

“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

Carlianne Patrick, Georgia State University

Prepared for the Brookings Institute Conference

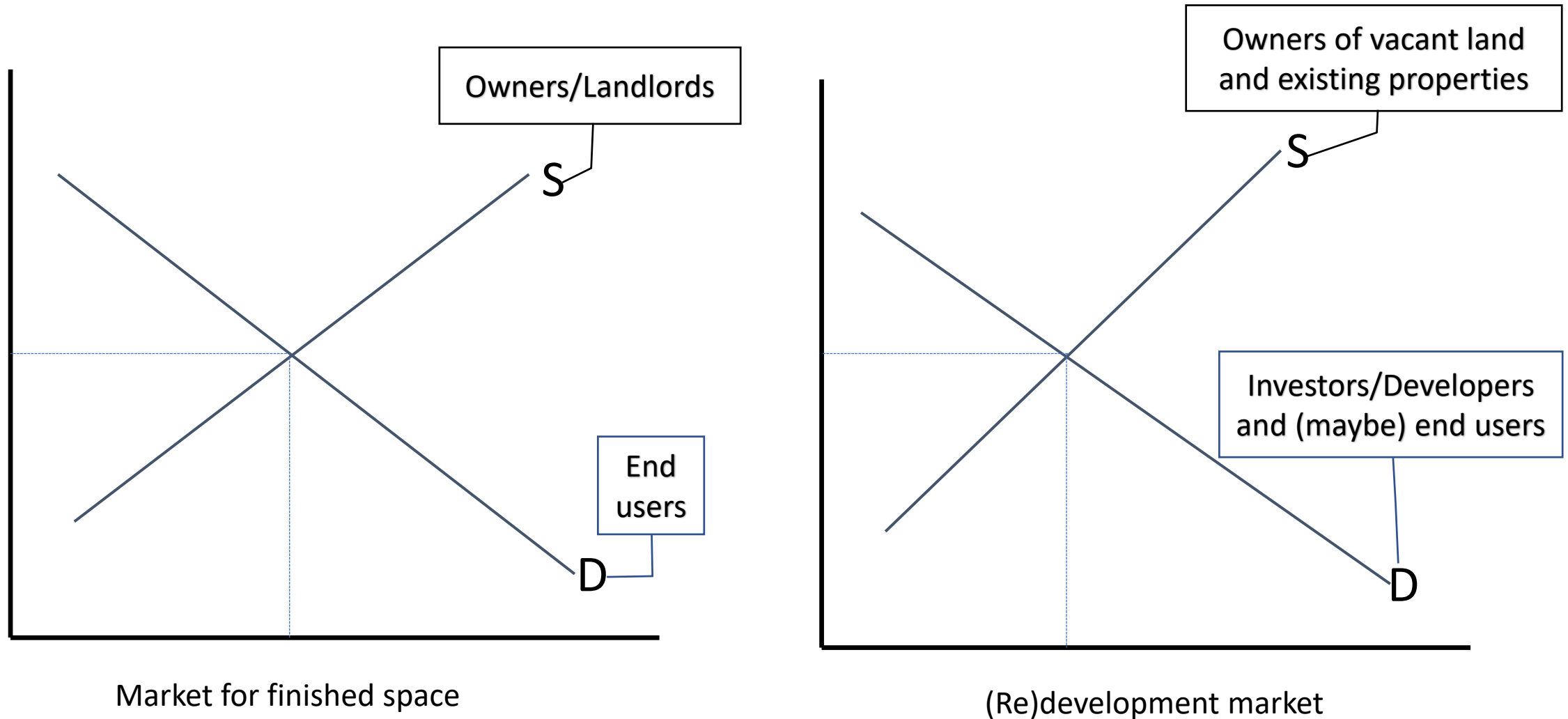
Opportunity Zones: The early evidence

February 24, 2020

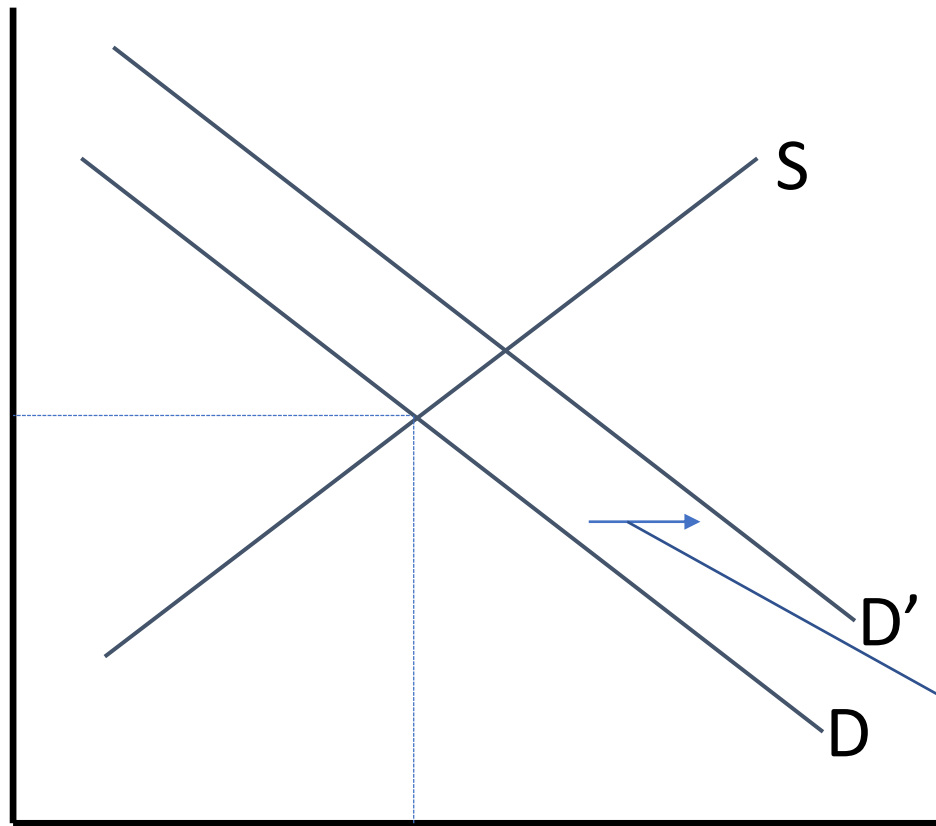
Effects on commercial real estate investment

