Opportunity Zones

State of the Marketplace

Hutchins Center on Fiscal and Monetary Policy at Brookings
Conference on Opportunity Zones: The Early Evidence

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Reintroductions
So how do OZs work?

Qualifying capital must be invested through qualified intermediaries into qualifying activities in qualified census tracts.

- **Qualifying capital**: Recently realized capital gains reinvested as equity
- **Qualified intermediaries**: Registered Opportunity Funds
- **Qualifying activities**: Building or substantially improving structures; new shares of a qualifying business
- **Qualified census tracts**: 7,826 census tracts in the 50 states plus DC; over 8,600 including the territories

If all these criteria are met and a number of standards maintained, investors enjoy generous reductions in their future capital gains taxes.
What makes OZs unique?

✓ A specific focus on **equity** capital
✓ A design to change **behavior**
✓ An embrace of **flexibility**

The difference between

“The federal government will pay you to invest here” and

“The federal government will reward you extra if you make a good investment here”

is subtle but important.

It shifts the narrative from community liabilities to community assets, and it uses investor expectations as the mechanism that unlocks new sources of capital.
The OZ market is only beginning to mature
Market development has been accelerating rapidly

According to the Council of Economic Advisers, OZs had moved $75 billion by the end of 2019, 70 percent of which was new, induced investment that would not have happened without the incentive.

Source: Novogradac & Company
EIG’s OZ Activity Map tracks the market’s diversification
Local institutions are shaping outcomes

Durango, CO

Selma, AL

Erie, PA
Indiana demonstrates the flexibility of the tool in action

In **Michigan City**, OZ capital is engaged in placemaking; simultaneously preserving historic structures in the city’s old brewery district as it creates space for local entrepreneurs to house their new locally-serving businesses.

In **Brookville**, local OZ investors used proceeds from the sale of a business to revitalize main street, build new housing in the small-town center, preserve the local newspaper, and finance a hotel to boost the nascent local tourism industry.

**Market-rate housing developments are utilizing the incentives in Indianapolis and Bloomington.**

**OZ capital is helping to finance the conversion of a notorious old brownfield industrial site near Gary into a logistics hub, as well as the expansion of a cleantech manufacturing firm in Fort Wayne.**

Affordable housing investments are incorporating OZs into their capital stacks alongside other sources of public, private, and philanthropic financing in **Evansville**, rural **Seymour**, and **Indianapolis**.
Challenges in evaluating OZs

The **open-ended nature** of the tool combined with the **lack of any centralized data** collection and provision presents unusual challenges for researchers.

✓ **Timing and sequencing:**
  - Investment did not start to flow significantly until 2020.
  - The pandemic has extended the 180 day investment window.
  - The first wave of projects will likely not hit the market until 2021.

✓ **Heterogeneity in units:** OZs are an incredibly diverse class with a wide variety of predominant land uses.

✓ **Heterogeneity in treatment:** Many OZs have received no investment; others have received investments of wildly different natures, from housing to infrastructure.
  - Different investments may have radically different scales of impact (spillovers).

✓ **Institutional context:** Some investments and outcomes will have been intermediated by local policies or organizations.
  - This will be essential for policy analysis.
Taking stock three years into the life of OZs

The OZ model shows considerable promise:
  • In the range of use cases
  • In the range of communities reached

Yet there’s still unfinished business:
  • Pass the IMPACT Act or equivalent
  • Sunset high-income OZ census tracts
  • Simplify utilization of the incentive
  • Improve alignment with affordable housing tools
  • Consider further steps to bolster local capacity

Data is essential to learn from this uniquely open-ended experiment in order to inform future iterations of OZs and future generations of place-based policies.