



ECONOMIC
INNOVATION
GROUP

Opportunity Zones 2.0

*U.S. Conference of Mayors
Winter Meeting*

Catherine Lyons
Senior Director of Policy and Coalitions

January 29, 2026



Review:
What are OZs and what is their impact to date

What are Opportunity Zones? A refresher

- With broad **bipartisan** heritage, Opportunity Zones were first integrated into 2017's TCJA and reformed and made permanent through 2025's OBBBA.
- Opportunity Zones currently provide a series of **federal capital gains tax incentives** for qualifying investment into qualifying low-income communities.
 - **Deferral:** Delay taxes on any capital gain rolled into an Opportunity Fund.
 - **Step-up:** Adjusted basis for calculating the tax owed on that deferred gain.
 - **Exclusion:** No tax liability on qualifying investments held in OZs for 10+ years.
- Investments must be **patiently held** and **economically additive**.
- **Governors** are called on to designate 25% of their low-income census tracts as Opportunity Zones, with the map in place for 10 years.
 - At present, there are 8,726 OZ census tracts spread across every state and territory.*

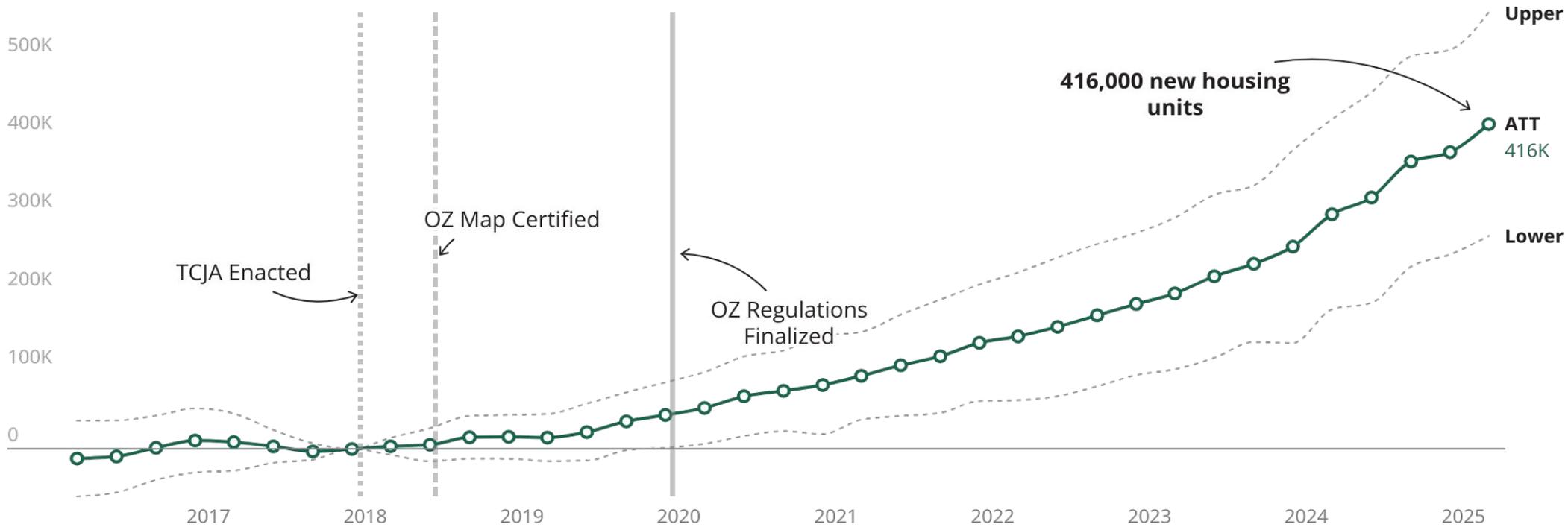
OZ Key Facts

The limited data we have testify to the policy's significance

- ✓ OZs have unlocked more than **\$100 billion** in qualifying equity investment.
- ✓ More than **three-quarters** of all designated OZ tracts have seen investment.
- ✓ The average OZ census tract has a **28% poverty rate** and **median household income** that is only **59%** of the national level.
- ✓ OZ designation produced **large and immediate** development effects, with early evidence pointing to meaningful increases in **housing, jobs, and businesses**.
- ✓ OZ communities experienced **larger improvements in poverty, incomes, and vacancies** than their peers.
- ✓ OZ have **positive spillover effects** on development activity in neighboring areas.

The OZ policy caused the creation of more than 416,000 new housing units through Q1 2025.