- 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



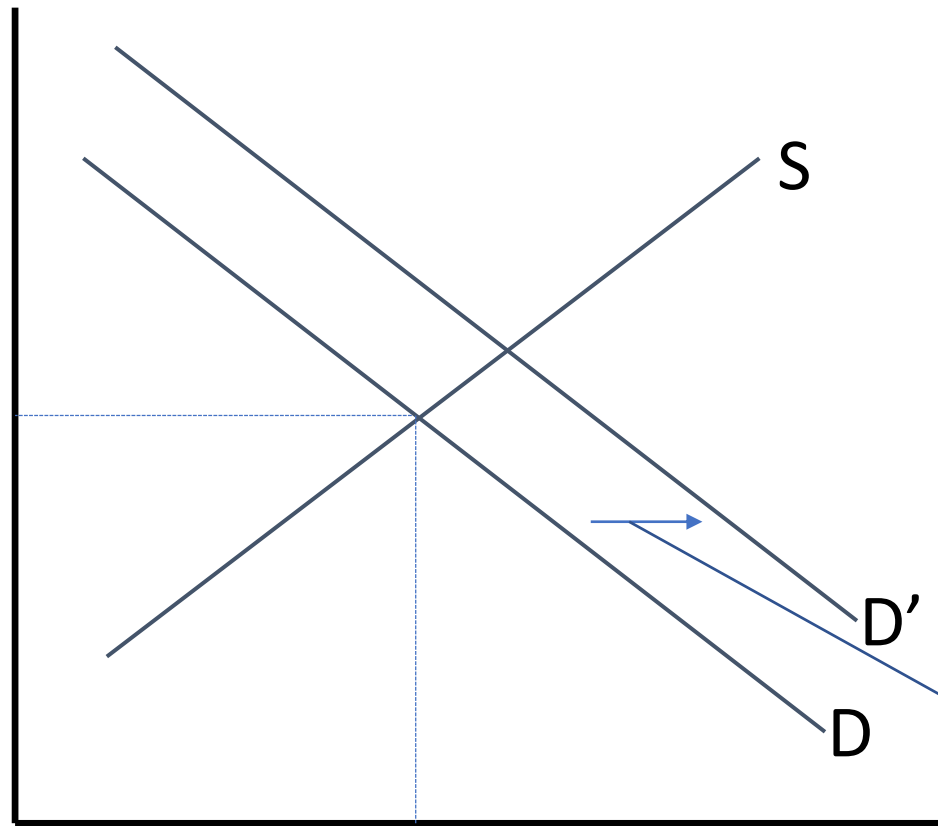
Opportunity Zones and Commercial Real Estate Markets



