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THE BONANZA

# *How a Trump Tax Break to Help Poor Communities Became a Windfall for the Rich*

By Jesse Drucker and Eric Lipton

Jesse Drucker reported from New Orleans, and Eric Lipton from Miami. Deborah Acosta and Matthew Goldstein contributed reporting from New York, and Mark Walker from Washington. Kitty Bennett contributed research.

NEW ORLEANS — President Trump [has portrayed](#) America's cities as wastelands, ravaged by crime and homelessness, [infested by rats](#).

But the Trump administration's signature plan to lift them — a multibillion-dollar tax break that is supposed to help low-income areas — has fueled a wave of developments financed by and built for the wealthiest Americans.

Among the early beneficiaries of the tax incentive are billionaire financiers like Leon Cooperman and business magnates like Sidney Kohl — and Mr. Trump's family members and advisers.

Former Gov. Chris Christie of New Jersey; Richard LeFrak, a New York real estate titan who is close to the president; Anthony Scaramucci, a former White House aide who recently had a falling out with Mr. Trump; and the family of Jared Kushner, Mr. Trump's son-in-law and senior adviser, all are looking to profit from what is shaping up to be a once-in-a-generation bonanza for elite investors.

The [stated goal](#) of the tax benefit — tucked into the Republicans' 2017 tax-cut legislation — was to coax investors to pump cash into poor neighborhoods, known as opportunity zones, leading to new housing, businesses and jobs.

The initiative allows people to sell stocks or other investments and delay capital gains taxes for years — as long as they plow the proceeds into projects in federally certified opportunity zones. Any profits from those projects can avoid federal taxes altogether.

“Opportunity zones, hottest thing going, providing massive new incentives for investment and job creation in distressed communities,” [Mr. Trump](#) declared [at a recent rally in Cincinnati](#).

Instead, billions of untaxed investment profits are beginning to pour into high-end apartment buildings and hotels, storage facilities that employ only a handful of workers, and student housing in bustling college towns, among other projects.

Many of the projects that will enjoy special tax status were underway long before the opportunity-zone provision was enacted. Financial institutions are boasting about the tax savings that await those who invest in real estate in affluent neighborhoods.

Mr. Scaramucci’s development in New Orleans offers a portrait of how the tax break works. His investment company, SkyBridge Capital, is using the so-called opportunity zone initiative to help build a hotel, outfitted with an opulent restaurant and a rooftop pool, in the city’s trendy Warehouse District.

The tax benefit also is helping finance the construction of a [46-story, glass-wrapped apartment tower](#) — amenities include a yoga lawn and a pool surrounded by cabanas and daybeds — in a Houston neighborhood already brimming with new projects aimed at the wealthy.

And in Miami’s hot Design District, where commercial real estate prices have nearly tripled in the last decade, the tax break is set to be used for a [ritzy new office tower](#) with a landscaped roof terrace.

Some proponents of opportunity zones note that money is already flowing into downtrodden communities like Birmingham, Ala., and Erie, Pa. They argue that more funds will follow. And they note that because no data exists on where investments are being made, it is impossible to quantify the benefits going to the wealthy versus the poor.

“The early wave, that’s not what you judge,” said John Lettieri, president of the Economic Innovation Group, an organization that lobbied for the establishment of opportunity zones.

But leaders of groups that work in cities and rural areas to combat poverty say they are disappointed with how it is playing out so far.

“Capital is going to flow to the lowest-risk, highest-return environment,” said Aaron T. Seybert, the social investment officer at the Kresge Foundation, a community-development group in Troy, Mich., that supported the opportunity-zone effort.

“Perhaps 95 percent of this is doing no good for people we care about.”

## A Tax Break Is Born

The opportunity-zone tax break was targeted at the trillions of dollars of capital gains held by rich Americans and their companies: profits from investments in the stock market, real estate and other businesses, even short-term trades by hedge funds. When investors sell those assets, they can incur tax bills of up to 41 percent.

Sean Parker, an early backer of Facebook, helped come up with the idea of pairing a capital-gains tax break with an incentive to invest in distressed neighborhoods. “When you are a founder of Facebook, and you own a lot of stock,” Mr. Parker said at a recent opportunity-zone conference, “you spend a lot of time thinking about capital gains.”

