OPPORTUNITY ZONES AND URBAN REVITALIZATION

a place-based approach to the emerging market

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Executive Summary

The Tax Cuts and Jobs Act of 2017 contained a bipartisan amendment with a new economic development incentive to spur private investment in 8,762 low-income census tracts designated by states as Opportunity Zones. We analyze the top five percent of job-dense zones. These zones are important because they act as employment centers, giving them some degree of market traction. Yet, ninety-seven percent of these zones are in federally designated Low Income Communities, meaning at least 20% of their residents are living in poverty.[i] We believe this combination of social need and market traction gives these job-dense Opportunity Zones some of the highest potential for inclusive growth in line with the legislation's intent.
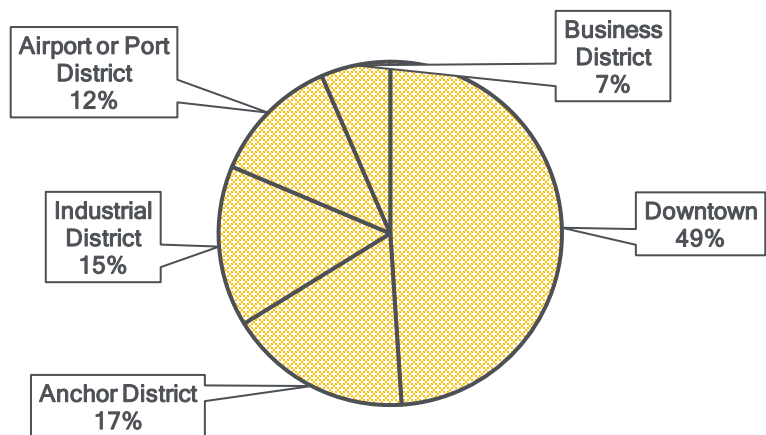
GEOGRAPHY OF EMPLOYMENT CENTER OPPORTUNITY ZONES

These zones have a geography that differs from the controversial, and largely residential, tracts that have driven the media fascination of Opportunity Zone coverage. Our analysis finds that over three quarters (78 percent) of these 429 zones are located outside the twenty-five most affluent metropolitan areas.[ii] The highest concentration of these zones is in the Upper Midwest (16 percent), followed by the Pacific West and South Atlantic (15 percent each). Almost half (48 percent) of the 429 job-dense Opportunity Zones are in metropolitan areas with fewer than one-million residents. They are located in sub-geographies that function as different urban employment districts representing the breadth of America's economy: from industrial and port areas rich in blue collar jobs; to downtown and anchor districts replete with tech, professional, and service jobs.

VARIED RECOVERY BUT POSITIVE TRENDS

If these job-dense zones geographies reflect the economic development aims of the incentive, so too does their change in employment from 2010 to 2015. Two in three of these zones gained jobs coming out of the recession, providing some degree of market traction. For these 281 growing zones, job growth has ranged from modest to significant: the employment in 123 of the zones grew by 15 percent or less from 2010; while the employment in 127 of the zones grew by between 15 and 50 percent from 2010. For comparison: over the same period, the highest growth tract in Brooklyn, NY (tract 808), anchored by Kings County Hospital, grew by 77 percent; and San Francisco's highest growth tract (tract 168.01), anchored by the California Pacific Medical Campus, grew by 1,229 percent. Both are employment centers, but neither are Opportunity Zones.

URBAN GEOGRAPHY OF THE MOST JOB-DENSE OPPORTUNITY ZONES

- Airport or Port District 12%
- Business District 7%
- Industrial District 15%
- Downtown 49%
- Anchor District 17%

Put simply, the employment center Opportunity Zones we've identified have an economic momentum and a local geography that, together, give them a strong potential to improve their residents' quality of life and the economic security. The sub-geography of many zones indicates that, along with having strong fundamentals, these areas have low displacement risks because they function predominantly as employment centers with comparatively few residents. These places will likely have good investments for private capital and are places where investment *can* also address social issues like wealth disparities, housing shortages, and a lack of good jobs.

These tracts will be the proving grounds for Opportunity Zone applications beyond traditional residential or commercial real estate. Whether Opportunity Zones deliver startup capital for university spinoffs will be determined in anchored districts; whether they bolster manufacturing will be determined in industrial zones; whether they create vibrant places will be determined in downtowns and midtowns; whether they spark new local reinvestment ecosystems will be determined by the institutions that sprout up uniting all these disparate strands. We believe the application and evolution of this incentive will occur within this typology of zones.

