

# THE WALL STREET JOURNAL.

April 30, 2019

UMV: 43,634,142

REAL ESTATE | PROPERTY REPORT

## Luxury Developers in Miami Eye Low-Income Tax Breaks

A new federal tax-incentive program designed to help low-income neighborhoods is adding fuel to Miami's real-estate boom



A view of the Edgewater neighborhood of Miami, where investors are piling into the city's opportunity zones and accelerating the development boom. PHOTO: ALEXIA FODERE FOR THE WALL STREET JOURNAL

By *Konrad Putzier*

April 30, 2019 9:00 a.m. ET

A new federal incentive program designed to help low-income neighborhoods is adding fuel to Miami's real-estate boom.

When President Trump signed the [Opportunity Zone program](#) into law as part of the 2017 tax overhaul, the administration said the goal was to incentivize investment in economically distressed areas.

But in the case of Miami and other U.S. cities, many of the opportunity zones are in gentrifying neighborhoods that were already attracting plenty of investment from hotel and luxury apartment developers.

# THE WALL STREET JOURNAL.

Sales of development sites within opportunity zones in the Miami metropolitan area increased by 45% to \$238.3 million in the first quarter of 2019, while sales were down outside the area's opportunity zones, according to research company Real Capital Analytics.

"It's probably the topic du jour," said Anthony Graziano, senior managing director of appraisal and consulting firm Integra Realty Resources. "If 2016 was the year of blockchain, 2018 was the year of opportunity zones."

A tract of land in downtown Miami's Edgewater neighborhood shows how this can play out.

The state designated the census tract as an opportunity zone, with some subsidized housing and a poverty rate at nearly 28%, as of 2016. But the area sits two blocks from the bay and rows of waterfront towers. It includes Bentley and Ferrari dealerships. Its median household income of \$46,250 is roughly in line with the county's median income, according to the U.S. Census Bureau.

The neighborhood is "probably one of the best development areas in the country," said Alex Sapir, a Miami developer who has owned a site there for years. He plans to build two apartment towers totaling 1.4 million square feet.



A number of other New York developers are eyeing the area or are already there. New York-based Mack Real Estate Group owns land nearby.

The Opportunity Zone program allows investors to defer capital-gains taxes on real estate, stocks or other assets if they invest in these areas through designated funds, and any capital gains on the eventual sale of the opportunity zone investment itself is tax-free if held for at least 10 years.

The U.S. Treasury Department issued a new set of guidelines this month for the program, some of which could make it easier for real-estate developers to use it.

Some critics say there is evidence that Opportunity Zone money is pouring into Miami neighborhoods that already had developers' money and attention.

Brett Theodos, a senior fellow at the think tank Urban Institute, recently ranked Miami-Dade's opportunity zones on a scale from 1 to 10 based on how much investment they were already attracting before their designation: 41% of the county's opportunity zones had a rating of 8 or higher, compared with 28% nationwide.

Speaking of Edgewater, he said: "It's hard to imagine this tract being a good candidate for needing our help." While the program will do a lot of good, he said, it will "also be used for things like converting affordable housing into luxury housing."

A spokeswoman for Florida's current governor, Ron DeSantis, said he "is analyzing different approaches and best practices toward opportunity zones that will spur economic development and job creation in economically distressed areas."

Proponents say that despite the program's flaws, there is little downside to promoting investment in poor areas. Mr. Sapir said opportunity zones will lead to the construction of much-needed housing and faster economic growth.

"I think Florida would be fine without it," he said, "but I'm happy to have it."

Michael Tillman, chief executive of the real-estate development and investment company PTM Partners, launched an Opportunity Zone fund last year. He uses a mapping tool to churn through demographic data on the country's 8,700 opportunity zones and identify those that share certain characteristics with booming neighborhoods like New York's Williamsburg or Miami's Wynwood.

Once he has identified areas within opportunity zones where rents are likely to rise in the coming years, he looks for suitable sites. The exercise helped bring him to a plot of land in Miami's Overtown neighborhood, where PTM is now codeveloping a 360-unit rental apartment building with a spa and resort-style pool deck. Mr. Tillman said 11% of the apartments will be affordable.