

PUERTO RICO OPPORTUNITY FUNDS



BALTIC AVE INVESTMENTS



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OPPORTUNITY ZONE RISKS

The Opportunity Zone Program is newly created, and final regulations have yet to be issued by the US Treasury or Puerto Rico Department of Treasury, which, when issued, may impact the Fund in unanticipated ways.

To take advantage of certain tax benefits, regarding the exclusion of future gains, investors must hold their investments in the Fund and the Fund must maintain its status as Qualified Opportunity Fund, for 10 years.

The Baltic Avenue Investments intent to comply with the requirements of Section 1400Z of the Code and all yet to be released US Treasury or Puerto Rico Department of Treasury regulations may adversely affect the timing or structure of exit from investments or the success of those investments.

REAL ESTATE RISKS

The Fund's business is subject to all the risks associated with the real estate industry specifically the Puerto Rico industry which has been in a continued economic recession.

Investments in real estate assets are speculative in nature. Many of these factors are not within the Fund's control and could adversely impact the value of the Fund's investments. These factors include, but are not limited to:

- downturns in worldwide, national, regional and local economic conditions
- conditions affecting real estate in specific markets in which the Fund may invest, such as oversupply or reduction in demand for real estate
- changes in interest rates and availability of attractive financing;
- changes in real estate and zoning laws
- delays in permitting and/or construction
- environmental and/or engineering issues unforeseen in due-diligence, and changes in environmental legislation and related costs of compliance
- condemnation and other taking of property by the government
- changes in real estate taxes and any other operating expenses
- the potential for uninsured or underinsured property losses



Investors in this Offering risk losing all capital invested therein and/or may not generate the returns at the levels the Company expects.

Prohibition of Transfer of Membership or Transfer and Withdrawal of Membership from the Company; Members may not withdraw without Consent of the Company Manager or in contravention of SEC Rule 144.

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OPPORTUNITY FUND INTRODUCTION

The Tax Cuts and Jobs Act of 2017 (“The Act”) provides for the creation of “**Opportunity Zones**” (“OZ”) -- which are specially created geographic districts that allow investors to receive substantial tax breaks for investment capital.

Investors must invest through newly created and qualified “Opportunity Funds” that purchase and improve real estate assets or businesses.

- Investors may reinvest capital gains from any existing investments into an Opportunity Fund and defer/reduce those capital gains taxes.
- After the investment is held for 5 years, the tax basis in the original investment is increased by 10%, and after 7 years, the tax basis is increased by 15%.
- After 10 years, investors permanently avoid any capital gains tax on the post-acquisition gains.

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PUERTO RICO OPPORTUNITY ZONE FUND I

The Puerto Rico Opportunity Zone Fund I ("The Fund") is designed to capture all of the OZ tax benefits available to investors.

The Fund is also structured to provide additional tax benefits that were created in the Tax Cuts and Jobs Act.

These tax benefits include increased expensing and depreciation.

The Fund will comply with the "Substantially Improved" requirement by investing in rental housing (apartments and single family rentals), hospitality, office/industrial, and preferred equity opportunities.

Minimum Investment: \$100,000

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OPPORTUNITY ZONE BASICS

A nighttime photograph of a harbor scene. In the center, a large, dark-hulled ship with multiple masts is docked at a pier. The water is calm, reflecting the lights from the surrounding city. In the background, several multi-story buildings with many lit windows line the waterfront. The sky is dark, and the overall atmosphere is urban and serene.

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Opportunity Zones are a new economic development program established by Congress under the Tax Cuts and Jobs Act of 2017 to encourage long-term investments in certain low-income community ("LIC") census tracts in each of the 50 states and the Commonwealth of Puerto Rico.

Areas eligible for OZ designation must have a median family income no greater than 80% of the area median and a 20% or greater individual poverty rate.

Nearly 99% of Puerto Rico was granted the OZ designation.

TIMELINE OF THE OPPORTUNITY ZONE DESIGNATION



March 21, 2018

Nomination of OZ by States



10 years

Qualified OZ Funds will stay in place and remain unmodified

Dec 22, 2017

The Tax Cuts and Jobs Act was approved by Congress



April 20, 2018

Determination of OZ by the Treasury





OPPORTUNITY FUND INCENTIVES

An Opportunity Fund ("OF") is an investment vehicle organized as a corporation or a partnership that specializes in aggregating private investments and deploying that capital into an Opportunity Zone.

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OPPORTUNITY FUND DEFERRAL TIMELINE



2018

DEFERRAL OF CAPITAL GAINS TAXES

Capital gains from the sale of any asset (if reinvested within 180 days) are deferred until the sale of the new investment, or December 31, 2026, whichever is earlier.



2023: Year 5

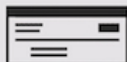
If investment is held for 5 years, the taxpayer's basis in the QOF will be increased from 0 to 10% of the deferred gain.



2025: Year 7

STEP-UP IN BASIS

Any investment held for 7 years will have an additional increase of 5%, realizing a total of a 15% tax basis increase.



Dec 31, 2026

Deferred Tax on original gain is due. Investor needs to pay tax on 85% of Original Capital Gain.



