



ECONOMIC  
INNOVATION  
GROUP

# Opportunity Zones:

Regulatory update, latest developments,  
and emerging community best practices

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**ECONOMIC INNOVATION GROUP** / Washington, DC

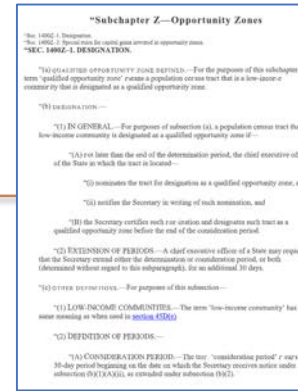
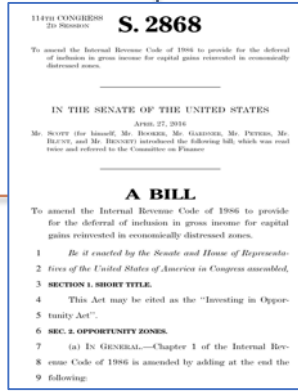
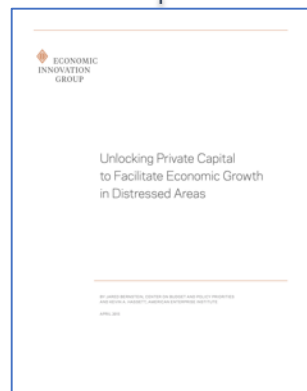
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# History of EIG and Opportunity Zones

EIG Economic Advisors, Jared Bernstein and Kevin Hassett, co-wrote EIG's first white paper, which focused on creating place-based tax incentives for investment in distressed communities  
2015

Senators Scott and Booker and Congressmen Pat Tiberi (R-OH) and Ron Kind (D-WI) introduce the *Investing in Opportunity Act (IIOA)*, proposing a novel way to encourage investment in startups, small businesses, and other enterprises in capital-starved communities  
2016

EIG launches the Opportunity Zones Coalition, a group of 75+ member organizations working together with a broad array of public and private stakeholders to ensure the timely and effective implementation of Opportunity Zones  
2018



2015  
EIG's launch was co-branded with *The Atlantic* event titled, "Rethinking Economic Renewal." Bernstein and Hassett discuss their latest research, along with thoughts from Senators Tim Scott (R-SC) and Cory Booker (D-NJ)

2017  
*IIOA* passes as part of the *Tax Cuts and Jobs Act of 2017*, establishing Opportunity Zones as a new national community investment incentive



# Opportunity Zones 101

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# Structure of the market

## Investors

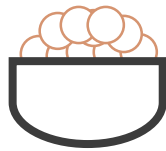
Individuals & Corporations



**Capital Gains**

## Funds

Opportunity Funds



## Investments



**Stock** of a qualified opportunity zone corporation



**Interest** in a qualified opportunity zone **partnership**



**Tangible property** used in qualified opportunity zones

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

Greenfield vertical developments or new capital purchases automatically qualify.

Pre-existing structures or capital must be substantially improved to be qualifying investments

