“The impact of Opportunity Zones on commercial investment and economic activity”
by Kevin Corinth and Naomi Feldman

&

“Where is the Opportunity in Opportunity Zones?” by Alan Sage, Mike Langen, Alex van de Minne

Discussion
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Prepared for the Brooking Institute Conference
Opportunity Zones: The early evidence
February 24, 2020
Effects on commercial real estate investment

• Corinth and Feldman
  • DID with eligible but not selected; (fuzzy) RD using eligibility criteria
  • 2010 – 2020 RCA data on investments ($2.5 million +) and 2018-2020 Safegraph cell phone data (to create visit-quality index of restaurant activity)
  • No real effects on investment ($ or #) and (maybe) restaurant activity

• Sage, Langen, and van de Minne
  • DID with propensity score matched eligible but not selected (earlier treatment date)
  • 2017-2019 RCA data on commercial property transactions
  • No general price or liquidity effects
    • Price increases for older properties and land commiserate with tax benefits
    • Increase in probability of land sales
Opportunity Zones and Commercial Real Estate Markets

Market for finished space

- Owners/Landlords
- End users

(Re)development market

- Owners of vacant land and existing properties
- Investors/Developers and (maybe) end users
Opportunity Zones and Commercial Real Estate Markets

Market for finished space

(Expectation about the future) because of:
(1) OZ??
(2) Pre-existing trends in the area
(3) Both
Opportunity Zones and Commercial Real Estate Markets

Duarte, Umar, and Yimfor (2020) find that OZ investment effects driven by the ~1/3 of designees with strong previous investment activity

(Expectation about the future) because of:
(1) OZ
(2) Pre-existing trends in the area
(3) Both

Market for finished space
Opportunity Zones and Commercial Real Estate Markets

Redeveloped spaces; new construction

→ Land and properties with redevelopment potential market effects

OZ → Change in price and rate of return necessary to induce (re)development (not necessarily if tax benefits fully capitalized into (re)development prices)

Market for finished space
Opportunity Zones and Commercial Real Estate Markets

→ Change in price for finished space (overall commercial real estate prices?) depends on
- (expectations) about future demand and
- (the change in) the elasticity of supply

Market for finished space
Opportunity Zones and Commercial Real Estate Markets

Market for finished space

No (expectations of) increase in demand (a la Corinth and Feldman branded restaurant effects – maybe supplement with all restaurant visits)
→ No reason to expect price increase

Small (expectation of) increase in demand + Flatt(er) Elasticity of Supply
→ Little effect on prices

→ Sage, Langen, and van de Minne’s no overall price and liquidity effects
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(Re)development market

Owners of vacant land and existing properties

Investors/Developers and (maybe) end users
Opportunity Zones and Commercial Real Estate Markets

(OZ → D↑)

→ Price ↑ and Quantity ↑ (Prob. of Sale, # Investments, etc.)

(Re)development market
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(O)Z → D↑ → Price ↑ and Quantity ↑ (Prob. of Sale, # Investments, etc.)

Sage, Langen, and van de Minne suggest: D↑ → Price ↑ = Tax Benefits

(Re)development market
Opportunity Zones and Commercial Real Estate Markets

(Re)development market

S’ (strict regulations, little developable land, few old buildings, etc.)
→ Price ↑ and Little Change in Quantities
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$S'$ (strict regulations, little developable land, few old buildings, etc.)
$\rightarrow$ Price $\uparrow$ and Little Change in Quantities

$S''$ (loose regulations, plenty of developable land, lot of old buildings, etc.)
$\rightarrow$ Price $\uparrow$ with Big Change in Quantities

(Re)development market
Opportunity Zones and Commercial Real Estate Markets

Sage, Langen, and van de Minne
→ S’ describe 80+, metro supply?
→ Vacant land supply? Fairly big p & q effects

(Re)development market
Opportunity Zones and Commercial Real Estate Markets

Sage, Langen, and van de Minne
→ $S'$ describe 80+ supply?
→ Vacant land supply? Fairly big p & q effects

Would really help us understand the effects if we knew (for each sample):
* Share of parcels vacant land (and zoned)
* Age share of commercial property
* Commercial vacancy rates
* Wharton Regulatory Index

(Re)development market
Opportunity Zones and Commercial Real Estate Markets

(Re)development market

Corinth and Feldman find no increase in investment.

Need an increase for Sage et al. effects to make sense?!?
Corinth and Feldman find no increase in investment.

Need an increase for Sage et al. effects to make sense?!?

Not if the same investment is being redirected from new(er) properties to properties with (re)development potential.
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Redirected investment or net new?

- Redirected from within the same OZ
  - Consistent with Corinth and Feldman
  - Some evidence from Sage, Langen, and van de Minne
    - Negative (albeit usually insignificant) price and liquidity effects for younger properties
    - Negative liquidity effects for industrial and metro properties

- Net new, but redirected from other (potentially also disadvantages) places
  - Increase in probability of selling with distance from OZ could be interpreted as decrease in probability as one gets closer consistent with diverting planned nearby investment into the OZ (a la Hanson and Rohlin 2012 negative EZ spillover finding)
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Heterogeneity – How do the effects differ for different kinds of places?

• Supply Elasticity
  • Proxied by availability, regulation, etc.

• Previous investment activity
  • A la Duarte, Umar, and Yimfor
Thank you!

Comments and suggestions welcome.
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