Opportunity Zones:
Regulatory update, latest developments, and emerging state roles

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Opportunity Zones 101
Structure of the market

**Investors**
- Individuals & Corporations

**Funds**
- Opportunity Funds

**Investments**
- **Stock** of a qualified opportunity zone corporation
  - Original-issue shares in a new, qualified business that meets several tests.
  - Must substantially improve / expand a pre-existing business that meets the tests for its new shares to qualify.
  - Same as above

- **Interest** in a qualified opportunity zone partnership
  - Greenfield vertical developments or new capital purchases automatically qualify.
  - Pre-existing structures or capital must be substantially improved to be qualifying investments

- **Tangible property** used in qualified opportunity zones
  - EIG
What are the incentives for investors?

The policy offers investors three incentives for realizing a capital gain, putting that gain into an Opportunity Fund, and investing it in qualifying communities:

1. **Temporary deferral**: An investor can defer capital gains taxes until 2026 by rolling their gains directly over into an Opportunity Fund.

2. **Reduction**: The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.

3. **Exemption**: Any capital gains on subsequent investments made through an Opportunity Fund accrue *tax-free* as long as the investor stays invested in the fund for at least 10 years.
2019 or bust?
No: There will be a long tail of investment.

- End of 7-year step-up window
- End of 5-year step-up window
- End of deferral window
- End of investment window

Period in which funds can make qualifying investments

Period in which funds can dispose of qualifying investments while preserving the 10+ year benefits

It begins!

Begin 10+ year disposal window
End of disposal window
There are now over 8,766 Opportunity Zones census tracts across all 50 states, DC, and the territories.

- 294 tracts contain tribal lands
- Nearly ¼ are outside of metro areas
- In AK, ID, MT, and WY more than half of zones are outside of metro areas
- CSG West states have a total of 1,695 zones (52% of which are in CA)
- 7.6 million people live in CSG West zones
Opportunity Zones exhibit more need across a range of metrics than eligible tracts that were not nominated.

*Distribution of OZ Census Tracts by Median Family Income*

Explore the national map at [eig.org/opportunityzones](http://eig.org/opportunityzones)
A mature fully regulated market should support a range of different Opportunity Fund models.
The success of this policy rests on a regulatory framework that facilitates investment into new and growing operating businesses in addition to the built environment.

The market was eagerly awaiting signals in the second round of regulations that Treasury understood the needs of and for multi-asset, multi-investor funds investing in startups.

The second round of regulations resolved several open issues:

- Provided additional flexibility for businesses to utilize the working capital safe harbor and meet the 50% gross income test
- Provided clarity around “interim gains,” which may still affect some investors
- Provided clarity and flexibility on the timing requirements for capital deployment and reinvestment, as well as Opportunity Fund exits
- Provided clarity around a number of other issues including leased property, vacant property, and intangible property

Still outstanding: Anti-abuse rules and the data collection regime.
Developments in the field
We’re getting a good flavor of early activity. 
Spoiler: it’s not just real estate and it’s not just major metros

EIG will soon debut its tracker of noteworthy investments, funds, and initiatives taking root across the country.

Early examples of success include:
- Brownfield remediations
- Housing of all types: affordable, workforce, senior, student, market rate
- Hospitality and recreation
- Incubators
Novogradac’s **Opportunity Zones Fund Listing** (pictured) now contains 134 funds seeking over $29 billion.

44 of them (30%) are nationally focused.

A number of specialized funds are forming:
- **Rural Colorado Opportunity Fund**
- **SoLa Affordable Housing Fund**
- **Catalyst** Fund (Utah)

Matching platforms are increasingly popular:
- Some state-led (e.g. CO, MD, OR)
- Others thematic (e.g. Brownfield Listings)
- Some impact-oriented (e.g. The Opportunity Exchange)
- Others broad (e.g. OpportunityDb)
Many communities have adopted the prospectus model as a first step.

**OPPORTUNITY ZONE INVESTMENT PROSPECTUS GUIDE**

**AUTHORED BY BRUCE KATZ AND KEN GROSS**

- 11 Opportunity Zones in Mesa.
- 94 Opportunity Zones in Phoenix-Mesa metro area.
- 168 total Opportunity Zones in Arizona.
- 501,137 citizens make up Mesa’s population.
- 48,496 citizens reside within Mesa’s Opportunity Zones.
- 9.67% of Mesa’s Population reside within an Opportunity Zone.
A handful of communities have gone further, embracing new partnerships and institutional innovations.
Emerging state roles
States selected zones, but their prescribed role stopped there. What next?

States are busy determining how actively they want to engage. Strategies can be broken down into few common buckets:

- **Convener**: Hold a statewide OZ summit (VT; many)
- **Educator**: Offer technical assistance to municipalities and businesses (WA, DC)
- **Enabler**: Offer grants for community prospectuses (CO, MN)
- **Matchmaker**: Facilitate deal-making, often with an online portal (IN, OR, VA)
- **Ombudsman**: Designate a point person or organization to do all of the above (CO, UT)
- **Market shaper**: Use state incentives to nudge investors towards desired ends
  - e.g. Extra sweeteners to investments that meet impact, transparency, or engagement criteria (AL, MD)
  - e.g. Affordable housing or historic preservation tax credit set asides or bonuses (LA, MS, NE*)
  - e.g. Align other tech-based economic development tools to foster high-impact startups (MD, MI*)
- **Market maker**: Decisively put thumb on the scale for desired results
  - e.g. Extend state capital gains tax conformity to preferred uses only (CA*)
  - e.g. Relieve state income taxes for investors into new qualified OZ businesses (WV)
  - e.g. Contribute state-owned vacant properties for priority investments into priority tracts (CT)

Some states, notably Alabama through its new dedicated non-profit Opportunity Alabama, are trying to do it all.

*means not yet enacted
The majority of states are conforming with the federal tax code on OZs either intentionally or by default.

Source: Novogradac & Company
EIG brings together leading entrepreneurs, investors, economists, and policymakers from across the political spectrum to address America’s economic challenges.