# What are the incentives for investors?

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



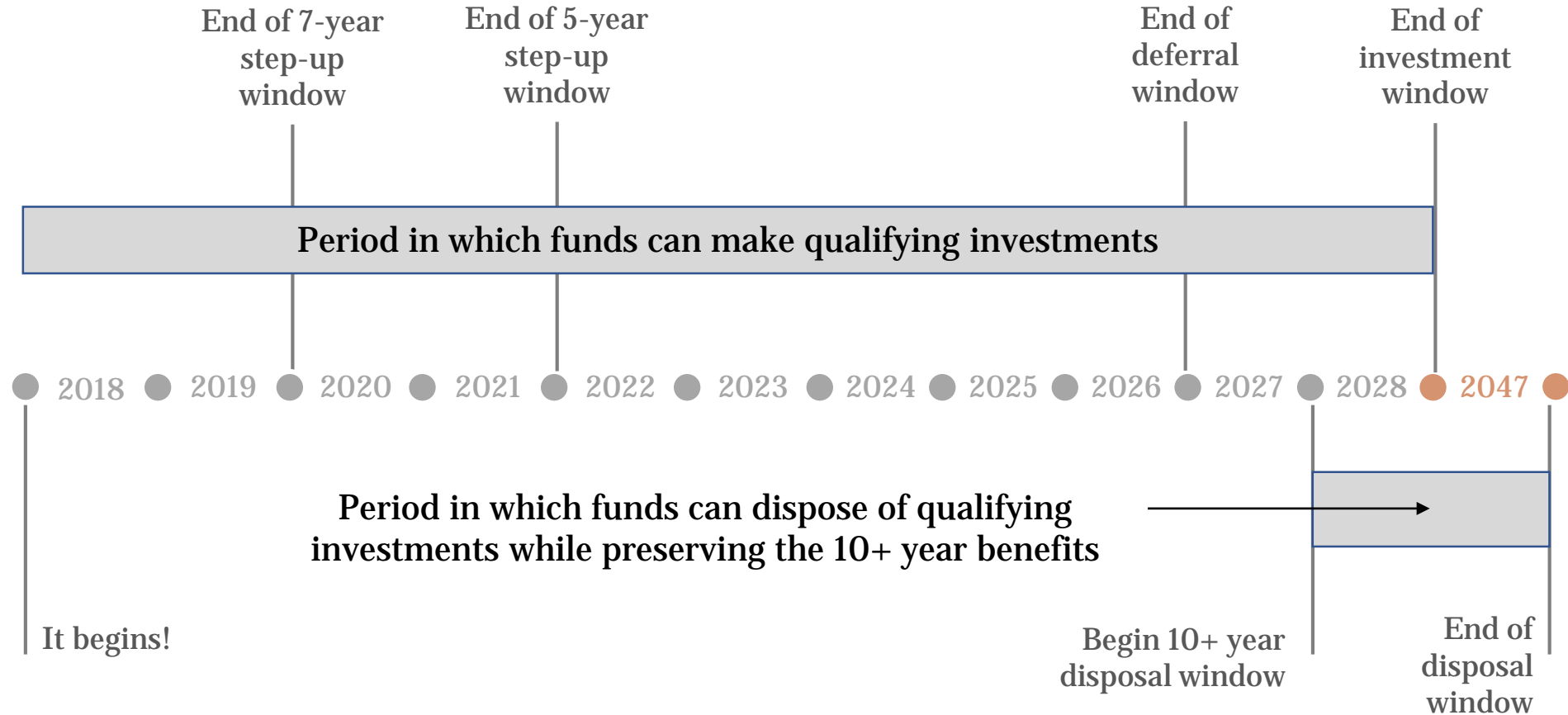
2. A **reduction**: The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.



