

Opportunity Zones: Current Impact and Future Policy

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Table of Contents

**01 OPPORTUNITY ZONES:
THE BASICS**

**02 NATIONAL RESULTS:
WHAT WE KNOW SO FAR**

**03 OZ 2.0: NEW BENEFITS
AND TIMELINES**



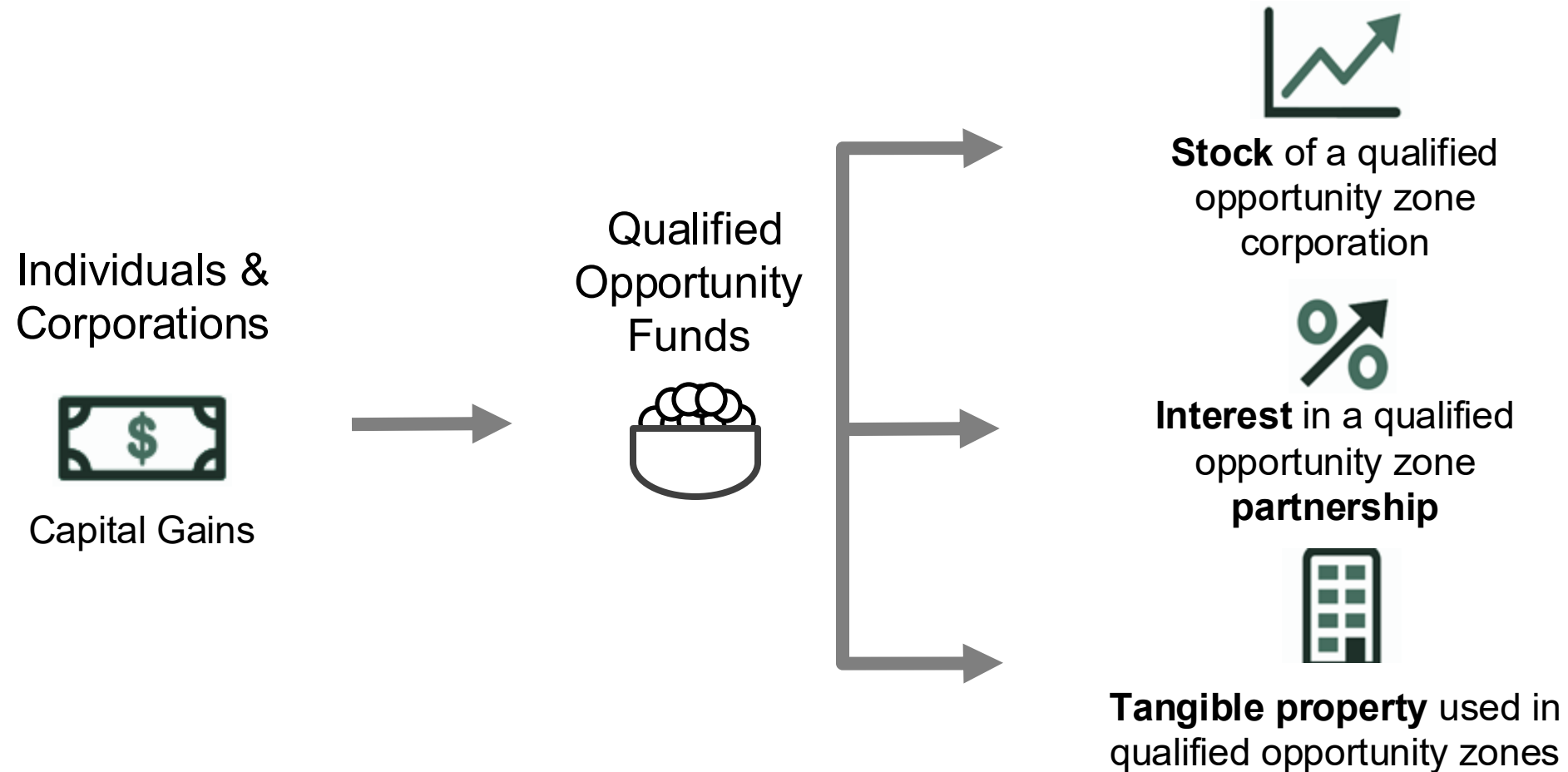
OPPORTUNITY ZONES: THE BASICS

What are the current OZ tax benefits?