Starting in 2013, Mr. Parker bankrolled [a Capitol Hill lobbying effort](#) to pitch the idea to members of Congress. That effort was run through his Economic Innovation Group. In addition to Mr. Parker, the group’s backers included Dan Gilbert, the billionaire founder of Quicken Loans, and Ted Ulyot, the former general counsel of Facebook.

The plan won the support of Senators Cory Booker, Democrat of New Jersey, and Tim Scott, Republican of South Carolina. When Congress, [at Mr. Trump’s urging](#), began discussing major changes to the federal tax code in 2017, Mr. Parker’s idea had a chance to become reality.

Mr. Scott, who sponsored a version of the opportunity-zone legislation that was later incorporated into the broader tax cut package, said it was “[for American people stuck](#), sometimes trapped, in a place where it seems like the lights grow dimmer, and the future does, too.”

“Let’s turn those lights on and make the future bright,” he added.

Confined to six pages in the [185-page](#) tax bill, the provision can significantly increase the profits investors reap on real estate and other transactions.

It allows investors to defer for up to seven years any capital gains taxes on the money they invest in opportunity zones. (That deferral is valuable because it allows people to invest a larger sum upfront, potentially generating more profits over time.) After 10 years, the investor can cash out — by selling the opportunity-zone real estate, for example — and not owe any taxes on the profits.

Over a decade, those dual incentives could increase an investor’s returns by 70 percent, according to an analysis by Novogradac, an accounting firm.

“We are very, very excited about the potential,” the president’s daughter Ivanka Trump [said last year at an event](#) celebrating Mr. Parker’s role in creating opportunity

zones. “The whole White House obviously is behind the effort. The whole administration.”

The opportunity zones, focused on low-income census tracts, were drawn by officials in each state, as well as in Washington, D.C., and Puerto Rico. Last year, the Treasury Department approved roughly 8,800 such zones. (The White House and Treasury declined to make senior officials available to discuss the program.)

Nearly a third of the [31 million people](#) who live in the zones [are considered poor](#) — almost double the national poverty rate. Yet there are plenty of affluent areas inside those poor census tracts. And, as investors would soon realize, some of the zones were not low income at all.

## The Middle Man

The Harvard Club of New York City, in Midtown Manhattan, is the embodiment of America’s old-money elite. Crimson-jacketed waiters serve members who are watched over by oil portraits of elite alumni.

One recent morning, financial advisers representing several dozen of America’s richest dynasties — advisers to the Pritzker and Soros families [were listed as attendees](#) — crowded into a drab meeting room on the club’s third floor.

The advisers were there to see Daniel Kowalski, a top aide to Treasury Secretary Steven Mnuchin and the Trump administration’s point person for the opportunity-zone rules. Mr. Kowalski is barnstorming the country, bouncing from one conference to the next, explaining to real estate investors and developers how to take advantage of the new rules.

Mr. Kowalski was an [aide to the Trump campaign](#), where he worked for the White House policy adviser Stephen Miller. Before that, he was an aide to Jeff Sessions when Mr. Sessions was on the Senate Budget Committee.

*[The [Trump associates](#) benefiting from a tax break for poor communities.]*

At the Harvard Club, he dived into an explanation of how opportunity zones work — and for whom they work. “The audience for opportunity zones is inherently fairly small because it’s limited to capital-gains income, which is why I wanted to come and talk to this group,” he told the room of advisers.

That audience is small indeed: Only 7 percent of Americans report taxable capital gains, and nearly two-thirds of that income was reported by people with a total annual income of \$1 million or more, according to I.R.S. data.

Yet this is a vital constituency, since the success of the opportunity-zone program will hinge largely on how much money investors kick in. That is why the Trump administration — and Mr. Kowalski in particular — is promoting the tax break on Wall Street.

“I have served a little bit as a middle man between the business community and the I.R.S.,” he said at another conference a few weeks later.

More than 200 opportunity-zone funds have been established by banks like Goldman Sachs and major real estate companies, [including](#) CIM Group of Los Angeles, which has previously been a partner with the Trump and Kushner families on projects. Those funds have said their goal was to raise a total of nearly [\\$57 billion](#).

The law does not require public disclosure of who are taking advantage of the initiative or how they are deploying their funds. Among those who have invested money or said they intend to are Mr. Kohl, a founder of the department store chain that bears his name; Steve Case, co-founder of AOL; Alexander Bhathal, part owner of the Sacramento Kings basketball team; and Richard Forman, the former owner of the Forman Mills chain of clothing stores, according to interviews and other public statements.

