

BONAVENTURE

Why We Built an Opportunity Zone Strategy

To investors weighing whether an Opportunity Zone belongs in their portfolio:

Every long-term investor eventually runs into the same uncomfortable arithmetic: hold something good long enough, and the gain gets so large that selling it hands 20 to 30 cents of every dollar to the government instead of your next investment. We ran into that arithmetic on our own balance sheet, which is why we needed a solution and built one.

We started with a problem every long-term real estate owner eventually runs into. If you hold a multifamily property through a decade or two of growth, a building bought for a fraction of today's value carries a large, embedded gain — plus the depreciation you claimed along the way, which gets taxed the moment you sell. Add federal tax, state tax, and depreciation recapture, and 20–30% of that gain goes to taxes instead of into the next building. Capital that was compounding suddenly flows out of the system.

We have spent years using the standard toolkit for that exact problem — through 1031 exchanges, DSTs, and UPREIT contributions: ways of rolling a capital gain forward without cashing out and paying the toll. Opportunity Zones turned out to be the next tool in that same box: a federal program that lets any capital gain, not just one from real estate, roll into a Qualified Opportunity Fund investing in designated census tracts. Do that, and instead of paying tax on the gain in the year you realize it, you defer that tax bill for five years. More than that, if you stay in for at least ten years, you owe nothing on whatever the new investment goes on to earn. Bonus depreciation adds to that benefit: the accelerated deductions taken during the hold can offset current income and reduce our basis in the property, which increases the built-in gain baked into the investment — and because the ten-year exclusion is designed to eliminate tax on that same appreciation, more of that gain ends up sheltered rather than recaptured, further reducing the investor's overall tax liability.

The fit wasn't an accident. Many designated zones sit inside the same supply-constrained, high-growth corridors we've built and operated in for years. We aren't chasing a tax break into unfamiliar territory; rather, we are pointing out a tool we already understood at ground we already knew.

Here's the part we want to be direct about: long-term, tax-efficient compounding isn't a strategy we talk about from the sidelines. It's the instinct that built our portfolio. We hold good assets, defer tax rather than realize it before it's necessary, and keep capital working instead of handing a third of it away at every turn. We've invested more than $600 million of our own capital alongside the investors who join us, and we're now applying that same discipline to our own accumulated gains. Over the next decade, we anticipate investing roughly $500 million of capital gains in Opportunity Zone structures ourselves. This is the scale of the problem we face, and it was our intended solution long before we considered creating a specific platform.

It's also worth saying plainly that an Opportunity Zone deal rewards an operator who can execute, not just one who can allocate capital. Many eligible properties are undeveloped or underdeveloped, and the tax benefit itself doesn't entitle the land, manage the construction budget, or lease up the building. We've run that full lifecycle ourselves — acquisition, development, property management, capital markets — for more than 25 years, and that experience gives us the confidence in our ability to execute in QOZs.

Now, the catch, honestly, because we'd rather you hear it from us than discover it later: the biggest benefit here — paying no tax on the new investment's own appreciation — only materializes if the money stays committed for close to ten years. That's real illiquidity, not a technicality. Many of these projects are ground-up or repositioning work, which carries more development and lease-up risk than buying something already stabilized and cash-flowing. Once stabilized, though, these are typically cash-flowing assets, so investors see ongoing cash returns during the hold in addition to the tax-deferred appreciation.

Given all that, this fits a particular kind of investor: someone sitting on a real, current capital gain — from a property sale, a business sale, or an appreciated portfolio — who won't need that capital back for the better part of a decade, and who is comfortable trading a stabilized asset's certainty for development-stage risk and return in exchange for the tax treatment. It is not a fit for money you might need in the next few years, and it's not a fit for someone who wants an already cash-flowing building.
This letter is background on why we are pursuing projects in Opportunity Zones, not an offer or a solicitation, and it isn't a substitute for your own advisor's judgment on your own facts. If any of this sounds like your situation or your client's situation, give us a call, and we would be happy to share our experiences and perspectives.

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