Opportunity Zones offer investors three incentives for putting their capital to work in economically distressed communities:

1. **A deferral:** Investor can defer capital gains taxes until 2026 by rolling their proceeds from another investment into an Opportunity Fund.
2. **A reduction:** The deferred capital gains liability is effectively reduced by 10% if the investment in the Opportunity Fund is held for 5 years and another 5% if held for 7 years.
3. **A permanent exclusion:** Any capital gains on subsequent investments made through an Opportunity Fund accrue tax-free as long as the investor stays invested in the fund for at least 10 years.

OZ Investment Flow



What drove the design of OZs?

- Easier and more flexible to use
- Faster, more responsive investment activity
- Highly decentralized
- Leverage investors' own capital—no government intermediary
- Generate broader participation from investors
- Equity only—no debt financing
- Achieve larger scale of total investment and broader reach across communities
- Involve sub-federal stakeholders in the process

Socioeconomic Characteristics of OZ Communities

	Poverty Rate	Adults Not Working	Median Household Income	BA Attainment Rate	Non-white Population Share
United States	15%	7%	\$61,700	21%	27%
Opportunity Zones	28%	11%	\$36,500	18%	42%
OZs receiving investment	29%	10%	\$37,300	20%	43%

Socioeconomic Characteristics of Hawaii's OZ Communities

	Poverty Rate	Adults Not Working	Median Income	BA Attainment Rate	Minority Share of Population
Hawaii	10%	19.6%	\$98,317	35.5%	78.9%
HI Opportunity Zones	17.4%	26.9%	\$82,967	23.6%	64.1%

NATIONAL RESULTS: WHAT WE KNOW SO FAR

OZ Key Facts

- ✓ OZs have unlocked more than **\$89 billion** in qualifying equity investment.
- ✓ **More than two-thirds** of all designated OZ tracts have seen investment.
- ✓ 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 economic spillover effects** on neighboring areas.

Key Facts: Hawaii's Opportunity Zones



Hawaii has **25 total OZs**, home to 109,000 residents and 3,800 businesses.

32% of Hawaii's zones are non-metro.

Hawaii saw **15 zones** – or 60% of its total – receive investment just through the end of 2020.

The Joint Committee on Taxation reports that Hawaii received **\$282 million in OZ equity investment** by the end of 2022, or **\$199 per capita**.