2028: Year 10

PERMANENT ELIMINATION

Investments held for at least 10 years, the taxpayer will recognize no capital gain income on the appreciation of the asset from the time of initial investment in the QOF through the ultimate sale.

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OPPORTUNITY FUND
REQUIREMENTS & LIMITATIONS

Opportunity Fund REQUIREMENTS

In order to qualify as
an Opportunity Fund
certain requirements
must be met



The fund must hold at least 90 percent of its assets on a Qualified Opportunity Zone Property, which includes Qualified Opportunity Zone Stock, Qualified Opportunity Zone, Partnership Interest, or Qualified Opportunity Zone Business Property. Each form of Opportunity Zone Property must meet the following specifications:

STOCK:

Qualified Opportunity Zone Stock is any stock of a domestic corporation that was obtained by the fund after Dec. 31, 2017 from the corporation, either directly or through an underwriter, and solely in exchange for cash.

- The corporation must be located within a Qualified Opportunity Zone Business when purchasing the stock.

- If the corporation is a new corporation, then it must be organized to be a Qualified Opportunity Zone Business.

- The corporation must qualify as a Qualified Opportunity Zone Business for a substantial duration of the Fund's holding period.


PARTNERSHIP INTEREST:

A **Qualified Opportunity Zone Partnership Interest** is any capital or profit interest on a domestic partnership that was acquired after Dec. 31, 2017 by the fund in exchange for cash.

- The partnership must be a Qualified Opportunity Zone Business when purchasing the interest or, in the case of a new partnership, it must be organized as a Qualified Opportunity Zone Business.

- The partnership must qualify as a Qualified Opportunity Zone Business for a substantial duration of the fund's holding period.

Opportunity Fund REQUIREMENTS



In order to qualify as
an Opportunity Fund
certain requirements
must be met



A Qualified Opportunity Zone Business means a business that substantially owns or leases all of its tangible property in Qualified Opportunity Zone Business Property. The business must also generate at least 50 percent of its total gross income from active business with "a substantial portion of the intangible property of such entity used in the active conduct of any such business"; and it includes "less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity attributable to nonqualified financial property."



A Qualified Opportunity Zone Business cannot be a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store in which the principal business is the sale of alcoholic beverages for consumption off premises.



Qualified Opportunity Zone Business Property is tangible property acquired after Dec. 31, 2017 and used in a Qualified Opportunity Zone trade or business. Property acquired must be substantially improved. Substantial improvement is defined by the additions to the adjusted basis of the building within the 30 month timeframe. For example, if a QOF purchases land and building for \$500 and allocates \$300 to building and \$200 to land, the QOF would need \$301 in addition to basis.



No individual entity and its related parties may own more than 20% of a Qualified OF. As presently written, you cannot roll gains into a QOFZ if you own 20% or more of the fund. For example, if you own 10% of the fund and a sibling owns 10% of the fund, you are a related party according to the fund since your sibling's ownership is attributed to you.

An aerial photograph of a coastal city, likely San Juan, Puerto Rico. The image shows a mix of urban development, including modern high-rise buildings and older structures, interspersed with green spaces and trees. A prominent curved road runs through the center. In the background, the ocean is visible with waves breaking on the shore. The sky is clear and blue.

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SPECIAL PR TAX BENEFITS FOR OZ FUNDS

The Puerto Rico Department of Treasury is contemplating these additional tax benefits for Opportunity Zone Funds:

- 5 year hold on any potential increase in real property tax assessments, if the real assets remain in the OZ Fund for at least the five years
- 50% discount on Municipal Construction Taxes
- Discount on Sales and Use Tax (IVU)

OTHER POTENTIAL TAX BENEFITS



ACT 20

Act 20 provides tax exemptions and tax credits to businesses engaged in eligible activities in Puerto Rico. To qualify for such benefits, a business needs to become an exempt business by applying for a tax concession and obtaining a tax exemption decree.

ACT 20 BENEFITS INCLUDE:

- 4% Fixed Income Tax Rate
- 3% Fixed Income Tax Rate for Strategic Services
- 100% Tax Exemption on Profit and Earnings Distributions
- Up to 100% Exemption on Property Taxes
- 60% Exemption on Municipal Taxes (possibly greater in certain municipalities)
- Tax Exemption of 90% of Personal Property Taxes for Certain Businesses up to First 5 Years of Operation (taxable portion subject to regular tax rate of up to 8.83%)
- Tax Exemption of 90% from Real Property Taxes for Certain Businesses up to First 5 Years of Operation (taxable portion subject to regular tax rate of up to 11.83%)
- 20-30 Year Tax Decree

OTHER POTENTIAL TAX BENEFITS



ACT 22

Act 22 was established to promote the relocation of individual investors to Puerto Rico. To attract these new residents Act 22 provides a total exemption from Puerto Rico income taxes on all passive income realized or accrued after the individual establishes residency.

