Do Opportunity Zones Create Opportunities?

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Background

- The US “Opportunity Zone” program was created in 2017 as part of the Tax Cuts and Jobs Act.

- An opportunity zone is a low-income census tract selected by the governor in which certain types of investment in local businesses and real estate are eligible for generous tax incentives.

- We know that OZ nomination was endogenous, determined by a variety of economic, demographic and political factors.
  - (Frank, Hoopes, and Lester, 2020; Alm, Dronyk-Trosper and Larkin, 2021).

Summary

- Research Question
  - How have opportunity zones affected the targeted low-income communities?
- How?
  - We examine changes in Florida real estate prices at the census tract level with a number of methods.
- Findings Preview
  - The results differ based on the method, but our preliminary results seem to indicate that opportunity zones have had a small positive effect on real estate prices.

Data

- Our primary data source is Florida housing prices from 2015-2020 from the Florida Department of Revenue yearly tax rolls.
  - These data contain information on the final sale price and location of properties, for several different property classifications.

- We use demographic and economic information from the 2014-2018 5-year census tract estimates.

- We use the location of campuses of higher learning from the U.S. Department of Homeland Security.

Summary Statistics

Variable	LIC Mean	QOZs Mean
Percent change in real estate prices	0.223	0.186
Percent of tract zoned as residential	0.849	0.815
Percent under 18	0.209	0.222
Percent over 65	0.178	0.167
Population (1,000's)	4.769	4.675
Percent Black	0.251	0.390
Percent Hispanic	0.274	0.219
Percent Native American	0.002	0.002
Percent Family Households	0.611	0.607
Percent less than High School	0.188	0.222
Percent Bachelors or higher	0.180	0.143
Median HH income	39.345	34.866
Percent on welfare	0.254	0.315
Percent unemployed	0.084	0.118
Percent non-citizen	0.114	0.098
Higher ed campus present	0.096	0.085
In metropolitan area	0.935	0.922
Observations	1621	411

Methodology

- Examine the percent change in mean real estate transaction value.
- Naïve OLS regressions over all low-income census tracts
  - This ignores known selection into treatment.
- Instrumental variables over all low-income census tracts
  - The percent of a tract zoned as residential in 2017 is used as an instrument for OZ selection.
- Fuzzy regression discontinuity
  - We leverage the hard cut-offs for eligibility, but there is no guarantee of selection.
  - Cut-offs are examined both independently and simultaneously.

OLS Results, All

%Δ Real Estate Prices	(1)	(2)	(3)	(4)
Opportunity Zone	-0.049	-0.101*	-0.003	-0.005
	(0.050)	(0.057)	(0.029)	(0.033)
Winsorized	No	No	Yes	Yes
Controls	No	Yes	No	Yes
R^2	0.001	0.021	0.000	0.028
N	1621	1621	1600	1600

Standard errors are in parentheses. The dependent variable is the percent change in real estate prices.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

OLS Results, Non-Vacant Residential

%Δ NVR Real Estate Prices	(1)	(2)	(3)	(4)
Opportunity Zone	0.039***	0.019*	0.030***	0.006
	(0.010)	(0.011)	(0.008)	(0.009)
Winsorized	No	No	Yes	Yes
Controls	No	Yes	No	Yes
R^2	0.010	0.064	0.008	0.083
N	1576	1576	1557	1557

Standard errors are in parentheses. The dependent variable is the percent change in non-vacant residential real estate prices.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Fuzzy RD Results, All

Running Variable	(1) Income	(2) Poverty Rate	(1) Income & Poverty Rate
$\widehat{QOZ}$	-0.368	1.16	-0.885
	(2.35)	(6.86)	(0.432)
Bandwidth	+/- $1,000	+/- 1%	Both Previous
Controls	Yes	Yes	Yes
N	184	103	184

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Instrumental Variable Results, All

%Δ Real Estate Prices		(1)	(2)	(3)	(4)
First-Stage Results	Percent Residential	-0.500***	-0.273***	-0.511***	-0.286***
		(0.080)	(0.080)	(0.082)	(0.083)
	F-stat	38.58	11.53	38.73	12.08
Second Stage Results	$\widehat{QOZ}$	0.875**	1.75**	0.427**	0.590
		(0.361)	(0.865)	(0.200)	(0.410)
Controls		No	Yes	No	Yes
Winsorized		No	No	Yes	Yes
N		1621	1621	1600	1600

Standard errors are in parentheses. Controls include economic and demographic variables. The dependent variable is the percent change in real estate prices.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Conclusion