Many others are lesser-known business executives who recently sold small companies or real estate and are looking for ways to avoid large tax bills.

Paul DeMoret, for example, recently sold his auto-industry software company in Oregon. He said he was using some of those capital gains to help finance a [Courtyard by Marriott in Winston-Salem, N.C.](#), and an [apartment building in Tempe, Ariz.](#), among other projects in opportunity zones. He is making the investments through a private equity firm, Virtua Partners.

The tax break is largely benefiting the real estate industry — where Mr. Trump made his fortune and still has extensive business interests — and it is luring people with personal or professional connections to the president.

Mr. Christie, a onetime adviser to Mr. Trump, has raised money for opportunity-zone investments including [an apartment building](#) in Hackensack, N.J., and a [self-storage center in Connecticut](#).

Cadre, an investment company co-founded by Mr. Kushner and his brother, Joshua, is [raising hundreds of millions](#) of dollars that it [hopes to use](#) on opportunity-zone projects. The company is eyeing neighborhoods in [Savannah, Ga.](#), [Dallas, Los Angeles](#) and [Nashville](#) that are expected to grow larger and wealthier in coming years. Jared Kushner has a stake in Cadre worth up to \$50 million, according to his [most recent financial disclosure](#).

Mr. LeFrak, a longtime confidant of Mr. Trump's and a major campaign donor, is building a luxury residential community in the middle of an opportunity zone in Miami. (It is unclear how much of the development's funding will end up being tax advantaged.)

Not far away in the Design District, Daniel Lebensohn is planning to build his high-end office tower. Mr. Lebensohn previously joined the Trump Organization to sell luxury condominiums at the [Trump Hollywood](#) complex north of Miami.

And Mr. Kushner's family company directly owns or is in the process of buying at least a dozen properties in New York, New Jersey and Florida that are in opportunity zones. They include a pair in Miami, where Kushner Companies [plans to build a 393-apartment luxury high rise](#) with sweeping views of Biscayne Bay, according to a company presentation for potential investors.

A representative for the Kushner family confirmed that it was considering opportunity-zone funding for some developments, but said it would probably not use the funding for the Miami projects.

## **‘The Best Thing I Have Ever Done’**

Backers of the opportunity-zone program say luxury projects are the easiest to finance, which is why those have been happening first. Over the long run, they say, those deals will be eclipsed by ones that produce social benefits in low-income areas.

At least some struggling neighborhoods are already starting to receive investments.

In [Birmingham](#), for example, a developer is using opportunity-zone funds to convert a building, vacant for decades, into 140 apartments primarily aimed at the local work force.

“We are seeing projects that are being announced here in Alabama that would not have happened otherwise,” said Alex Flachsbart, founder of [Opportunity Alabama](#), which is trying to steer investors to economically struggling neighborhoods.

Similar projects are getting underway in Erie, [Cleveland](#) and [Charlottesville, Va.](#) Goldman Sachs is using some of its capital gains — profits on the company's own investments — in opportunity zones, including \$364 million for mixed-income housing developments in Salt Lake City, Baltimore and other cities.

Mr. Case, the AOL co-founder, and Derrick Morgan, a former professional football player, are among those who have announced that they will invest in opportunity-zone projects that are designed to address clear social and [economic problems](#).

As he announced his retirement from the Tennessee Titans in July, Mr. Morgan [wrote on Instagram](#) that his goal would be to “create more opportunities for those who are

underserved and overlooked” in communities like Coatesville, Pa., where he went to high school.

Emanuel J. Friedman, a hedge fund manager, is using some of his capital gains and money he has raised from others to build 11 warehouses in rural Jasper County, S.C., near the Savannah seaport. The warehouses won’t employ many people, but he said the jobs would offer higher wages than hotel housekeeping positions at the nearby Hilton Head resort, where many area residents now work.

“Of course it will make a difference,” Mr. Friedman said. “It is mind-boggling. It is the best thing I have ever done.”

## **A Spa for Pets**

But even supporters of the initiative agree that the bulk of the opportunity-zone money is going to places that do not need the help, while many poorer communities are so far empty-handed.

Some opportunity zones that were classified as low income based on census data from several years ago have since gentrified. Others that remain poor over all have large numbers of wealthy households.