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

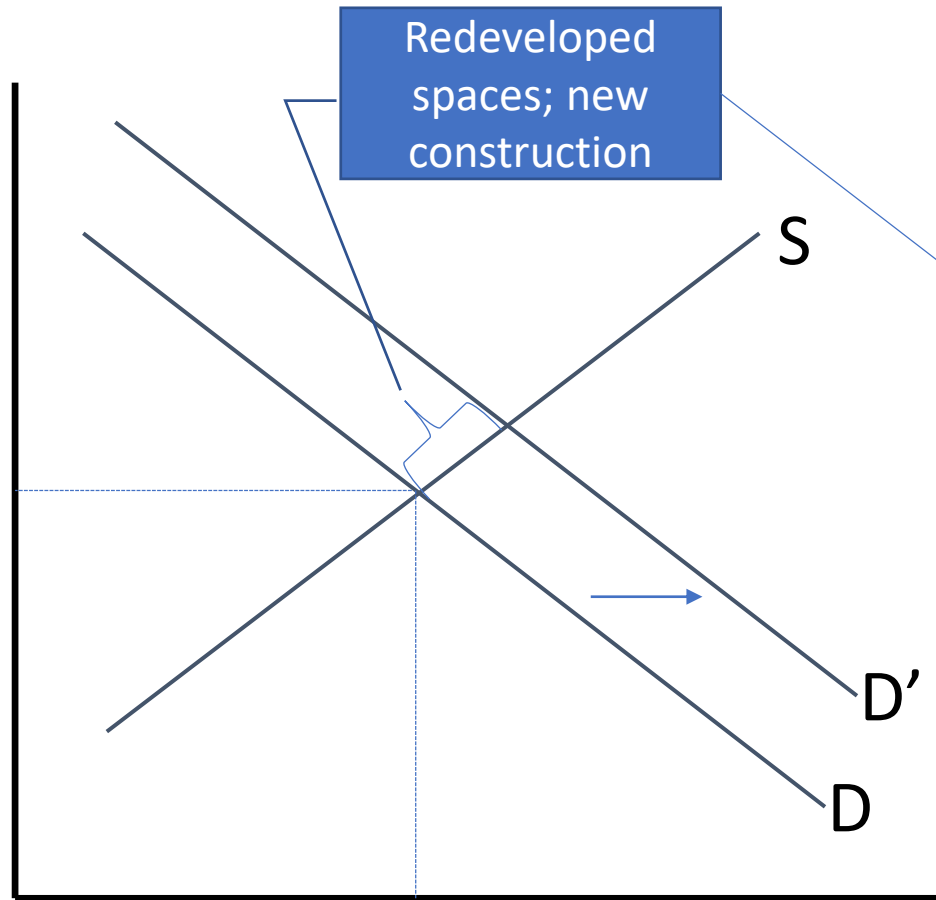


Market for finished space

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

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

Opportunity Zones and Commercial Real Estate Markets

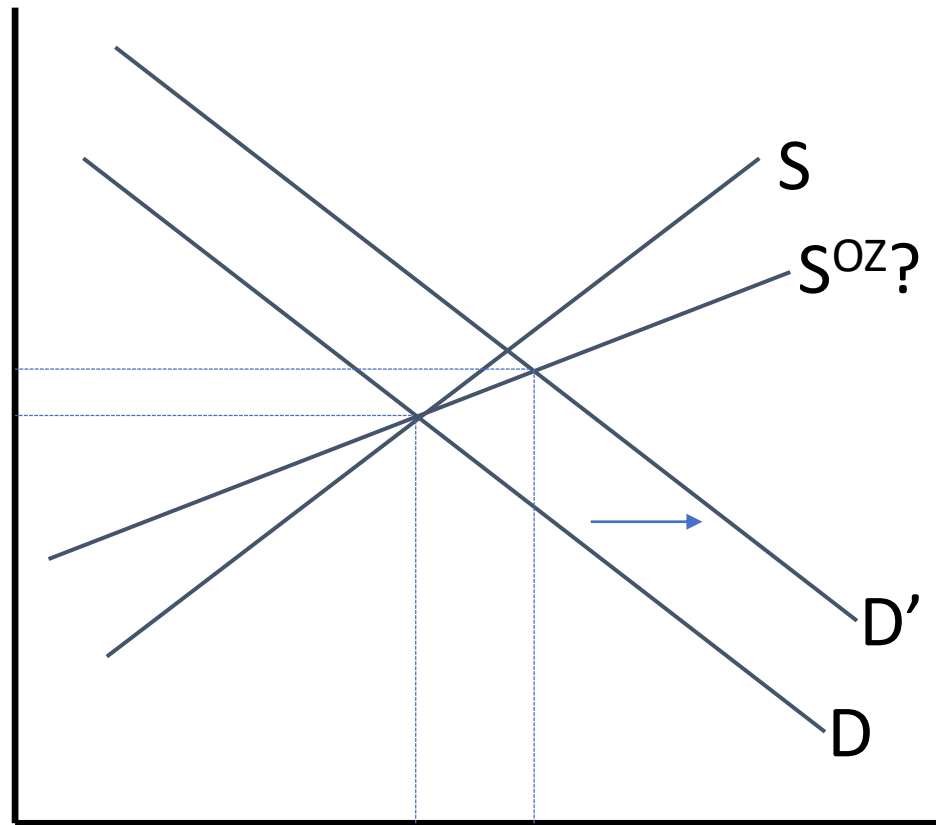


Market for finished space

→ Land and 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*)

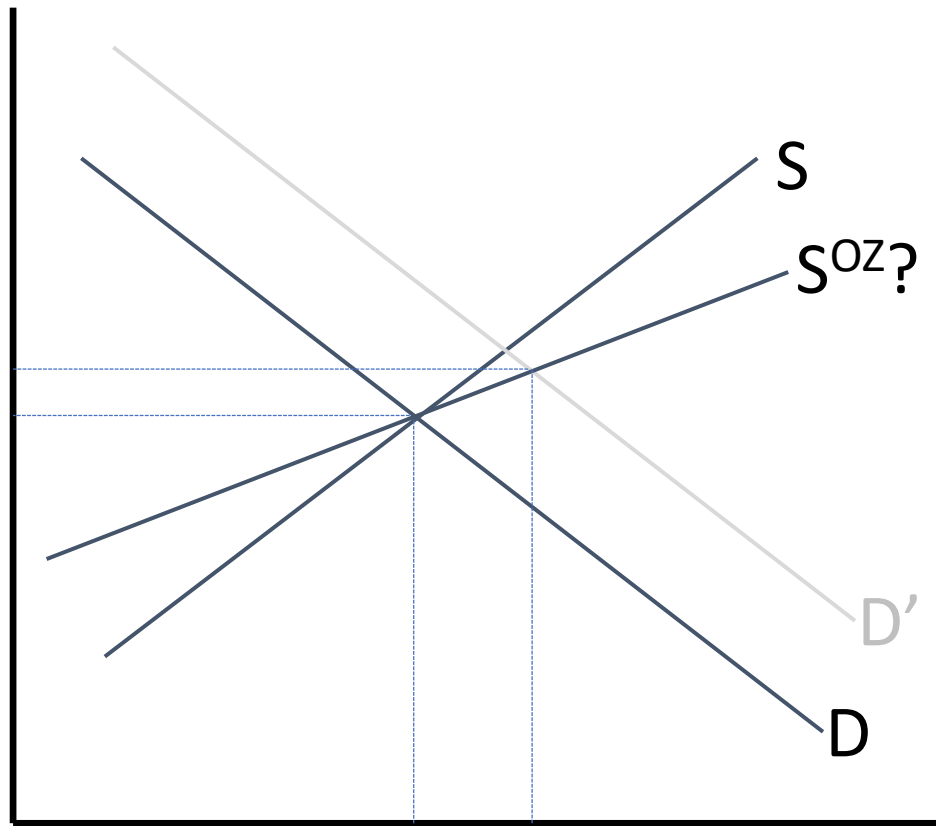
Opportunity Zones and Commercial Real Estate Markets