IMPLICATIONS

We believe these 429 Opportunity Zones have some of the highest potential to equalize the uneven geography of American regional and urban economic development by attracting market-rate capital to socially impactful business and real estate investments. The incentive's flexibility allows it to serve as a layer in the capital stack across these geographies and the variety of assets they contain.

It is also the assessment of both authors that significantly more action is required to achieve this potential. We're both cautiously optimistic based on the early momentum in these areas, and places like them. Yet, to reach the scale of impact we view as both possible and necessary with this incentive, transactions need to be routinized, local practices must be shared, and above all, market transparency must be increased. It is our candid fear that without action on these fronts by all actors within the Opportunity Zone ecosystem, the incentive's potential to do good for communities will slip away into irrelevance or malevolence. We see three distinct, but related, ways that our findings can inform and inspire such action.

1. *Recognizable patterns can help scale successes and guard against abuse:*
   What this incentive has in flexibility it lacks in centralized coordination. As a result, high quality and easily digestible information are required to ensure investment flows to geographies outside "the usual suspects" of real estate in hot metro markets. By placing Opportunity Zones into employment centers with recognizable districts (i.e. downtowns, airports, and medical centers) we hope to have made these patterns more visible to investors seeking new deals, public officials seeking model policies to ensure equitable community growth, and the civic sector seeking ways to influence this market.

2. *This place-based typology can support new investment models:*
Making markets, including markets catalyzed by federal tax incentives, requires defined routines and standards that can be replicated and scaled. Although new models of community wealth [are emerging](#), there are currently no easily replicable models for investors to follow in the more impactful type of project that the incentive envisions. It is our belief that this lack of routine in the market is what accounts for its current conundrum: Many of these areas have good economic fundamentals but have seen little investment; the capital that *has* flowed to these areas is scattered with successes that have been largely anecdotal and overlooked by the national conversation.

Establishing routine in a marketplace requires models and practice. By providing a national-scale understanding of the urban geographies we seek to begin establishing these models. These sub-geographies can support Opportunity Funds as the aggregate and allocate capital with a focus on place. We outline a variety of funds that can form investment theses focused on places with similar economic and social characteristics (e.g. downtowns vs anchor districts vs industrial districts vs airports) rather than discrete products (multifamily housing, commercial real estate, business startups). Each of these funds require an immense commitment to seasoned data and analytics so that investments in distinct asset classes could become the norm rather than the exception.

3. *Focusing on employment centers reminds us of the work that's still required:*
The Opportunity Zone incentive is a bipartisan tool to support poverty alleviation through economic growth. Although the incentive itself is flexible, the stakeholders involved in the process of equitable development each have relatively rigid requirements: private capital has return targets and risk appetites, developers have project timelines, the public sector has limited funds and competing priorities, and the community wants projects that support the prosperity of residents.

Making the incentive work for projects that meet each stakeholders' aims is a process with a steep learning curve. Along with replicable models it requires building trust to lower perceived risk. Here we've highlighted some of the places with the highest ability to meet this incentive's aims along with some that already are. We've provided additional information to help stakeholders find and focus on high impact places with good economic fundamentals. But information is no substitute for the effort of building coalitions and market routines around the type of long-term inclusive growth this incentive can foster.

NEXT STEPS: A FULL-FLEDGED TYPOLOGY

Both authors are of the belief that a place-based understanding like the one we've provided is necessary for making a place-based incentive on the scale of Opportunity Zones work. We believe that a rigorously developed typology of all zones can help establish routine in the market. We're optimistic that such rigor is eminently achievable if well-resourced entities (philanthropies and financial institutions in particular) commit to using this new tool for social benefit. Initially, this work would enable a typology of all 8,762 Opportunity Zones informed by a cluster analysis; ultimately, it would enable an interactive online typology, so that cities, counties, and investors could understand where their Opportunity Zones fit within the national picture.

Achieving the full potential of the Opportunity Zone incentive will require everyone stepping up to lower the rigid barriers of distrust that so often plague community development. We believe the incentive's flexibility is an asset in this process but only when paired with market transparency on small and large scales. In highlighting employment center Opportunity Zones, we hope to have provided additional transparency that will guide the market towards patterns and routines that benefit whole communities.

[i] The law uses the New Markets Tax Credit's definition of Low Income Community. That is, any population census tract where the poverty rate for such tract is at least 20% or in the case of a tract not located within a metropolitan area, median family income for such tract does not exceed 80% of statewide median family income, or in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80% of the greater of statewide median family income or the metropolitan area median family income.

[ii] When we refer to "metropolitan areas" we use the Census Bureau's definition of Metropolitan Statistical Area.