The State of Socioeconomic Need and Community Change in Opportunity Zones

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Key Findings Summary

This paper offers a detailed baselining of prevailing social and economic conditions across the country’s Opportunity Zones. It comes as this new policy is just beginning to take shape. The U.S. Department of the Treasury issued the first of draft of proposed rulemaking in October 2018. Many unknowns remain, including some pertaining to fundamental functions of the incentive.

Our goal here is to level-set on the current state of need and change in Opportunity Zones—the federal government’s farthest-reaching place-based economic and community development initiative in at least a generation. The zone designation process led by governors early in 2018 produced a compelling map across which this new policy will play out over the next 10-plus years. While most zones are well within the spirit of the policy, a small share of designations raise legitimate concerns about need-targeting. While it is important to learn from these cases to improve targeting in the future, the outliers should not obscure the fundamental fact that Opportunity Zones are a cohort of places facing enormous socioeconomic challenges.

A survey of the data reveals:

- Opportunity Zones are higher-need across nearly every available measure than both the full universe of eligible tracts and the subset of low-income census tracts that did not receive designation.

- 71 percent of Opportunity Zones meet the U.S. Treasury Department’s definition of “severely distressed.”

- The average designated tract has a poverty rate nearly double the national average. More than one-fifth of all Opportunity Zones have poverty rates of 40 percent or higher, which is true of only around 5 percent of communities nationwide.

- The median family income of the median Opportunity Zone is only $42,400, or 40 percent below the national level.

- Of the 31 million residents of Opportunity Zones nationwide, over 14 million live in communities that saw median incomes decline over the recovery period and nearly 19 million live in ones in which poverty rates rose.

- In an era in which educational attainment is increasingly critical to local prosperity, more adult Opportunity Zones residents lack a high school diploma than have obtained a college degree.

- Minorities comprise a majority of Opportunity Zones residents, and one third of black and Hispanic households are owner-occupied. This translates to 1.4 million minority households who could see their wealth improve as a result of local reinvestment.

- Over 96 percent of Opportunity Zones do not show readily observable signs of gentrification according to two independent, multidimensional measures.

- The ratio of Opportunity Zones losing population compared to those showing signs of gentrification is more than 12 to 1.
Now that the map is in place, the challenge is to ensure the incentive unlocks an effective distribution of the capital across the many different types of places and use cases. That will require successful regulatory implementation, continuous work on the ground to align investor incentives with community needs, and broad-based engagement across public, private, and non-profit sectors.

Introduction

What Are Opportunity Zones?

One of the most bipartisan elements of the 2017 Tax Cuts and Jobs Act was an incentive, dubbed “Opportunity Zones,” designed to boost equity capital investment in low-income communities and regions nationwide. It encourages taxpayers to reinvest their capital gains into Qualified Opportunity Funds, which are special-purpose funds for making qualifying investments that spur new economic activity in designated Opportunity Zones. The policy was intended to both improve access to capital for new and growing local businesses and help revitalize the built environment of designated communities. It is a novel effort to harness the investment returns of the recovery to lift the very people and places the economy has largely left behind in the wake of the Great Recession.

Before examining conditions across these newly designated census tracts, it is worth underscoring why the idea of Opportunity Zones generated broad bipartisan support in the years leading up to its enactment.

Figure 1. Change in the number of business establishments between 2007 and 2016

1. This provision of the tax bill was based on the bipartisan legislation entitled “The Investing in Opportunity Act of 2017,” which had the support of a broad spectrum of policymakers from both parties in both chambers.
While there is much worth celebrating about the strength of the U.S. economy, national statistics are increasingly divergent from local realities. The recovery from the Great Recession bypassed large portions of the map, as we documented at length in the latest iteration of the Distressed Communities Index (DCI). The United States has long struggled to generate growth that lifts its most disadvantaged people and places. The recovery from the Great Recession was notable for vastly expanding the universe of economically struggling and precarious communities beyond that long-standing core. Fully 59 percent of the country’s zip codes and 75 percent of its counties contained fewer business establishments in 2016 than they did in 2007, just before the Great Recession struck. The national decline in business formation has been particularly acute in distressed and at-risk communities. The development equates to fewer employers, fewer innovators, fewer service providers, and a sparser economic fabric holding communities together. The Opportunity Zones incentive, while by no means a panacea, was intended to help turn this tide in marginal communities as well as long-struggling ones.

