Opportunity Zones Showing Signs of Delivering on Their Initial Promise

While not perfect, Opportunity Zones have made some significant impact.

By Erik Sherman

The bipartisan Economic Innovation Group (EIG) looked at two research papers that examined Opportunity Zones (OZs). Although not perfect — no policy is — the "sharp departure from previous attempts" shows a path that future government actions in the area might model themselves on.

The first paper, Locally Optimal Place-Based Policies: Evidence from Opportunity Zones, by economist Harrison Wheeler, looked at how OZs affected new residential and commercial development.

"Using a novel dataset on the location and timing of new development projects in large U.S. cities, I find that receiving the tax credit increases new development in census tracts by 2.9pp (20.5%). I also find positive spillovers on nearby development," Wheeler wrote. "Both effects are larger in neighborhoods with more available land to develop, more elastic housing supply, and lower home values. Through a model of new development that accounts for location-heterogeneities, dynamics, localized spillovers, and the equilibrium behavior of developers, I find that the policy as implemented had city-wide impacts on new development on the order of 2.7%." However, optimally chosen OZs "would have substantially increased the investment response," meaning there is significant room to improve the results.

The second paper, Use of the Opportunity Zone Tax Incentive: What the Tax Data Tell Us, by David Coyne and Craig Johnson, uses tax records from 2019 and 2020 to analyze the use of OZs. "Our data show that through 2020, investment in OZs was geographically broad, covering each state," they wrote. "Overall, about 48 percent of OZs have received qualified investment through a QOF through tax year 2020. These shares varied greatly across states, with several states with shares above 70 percent, while a couple of states had a share below 30 percent."

There was some bias in choosing locations. Those with higher median household incomes, higher educational attainment, higher house prices, and lower unemployment were more likely to receive investment. Also, areas that showed growth in median household income, population, and housing values while seeing reductions in poverty rates and unemployment were more likely to get investment. In other words, the OZs that could have perhaps most used investment were less likely to receive it. Some adjustments in similar future programs might better serve the social interests that originally resulted in the program.

Some caveats. The older of the two papers — the latest version being November 2022 and the original version from April 2021 — has gone through a period of feedback from a variety of sources. Typically, this means a paper becomes more refined as authors respond to criticism and suggestions. The newer paper from the Office of Tax Analysis in the Department of the Treasury, was first released in June 2023 and could not have been subjected to such outside review.

However, it is also the first look at full data after the final IRS release of Opportunity Zone regulations.

Imperfections aside, as the EIG noted, “the emerging evidence suggests that Opportunity Zones have already achieved a combination of expansive geographic reach, large-scale private investment, and significant economic effects that is unique in the history of U.S. place-based policy.”

Investment reached 3,800 communities, or 48% of the designated OZ areas, between 2018 and 2020. The New Markets Tax Credit (NMTC) took 18 years to reach similar results. The areas receiving investment were “substantially more economically distressed than the rest of the country” and investment by the end of 2020 was at least $48 billion. There was a big increase in commercial and residential development and there were positive spillovers into neighboring communities. Also, OZ designations helped raise home values by 3.4% without accompanying increases in rent.