Market for finished space

- 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

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)

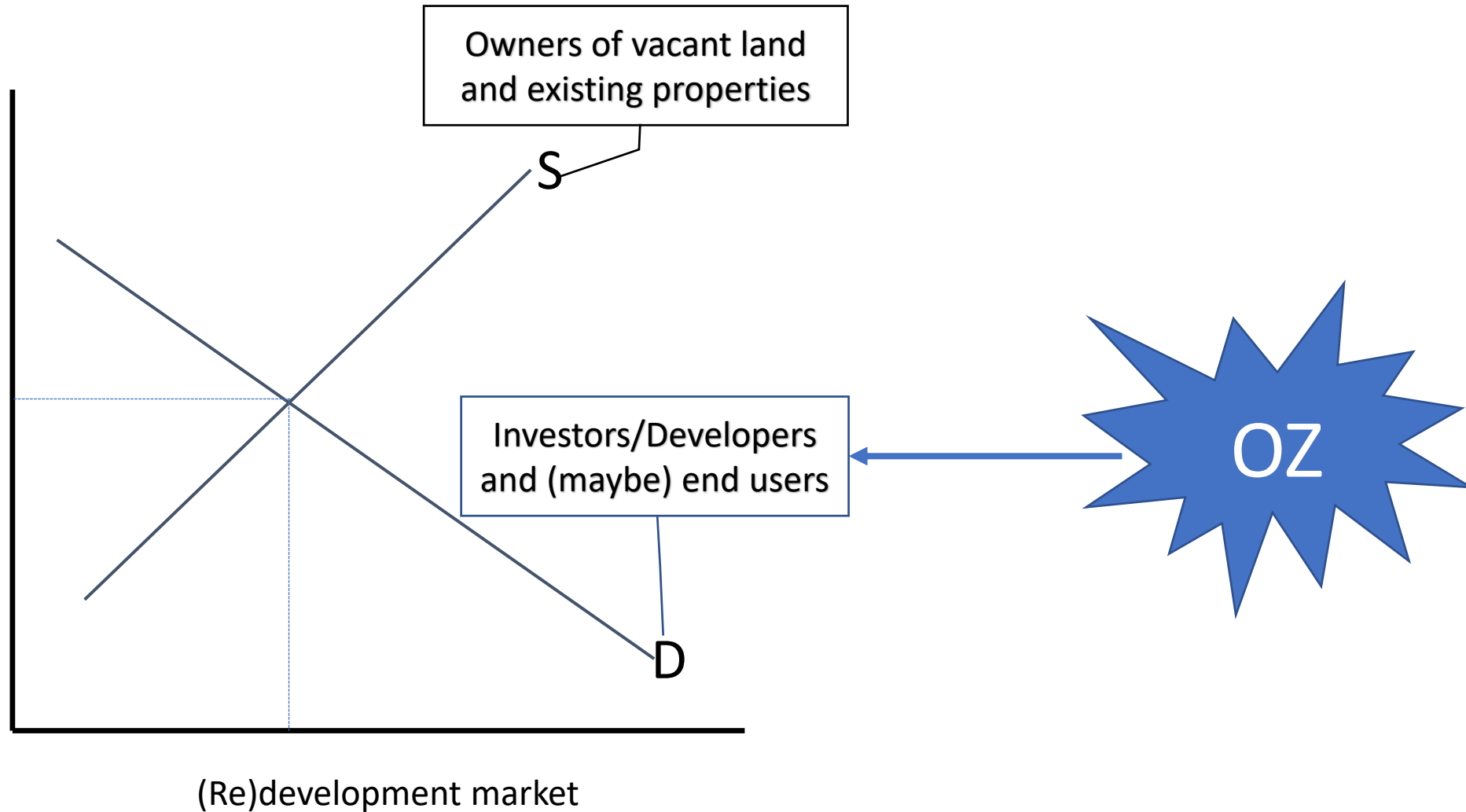
→ No reason to expect price increase

Small (expectation of) increase in demand
+ Flatt(er) Elasticity of Supply

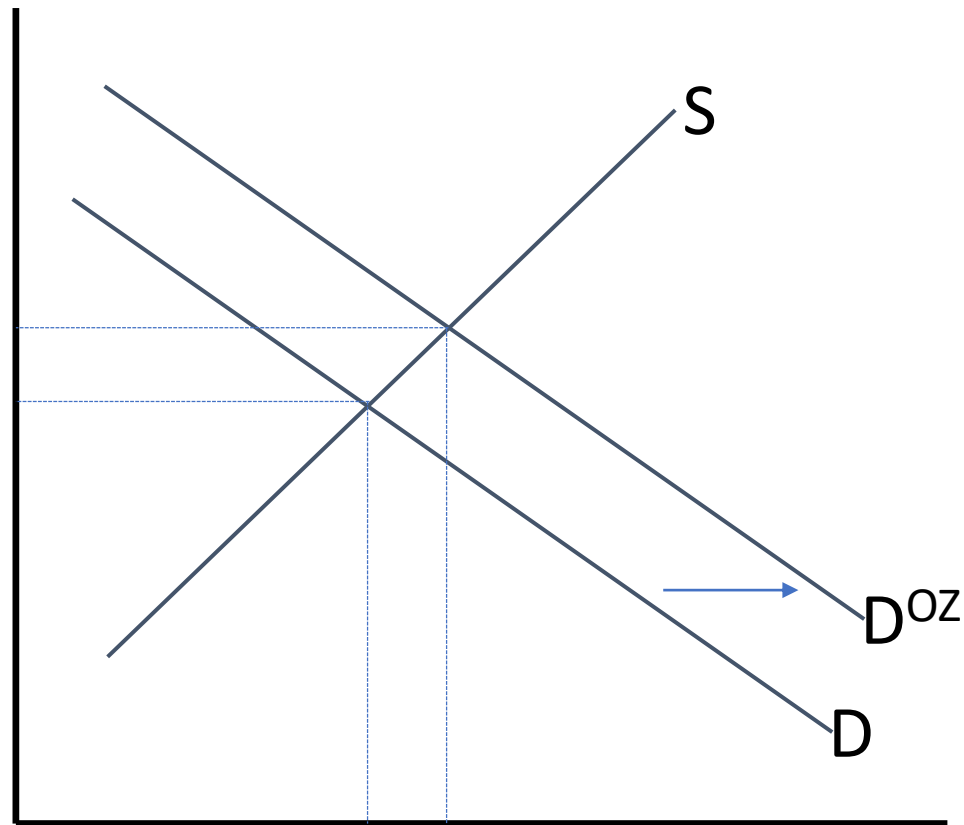
→ Little effect on prices