The recovery from the Great Recession was notable for vastly expanding the universe of economically struggling and precarious communities.

Zone Eligibility, Selection Process, and Typologies

Opportunity Zones communities were certified by the U.S. Department of the Treasury based on nominations by governors, who were allowed to nominate up to a quarter of their qualifying low-income community census tracts (LICs). For a census tract to meet the federal government’s definition of an LIC, it generally must have a poverty rate of at least 20 percent or a median family income (MFI) of less than 80 percent of its metropolitan area’s or state’s median, depending on where the tract is located. The same base criteria are used in another federal incentive program called the New Markets Tax Credit, with which Opportunity Zones was designed to be complementary. Governors were also granted discretion to nominate a small share of census tracts adjacent to LICs if they met certain other criteria—discretion which they generally used sparingly.

Governors used their own analytics, local input from mayors and county officials, existing policy initiatives, and other qualitative factors to determine where this market-based incentive should be put to use. They also considered priorities such as reinforcing economic activity around new transit nodes or rehabilitating old brownfield sites alongside things like the location of startup incubators and recent plant closures or mass layoffs.

Requiring governors to down-select to only a quarter of their eligible LICs was a recognition that this particular incentive isn’t the right tool for every low-income community. The incentive is not a tax credit, and therefore not structured as an up-front subsidy to investors. Instead the bulk of the tax benefit comes on the back end when investors exit their Opportunity Fund investments a decade or longer down the road. And, while the scale and versatility of investment through Opportunity Funds could be much greater, this mechanism does not provide as deep a subsidy as analogous tax credit programs. On its own, in other words, it will not close the financing gap for every local need. This helps explain why Congress advised governors to carefully consider low-income areas in which existing public, private, or philanthropic efforts could be made more effective with a new source of equity
capital coming in alongside. It is designed to be a force-multiplier. Additionally, lawmakers believed that this particular type of place-based policy required qualitative local insights to be layered on top of federally-mandated eligibility benchmarks in order to be effectively targeted to the right local environments.

Lastly, governors are accountable to their citizens and communities. Placing the more qualitative elements of the selection process at the state level not only made governors and their local partners responsible for their nominations, but also gave them a greater stake in zones' success than if the designations had been foisted upon them from afar or determined by a blind quantitative standard. Local commitment and co-investment will be essential in maximizing the impact of this federal tool.

The selection process yielded a wide array of designated communities and economic areas, just as Congress intended. States generally nominated diverse assortments of places containing a mix of local needs, investment opportunities, and anchor institutions. Governors included a range of typologies, from central business districts in struggling cities in the industrial heartland to historic downtowns in micropolitan communities; emerging innovation districts to rural manufacturing sites; communities with a scarcity of adequate and affordable housing to those with a glut of brownfields in need of rehabilitation.

### Evaluating Socioeconomic Need in Selected Communities

Governors generally went further in targeting high-need areas with their selections than required by statute. In fact, across seemingly every available measure, Opportunity Zones demonstrate more need than both the full universe of eligible LICs and the subset of LICs that did not receive an Opportunity Zones designation.

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*Meet the Average Opportunity Zone*

The average Opportunity Zone (excluding U.S. territories) has a 29 percent poverty rate according to the latest data available at the time of nomination—nearly twice the national rate. More than one in five zones has a poverty rate over 40 percent, compared to just over one in eight LICs and one in 20 census tracts nationwide. The MFI of the average Opportunity Zone is $42,400, nearly 40 percent lower than the national median of $67,900. The MFI of the median Opportunity Zone is even lower at $40,800, only three-fifths the national level. Fully 86 percent of zones that did not qualify on the poverty rate—including non-LIC “contiguous” tracts—have an MFI below the national average. In total, 56 percent of zone residents are non-white minorities.

