What are Opportunity Zones? How do they help or hinder housing and community development? Who is the end beneficiary of Opportunity Zones?

Zachary Meagor

Sol Price School of Public Policy: University of Southern California

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Professor Jennifer Thomas

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Opportunity Zones (OZ) are components of the Tax, Credits, and Jobs Act passed in 2017 under the first Trump Administration. Under the second Trump Administration, the One, Big, Beautiful, Bill Act (OBBBA) will heavily modify the Opportunity Zones program. The purpose of Opportunity Zones is to “use tax incentives to encourage private investment in low-income and high-poverty areas” (Lettieri et al., 2025). Investors receive tax benefits for placing unrealized capital gains into special funds called Qualified-Opportunity Funds (QOFs). Each QOF invests all its assets within an Opportunity Zone. These tax benefits incentivize investors to use their own capital and absorb all the risk of investing in low-income communities (Lettieri et al., 2025). The federal government uses census data to identify Opportunity Zones using median family income and poverty rate. The Opportunity Zones program has led to modest or negligible improvements on housing and community development, including business investment and housing production, but investors represent the main beneficiary due to investment growth in OZ communities.

How do Opportunity Zones work?

The 2017 Tax Cuts and Jobs Act created the Opportunity Zones program to support economic development in low-income communities. A census tract qualifies as an Opportunity Zone if it satisfies one of the two following criteria (Lettieri et al., 2025):

1. Median family income (MFI) is below 80 percent of the state (rural census tracts) or metropolitan area’s (urban census tracts) MFI
2. Poverty rate is 20 percent or greater

Around 12 percent, or 8,764 census tracts across 50 states, Washington D.C., Puerto Rico, and four US territories qualify as Opportunity Zones (Tax Policy Center, 2024). Every state's governor designates 25% of OZ-qualified census tracts as Opportunity Zones. For example, 2,479 census tracks in California meet the criteria, and 620 are designated as Opportunity Zones (Lettieri et al., 2025). There is a minimum number of 25 Opportunity Zones in each state. The US Treasury reviews each governor's selection and confirms the final approval.

According to the Tax Policy Briefing Book (2024) written by the Tax Policy Center, the program created three tax benefits for investing unrealized capital gains in Opportunity Zones:

- Temporary deferral of taxes on previously earned capital gains. Investors can place existing assets with accumulated capital gains into Opportunity Funds. Those existing capital gains are not taxed until the end of 2026 or when the asset is disposed of.
- Basis step-up of previously earned capital gains invested. For capital gains placed in Opportunity Funds for at least 5 years, investors' basis on the original investment increases by 10 percent. If invested for at least 7 years, investors' basis on the original investment increases by 15 percent.
- Permanent exclusion of taxable income on new gains. For investments held for at least 10 years, investors pay no taxes on any capital gains produced through their investment in Opportunity Funds (the investment vehicle that invests in Opportunity Zones).

The tax-free growth on new gains from an investment in QOF are available regardless of the time of investment, so long as the investment is held for 10 years or more. However, the first two benefits, the deferral and step-up, result in the greatest benefits for early investors. This decayed benefit structure kept the “cost of the provision low by ensuring that the bulk of deferred tax revenue would be recaptured within the 10-year congressional scoring window” (Lettieri et al., 2025).

Tax incentives can be used in commercial real estate, industrial real estate, housing, infrastructure, business investments, and business start-up funding (Tax Policy Center, 2024). Opportunity Zones allow investors to use their market knowledge, speed, and scale to use their own capital for investments in undercapitalized communities. Eligibility requirements for investments are minimal compared to other federal community development programs such as the New Markets Tax Credit and Enterprise Zones (Lettieri et al., 2025). There are no requirements that multi-family housing real estate be rented to low-income residents, and no requirements that federally backed investment occur when private-market financing is unavailable (Tax Policy Center, 2024).

The majority of capital in QOFs flows into real estate, with a small percentage allocated for business operations within Opportunity Zones. The Office of Tax Analysis found that around two-thirds of QOF businesses were in the real estate, construction, or lodging industries, though this may be underreported due to investment properties spanning various industries (Coyne & Johnson, 2022). Only 3 percent of equity went towards operating businesses, according to a 2023 study by an accounting firm (Sciarretti, 2023). Overall, projects funded by QOFs mostly produce market-rate rental housing, commercial real estate, and industrial real estate (Sciarretti, 2023).

How do they help or hinder housing and community development?

Research on the social impacts of the Opportunity Zone program varies between modestly positive improvements and little to no effects. Government agencies, think tanks, and university studies find varying results based on their economic growth criteria or metrics such as unemployment and poverty rates.