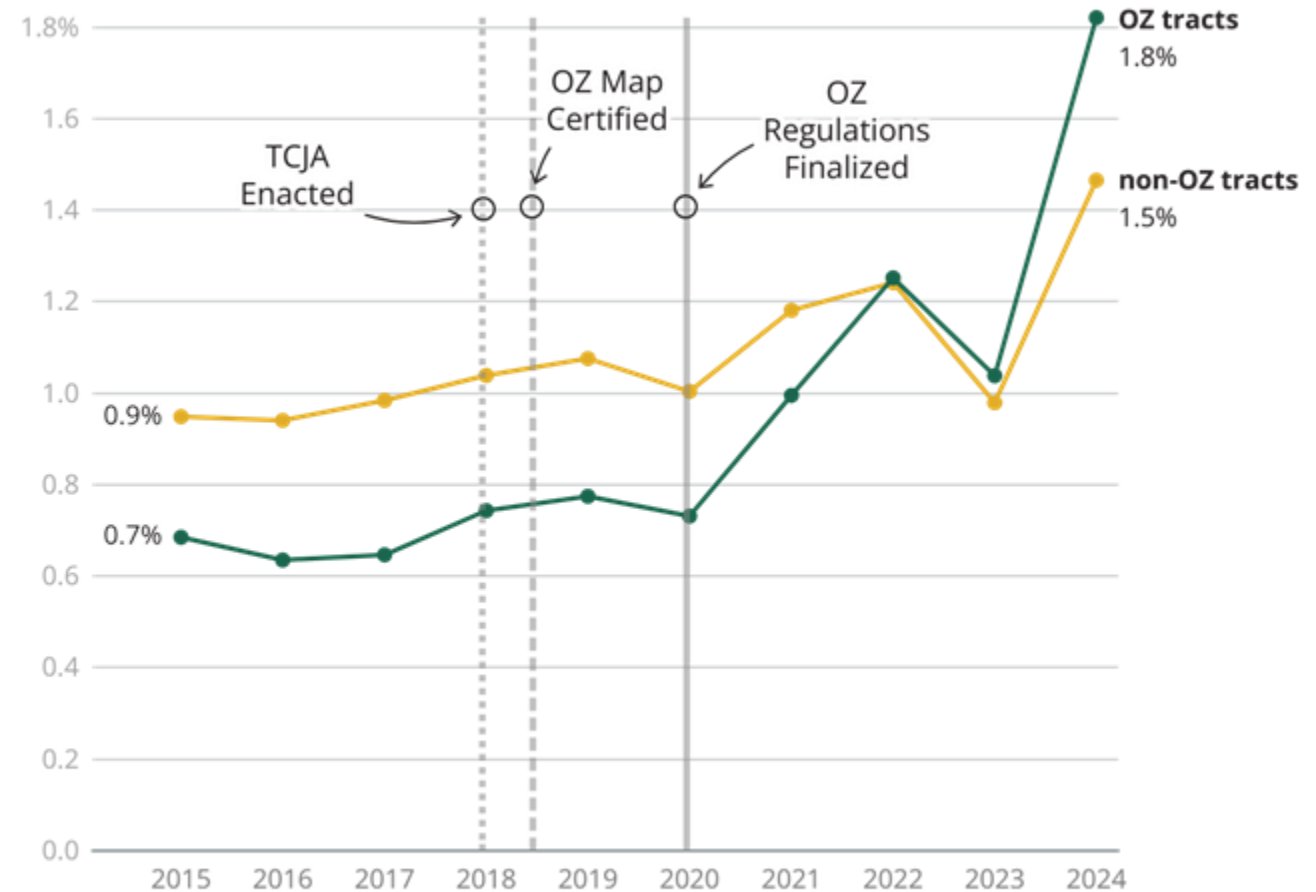
OZs have a significant impact on the national housing supply.

- Opportunity Zones caused a large — and still rising — increase in housing supply in designated communities, roughly doubling the total amount of new housing.
- Positive effects are seen across all types of census tracts, from large urban to rural.
- Estimates of the fiscal cost of each new unit of housing induced by the OZ incentive is extremely low.