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2. The U.S. Census Bureau’s American Community Survey’s 2012-2016 5-Year Estimates were the latest available dataset at the time of nomination. Five-year estimates compile data observations from the entire five year window and package them into a single summary statistic for the full time period. Five years’ worth of data collection is required to build sample sizes sufficient to provide estimates for fine-grained geographies such as census tracts. All data points presented in this brief are derived from the 2012-2016 estimates or, if they report change over time, the difference between that period and the 2007-2011 estimates (the first available through the American Community Survey).
All together, 71 percent of zones qualify as “severely distressed” on the U.S. Treasury Department’s Community Development Financial Institution (CDFI) Fund’s classifications, which generally means a poverty rate of 30 percent or an MFI no greater than 60 percent of the area benchmark. Across the full universe of LICs, only 59 percent are considered severely distressed—meaning Opportunity Zones pull disproportionately from the neediest class of places the federal government tracks.

The socioeconomic challenges affecting these communities extend far beyond poverty and income. Opportunity Zones perform poorly across a variety of other metrics such as education levels, housing vacancy rates, and life expectancy (see Figure 3). Educational attainment is dismal; more adults lack a high school diploma (4.4 million) than have a college degree (3.4 million). In total, 5.7 million prime age adult residents are not working, comprising a significant share of the
overall Opportunity Zones population of 31.4 million residents. And prime age worklessness became more severe in 39 percent of zone between the 2007-2011 and 2012-2016 periods. The 12 percent housing vacancy rate across zones equates to over 1.6 million vacant units. Hyper-vacancy is not uncommon, with at least 20 percent of homes uninhabited in more than 15 percent of designated communities. Minorities comprise over half of the population in 56 percent of designated census tracts—the kinds of places chronically underserved by financial markets. Perhaps most jarringly, life expectancy is on average three years shorter for zone residents than it is nationally and four years shorter than it is for non-zone residents (not depicted in Figure 3).

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**Baselining Socioeconomic Change Across Opportunity Zones**

In spite of generally strong need-targeting, much of the commentary on Opportunity Zones has focused on the presence of or potential for gentrification in the designated communities. This has been fueled by a small share of outlier tracts among the designations that do not reflect the spirit or intent of the policy. While important to scrutinize subpar or outlier designations, it is equally as important to be clear that they are not representative of the vast majority of the Opportunity Zones map.

To advance the debate, here we attempt to offer a reasonable quantitative assessment of the scale of gentrification (a term we embrace only reluctantly, given its nebulousness) across the country’s Opportunity Zones.

**Measuring Community Change**

While there is no single definition of gentrification, most observers would agree it involves the following dynamics:

- It is an urban phenomenon;
- It involves above-average population growth;
- It is driven by an influx of above-average earners;
- It takes root in neighborhoods with high poverty rates;
- It includes a rising share of non-Hispanic white residents.

Accordingly, using American Community Survey 5-Year Estimates for the 2007-2011 and 2012-2016 periods, we then identified potentially-gentrifying census tracts as those:

- In central counties of metropolitan areas;
- With population growth at least twice the national rate (7.8 percent or higher);
- With median family incomes growing at least twice as fast as nationally (11.1 percent or higher);
- With initial poverty rates at least 1.5 times the national level (21.5 percent or higher in 2007-2011); and,
- In which the non-Hispanic white share of the population is increasing.  

3. We include this criterion to approximate popular understanding of gentrification, but, in reality, gentrification is often a more nuanced process in which neighborhoods become more diverse, as a single-group, single-income class enclave becomes a neighborhood more mixed across racial, ethnic, and income lines. See for example Lance Freeman, “Neighborhood Diversity, Metropolitan Segregation, and Gentrification: What Are the Links in the U.S.,” Urban Studies, Vol. 46, Issue 10, 2009.
These steps filter out over 96 percent of Opportunity Zones, leaving only 291 Opportunity Zone census tracts out of a total of 7,826 that show the characteristics commonly associated with gentrification. Together they comprise 3.7 percent of all designated zones—roughly one in every 27 tracts. In total, not only are gentrifying Opportunity Zones scarce, governors passed over far more (523) of these tracts than they nominated.4 New York is home to the largest number of Opportunity Zone tracts that exhibit the common signs of gentrification (37 of its 514 zones), followed by California (34 of its 879 zones) and Texas (27 of its 628 zones). Twenty-five states nominated two or fewer tracts showing signs of gentrification, and 10 states had none.