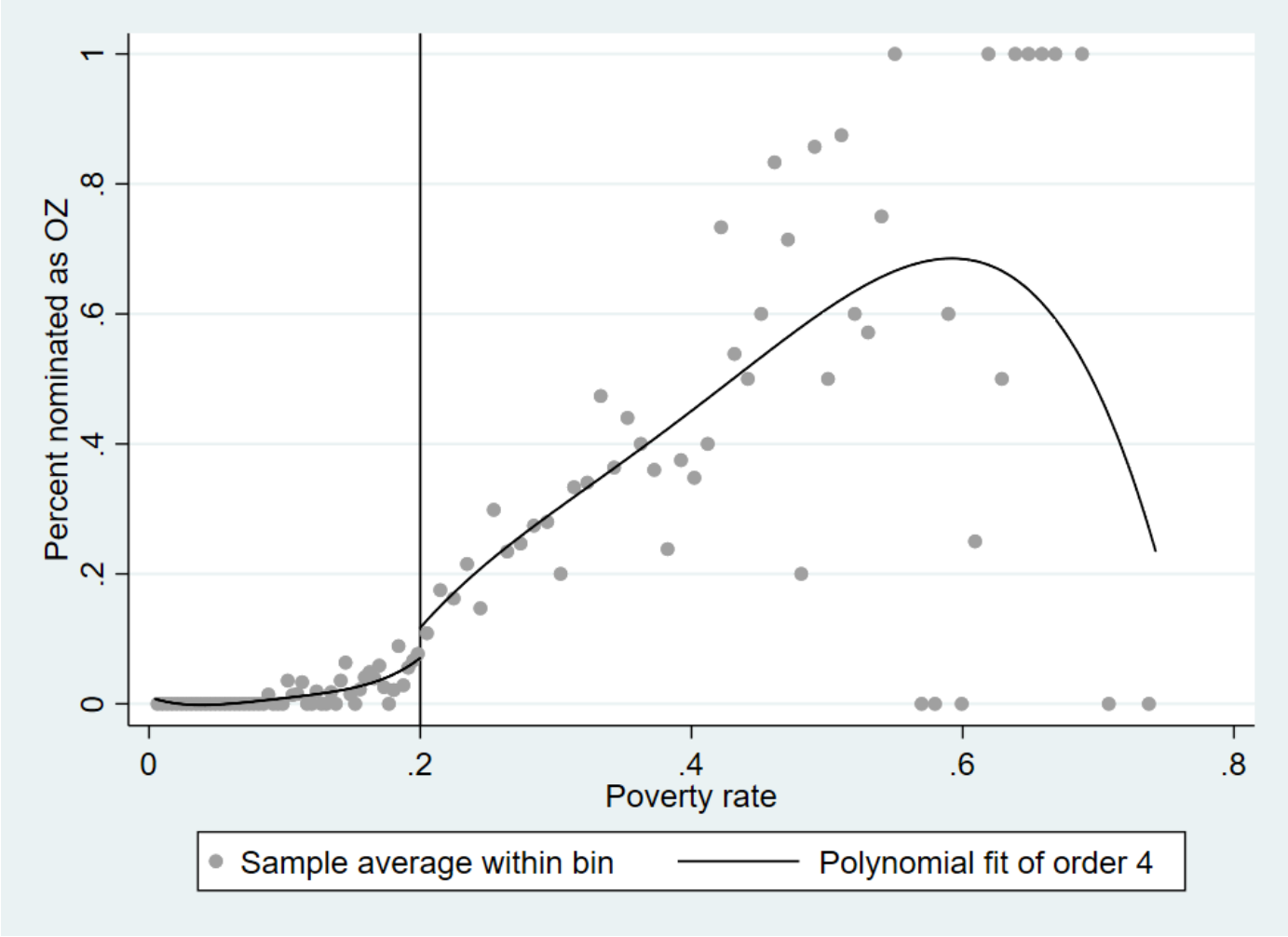
- There is suggestive evidence that on average low-income census tracts selected as OZs have seen real estate prices rise at a faster rate than non-QOZ communities after controlling for selection.
  - The percent of a tract zoned as residential is a strong instrument for OZ nomination.
  - We find consistently positive IV results and OLS estimates for NVR transactions.

- This is the opposite of what one finds from naïve OLS over all transactions.
  - OLS results give consistently negative and statistically insignificant coefficients.