Opportunity Zones' effect on the count of residential active and vacant addresses



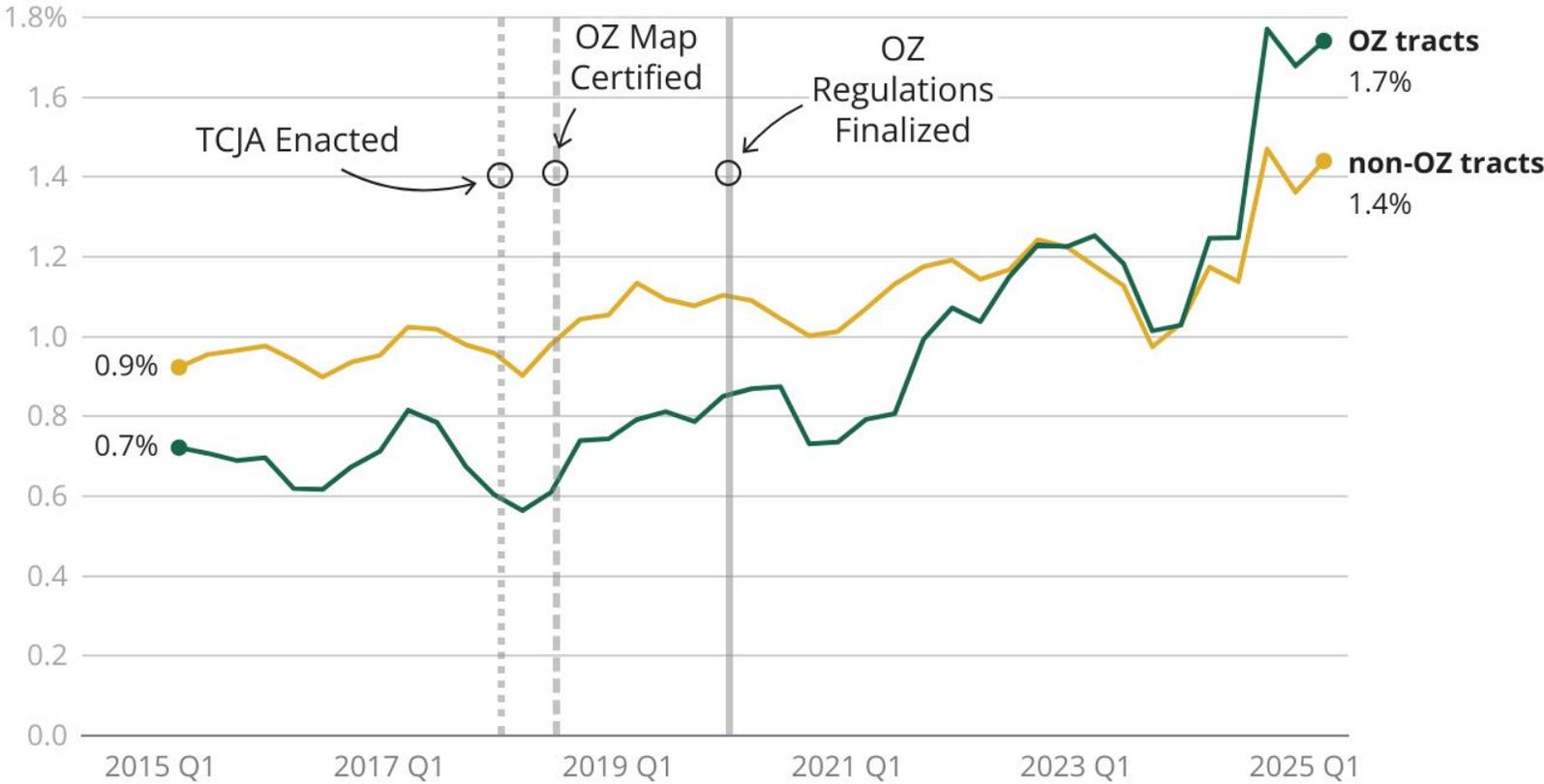
Effect estimates and a 99% confidence interval. Data comes from the HUD Aggregated USPS Administrative Data on Address Vacancies. Regression Results from the Callaway and Sant'Anna difference-in-differences (CSDID) approach, with a universal base period. Using data defined at the 2020 Census tracts level which we then cross walked back to 2010 boundary definitions. The results include conditional parallel trends accounting for the tract's poverty rate, median household income, the share of a tract's housing stock that are defined as solo and detached, and an index on local zoning regulation. The comparison group are defined using a doubly-robust estimator selecting from all un-selected and ineligible non-bordering census tracts.

Source: HUD Aggregated USPS Administrative Data On Address Vacancies

OZ are proving to be one of the most powerful supply-side federal housing incentives in generations.

Annual growth rate in housing units, Q1 2015 to Q1 2025

Using 2020 standardized data crosswalked to 2010 census tract boundaries



The **growth rate** in new housing units in Opportunity Zones **more than doubled** after designation — without taking away from other tracts.

Source: Economic Innovation Group analysis of HUD Aggregated USPS data

Looking forward: What you need to know about OZs 2.0

OZ 2.0: What's new

- ✓ **Incentive structure.** Changes will result in a smoother, more predictable flow of investment.
- ✓ **Rural provisions.** Significant added tax benefits for rural investments will likely influence behavior.
- ✓ **Zone eligibility and designation.** Stricter targeting criteria will produce a narrower map.
- ✓ **Reporting and transparency.** A robust data collection and publication regime will demystify OZ investment.

Incentive structure

OZs offer three capital gains tax benefits:

- ✓ **Deferral** of taxes on any capital gain rolled into a qualified Opportunity Fund
- ✓ **Step-up** in basis on those deferred gains once the tax comes due
- ✓ **Exclusion** of any gain on investments made in OZs and held for at least 10 years

New changes allow for **rolling deferrals** and a **fixed step-up**.