Figure 4. Potentially gentrifying Opportunity Zones’ share of totals

The tracts flagged in our analysis contain a proportional share of total zone population, 3.7 percent, along with 5.1 percent of all zone business establishments, and 6.2 percent of all zone jobs. These figures signal that flagged tracts are more likely to be commercial or employment centers than purely residential neighborhoods. And it is important to note that, as defined above, signs of gentrification alone are not proof of mistargeting or dispositive of whether the incentive can be put to effective use. Governors may have had sound reasons for nominating some of these tracts, including to build on modest momentum or to turn fragile recoveries into something more durable.

Important Caveats

Understanding community change is more than a quantitative exercise. Simply showing the statistical signs of gentrification does not mean that a community is on some inevitable upward trajectory, or that it already enjoys robust access to private capital. Three flagged zones from different communities show why. Tract 42101010800 in the Belmont and Mantua neighborhoods of West Philadelphia lies a short walk from the booming University City corridor, but, with over a quarter of all homes vacant and an MFI of only $23,750, any modest progress of recent years has still left plenty of unfinished business. Similarly, severely distressed tract 26163518900 encompasses the Eastern Market neighborhood in Detroit. A public-private partnership began restoring parts of the market a few years ago, and the emerging cluster of entrepreneurs associated with it would seem very appropriate targets for Opportunity Zone investment to help their businesses scale from a Detroit base.

4. For comparison, the share of total eligible LICs that showed signs of gentrification was 2.5 percent. Governors thus selected very few tracts showing signs of gentrification but slightly more than if zones had been allocated blindly.
Finally, tract 17031540101 covers the Altgeld Gardens neighborhood on the south side of Chicago and highlights the limits of a quantitative approach to parsing gentrification. This neighborhood is a residential island surrounded by abandoned manufacturing plants, steel mills, landfills, and waste dumps. Former President Obama worked here in his early years as a community organizer. Its recent income growth came off of an abysmally small base; MFI now stands at only $17,000. Life expectancy is only 68—a full decade shorter than the national average. If new investment arrives thanks to Opportunity Zones (and public or philanthropic support would help ensure it does), it is more likely to come in the form of apartment block refurbishments or basic amenities, such as grocery stores or childcare centers, than it is luxury condos.

Different Measure, Similar Results

An independent and unrelated analysis conducted by the nonpartisan Urban Institute likewise concluded that gentrification was rare in Opportunity Zones at the time of nomination. Using a different methodology, Urban’s scholars found an almost identical number of designated census tracts, 284, “experienced high levels of socioeconomic change” between 2000 and 2016. Here again, over 96 percent of Opportunity Zones get filtered out. Their measure incorporated four elements of change: residents with a bachelor’s degree or higher, median family income, the share of non-Hispanic white residents, and local housing burden.

Similar to our analysis, the tracts flagged by Urban’s measure include worthy candidates for an incentive designed to bring new investment to struggling areas. One such example is tract 13121011800 in the English Avenue neighborhood in Atlanta, where more than one-third of homes remain vacant, life expectancy is 9 years shorter than the national average, and past revitalization efforts have consistently come up short. A relatively new student apartment block in the northernmost corner of the tract may help push the poverty rate above 50 percent (and may well be the driver behind the socioeconomic change captured in Urban’s analysis), but the number of boarded up homes and empty parcels woven throughout the neighborhood confirm that the tract—literally on the wrong side of the railroad tracks from Georgia Tech University—continues to struggle.

These two independent and multidimensional analyses allow us to put to rest the idea that rapid and disruptive socioeconomic change is a common reality in Opportunity Zones. Even assuming these studies underestimate the incidence of gentrification by 25 percent would mean that fewer than 5 percent of Opportunity Zones, or under 1 in 20, showed signs of gentrification at the time of nomination. And we can further conclude that the simple fact of statistically significant changes should not disqualify an area from receiving the benefits of new investment in local businesses, housing, and commercial projects. In many such communities, recent progress is only partial, often fragile, and would be buttressed by follow-on investment that can turn a few isolated green-shoots into a durable revival.