- The rate of residential growth in OZ communities has surpassed the rest of the country.

OZ are growing faster than non-OZ tracts.

- OZ tracts added a total of ~650,000 new residential addresses since regulations were finalized.
- OZs tracts went from lagging non-OZ tracts in growth to leading.

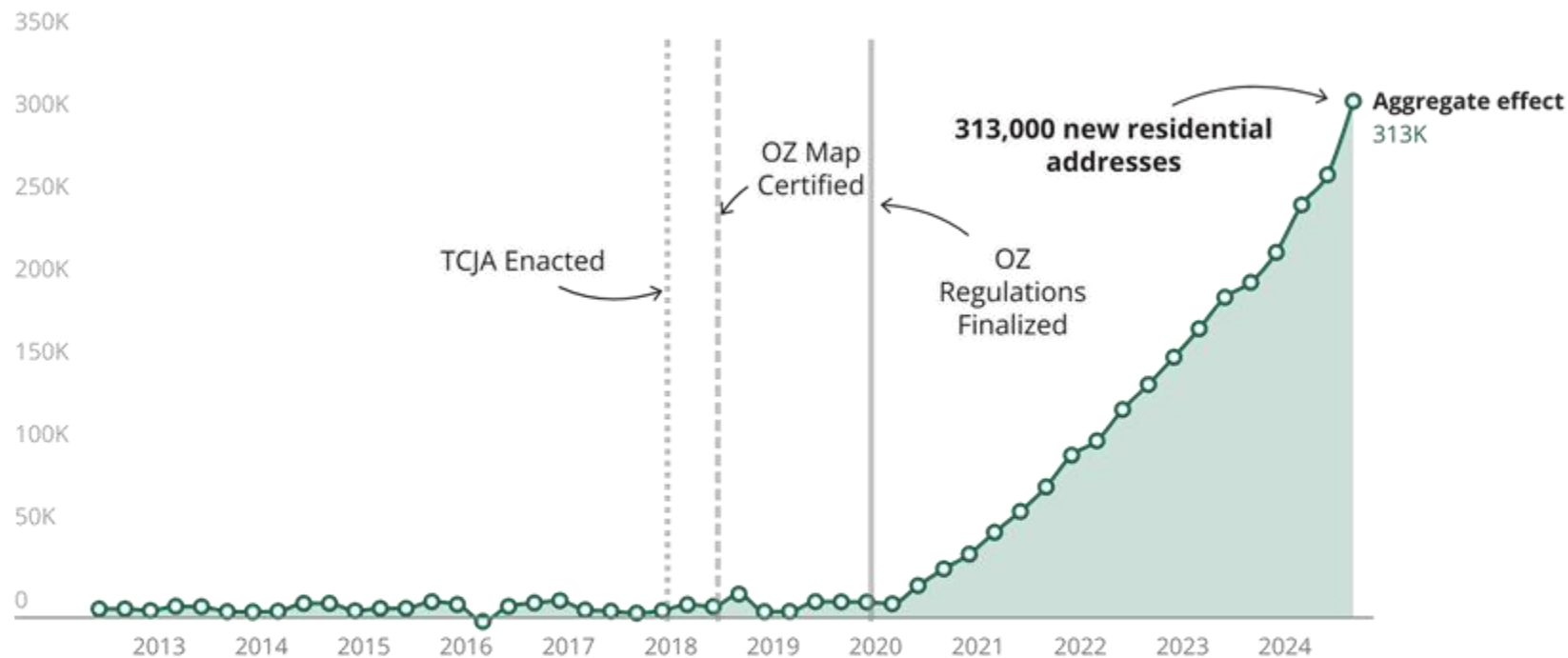
Annual growth rate in residential addresses