- Investors can roll recently realized capital gains into an Opportunity Fund at any point and benefit from a **standard 5-year deferral** and **10% step-up in basis**.
- This will smooth investment over time, avoiding the cliffs from OZs 1.0.
- New provisions come into effect January 1, 2027.

Rural provisions

Investors into a special class of Qualified Rural Opportunity Funds (QROFs) benefit from

- a stronger **30% step-up** (compared to the new 10% standard) and
- a lower **50% substantial improvement** threshold (instead of the standard 100%)
 - The lower improvement threshold came into effect immediately.
- QROFs must hold at least 90% of their assets in qualifying OZ investments in rural areas.
- The definition of rural is complex and requires further guidance from Treasury to parse.
 - The statute reads that rural areas are those outside of cities or towns with more than 50,000 inhabitants or any urbanized area contiguous and adjacent to such places.

EIG's read: These benefits are likely to increase rural OZ investment significantly.

Special note: Rural areas tend to host a wide mix of OZ use cases, incl. industrial and commercial.

Governors may wish to take anticipated investor interest in rural opportunities into consideration when designating zones (although rural areas were not underrepresented in 1.0)

Zone eligibility and designation

Decennial zone selections

- New investment maps will be set every 10 years starting January 1, 2027
- The 1.0 map will still be in effect for the first two years of the 2.0 map (until December 31, 2028)
 - *Key date: the 90-day window for new zone designations will kick off July 1, 2026.*

Eligibility criteria

- **Poverty rate** remains at 20%
 - However, tracts qualifying on poverty must have a median family income *below* 125% of the area benchmark.
- **Median family income** falls from 80% of the area benchmark to 70%.
 - This reduces the number of eligible tracts and future OZs by >20%.
- No special treatment for **Puerto Rico**; no **contiguous** tracts

As before, **governors nominate 25%** of their qualifying tracts as OZs, with a 25 tract minimum.

Reporting and transparency

The reporting, data collection, and transparency regime long sought after is now in place.

Opportunity Funds will provide detailed project-level information to the IRS:

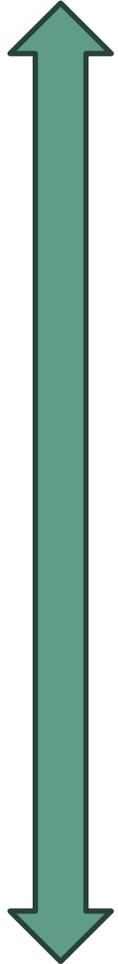
- New fields include housing units created, job estimates, and affordability measures

IRS/Treasury will provide detailed tract-level data to the public:

- **Annual** reports on QOF numbers and assets, investment across industries, tracts with confirmed investment, and tract level detail on the amount of investment, housing, and jobs.
- **In years 6 and 11** a report on **outcomes** from the incentive across **poverty, new business starts, employment, and other economic indicators**.
 - Complete with comparisons to peer tracts.

EIG's take: These requirements will make OZs among the most transparent tax incentive programs ever and truly raises the bar for policy evaluation.

Timeline



July 4, 2025: OBBBA signed into law; rural substantial improvement provisions in effect

January 1, 2026: New reporting provisions come into effect for Opportunity Funds and investors