→ Sage, Langen, and van
de Minne's no overall price
and liquidity effects

Opportunity Zones and Commercial Real Estate Markets



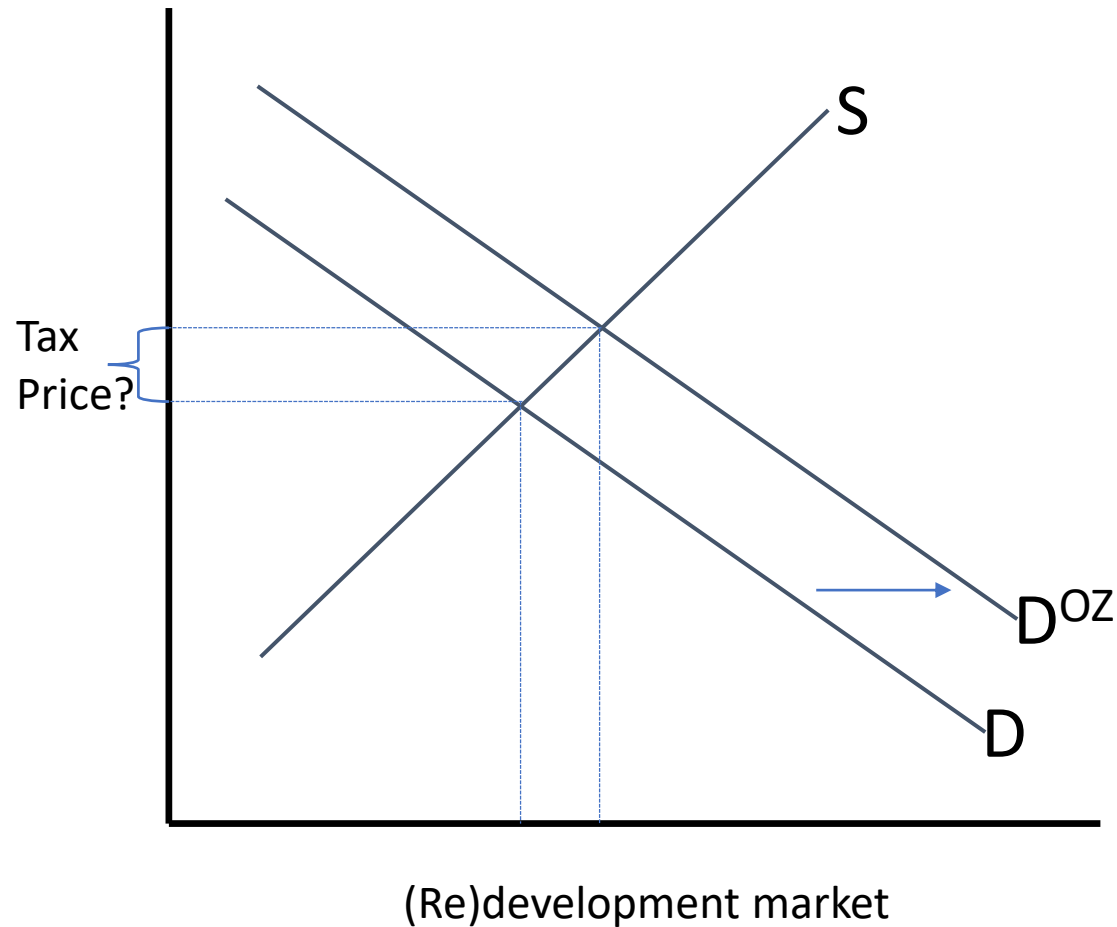
Opportunity Zones and Commercial Real Estate Markets



OZ \rightarrow D \uparrow
 \rightarrow Price \uparrow and
Quantity \uparrow (Prob. of Sale, # Investments, etc.)