And nearly 200 of the 8,800 federally designated opportunity zones are adjacent to poor areas but are not themselves considered low income.

Under the law, up to 5 percent of the zones did not need to be poor. The idea was to enable governors to draw opportunity zones in ways that would include projects or businesses just outside poor census tracts, potentially creating jobs for low-income people. In addition, states could designate whole sections of cities or rural areas that would be targeted for investment, including some higher-income census tracts.

In some cases, developers have lobbied state officials to include specific plots of land inside opportunity zones.

In Miami, for example, Mr. LeFrak — who donated nearly \$500,000 to Mr. Trump’s campaign and inauguration and is personally close to the president — is working with a Florida partner on a [183-acre project](#) that is set to include 12 residential towers and eight football fields’ worth of retail and commercial space.

In spring 2018, as they planned the so-called Sole Mia project, Mr. LeFrak’s executives encouraged city officials in North Miami to nominate the area around the site as an opportunity zone, according to Larry M. Spring, the city manager. They did so, and the Treasury Department made the designation official.



The Far West Side of Manhattan is part of an opportunity zone — [even as high-end towers](#) have been replacing run-down apartment buildings and more than 15 percent of households reported income of \$200,000 or more in 2017, according to an analysis by [Webster Pacific](#), a consulting firm. This is the new home of Pershing Square Capital Management, the prominent hedge fund run by the billionaire Bill Ackman.

Mr. Ackman is trying to find tenants for 80,000 square feet of unused office space in his fund's building, which has a Jaguar dealership on the ground floor. He said he was using its location inside an opportunity zone as a lure.

That is because investors can use their capital gains to invest not only in real estate but also in businesses inside opportunity zones. A company that sets up shop inside Mr. Ackman's building therefore would be eligible to accept tax-advantaged opportunity-zone money.

Financial institutions are not even trying to make it look as if their opportunity-zone investments were intended to benefit needy communities.

CBRE, one of the country's largest real estate companies, is seeking opportunity-zone funding for an apartment building in Alexandria, Va., which CBRE is pitching to prospective investors as "one of the region's most affluent locations."

JPMorgan Chase is raising money to build housing targeting students in College Park, Md., near the University of Maryland. (Because many students do not have jobs, census data often wrongly suggests that college towns are poor neighborhoods.)

In marketing materials, JPMorgan noted that while College Park "qualifies as low income due to the student population, the area around it is affluent." The bank added, "The tax benefits can be remarkable."

The Swiss bank UBS is raising funds from its "ultra high net worth" clients — requiring in some cases that they have at least \$50 million in investable assets — for developments in New York and Connecticut. The projects include a 23-story retail and office building in Downtown Brooklyn and an [upscale apartment building](#) in New Rochelle, N.Y., with a yoga studio and 24-hour valet parking. There is even a spa — for residents' pets.

Other companies have [set up](#) subscription databases showing which zones have the highest incomes and fastest-growing populations to help investors steer their money to the most lucrative and least risky destinations.

"The current system is clearly driving capital to places that are known to be winners," said [Christopher A. Coes](#), vice president at Smart Growth America, a nonprofit group that encourages investments in American cities.

## **Luxury Hotels, Abandoned Homes**



The Warehouse District of New Orleans is one of the city's trendiest neighborhoods. Some of the area's hottest restaurants — as well as a new one dishing out shrimp tempura tacos — are here. So are hipster barbershops. Boutique hotels spill well-heeled tourists onto the red brick sidewalks. High-end coffee shops are packed with young people buried in their MacBooks.

And it is getting hotter. The sounds of heavy-duty equipment heaving steel or pouring cement are audible across the neighborhood.

In other words, in a city grappling with acute poverty, this is not a neighborhood that especially needs a generous new tax break to lure luxury lodging. Yet state officials have established an opportunity zone here.

That decision benefited businesses already operating or planned for the district. One of those is a 225-room hotel, part of Richard Branson's Virgin Hotels chain, whose plans were unveiled a year before Mr. Trump signed the tax law. Its location inside an opportunity zone meant investors could earn greater profits than they otherwise would have, by financing the project with tax-advantaged money.

Those investors include Mr. Scaramucci, who briefly served as White House communications director in 2017 and has claimed credit for helping to create the opportunity-zone plan. "We got to get into this business because this will be transformative to the United States," he said recently.