July 1, 2026: Governors' 90-day window to designate new OZs opens

December 31, 2026: End of OZs 1.0 deferral window

January 1, 2027: OZs 2.0 provisions in effect. OZs 2.0 map activates

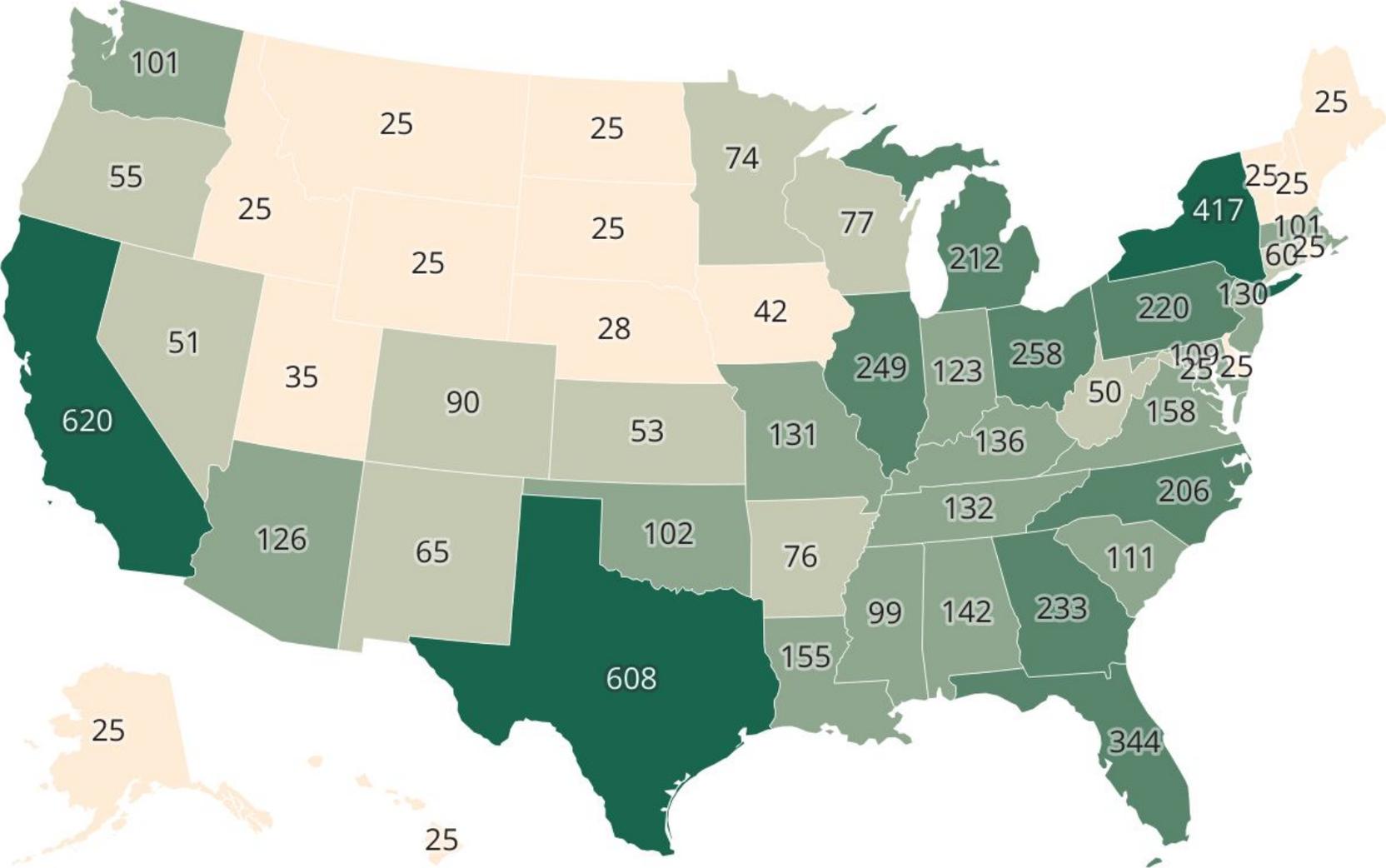
December 31, 2028: OZs 1.0 map formally sunsets

Community approaches: Zone designations

*Setting the map is the **primary lever** state and local governments hold to shape the OZ investment landscape.*

Expected number of Opportunity Zone census tracts

For designation by governors in July 2026



Stricter eligibility criteria mean that most states will have **~20% fewer** OZ tracts to nominate in 2026.

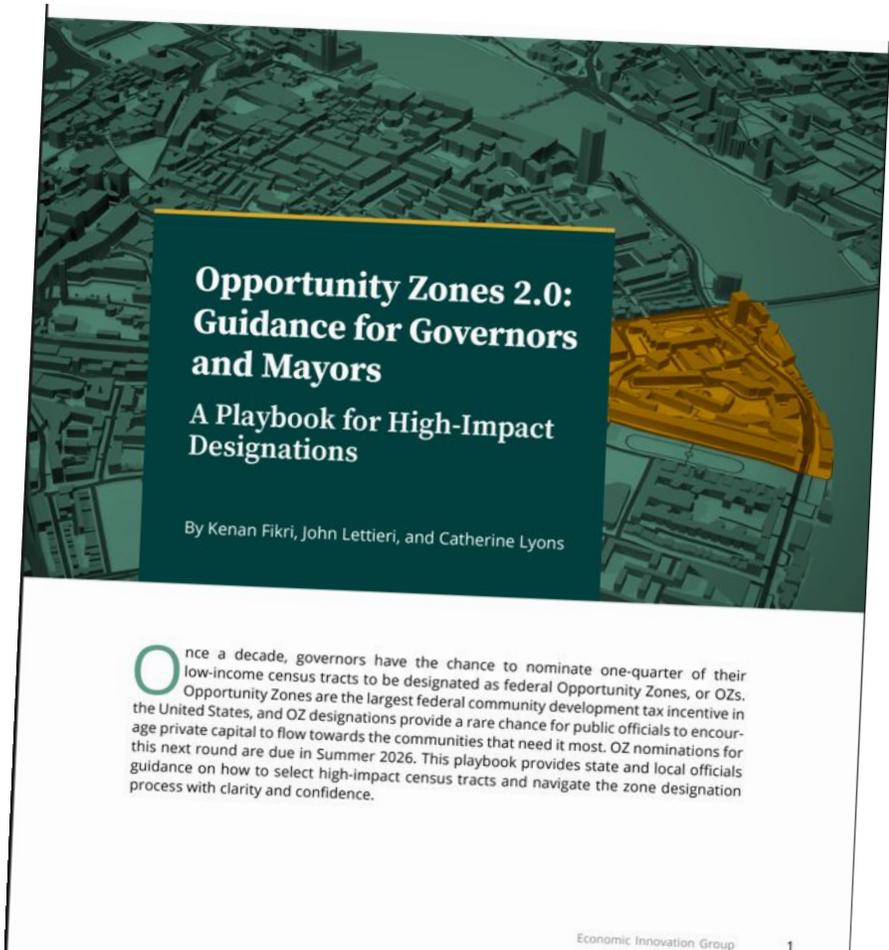
Nationally, the number of OZs is expected to fall from 8,726 to **6,304**.

