

Scion of Lembi real estate empire launches opportunity zone fund

As interest swirls around opportunity zones, one investor has moved quickly to home in on Bay Area properties.

Taylor Lembi, founder and CEO of investment company M31 Capital, has started a new fund focused on buying and renovating existing multifamily properties in Bay Area opportunity zones.

Opportunity zones are officially designated areas aiming to lure investment with tax breaks. The 2017 legislation creating them allows investors in the zones to defer capital gains taxes until 2026 and potentially eliminate them altogether. Oakland alone has 30 designated areas, with about half as many in San Francisco and San Mateo County combined.

Although many community groups want to see investments that kickstart construction on ground-up projects, Lembi's fund – called Morpheus 1 – will invest in existing properties with more than 20 units, especially those with high vacancies, he said.

"What we've found is there's property in the Bay Area that's largely vacant or completely vacant, and the cities are starting to tax the owners on the vacancies," Lembi said, adding, "We're focusing on a very specific need within the community."

Gains from property sales remain eligible for tax deferral if the capital is re-invested in an opportunity fund within 180 days. Meanwhile, tax payments can shrink by up to 15 percent if investors hold the property for seven years, and disappear entirely after 10 years.

For Lembi's part, the Morpheus fund will focus on acquiring property, reno-

Plan is to buy up Bay Area apartment buildings, then renovate and reposition them

ic neighborhoods he'll target, but said the team will consider sites in Oakland, Hayward and parts of San Francisco and Marin, with less of a focus on the South Bay.

Lembi is the grandson of the late Frank Lembi, who founded a property empire that grew to include about 8,000 apartments in the Bay Area at its peak. Before losing many holdings in the 2008 recession, companies under the Lembi Group also garnered numerous lawsuits and criticism over tactics for allegedly pushing out tenants.

With all the chatter about opportunity zones, some scholars have questioned whether they will result in the "win-win" they were designed to achieve. Timothy Weaver, a professor of Urban Policy and Politics at the University at Albany-SUNY, wrote in a recent editorial that studies have consistently found that opportunity or "enterprise" zones fail to spur notable economic change, and often the investments go into projects that would have been built anyway.

Still, Bay Area communities are watching closely to see where money could start flowing. In November, developer Patrick Kennedy of Panoramic Interests told the Business Times that the designation had already attracted capital to his 1,032-unit project at the West Oakland BART station.

Taylor Lembi's company, M31, consists of five affiliated companies that invest primarily in multifamily real estate. The opportunity zone branch will raise \$25 million starting in late April and could attract investors



Taylor Lembi is targeting vacant properties for his fund.