OZs have caused 313,000 new residential addresses in designated tracts through 2024.

Opportunity Zones' effect on the count of residential addresses, aggregate effect

All tracts



The data uses 2020 standardized Census tracts which maintained consistent treatment assignment from 2010 to 2020. Effect estimates are from the Callaway and Sant'Anna difference-in-differences (CSDID) approach. The comparison group are census tracts defined as "Low Income Communities." The results include conditional parallel trends accounting for the tract's poverty rate, median household income, unemployment rate, and share of the population who are of prime-age (25 to 54) in the fourth quarter of 2016, before OZ's were enacted.

Source: HUD Aggregated USPS Administrative Data On Address Vacancies

This represents:

- 48% of all new residential addresses since 2019 within OZs,
 - 15.6% among LICs regardless of designation, and
 - 4.3% of all new residential addresses nationwide.
-
- The fiscal cost to taxpayers for each new residential address caused by the OZ incentive was roughly \$26,000 per unit.

OZ 2.0: NEW BENEFITS AND TIMELINES

OZ 2.0 Provisions Passed in the *One Big Beautiful Bill Act*

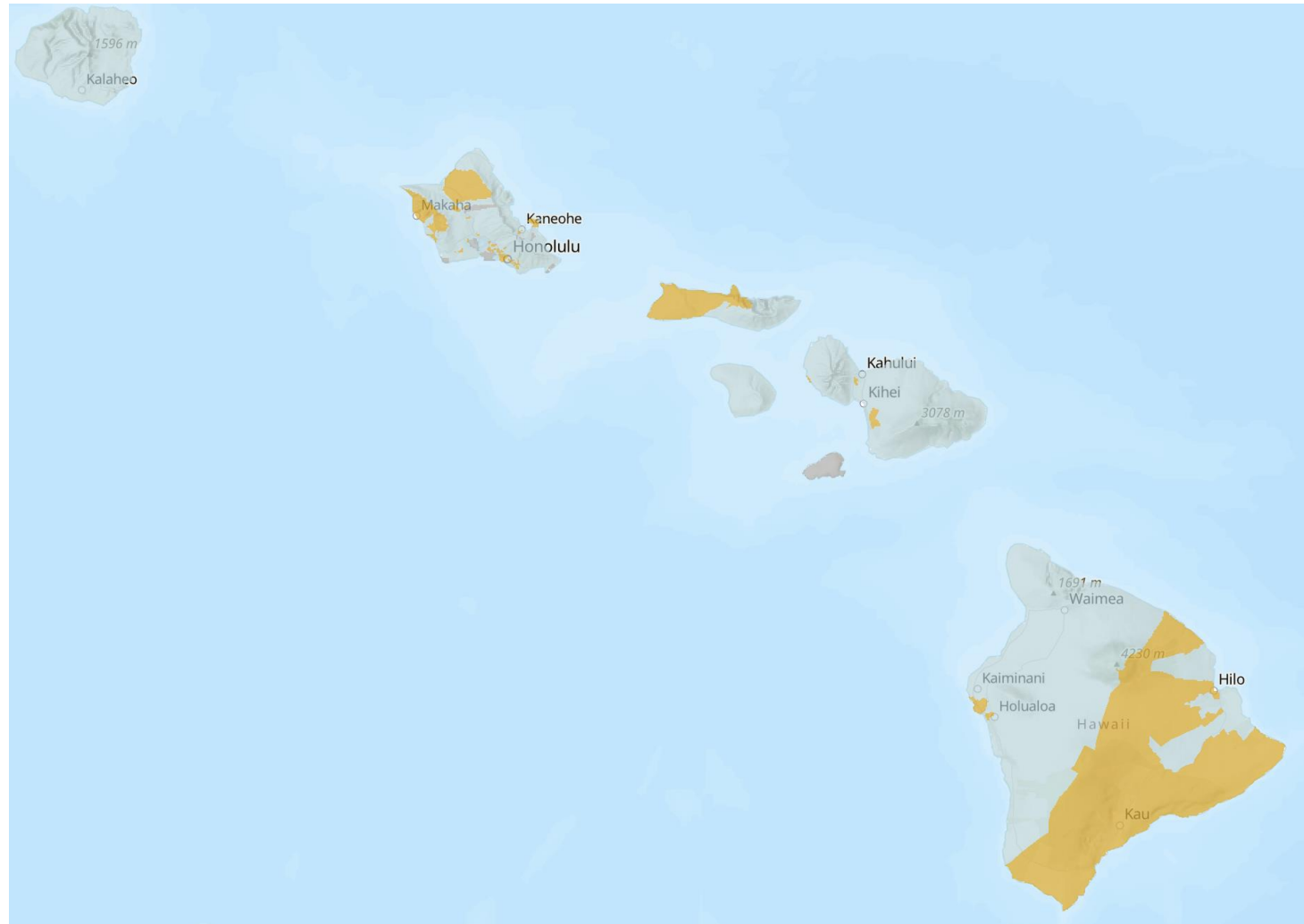
- Opportunity Zones are now permanent, with new OZ designation cycles every 10 years.
- The incentive will offer a 5-year rolling deferral timed to the date of investment, accompanied by a 10 percent step-up in basis for investments held for 5 years.
- OZ 2.0 will have tighter geographic eligibility criteria with a lower MFI threshold of 70 percent, no contiguous tracts and special rule for Puerto Rico, and a cap on MFI at 125 percent.
- OZ 2.0 will have reporting and transparency requirements for investors and funds starting in 2026.
- The incentive is strengthened for investments in rural areas.

New OZ Benefits for Rural Areas

- **Definition of Rural:** an area with a population of 50,000 or fewer inhabitants that is not part of the urbanized area adjacent to a city with a population of more than 50,000 inhabitants.
- The bill creates a new class of **qualified rural opportunity funds**. These funds must hold at least 90 percent of their assets in qualified OZ property in OZ tracts that are comprised entirely of a rural area.
- Investments in these funds can receive an increased step-up in basis of up to **30 percent** compared to the 10 percent for standard OZ funds.
- The substantial improvement test is reduced in rural OZs. To meet the substantial improvement test in a rural OZ, property must **be improved by 50 percent** of the adjusted basis of the property at the beginning of the 30-month period instead of the standard 100 percent.

Hawaii's OZ Eligibility Map

(based on latest available data)



OZ 2.0 Designation Process and Timelines

- 2026: Reporting requirements begin in the 2026 taxable year.
- July 1, 2026: The start of the zone determination process. Governors will have 90-120 days to submit their zone designations to Treasury for certification.
- December 31, 2026: Gain recognition date for OZ 1.0 investments.
- January 1, 2027: The OZ 2.0 map is active, as are the new benefits. The map will be active for 10 years.
- December 31, 2028: OZ 1.0 map expires.

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