Based on revised eligibility criteria enacted in the 2025 Reconciliation Act

Source: Based on 2019-2023 American Community Survey estimates

Eight principles for a robust zone designation process

1. Get a **head start** preparing data and speaking with trust advisors now
2. Set a **vision** for how your state or community aims to harness OZs
3. Designate a lead **coordinating entity** within state government
4. Engage **local partners** strategically
5. Balance economic **need** and investment **potential**
6. Combine both **quantitative** and **qualitative** insights
7. Embrace purposeful **transparency**
8. **Align** OZ nominations with supportive policy tools



A three-part test for identifying good OZ tracts

1. The community test:

Does the area genuinely need new investment to grow and diversify their economies so that residents can prosper?

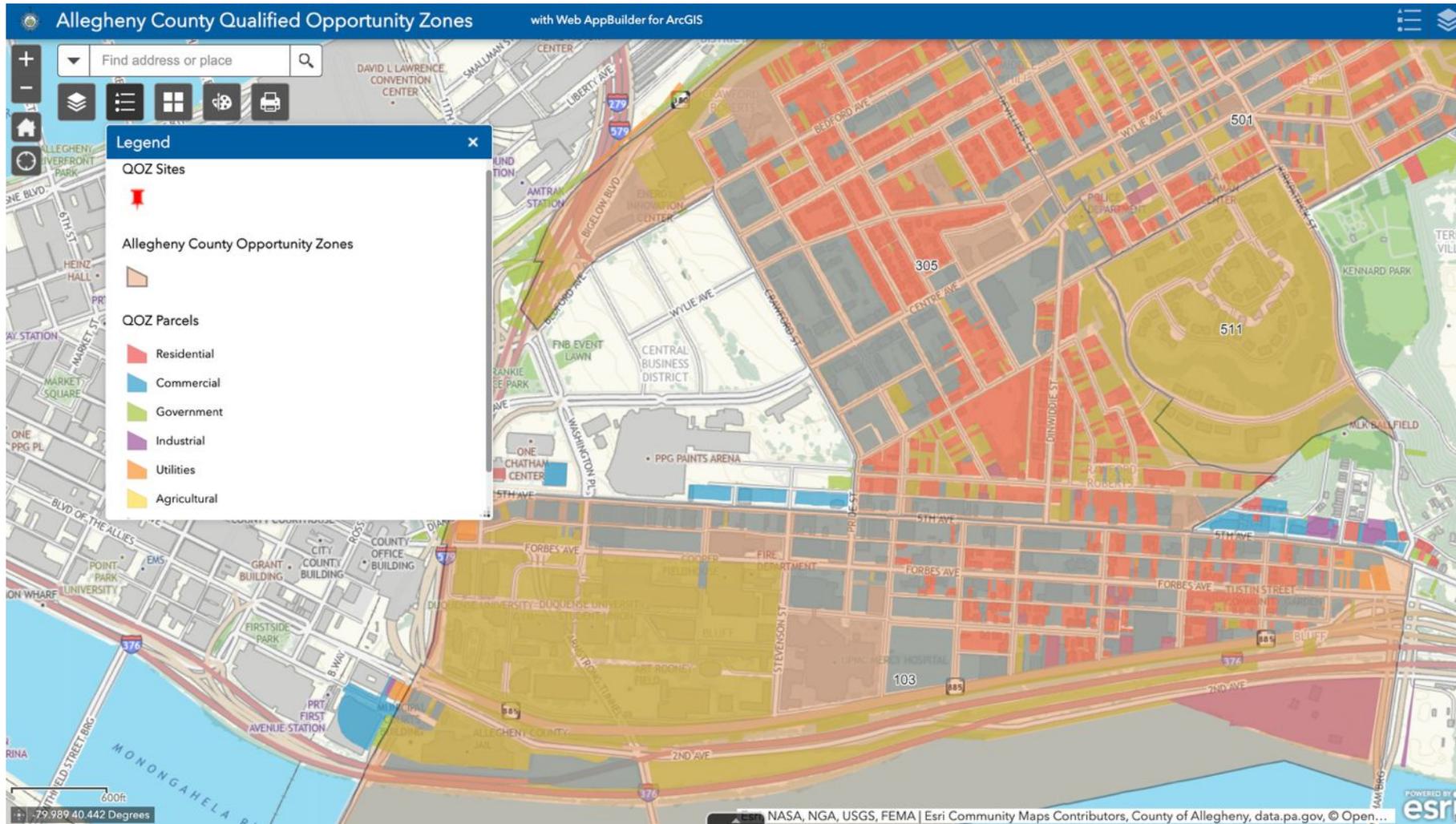
2. The market test:

Does the area areas have a reasonable chance to attract private capital and put it to productive use within the policy's timelines?

3. The policy test:

Are local policies investment-friendly and conducive to economic development?