(Re)development market

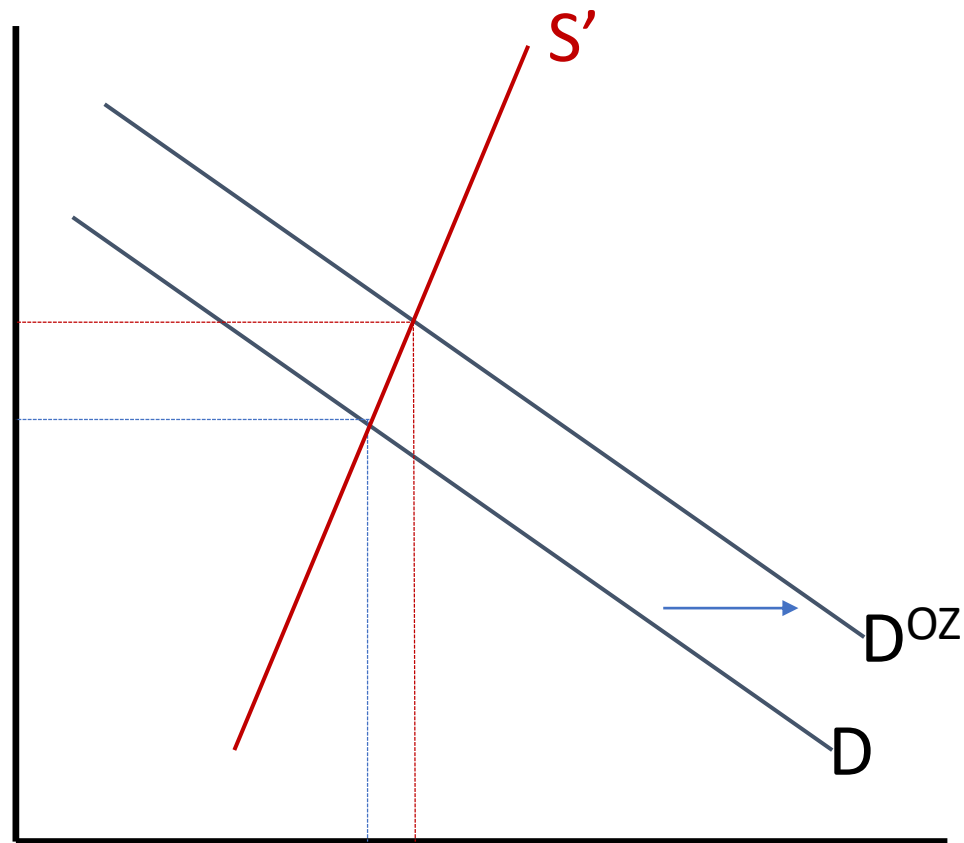
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OZ \rightarrow D \uparrow
 \rightarrow Price \uparrow and
Quantity \uparrow (Prob. of Sale, # Investments, etc.)

Sage, Langen, and van de Minne suggest:
D \uparrow \rightarrow Price \uparrow = Tax Benefits

Opportunity Zones and Commercial Real Estate Markets

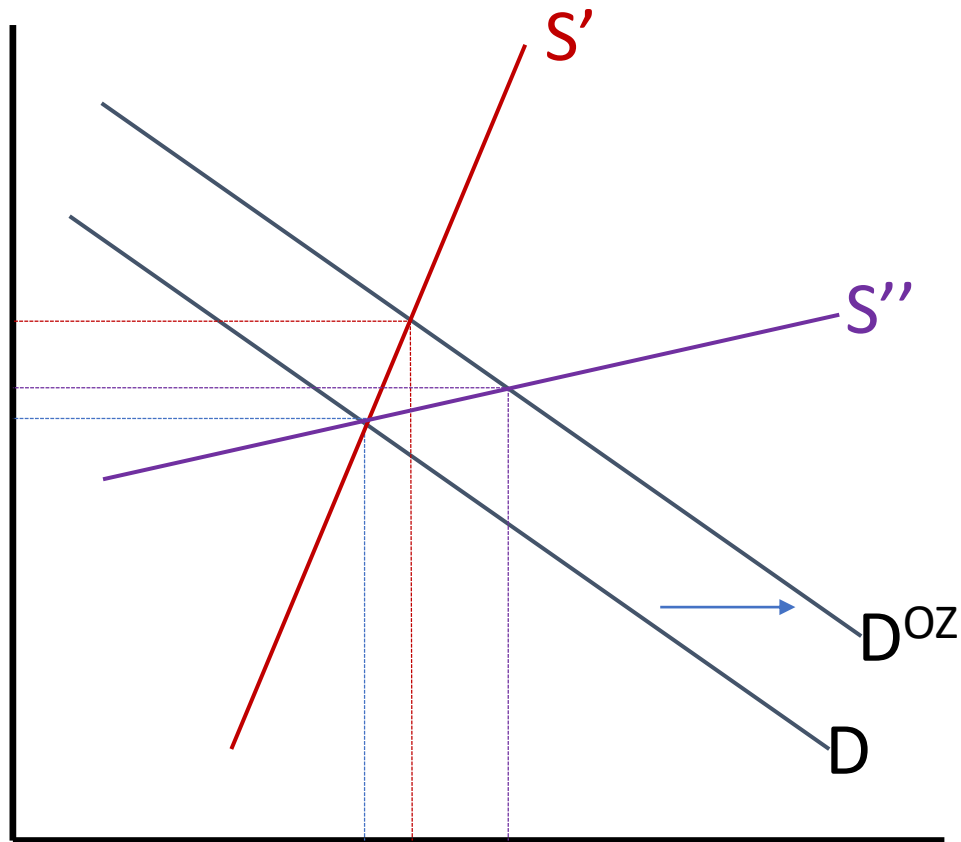


(Re)development market

S' (strict regulations, little developable land,
few old buildings, etc.)