3. An **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.

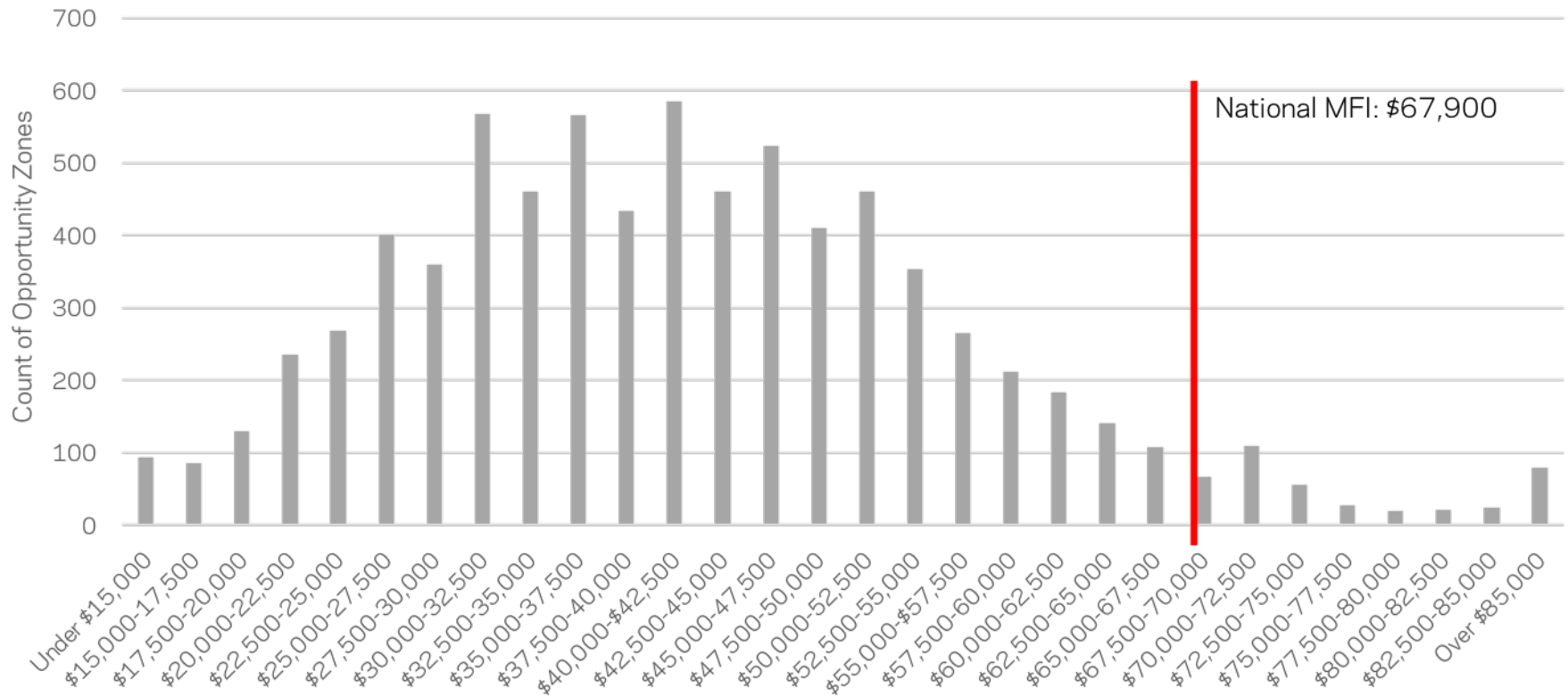
# 2019 or bust?

No: There will be a long tail of investment.