Allegheny County, PA's, integrated zoning platform is a model



Layering on **vacant parcels**, **brownfield sites**, and other such information would be especially useful for the selection process

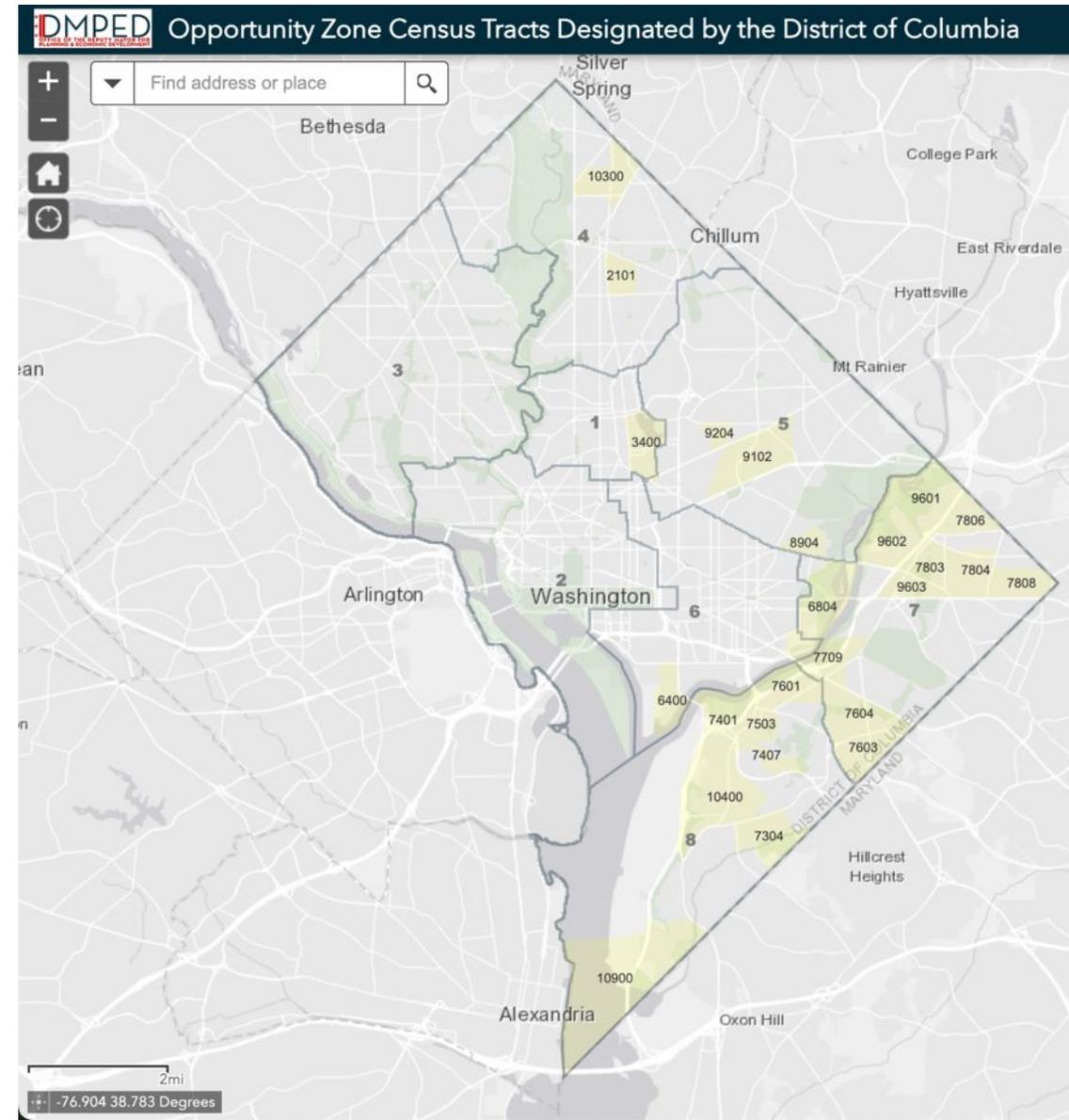
DC's unique status makes it a model case study for state and local coordination around zone designations

DC's zone designation process

- Step 1: Determine eligibility, remove **outliers**.
- Step 2: Identify tracts with **commercial** land, high unemployment, and aligned with **city priorities**.
- Step 3: Gather **public input** via survey in which respondents could rank **semi-finalist** tracts and priorities.
- Step 4: Consult neighborhood **commissioners**; public.
- Step 5: Analyze data on **recent investments**, etc.
- Step 6: Overlay **complementary incentives** such as Supermarket Tax Credit and Great Streets grant program.
- Step 7: **Finalize** tracts prioritizing **disadvantaged** areas, high **investment** potential, high **impact** potential, and high public **support**.

Read more at “How DC Designated Our Opportunity Zones”

<https://dmped.dc.gov/page/how-dc-designated-our-opportunity-zones>



Preliminary eligibility mapping tools

NEW MAP Location

Potential Opportunity Zone Low-Income Community (LIC) Eligibility, as of 2019-2023.
Source: Census and PolicyMap

- Insufficient Data
- Likely Eligible
- Likely Not Rural

Eligible Opportunity Zones 2025

OZ Eligibility

- OZ eligible
- OZ ineligible
- insufficient information

MAP INFORMATION

The budget reconciliation act of 2025 permanently extends the Opportunity Zone tax incentive and calls for a new round of census tracts to be designated as qualifying Opportunity Zones in July 2026. This map depicts which census tracts will be eligible for nomination by governors and subsequent designation based on the criteria laid out in the legislation and according to the latest available data (currently the 2019-2023 American Community Survey 5-Year Estimates). This map may contain errors or omissions and

Download Data:

- Download KML
- Download SHP

ECONOMIC INNOVATION GROUP

Esri, CGIAR, USGS | County of Anne Arundel, VGIN, Esri, TomTom, Garmin, SafeGraph, FAO, METI/NASA, USGS, EPA, NPS, USFWS

Powered by Esri

Community approaches: Unlocking investment and impact

What tools are at your disposal?