→ Price ↑ and Little Change in Quantities

Opportunity Zones and Commercial Real Estate Markets



(Re)development market

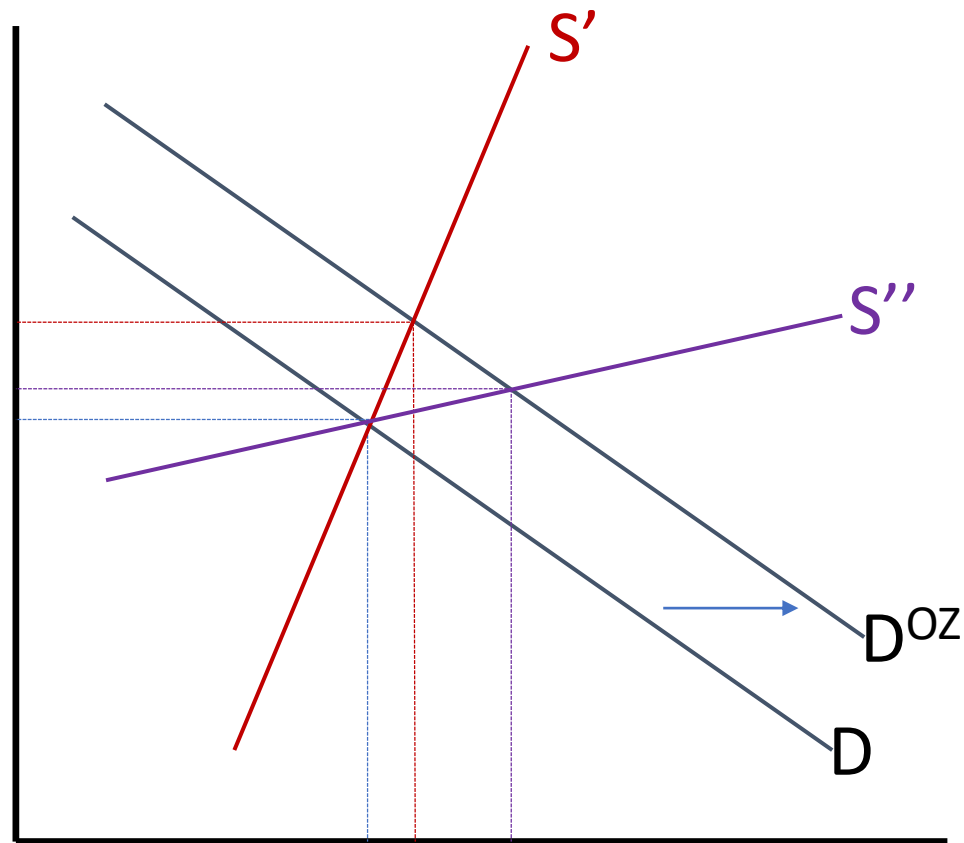
S' (strict regulations, little developable land, few old buildings, etc.)

→ Price ↑ and Little Change in Quantities

S'' (loose regulations, plenty of developable land, lot of old buildings, etc.)

→ Price ↑ with Big Change in Quantities

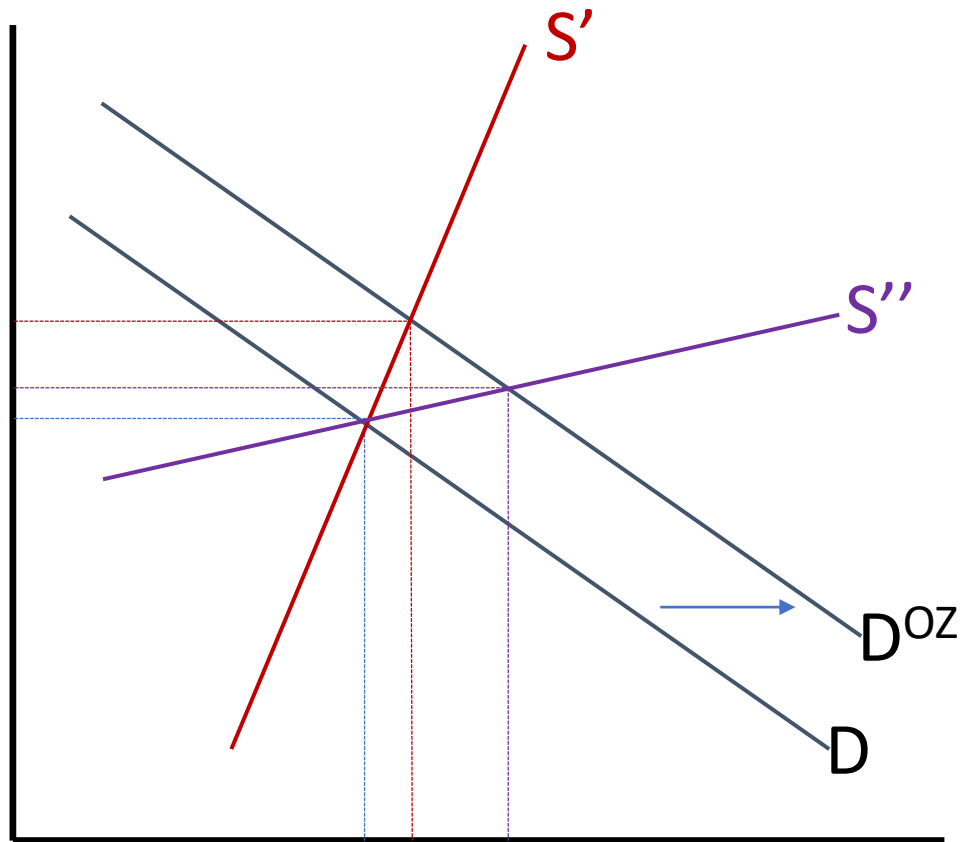
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(Re)development market

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

Opportunity Zones and Commercial Real Estate Markets



(Re)development market

Sage, Langen, and van de Minne

→ S' describe 80+ supply?