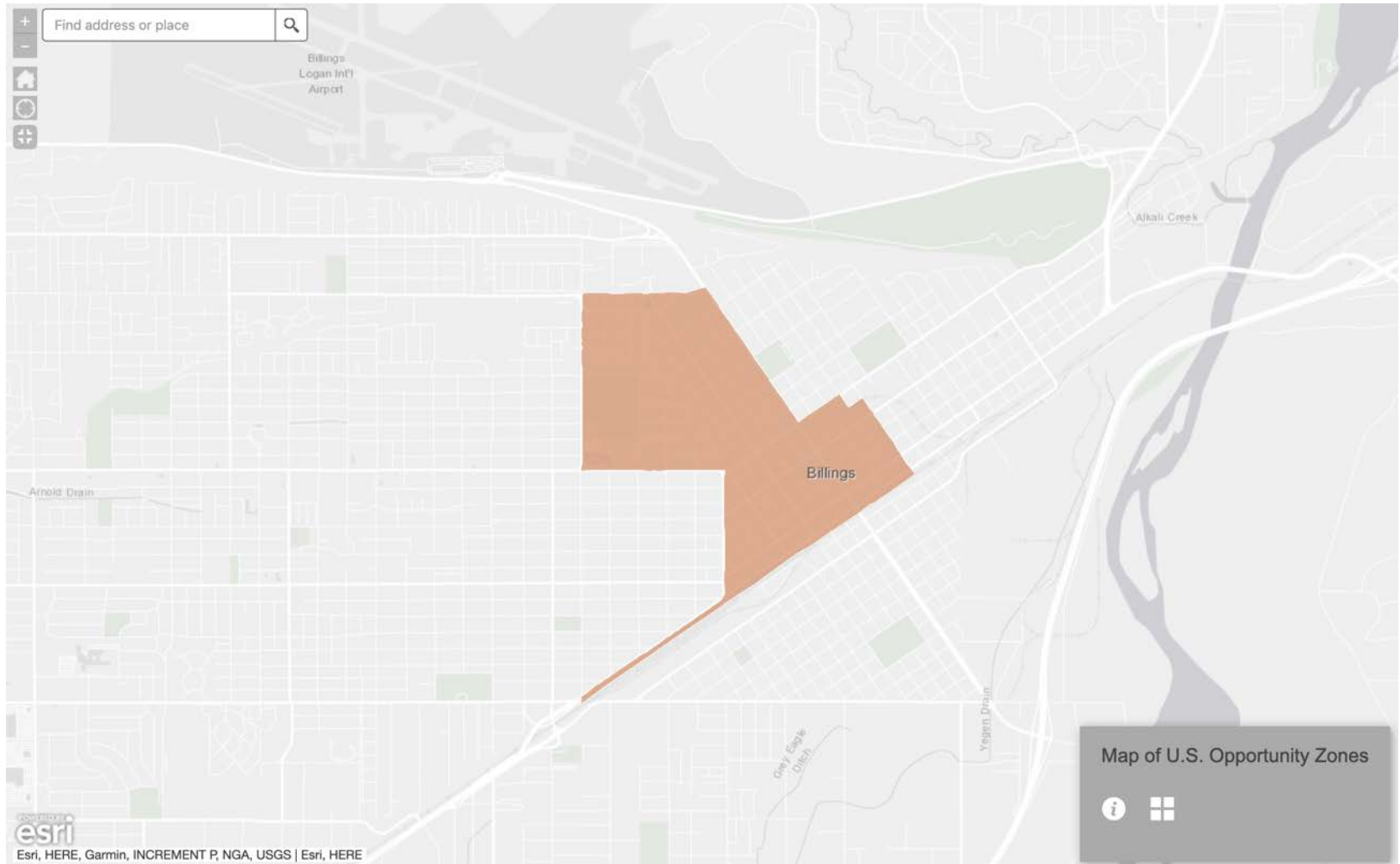
# The country's 8,766 Opportunity Zones represent the country's newest testbeds in community development.

