caliber Collision, strategically located near Purdue Research Park, the largest university-affiliated business incubator in the U.S.

This strategy is best suited for investors with \$250,000 to \$15 million in capital gains, offering a flexible and scalable approach to OZ investing. With properties available in every state and Puerto Rico, returns vary

based on key factors such as location, tenant strength and lease terms. Additionally, investors should carefully evaluate state tax implications, as each state has its own tax code. In some cases, the right combination of property location and primary residence can provide even greater tax advantages, making strategic planning essential for maximizing returns. ❖

Axel Adler is a leading authority on captive OZ net leased investing. Since 2018, he and his team at Centennial Advisers have helped clients place over \$150 million in capital gains, leveraging a proven strategy that maximizes both tax benefits and investment stability. A renowned speaker on OZ net leased investing, Adler frequently appears on Novogradac panels, providing insights on the latest OZ trends and strategies. He can be reached at axel.adler@centennialadvisers.com or 949.514.9410.

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