Absorptive Capacity

Of course, past gentrification is only part of the concern. Some worry that the Opportunity Zones incentive will cause rapid changes in currently non-gentrifying neighborhoods in the years ahead. A couple points are worth noting here. First, the best estimates we can conjure for the future scale of the phenomenon are its past and present scale, which suggest that the issue is likely to apply to a very small—but non-negligible—share of zones.
Second, gentrification is most concerning as a precursor to the potential displacement of existing residents as prices and land values rise, so it is important to assess the absorptive capacity of the market for new construction and investment. For example, of the 291 tracts identified on our measure, 103 have housing vacancy rates below the national average of 8.2 percent (101 on Urban’s measure). Municipal leaders in these Opportunity Zones—as well as ones close to a tipping point of local renewal—should carefully monitor the market and make sure that their own policy toolkit is deployed to alleviate any potential price pressures on long-time low-income residents.

At the same time, a satellite tour of many struggling urban neighborhoods in the United States today reveals an alarming number of vacant parcels, abandoned properties, and asphalt expanses providing no higher economic purpose than parking. After decades of disinvestment spurred in part by failed “urban renewal” policies, most low-income areas in our cities have untapped capacity to put new capital to good use weaving the fabric of their communities back together with few near-term downsides.

Critiques of Gentrification and Need-Targeting in Opportunity Zones

Given the emotionally and politically charged nature of the term, any analysis of gentrification calls for a healthy dose of caution. Press coverage often broadly—and mistakenly—applies notions of gentrification forged in New York or Washington, DC, to any discussion of community revitalization. But such concerns are simply not relevant to places like Akron, South Bend, and Hartford, where rekindling private investment is the first-order priority. Outside of the booming metropolises, invoking the term gentrification is more often counterproductive than helpful: Most U.S. cities are managing scarcity, not gluts of capital.

The Perils of Proxies

One commonly-cited study by scholars at the Brookings Institution used house price appreciation from 2012 to 2016 as a proxy for gentrification in Opportunity Zones. The authors considered any census tract that fell into the top quarter statewide over that period to be gentrifying. They then compared the share of a state’s Opportunity Zones that fell into that gentrifying quarter to the share of tracts that were eligible but not nominated that also fell into the top quarter. They found in most states a higher-than-proportional share of Opportunity Zones came from the top quarter of tracts on this measure.

The concept of gentrification is fundamentally understood as urban in nature.

We have a number of qualms with the methodology and assumptions underpinning this analysis. First, it relies on a single metric that is simply not synonymous with gentrification to examine the complex phenomenon. Second, rates of change can be unintentionally misleading when baselines differ (e.g., if home values are extremely low, a small absolute increase translates into a large statistical change). This bias is somewhat unavoidable, but it amplifies the danger of relying on a single metric. Third, while the concept of gentrification is fundamentally understood as urban in
nature, the analysis did not control for whether a tract was urban, rural, or suburban (each is a distinct housing market with many different forces potentially driving price changes). Nor did the analysis consider demographic or population dynamics, both of which are critical components of the socioeconomic change at the heart of gentrification.

Rural Gentrification?

To understand why home value appreciation is a poor proxy for gentrification, let’s take a close look at Mississippi, Iowa, and Nevada, the three states with the largest shares of “gentrifying” Opportunity Zones per the Brookings analysis.

Mississippi is the poorest state in the country, with an average median owner-occupied home value of $103,600 across all census tracts, low-income and otherwise, compared to $231,700 nationwide. A whopping 40 percent of the state’s zones were flagged as “gentrifying.” But, in replicating the analysis, we found that nearly two-thirds of those tracts were completely outside of metropolitan areas. Furthermore, almost half of the state’s allegedly gentrifying rural or small town Opportunity Zones actually lost residents over the periods studied, while average population growth across the entire group was a paltry 0.4 percent. Any definition of gentrification broad enough to include such corners of Mississippi is simply too broad.

A similar story plays out across Iowa, which ranked second on the study’s gentrification measure. Twelve of its 19 flagged zones were rural (and predominantly white). The median home value in the average one of these tracts was $82,130. The average vacancy rate was 14 percent. The average population growth between 2007-2011 and 2012-2016 was in fact a loss of 5 percent. These are not gentrifying places and would have been filtered out by a more multifaceted measure.