*Distribution of OZ Census Tracts by Median Family Income*



*Explore the national map at*  
**[eig.org/opportunityzones](http://eig.org/opportunityzones)**

# Much of downtown Billings is now an Opportunity Zone





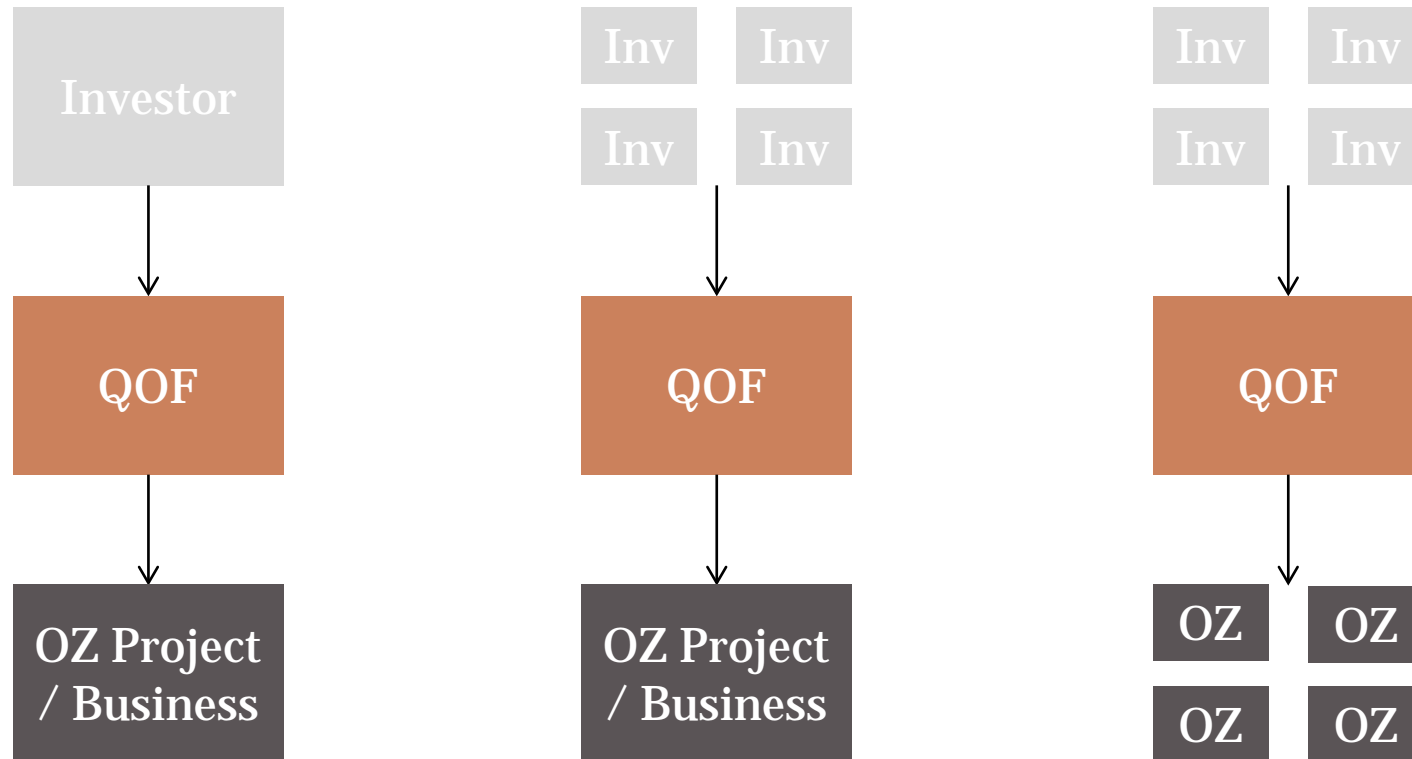


# Regulatory Update

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# A mature fully regulated market should support a range of different Opportunity Fund models

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# The second round of proposed rules are favorable to market deepening and diversification

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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.**