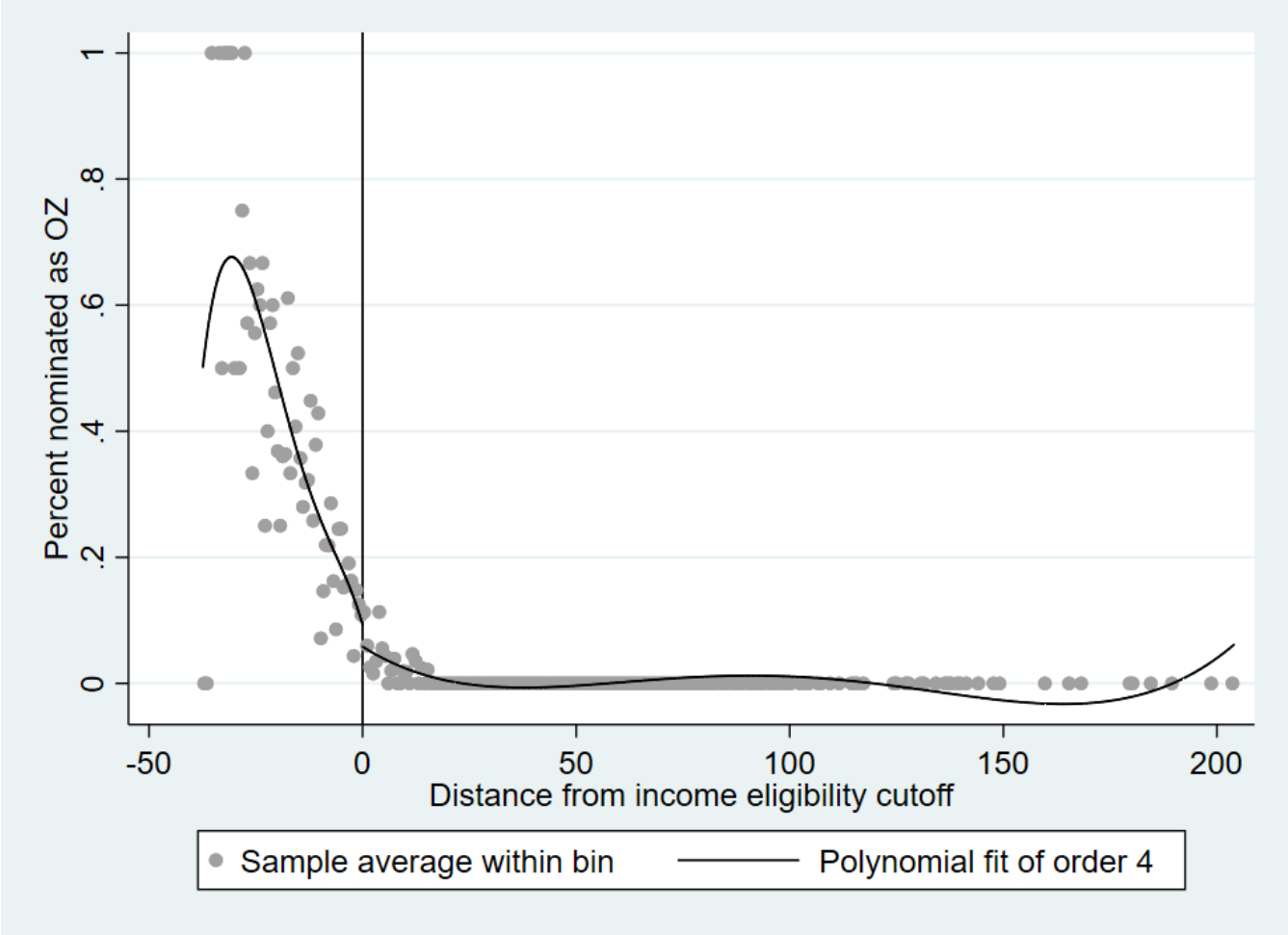
- Overall, the preliminary results seem to indicate that selection into an opportunity zone is related to an increase in the value of non-vacant real estate, but the picture is more mixed when commercial and vacant properties are examined.

Thank You!

Poverty rate versus percent nominated as OZ



Distance from income cutoff versus percent nominated as OZ



Works Cited

- Alm, J., Dronyk-Trosper, T., & Larkin, S. (2021). In the land of OZ: Designating opportunity zones. *Public Choice*, forthcoming.
- Frank, M. M., Hoopes, J. L., & Lester, R. (2020). What determines where opportunity knocks? Political affiliation in the selection of opportunity zones. SSRN Working Paper, available online at: https://ssrn.com/abstract=3534451.