In Nevada, meanwhile, it is difficult to make much sense of housing data given the state’s position at the epicenter of the housing market crash that precipitated the financial crisis. Based on data from the Census Bureau, home values actually declined in 86 percent of census tracts statewide over the study period (from 2007-2011 to 2012-2016) and by an average of 4 percent across the state’s Opportunity Zones. Against the backdrop of widespread depreciation, it is not clear what landing in the top quarter of tracts on this measure actually tells us. The local needs seem clear enough. During the 2012-2016 period, the average poverty rate in Nevada tracts flagged as gentrifying on this measure was 33 percent and the average MFI only $36,000. The vacancy rate was 20 percent. Rents, for their part, actually declined by 8 percent over the period in the average tract in this group. Claims of gentrification are hard to sustain when the data show already poor neighborhoods are becoming more affordable, not less.

5. While limited methodological information was published in the report, we attempted to replicate the analysis using data from the Census Bureau’s American Community Survey’s 5-Year Estimates for the 2007-2011 and 2012-2016 periods, relying on the “Median Housing Unit Value for Owner-Occupied Units” variable. Census Bureau strictures against comparing overlapping 5-Year Estimates mean this is the only pair of time periods we can credibly compare.
Gentrification aside, the Brookings scholars affirm that states selected more disadvantaged tracts across a range of individual indicators than the tracts they did not select. To further examine need-targeting, they constructed an index of poverty rates (adjusted for university residents), child poverty rates, educational attainment, home prices, and family incomes. They then examined what percent of nominations came from the bottom quintile (most distressed) of census tracts on that index.

In fully 37 states, more than 50 percent of designated tracts came from the neediest quintile on Brookings’ measure, with 11 states exceeding 70 percent. Thus, the majority of zones in the vast majority of states are not only low-income communities, but also fall within their state’s most distressed quintile of census tracts when considered through a more detailed measure of economic need than poverty and income alone. Here, we should note that upwards of 40 percent of all census tracts were eligible LIC tracts in most states, giving governors the latitude to choose across a broad spectrum of low-income or high-poverty places. This is worth underscoring. During the selection process, some observers worried that states would use their authority to explicitly avoid deeply distressed areas. The Brookings analysis generally reveals the opposite. One could argue that need-targeting in some states should have been deeper (as the authors themselves do), but states were usually far more aggressive in targeting distressed areas than required.

Looking more closely, the seven states flagged by Brookings for nominating the smallest proportion of census tracts from their bottom quintile also happened to be the seven poorest states in the country based on median household income. They may not have nominated their most distressed census tracts, but almost across the board their zones are more distressed than national baselines, which would seem a fairer comparison. The playing field would be much less level if the most disadvantaged states were required to put forward far more disadvantaged census tracts than their more prosperous peers.

Figure 5. Opportunity Zone summary statistics for the seven lowest-income U.S. states
Regardless, even the states that performed worst on this criterion nominated many extremely needy tracts. In Mississippi, where over 60 percent of all census tracts in the state were eligible, 30 percent of Opportunity Zones came from the most distressed tier on the Brookings measure. In New Mexico, where half of all tracts were eligible, 40 percent of zone designations came from the bottom tier. Again, in states with such large shares of eligible tracts, these outcomes were by no means inevitable, and they are a reminder that governors used a qualitative lens and sought local input to distinguish actionable tracts from the merely eligible. In evaluating state designations, it is important to remember that the Opportunity Zone incentive is not a block grant program or guaranteed subsidy to selected areas. It will likely deliver best in underperforming places where a marginal tax benefit is sufficient to unlock or expand investment—not in places where distress is so severe and local assets so scarce as to provide no basis for market interest. As noted above, optimal tracts must combine local need with at least some meaningful untapped market opportunity. The incentive may simply not be the right policy lever for pockets of Appalachia and the Deep South with the country’s most severely entrenched poverty—but it may be just the right one for Wheeling, West Virginia, and down-but-not-out corners of Jackson, Mississippi. The authors themselves acknowledge as much in other commentary:

Of course, by focusing on data available from the Census Bureau, we leave a lot of local or more recent knowledge untapped. There are other reasons to select zones, like state and local development priorities and the desirability of areas for investment and development. So it’s not surprising—and not necessarily a sign of failure—that states didn’t confine their picks to their worst-off places.