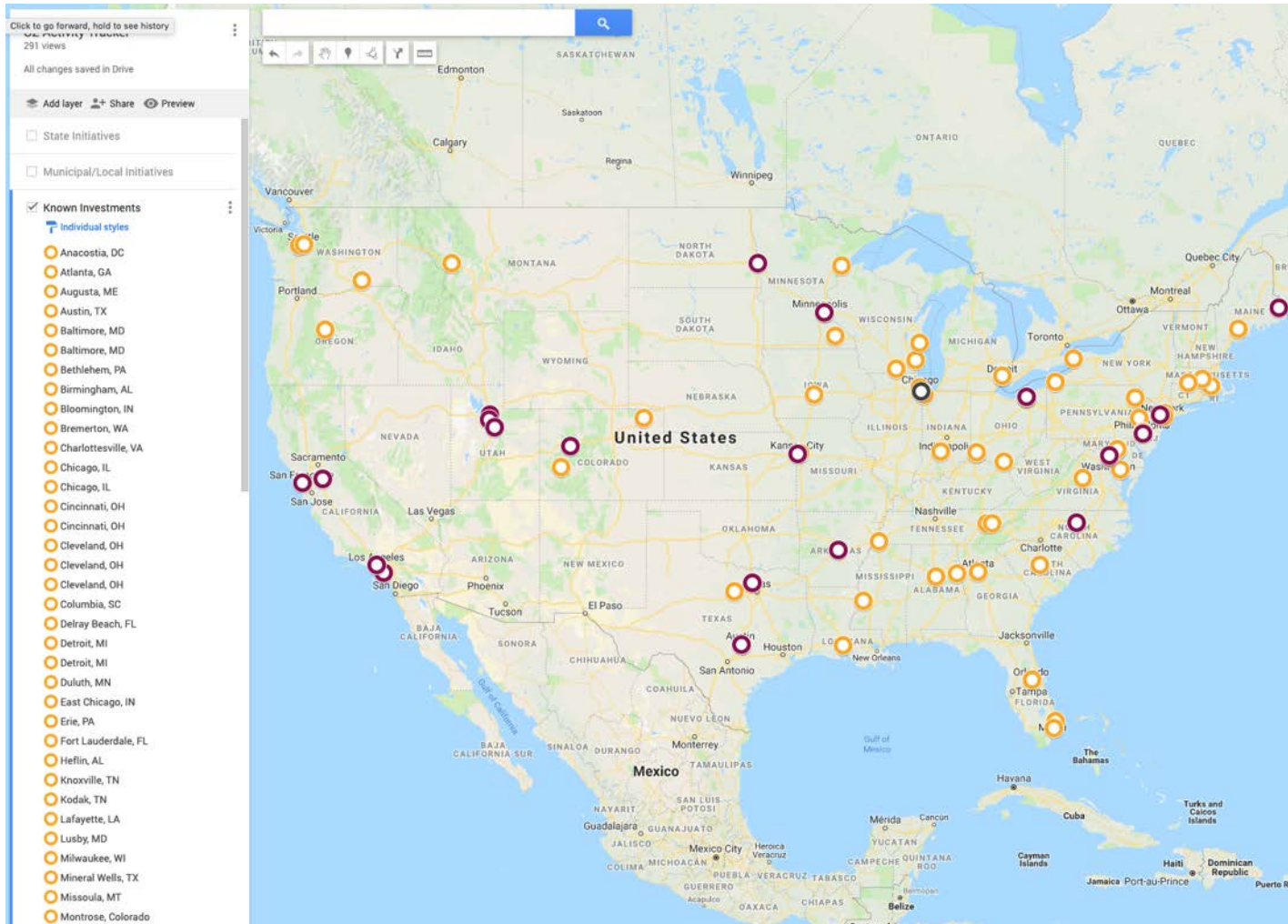


# Developments in the field

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# 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

# The fund landscape is populating

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)

Fund Name Fund Manager Contact	Investment Footprint (Geographical Focus)	Investment Focus Area
1787 Capital Opportunity Zone Fund 1787 Capital Chris Jeter 646.283.7295 chris@1787capital.com	Mid-Atlantic and Southeast	Partnering with public agencies and officials on key redevelopment projects; Transit-Oriented Development
3LB Equities Opportunity Zone Fund 3LB Equities Adam Smith 817.406.0075 ASmith@3lbequities.com	Texas	Multi-family Acquisition and Development
Access Ventures Opportunity Fund Access Ventures Ross Baird 404.281.1254 ross@accessventures.org	National	Operating businesses
Activated Capital Opportunity Zone Fund II Activated Capital Josh Burrell, CFA 212.320.8994 investments@activatedcapital.com	Mid-west and Southeast	Substantial improvement residential, commercial and hospitality real estate.
Affordable Housing Opportunity Fund LIHTC Development Kim Miller	National	Multi-Family Development

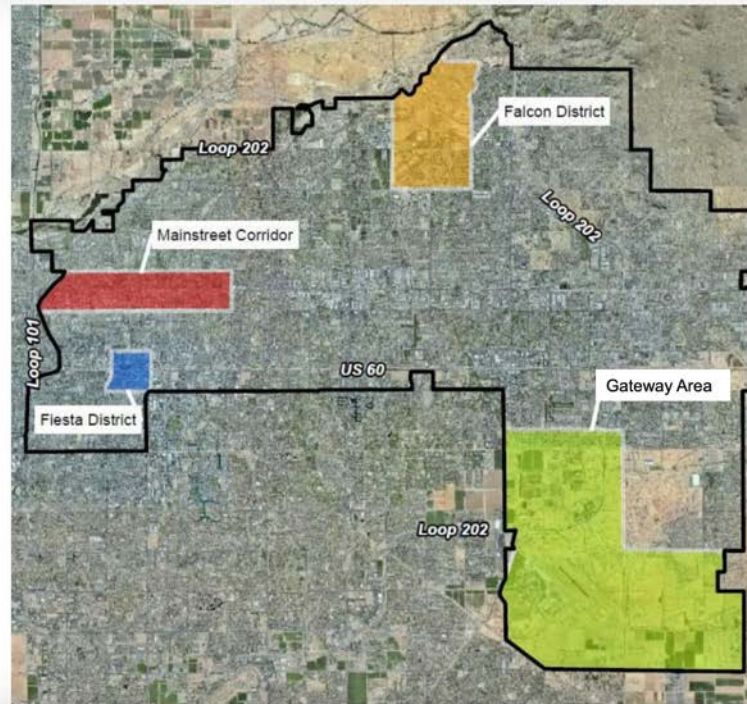
# Many communities have adopted the prospectus model as a first step

ACCELERATOR  
FOR AMERICA

## OPPORTUNITY ZONE INVESTMENT PROSPECTUS GUIDE

*AUTHORED BY BRUCE KATZ AND KEN GROSS*

A HOW-TO FOR



- 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.