Mr. Scaramucci's investment firm, SkyBridge Capital, has raised more than \$50 million in capital gains from outside investors, and most of it is being used to finance the hotel, according to Brett S. Messing, the company's president. He said the hotel was likely to be the first of numerous opportunity-zone projects financed by SkyBridge.

Less than two miles away is the poorest opportunity zone in Louisiana — and one of the poorest nationwide. The zone includes the Hoffman Triangle neighborhood, where the average household earns less than \$15,000 per year. Block after block, streets are lined with dilapidated, narrow homes, many of them boarded up. On a recent afternoon, one of them was serving as a work site for prostitutes.

City officials, including the head of economic development for New Orleans, said they were not aware of any opportunity-zone projects in this neighborhood.

Terrance Ross, a construction worker who has lived in the area for 20 years, is familiar with the building boom underway in the Warehouse District.

"Why is the federal government putting money where money is already accumulating?" he asked, lighting a cigarette and standing across the street from an abandoned house. "This neighborhood just needs some tender loving care."

Similar scenes are playing out in opportunity zones across the United States: The federal government is subsidizing luxury developments — often within walking distance of

economically distressed communities — that were in the works before Mr. Trump was even elected president.

In Houston, construction recently [started on the Preston](#), with 373 “luxury for rent” apartments as well as a “skydeck” and a resort-style swimming pool. The development is being financed by the investors in Cresset, a multibillion-dollar asset management firm, including one of its founders, Avy Stein.

And in downtown Portland, Ore., the developers of a 35-story tower with a hotel, condos and office space are hoping to raise up to \$150 million in opportunity-zone money to pay for the project. Condos will go for as much as \$7.5 million each. The hotel is a Ritz-Carlton.

## Partying at Red Square

Club music blared from speakers as millionaires and billionaires — and the money managers, lawyers, accountants and other professionals looking to make money off all this wealth — milled around a pool and private cabanas at the Bellagio hotel in Las Vegas.

They were at an annual investment conference to talk about the next big thing. This year, that thing was opportunity zones, which were the focus of five panel discussions.

The Las Vegas event was hosted by Mr. Scaramucci. Among the attendees was Mark Cuban, the billionaire owner of the Dallas Mavericks basketball team. At one point he posed and smiled for a photo with Mr. Scaramucci and his wife.

“OZ are super hot right now,” Mr. Cuban said in an email after the event, adding that he had recently bought a property in an opportunity zone, but had not decided yet if he would use the tax break. “Every major investor I know has been pitched a property or fund within an OZ.”

The feeding frenzy is not confined to rich individuals. Lawyers, accountants, wealth managers and consultants are enjoying a gusher of new work — and raking in fees — helping clients structure deals with the maximum tax savings.

Real estate lawyers like Brad A. Molotsky are billing hundreds of extra hours as they field calls from eager investors. One day in June, Mr. Molotsky juggled clients who wanted to invest in \$500 million worth of opportunity-zone projects.

“I am just one guy, and that was from just two meetings,” said Mr. Molotsky, who works in New Jersey for the law firm Duane Morris. He has completed more than 20 opportunity-zone deals, he said, and has dozens more in the pipeline.

The night after Mr. Scaramucci's pool party, more festivities were underway on the other end of the Las Vegas Strip — part of a separate event also focused on opportunity zones. One party was at the Soviet-themed Red Square restaurant. Inside, an investor handed out postcards with photographs of buildings he wanted to buy in opportunity zones.

At another open-bar soiree, a man in a navy suit and a cowboy hat wandered the crowd, drink in hand. Attached to the top of his hat was a large sign. It beckoned: "Looking for OZ Funds."

## COMMENTS POSTED

This story prompted 1,188 comments until the comments were closed. Wyn Achenbaum managed to post the following:

### **Wyn Achenbaum**

Ardencroft, Delaware Sept. 1

What rises in value is the land. This simple fact has been carefully ignored in our tax policy. 140 years ago, a wise man wrote a book called "Progress and Poverty." It was widely read throughout the English-speaking world, and soon translated into many languages. It made the connection between ongoing progress -- technological and otherwise -- and increasing poverty, and then showed a simple, wise, just, efficient measure which would relieve, even abolish, that poverty. And are you surprised to know that it had to do with land, particularly urban land, and how we treat its economic value? Acquaint yourself with that book. It is online, and a number of websites share and develop its ideas and insight.