

Record Year for Fundraising Pushes Total Opportunity Zone Investment Past \$34 Billion Federal Program Attracts \$10 Billion, Though Pace Slowed in Fourth Quarter

By Mark Heschmeyer

Investors pumped \$9.68 billion into qualified opportunity zone funds in 2022, bringing the total raised for investing in 8,746 areas federally designated as economically distressed to \$34.09 billion since the opportunity zone program launched five years ago.

Though a single-year record, fundraising started trailing off in the fourth quarter as the national economy weakened, according to data tracked by national accounting and consulting firm Novogradac & Co.

The federal opportunity zone program, created as part of the Tax Cuts and Jobs Act of 2017, is meant to encourage development in areas designated as economically distressed by deferring or eliminating capital gains taxes for commercial real estate investors.

"It's not surprising that investment cooled off in the final quarter of 2022," Michael Novogradac, managing partner of San Francisco-based Novogradac & Co., said in a statement. "Most investment through the opportunity zones incentive comes from capital gains, and we saw a decline in the stock market and the housing market in the second half of 2022. Since those are two of the main creators of capital gains, the drop in [opportunity zone fund] investment makes sense."

That total comes from 1,661 qualified opportunity zone funds tracked by Novogradac, with 1,274 of them reporting a specific amount of equity raised.

Qualified opportunity zone funds tracked by Novogradac at the end of 2022 had an average equity-raised amount of \$26.7 million, but that is disproportionately affected by the number of high-dollar funds. Eight qualified opportunity zone funds tracked by Novogradac have raised \$500 million or more.

The median amount raised by qualified opportunity zone funds is closer to \$4.6 million.

"The median figure highlights the number of [qualified opportunity zone funds] that are focused on one area and often on a single project," John Sciarretti, a Novogradac partner who heads up the company's opportunity zones working group, said in a statement.

Three-fourths of qualified opportunity zone funds are focused on a single city for investment, according to the firm. Multifamily and commercial development continue to be the focus of most opportunity zone investment.

Among the funds that Novogradac tracks and that reported a specific amount of equity raised as of Dec. 31, 374 focus exclusively on residential investment and another 345 have at least some

focus on that sector.

The residential-only funds reported \$6.67 billion in equity raised at the end of 2022, an increase of 35% over the amount a year earlier.

The 719 funds with at least some focus on residential development reported a cumulative \$27.80 billion in raised.

The equity amount raised in 2022 comes on the heels of a reported \$9.24 billion raised in 2021 and \$9.23 billion raised in 2020.