MESA'S OPPORTUNITY  
ZONE PROGRAM

  
mesa·az  
ECONOMIC DEVELOPMENT

# A handful of communities have gone further, embracing new partnerships and institutional innovations



HOME JOIN US ABOUT FOR INVESTORS

## GROW YOUR PORTFOLIO TAX FREE WITH OPPORTUNITY FUND INVESTMENTS

EXCITING BUSINESS AND REAL-ESTATE INVESTMENTS IN WASHINGTON STATE WITH LONG-TERM GROWTH POTENTIAL. USE YOUR UNREALIZED CAPITAL GAINS TO GROW YOUR PORTFOLIO WITHOUT PAYING CAPITAL GAINS ON FUTURE RETURNS.



Initiative For Opportunity Zone Investment in Cleveland and Cuyahoga County

# OPPORTUNITY CLE

I WANT TO INVEST I HAVE A PROJECT

### Our Partners



## THE BIRMINGHAM INCLUSIVE GROWTH (BIG) PARTNERSHIP

AN INNOVATIVE PUBLIC-PRIVATE ENDEAVOR DESIGNED TO LEVERAGE OUR 24 ZONES, WITH TWIN GOALS TO (1) ENHANCE THE QUALITY OF LIFE OF OUR RESIDENTS AND (2) PRODUCE TANGIBLE RETURNS TO INVESTORS.

The BIG Partnership is focused on identifying and funding Opportunity Zone projects that offer goods and services needed by our community, such as housing, healthcare, food, education and transportation. It prioritizes projects that foster an equitable community, through job creation, financial inclusion and innovation.



### PRIVATELY-LED

The linchpin of the partnership is the *Investment Board (IB)* and the Public Benefit Organization (PBO) that it will oversee. The PBO is privately managed and autonomous and its goal is to facilitate sponsorship of transformational Opportunity Zone projects.



### CITY-INSPIRED

The City of Birmingham is uniquely positioned to convene key stakeholders and facilitate the relationships between the private, philanthropic, academic and civic sectors, as well as neighborhood leadership. Through a constellation of resources, the



### COMMUNITY-FOCUSED

The *Community Investment Board (CIB)* promotes inclusive growth for all community residents. Made up of local civic leaders, this Board ensures that the community's needs and priorities are addressed, identifies projects, and safeguards our neighborhoods'



# State and local partners selected zones, but their prescribed role stopped there. What's next?

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

- **Convener:** Hold a local OZ summit to raise awareness—especially now about the startup and scale-up opportunity
- **Educator:** Offer technical assistance to businesses and potential fund managers
- **Matchmaker:** Develop a pipeline and facilitate deal-making, often with an online portal
- **Expediter:** Streamline permitting and approvals
- **Ombudsman:** Designate a point person or organization to do all of the above
- **Market enabler:** Ensure that the preconditions for private investment to take root are in place
  - e.g. Engage in practices like strategic demolition or making complementary infrastructure investments
  - e.g. Issuing RFPs for city-owned land or selling city-owned vacant parcels
- **Market shaper:** Use incentives to nudge investors towards desired ends
  - e.g. Extra sweeteners to investments that meet impact, transparency, or engagement criteria
  - e.g. Affordable housing or historic preservation set asides or bonuses
  - e.g. Align other tech-based economic development tools to foster high-impact startups
- **Market maker:** Decisively put thumb on the scale for desired results
  - e.g. Deploy full suite of development finance tools in favor of priority outcomes

# Key impressions from year 1 ½: Local, local, local

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- The investor base is **broad**. It includes traditional investors, impact investors, boutique investors, and newcomers.
- **Local capital** will move first.
- OZs genuinely **changes the economics** of many types of investment (see for example brownfields).
- OZ equity often serves as the **deal closer**.
- Operating **business side** of the market was mostly frozen pending regulations. It is now beginning to move.
- **Direct and indirect impacts** and opportunities for entrepreneurship and wealth-building will be significant.

## **Saving the best for last:**

- Cannot emphasize strongly enough the imperative for **coordinated local leadership**.

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EIG brings together leading entrepreneurs, investors, economists, and policymakers from across the political spectrum to address America's economic challenges.

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