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THE FINANCIAL SERVICES AND REAL ESTATE WEEKLY FOR MASSACHUSETTS

HOUSING MATTERS

Realizing the Potential of Opportunity Zones

Investment in Places with the Greatest Need

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SPECIAL TO BANKER & TRADESMAN



It is not news that the Trump Administration was successful in getting the controversial Tax Cuts and Jobs Act of 2017 passed late last year. But tucked inside was something new: a provision for Opportunity Zones. Designed broadly to spur development in poor neighborhoods around the country, it encourages investors to put their money into development projects in needy communities by giving them significant tax breaks.

But the promise of Opportunity Zones is not clear, because nobody yet knows precisely how they will work. The Internal Revenue Service has not provided the details of the initiative, only its broad outlines. But cities, states, developers and, most directly, potential investors are eagerly waiting to see if these can create new opportunity in areas of the country that have been left behind.

The idea is that any taxpayer who has a gain from the sale of an investment anywhere can shelter this liability by putting money into a fund that invests in business enterprises in eligible places. The tax benefits are quite attractive.

First, just by contributing this gain into an Opportunity Fund it delays their tax liability for nine years. Second, if investors maintain their investment for seven years, they get up to a 15 percent discount on the taxes due on this gain. And, most attractively, if they keep their money in for 10 years or more, they will eliminate not only the tax liability on the original gain but also any future gain from the appreciation of any assets that the fund invested in.

The so-called Opportunity Zones are designated by Census tracts, and it was up to the states

to choose them. The Baker Administration asked city officials and other local leaders which areas they thought needed this potential boost, and it picked 138 of them, the maximum allowed. Thirty-two of these are in the 10 communities with the lowest median family income, such as Gateway Cities.

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– Steve Glickman, CEO,
Economic Innovation Group

In Boston, officials are aware of interest by the real estate community, including affordable housing developers. And housing developers are interested in exploring how Opportunity Zones may complement investment vehicles that they already use, like the Low Income Housing Tax Credits or Historic Tax Credits, or replace other tax limiting approaches that help to contain costs overall.

The goal of the program is to stimulate markets that have not traditionally seen this kind of investment. A big concern is that private capital will target communities already on the economic upswing and expedite price speculation and displacement rather than an alternate purpose of stabilizing those markets in most distress.

The city of Boston was particularly sensitive to this danger and as a result sought approval only for districts in places where a city agency, like the Boston Housing Authority or the Boston Planning and Development Agency, controlled property. Thus the city can have more say over how much and what kind of development happens – housing, commercial, retail or a mix of those uses.

Details of the program are now expected to be issued by the IRS in the fall, according to the Urban Institute, a leader on the subject. But it will be up to the local communities to further manage the where and what development happens.

“The Opportunity Zone program has the potential to be the largest community investment program in the country by tapping into the trillions of dollars in capital gains held by private investors to create a new source of economic growth for hundreds of low-income communities across the country,” Steve Glickman of the Economic Innovation Group, which was involved in drafting the legislation, told the industry group Bisnow.

There will be trial and errors along with successes. One important aspect is that the IRS is being encouraged to require detailed reporting of the Opportunity Zones funds and investments that are made and how they are maintained over time. This would give planners, the public and Congress an idea of how well it is fulfilling its purpose.

“OZone” is a catchy new term for a program whose breadth is almost unprecedented. We have an obligation to each other and to those communities left furthest behind to make sure it realizes its promise. ◀

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