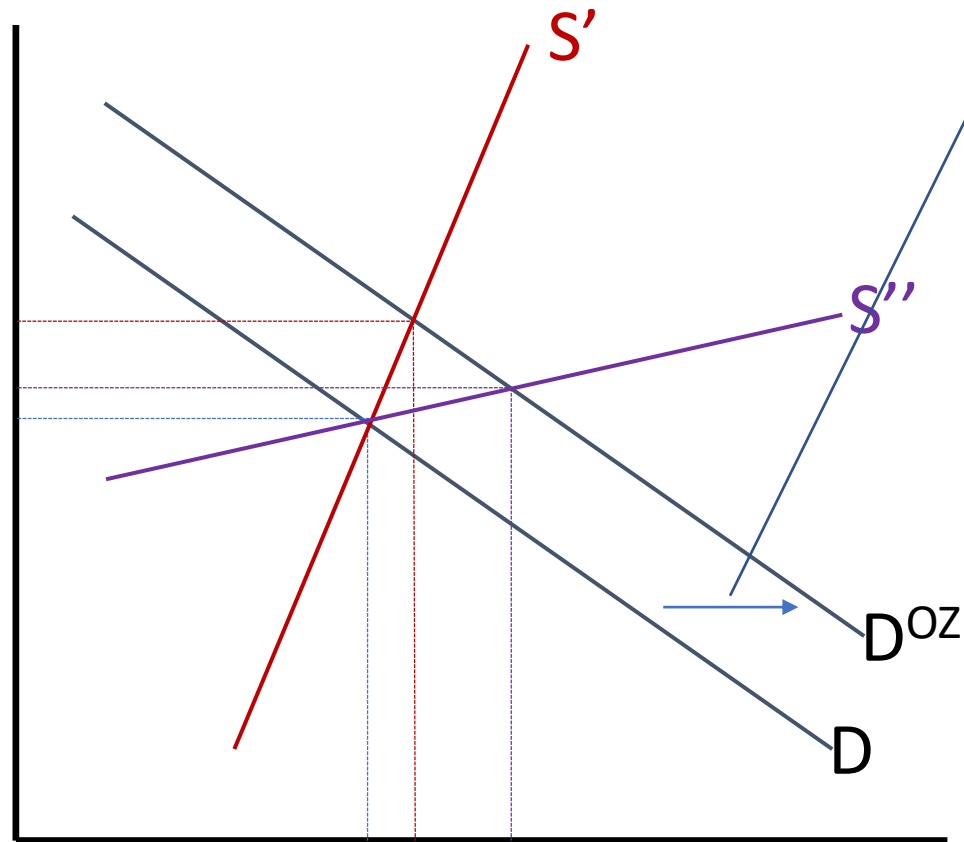
→ Vacant land supply? Fairly big p & q effects



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

Opportunity Zones and Commercial Real Estate Markets



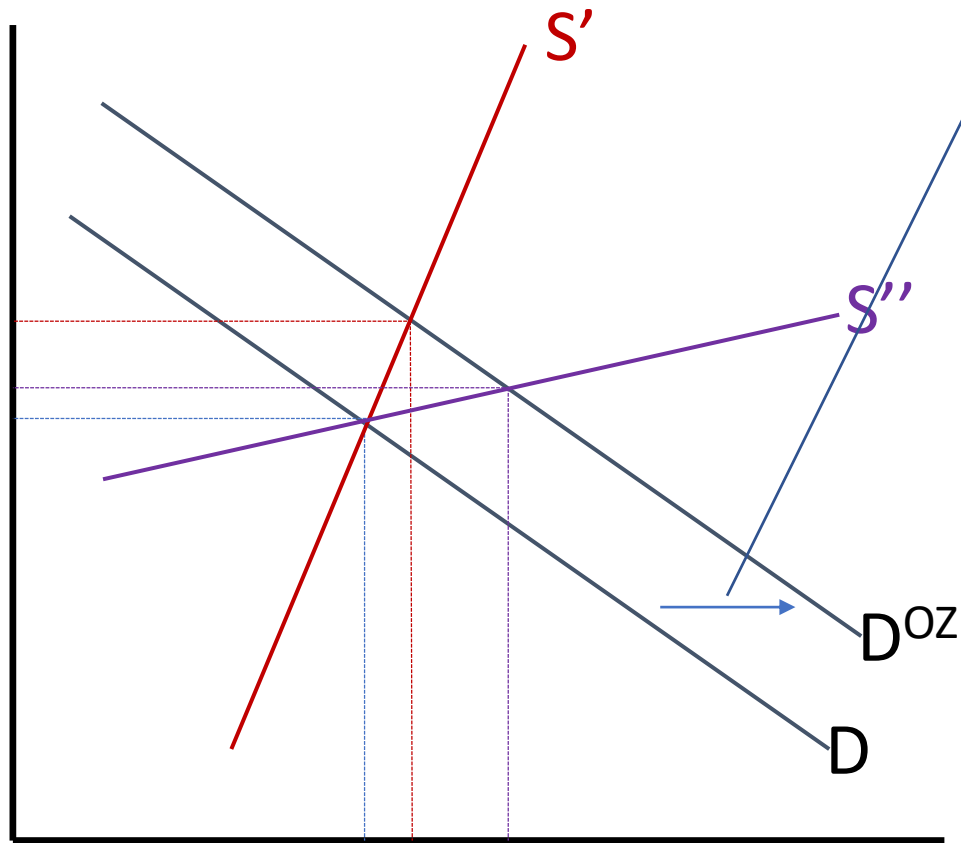
(Re)development market

UhOh!?!

Corinth and Feldman find no increase in investment.

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

Opportunity Zones and Commercial Real Estate Markets



(Re)development market

UhOh!?!

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

Opportunity Zones and Commercial Real Estate Investment

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)

Opportunity Zones and Commercial Real Estate Investment

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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