



# CDFI Makes Its First Investment in Opportunity Zones Development

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Clearinghouse Community Development Financial Institution (CDFI) closed on its first opportunity zones (OZ) investment in Los Angeles Dec. 5, 2019.

The development, unofficially called Mariposa for its location on Mariposa Avenue in Koreatown, is currently a vacant lot but will provide 31 apartments for residents who earn around 80 percent of the area median income. Construction on the development began in December 2019 and is expected to be completed and have units leased out by the first quarter of 2021.

Clearinghouse CDFI's mission is to provide innovative and affordable financing for projects that provide economic opportunities and improve the quality of life for lower-income individuals and communities.

"Once we heard about and understood the OZ [incentive], we made a conscious effort to be involved in this arena," said Doug Bystry, president and CEO of Clearinghouse CDFI. "[We viewed] it as more of an equity capital source we could use, as well as thinking that this program has traction and it's something we want to do."

## Location, Location, Location

Mariposa is in a census tract with an income level that is less than half of the state's average and has a poverty rate of more than 1.5 times the California average. The development will provide necessary workforce housing—not necessarily low-income, but also not luxury apartments. Mariposa's partners want to ensure that they find the right pricing matrix so that they can provide some affordable housing, but also create a return on investment for the development.

"Los Angeles is in severe need of housing, period," said Bystry. "We're very comfortable with this project and what we have. It's a good location that fills a need for additional housing."

The development is located close to different modes of public transportation, including the Los Angeles metro line as well as the Wilshire corridor. In addition, Mariposa is close to the old Ambassador

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Hotel, which is now Robert F. Kennedy Community Schools, a K-12 campus that seats 4,200 students.

“This is one of the oldest neighborhoods in L.A.,” said Rei Umekubo, managing principal at APEX Pacific Partners Advisors LLC, who facilitated investment in the property. “The area is experiencing a rebirth and it’s a great location for several employment centers.”

While Umekubo understands concerns about gentrification, he said that improvements can be made in a community without necessarily making the area more expensive.

With the expansion of the metro line and the proximity to other transportation and schools, Umekubo and Bystry view the development as a place where families could live without having to worry about maintaining and paying for a vehicle. The vision is for Koreatown to become a place of opportunity and success.

### Making OZ Investments Work

For Clearinghouse CDFI and APEX Pacific Partners, OZ investments are uncharted territory. Clearinghouse is used to investing in NMTC developments, but for many investors, OZs present a unique challenge that requires a lot of research. Clearinghouse created a committee to specifically look for OZ investment projects.

“We started research at the end of 2018,” said Umekubo. “The only challenge was trying to figure out the rules and regulations of the tax benefit and how to set it up properly. On a normal investment, you wouldn’t have to worry about all of the specifics of the OZ regulations. We want to make sure that we abide by the rules.”

“A lot of people were waiting for more guidance or finality,” said Bystry. “Many people have opposed this program and there are many valid concerns about gentrification and the guidance and requirements for developments. However, when you have CDFIs involved who have a

mission in community development, you have the perfect combination. I’d like to see more CDFIs get involved in implementing this program.”

In addition to navigating the gray areas of OZ regulations, finding investors and having the right timing also presents a challenge. For Clearinghouse CDFI, finding an outside investor was one of the main challenges.

“There’s a ticking clock from when a party recognizes a capital gain and decides to invest,” said Bystry. “And another clock when you actually deploy the investment. Money raised in the form of a fund doesn’t always work because not everyone’s timing lines up.”

“In this case, we were fortunate that our investor had the funds at the time of finding the investment property,” said Umekubo. “We have a relationship with Clearinghouse CDFI, we like working with them, and their reputation throughout the U.S. is stellar.”

Umekubo and the team at APEX Pacific work to make sure that they are aligned with what investors are looking for and that the projects they’re investing in also align with the investors’ values.

“A lot of entities have raised money in the form of a fund, which doesn’t always work,” said Bystry. “Funds aren’t looking at the places where the money needs to go. There’s disconnect from where the money has been raised and where the money is being used.”

### What’s Next?

“We hope that this is the first of many OZ projects that we do,” said Bystry. “We have a project in the future in San Antonio and another in the works in L.A. There’s a lot of potential to really motivate investors economically and get money into low-income communities, and *that* I love.”

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APEX Pacific is also interested in more OZ investments.

“If we can find other deals and match them with investors who have capital gains, we’d like to pursue more,” said Umekubo. “The problem then becomes the timeline and the question of how much longer the incentive will be available. We like working with Clearinghouse CDFI and we hope to do more with them in the future.”

“The release of the final OZ regulations has provided cleanup language and clarity on a number of important issues,” says Bystry. “I expect that now that these regulations are out, many more investors will be looking for OZ projects. We are ready to assist them.” ❖

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