There is a key distinction between the questions of whether targeting generally succeeded within the spirit of the law, on the one hand, and whether there may still be room for improvement, on the other. On the latter point, elements of the Brookings study are quite strong. There is no disputing that targeting was imperfect and the zone nomination process could be improved upon. The authors propose several ideas that could be adopted in future iterations of the policy, as well as a number of sound suggestions on how to measure, track, and evaluate outcomes in Opportunity Zones. One thing everyone can agree on is the need to learn from this new policy experiment, and for that data are essential.

Understanding Displacement and Decline

Unfortunately, it is almost a natural law in the United States that poor communities tend to stay poor or get poorer over time. Gentrification is relatively rare, and displacement due to gentrification is rarer still. In contrast, stagnancy and decline are pervasive in low-income neighborhoods. One recent study found that persistently poor neighborhoods across the country’s 50 largest metro areas lost

more than 40 percent of their populations between 1970 and 2010. Gentrification may generate the headlines, but concentrated poverty and community decline are more prevalent realities and the more powerful engines of displacement.

In his recent book, *The Divided City*, Allan Mallach examines urban transformation—or lack thereof—across the country’s industrial heartland and brings the reality of decline versus the narrative of resurgence into stark relief. The same story repeats in city after city. In Indianapolis, for example, he found that five census tracts adjacent to downtown saw significant reinvestment from 2000 to 2014. At the same time, over 60 low- and middle-income census tracts fell from stagnation into decline just beyond the urban core. In Baltimore city, four people live in a declining neighborhood to every one who lives in a rebounding one. In Pittsburgh, a regional success story of economic reinvention, only eight of the city’s more than 100 low- or moderate-income census tracts show signs of robust revitalization.

Figure 6. Comparing decline and resurgence across Opportunity Zones

The same dynamics of decline pervade the new map of Opportunity Zones in proportion to other LICs not designated. In total, 44 percent of zones lost population between the 2007-2011 and 2012-2016 periods—ostensibly an era of economic recovery, at least at the national level. Over 14 million residents live in zones that saw median incomes decline. Nearly 19 million live in the 59 percent of zones that saw poverty rates rise between the same periods. The ratio of Opportunity Zones losing population to those showing signs of gentrification is nearly 12 to 1.

Even when gentrification does occur, it is not necessarily synonymous with displacement.\(^7\) Research by Lance Freeman of Columbia University finds that the poverty rate in a neighborhood can plummet from 30 percent to 12 percent in a

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8. This study is based on trends in New York City in the 1990s. While the present day context differs substantially, subsequent research (much of it cited earlier in this report) does not yet provide any reason to believe that the basic relationship has changed.
decade and not produce any displacement at all—a highly relevant finding for Opportunity Zones, where the average poverty rate is 29 percent. Freeman and others actually find that long-term residents of gentrifying neighborhoods are less likely to be displaced than those in non-gentrifying ones. This counterintuitive finding is explained by the fact that declining neighborhoods push people out, whereas rebounding ones draw them in. Investments in new businesses, housing, and the built environment often bring and significant improvements in well-being for residents of communities where the status quo is a source of instability. While not universally applicable, the literature on displacement helps to put concerns about the potential effects of gentrification in Opportunity Zones into context. Opportunity Zones is still in its infancy, but it could soon prove to be a powerful tool for inclusive growth. Affordable housing providers have been among the most eager first-movers to establish Opportunity Funds and stand up the new ecosystem this year. In some markets, Opportunity Fund financing has already started to fill in some of the gaps in Low Income Housing Tax Credit capital stacks.

If successful in rekindling market forces in designated neighborhoods, the Opportunity Zones incentive could also help close the racial wealth gap, which runs straight through the housing market. Recent research from Andre Perry, Jonathan Rothwell, and David Harshbarger finds the market has historically devalued African-American neighborhoods by approximately $156 billion in current dollars. One-third of all black and Hispanic households in Opportunity Zones are owner-households. That is 1.4 million historically-disadvantaged minority families whose wealth could get a boost if this policy succeeds. By increasing access to capital for entrepreneurs, Opportunity Zones can help empower the next generation of business owners in minority communities too.