To **contribute to projects**:

- Permitting and approvals!
- Publicly-owned land
- Ground leases
- Occupancy guarantees

To **drive investment** towards **impact**:

- Inclusionary zoning
- Main Street and small business grant programs
- Parcel assembly and remediation
- Capacity building and ecosystem development grants



*OZ investments are very sensitive to **timing and approvals.***

*Determine what you wish to **contribute** to projects.*

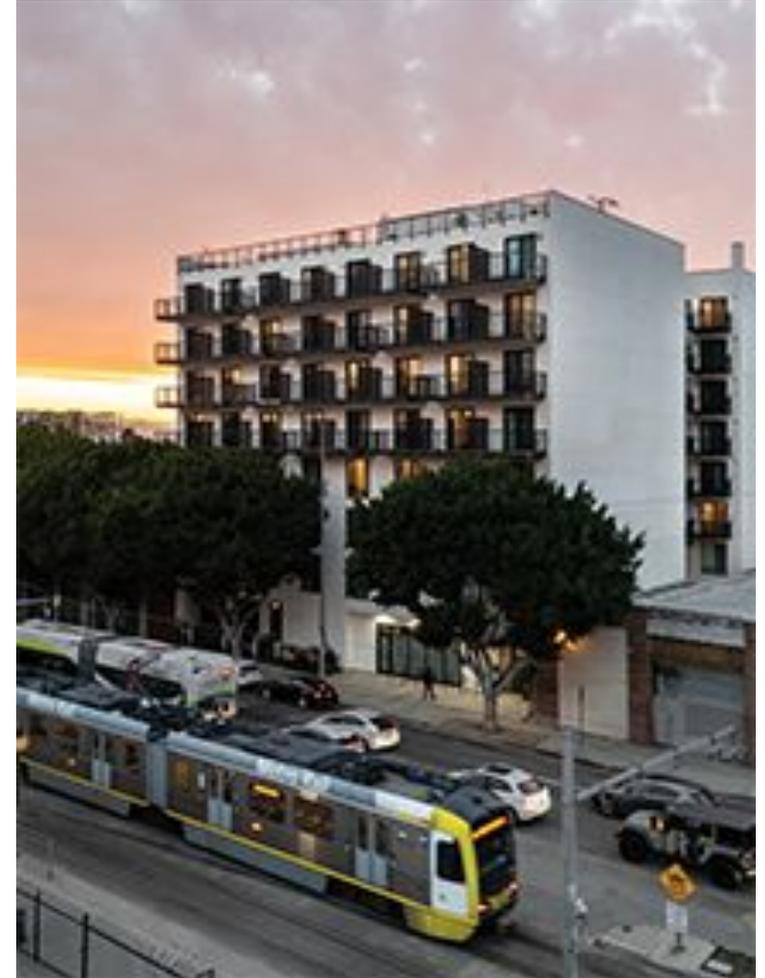
*Strive to **set the “rules of the road”** now, so investors have certainty moving forward.*

*Know that OZ investor interest can help **reward** zoning reform efforts.*

Impact Case Study: Liv DTLA

Deeply affordable housing project made possible through lease by LA County

- ✓ 227-unit 8-story **deeply affordable** housing development in downtown Los Angeles, CA.
- ✓ Sponsored and developed by Housing Diversity Corporation with OZ equity provided by Arctaris Impact Capital.
- ✓ **Fully leased by the LA Homeless Services Authority** for 5 years to provide permanent supportive housing with wraparound services for populations transitioning out of homelessness.
- ✓ Ground floor commercial spaces leased by those supportive services providers.
- ✓ All units reserved for residents early 50% AMI or below and 10% of units for those earning 30% AMI or below.



Impact Case Study: Forge on Main

*Neighborhood revitalization and
workforce housing in Evansville, IN*

- ✓ Project creates 180 new residents and commercial space.
- ✓ Local OZ investors **connected with national impact investors** through the statewide OZ consortium managed by LISC.
- ✓ Much-needed new quality housing near downtown.
- ✓ Remediated a **superfund** site and alleviated a **food desert**.
- ✓ OZ funding raised from six investors combined with **state tax credits** and city **TIFs**.