An analysis by the Economic Innovation Group (EIG) compiled multiple studies which show positive effects on housing and general economic growth. For example, the Joint Committee on Taxation estimated $89 billion in private capital investments across 5,600 low-income neighborhoods between 2017 and 2022 (Lettieri et al., 2025). This represents the highest amount of private capital invested in low-income communities over a brief period of 5 years. An EIG paper found that OZ designation spurred a net increase of 313,000 housing units over a five-year period between 2019 and 2024 (Glasner et al., 2025). The net increase indicates that these new housing units would not have otherwise occurred without OZ investments. In addition, investors developed new housing at a low cost per unit, supporting the argument that the OZ program is an effective federal housing policy (Glasner et al., 2025). Lastly, a UC Berkeley paper examined 12,000 census tracts across the country, including Opportunity Zones and non-designated zones, finding evidence that OZ designation stimulated development in and adjacent to those neighborhoods (Wheeler, 2022). The findings also indicate that housing values increased without correspondingly increased rent prices.

However, the Tax Policy Center briefly covered multiple studies which showed a range of social effects. A UC Irvine paper studied the employment rate, employment-to-population ratio, average earnings, and poverty rate for residents in OZ communities, finding "limited evidence of positive effects of Opportunity Zone designation on the economic conditions of residents of targeted neighborhoods" (Freedman et al., 2021). Another paper discovered no evidence of increased business activity or consumer spending. This paper did find that OZ designation led to increased investments in multi-family housing (Corinth & Feldman, 2023). Lastly, an NYU paper measured OZ designation’s effect on employment by comparing the number of new job postings between OZ communities and non-designated communities. The researchers found no evidence of an increase in job postings overall, but neighborhoods with above-average Black populations experienced an increase in job postings (Atkins et al., 2021).

Who is the end beneficiary of Opportunity Zones?

Any individual or corporation with capital gains can create a QOF to invest in Opportunity Zones. Their eligible capital must be provided as equity investment resulting from recently realized capital gains rather than debt (Tax Policy Center, 2024). The typical individual investor is extremely high-income with an average income of $4.9 million (Tax Policy Center, 2024). In the year 2020, investors nationwide benefited from deferring $39 billion of capital gains (Coyne & Johnson, 2022). Multiple studies point to statistically significant increases in property values, especially commercial real estate (Freedman et al., 2021). These proven effects benefit investors most: “measured benefits will accrue to developers and property owners” (Wheeler, 2022).

Although the OZ program aims to promote economic development in low-income communities, studies find that social effects are mostly negligible or unclear. There is evidence that OZ designation and investment leads to increased housing supply, providing more market-rate rental options for residents. In addition, local homeowners benefit from rising home values. However, property investment from QOFs occurs more frequently in less distressed zones, with “investment increasing as the measured level of economic distress decreases” (Coyne & Johnson, 2022). As a result, economic conditions improve in comparatively better-off Opportunity Zones rather than areas most needing investment. Moreover, OZ designation results in “no greater degree of new business formation, new business loans, commercial diversity, or consumer spending than non-designated tracts" (Tax Policy Center, 2024). There were also no effects on employment rates, average annual earnings, or poverty rates (Freedman et al., 2021). More research on wage growth and other economic mobility metrics is required over time to measure social equity improvements resulting from the OZ program.

Changes from One, Big, Beautiful, Bill Act

On July 4th, 2025, President Trump signed the OBBBA which includes significant amendments to the OZ program. Changes include updated census tract qualification criteria, a bigger focus on rural Opportunity Zones, streamlining of the tax benefit structure, and new transparency requirements. First, the OZ program will be permanent with a redesignation cycle of 10 years. Under OZ 2.0, census tracts must have an MFI below 70% versus the original 80% of the state or metro area's MFI (Lettieri et al., 2025). OZ 2.0 will create Qualified Rural Opportunity Funds which receive a 30 percent step-up after 5 years rather than the 10 percent step-up. All investors will receive a standard, five-year deferral accompanied by a 10% step-up (for regular QOFs) on their original investment (Lettieri et al., 2025). The Treasury will be required to issue annual public reports with the number of QOFs, total assets, details on investment sectors, housing units created, employment impacts, and socioeconomic performance of OZ tracts versus non-designated tracts (Lettieri et al., 2025). These changes will take effect on January 1st, 2027.

Conclusion

The Opportunity Zone program channels private capital into low-income communities through tax incentives, but its impact on housing and community development is mixed. While the program successfully attracts billions in private investment and real estate development, much of this growth has favored market-rate housing and commercial projects rather than directly benefiting residents. Empirical evidence suggests that investors and property owners remain the primary beneficiaries, as capital tends to concentrate in less distressed areas with lower risk and higher potential returns. OZs have increased housing supply and modestly stimulated neighborhood revitalization, but their effects on employment, wages, and poverty reduction are negligible. The forthcoming reforms under the OBBBA aim to improve transparency, focus more on rural areas, and establish the permanency of the program. Whether these adjustments better align investor incentives with community needs will determine if Opportunity Zones can further their original purpose of equitable economic growth.

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