None of this means we should disregard concerns about gentrification and the potential displacement of long-term residents in revitalizing neighborhoods. Neighborhood reinvestment can be disruptive, especially to low-income renters. The risk of displacement is very real for those who live it. Yet private capital must be part of any lasting effort to seed a renaissance in struggling communities. There is simply no substitute for proactive local leadership in managing any potential downsides of neighborhood change that emerge in the process. As community development experts from the San Francisco Fed concluded after a comprehensive survey of the academic literature: There is nothing inevitable about displacement in the course of reinvestment. It is a solvable challenge.

**The Map is Set—What Next?**

Having established that Opportunity Zones contain relatively few “already gentrifying” communities, one common critique is left standing: even if their numbers are small, the gentrifying tracts will capture the bulk of new investment.

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9. The value of the Low Income Housing Tax Credit was diminished by the lower tax rate and other features of the TCJA.
This argument reveals the same myopia that Opportunity Zones were meant to address in the first place. Investors are subject to the same fallacies, herd-mentalities, and information gaps as the rest of us. Take venture capital, more than three quarters of which goes to a mere three states each year, and the overwhelming majority of which is invested in white male founders. Is that a reflection of true market potential? Of course not. Likewise, gentrifying communities have no monopoly on high-potential entrepreneurs. They have no monopoly on the potential to create vibrant, livable, inclusive places. Nor do they, especially in light of this new incentive, have a monopoly on returns to investment. Critics are too quick to dismiss the untapped potential of overlooked communities.

Instead, even without important regulatory clarity that will determine the ultimate scale and scope of the policy’s impact, Opportunity Zones have begun changing investor assumptions and behavior. Opportunity Funds are preparing to finance much more than housing: solar farms, urban agriculture, and biosciences facilities, for example. Financing through the incentive will finally make key brownfield redevelopments pencil out. Public and charter schools alike are trying to figure out how the capital can modernize facilities. Forthcoming regulations will decide whether the incentive is biased towards real estate or whether Opportunity Zones capital will finance promising entrepreneurs and hard-working business owners to the full extent that Congress intended. Opportunity Zones is such a flexible tool and we are so early in the implementation process that it is very difficult ex ante to speculate about what it will catalyze over the next 10 years. Common frames of reference—the Low-Income Housing Tax Credit or New Markets Tax Credit, for example—simply do not fit.

The potential of Opportunity Zones stems directly from that flexibility. If implementation succeeds, a diverse range of entrepreneurs, projects, and developments will be financed through the incentive in different places. The investor ecosystem will look different from one community to the next. There will be no one model of Opportunity Zone investing, just as there will be no one standard of Opportunity Zone success at the local level. That means that experimentation is vital. We do not yet know what type of local contexts and institutional environments will be most successful at eliciting the most catalytic forms of investment. On the back end, good data and measurement will help us identify the recipes that worked best. On the front end, though, we need as many different groups piloting as many different models as possible.

Economic and community development in the United States has been reinvigorated by the swell of local organizing around Opportunity Zones. Mayors have been some of the most enthusiastic in stepping up. Community behavior is changing alongside that of investors. Planning has become more strategic as public, private, and civic
sectors cooperate on long-term development strategies. Early movers also seem to recognize that the solutions that will transform capital into impact are local, and that they have considerable work to do to ensure this incentive delivers.

The federal government sent an important signal with the recent executive order establishing the White House Opportunity and Revitalization Council, which will seek to coordinate federal investments into struggling communities. It is rightly grounded in the premise that private capital will be most impactful in places where a suite of complementary public sector initiatives and investments are at work alongside.

Critics are too quick to dismiss the untapped potential of overlooked communities.

Demand for place-based policy is high. Even the most classical of economists are warming to it, thanks to a growing sense that the health of our economic and political systems depends upon finding solutions to stark regional divergences. Opportunity Zones is not an incremental pilot program. It is a bold policy with ambitions commensurate to the need that is clearly visible across our society. Yet it is not a panacea.

In the end, critics and supporters alike ascribe more power to this incentive than it rightly deserves. Opportunity Zones is merely a tool. It is neither a strategy on its own nor a solution for every challenge facing low-income communities. Likewise, neither catalytic investment nor inclusive outcomes are guaranteed in designated communities. Accomplishing both will require networks of leaders and stakeholders across public, private, non-profit, and philanthropic sectors to all join the fray. We hope this paper motivates and informs all such groups and individuals to do so.
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