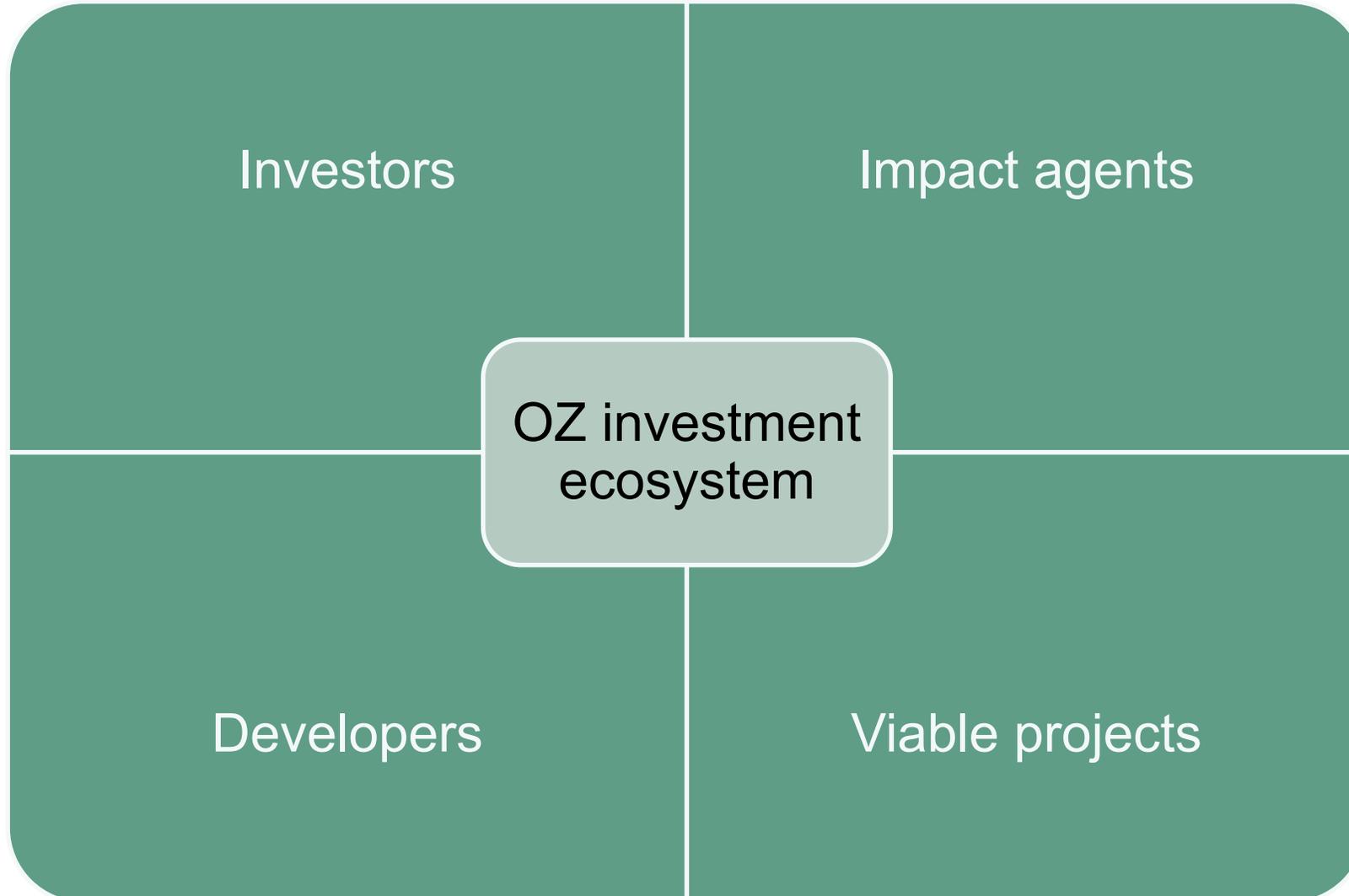
Total development cost: \$28.3 million

Key sources of financing:



- \$16.95 million - Traditional debt
- \$4.5 million - OZ equity from multiple Qualified Opportunity Funds
- \$4 million - Redevelopment Tax Credit from the Indiana Economic Development Corporation
- \$1.5 million - TIF proceeds
- \$750,000 - Grant from a local foundation
- \$600,000 - Green infrastructure grant

What *regional scale* unlocks a self-sustaining OZ investment ecosystem?



Some ecosystems might exist within a single city, but others might need to **operate regionally, statewide, or beyond.**

*Remember, OZ investment is **flexible** in:*

- ▣ **Who** can use it (anyone with a capital gain)*
- ▣ **How much** they invest (low overhead means large or small)*
- ▣ **What** it goes towards (as long as it's new or improved, economically additive and in a zone, it's likely qualifying).*

Wherever there's a place for equity investment, there's an opening for OZ capital.

Resources

- **OZ 2.0: A Guide for Governors and Mayors:** <https://eig.org/ozs-guidance/>
- **Current OZ Map with Rural Overlay:** <https://eig.org/opportunity-zones/resources/>
- **OZ 2.0 Draft Eligibility Map:**
<https://www.arcgis.com/apps/dashboards/c473c71f0704408f934fbdc342caf1f1>
- **EIG's OZ 2.0 Analysis:** <https://eig.org/opportunity-zones-2-0-where-things-stand/>
- **EIG OZ Webinar on What State and Local Leaders Need to Know:**
<https://eig.org/events/what-state-and-local-leaders-need-to-know/>

EIG brings together leading entrepreneurs, investors, economists, and policymakers from across the political spectrum to address America's economic challenges.



 facebook.com/EconomicInnovationGroup

 linkedin.com/company.economic-innovation-group

 twitter.com/InnovateEconomy