ACT 22 BENEFITS INCLUDE:

- 0% Tax on Dividend and Interest Income for new Puerto Rico residents
- 0% Tax on Short-and-Long Term Capital Gains for new Puerto Rico residents
- 0% Federal Taxes on Puerto Rico Sourced Income
- Incredible Tax Savings on Your Investment Portfolio Returns
- Tax Decree Valid until 2036

OTHER PR TAX BENEFITS CAN BE COMBINED WITH OZ FUNDS

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On March 7, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (the "FAFAA") published Administrative Order 2017-01 ("AO-2017-01"). AO-2017-01 establishes the Authorizing Committee on Tax Credits and Disbursements (the "Committee") and is composed of three members: the Secretary of the Puerto Rico Treasury Department, the Executive Director of the Budget Office, and the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority. The Committee will be tasked with evaluating petitions for the following new tax credits and multi-year appropriations which could be of direct benefit to the OZ Funds:

Law 212-2002, Revitalization of Urban Centers Act (amended 2014)

Provides tax credits for up to 75% of construction hard-costs limited to \$5,000,000 per project and \$40,000,000 per fiscal year in the aggregate.



Law 74-2010, Puerto Rico Tourism Development Act

Provides exemptions on tourism development income, dividends, profits and liquidating distributions. Additional exemptions from the alternative minimum tax, additional tax on corporations/partnerships, and the alternate basic tax on individuals. Exemption on certain interest, real and personal property taxes, municipal license taxes, excise and sales and use taxes, construction excise taxes, and volume of business taxes.



Law 77-2015

Tax Credits for Investments in Construction or Rehabilitation of Rental Housing for Low or Moderate Income Families and Tax Credits for Investments in the Acquisition, Construction or Rehabilitation of Rental Housing for Elderly Persons

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INVESTMENT STRATEGIES

OVERVIEW

- Investors must invest through an Opportunity Fund in order to provide a mechanism for compliance.
- The “Substantially Improved” requirement under the Tax Reform Act **mandates substantial capital expenditures.**

The mission of the **Puerto Rico Opportunity Zone Fund I** is the rehabilitation and renovation of buildings that are in various stages of abandonment, distress, or disrepair contributing to the decay of the urban areas of Puerto Rico.

The fund will target commercial, mixed-use, multi-family housing and hospitality real estate (“Assets”) in ideal locations that are in need of substantial capital investment to rehabilitate and stabilize these properties.

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INVESTMENT CRITERIA


- ✓ The Fund will seek to acquire and rehabilitate properties where the total development costs are projected to yield a blended post-stabilization cap rate of in excess of 12%.
- ✓ The Fund will manage these assets through the mandatory 10-year holding period established by the Tax Reform Act.
- ✓ We will focus on properties in designated Opportunity Zones where property values are projected to rise substantially during the holding period.



THEORETICAL INVESTMENT EXAMPLES

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	SANTURCE	OLD SAN JUAN	GUAYNABO	BAYAMON
TYPE	OFFICE / RETAIL	HOSPITALITY	MULTI-FAMILY	WAREHOUSE
SIZE	15,000 SF	25 ROOMS	12 UNITS	100,000sf
ACQUISITION PRICE	\$750,000.00	\$900,000.00	\$900,000.00	\$4,200,000.00
CAPITAL IMPROVEMENTS	\$1,000,000.00	\$500,000.00	\$400,000.00	\$400,000.00
TOTAL CAPITAL INVESTMENT	\$1.75M	\$1.40M	\$1.30M	\$4.6M
RENT/SF	\$17.50/SF	-	-	\$7.00/SF
AVG. ROOM / NIGHT	-	\$90.00	-	-
AVG. MONTHLY / RENT	-	-	\$1,500.00	-
NET OPERATING INCOME	\$250,000	\$265,000	\$160,000.00	\$550,000.00
CAP RATE	14.3%	18.9%	12.6%	11.8%



Baltic Avenue Investments is a newly created private equity firm focused on investing in commercial real estate opportunities.

Our team is a blend of executives within various real estate, legal, and tax disciplines with a combined experience of over 30 years. We have participated in more than \$1B in asset management funds, real estate transactions, developments, and restructurings.

OUR EXECUTIVE TEAM

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MATT PROBER

A 20-year commercial real estate veteran, Matt has substantial expertise in commercial real estate, including asset and property management, acquisitions, commercial and residential development, new construction and rehabs, valuation advisory and debt placement, and restructuring. He has managed over \$250 million in commercial real estate assets and directly participated in scores of transactions in excess of \$450 million.

GIOVANI MENDEZ

Giovanni has extensive experience as a corporate and tax attorney, including compliance, financial reporting, tax preparation, and regulatory matters. His clients have included Fortune 500 companies, pharmaceutical companies, telecommunication firms, financial services companies, e-commerce, technology and software companies, private equity investors, blockchain technology companies, and high net-worth individuals.



JENNIFER JONES

Jennifer has been a private real estate consultant to companies throughout Latin America. Her services include business development, site selection, lease negotiations, marketing, and cost modeling. Prior to relocating to Puerto Rico, Jennifer oversaw the marketing and assisted in leasing for a 1.5 million square foot office park in Florida. She also participated in commercial development and creating financial analytics.

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ADDITIONAL INFORMATION

Interested investors should reach out to the Baltic Avenue Investment team with additional questions or comments.



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