



ECONOMIC
INNOVATION
GROUP

Opportunity Zones 2.0

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Why do Opportunity Zones matter?

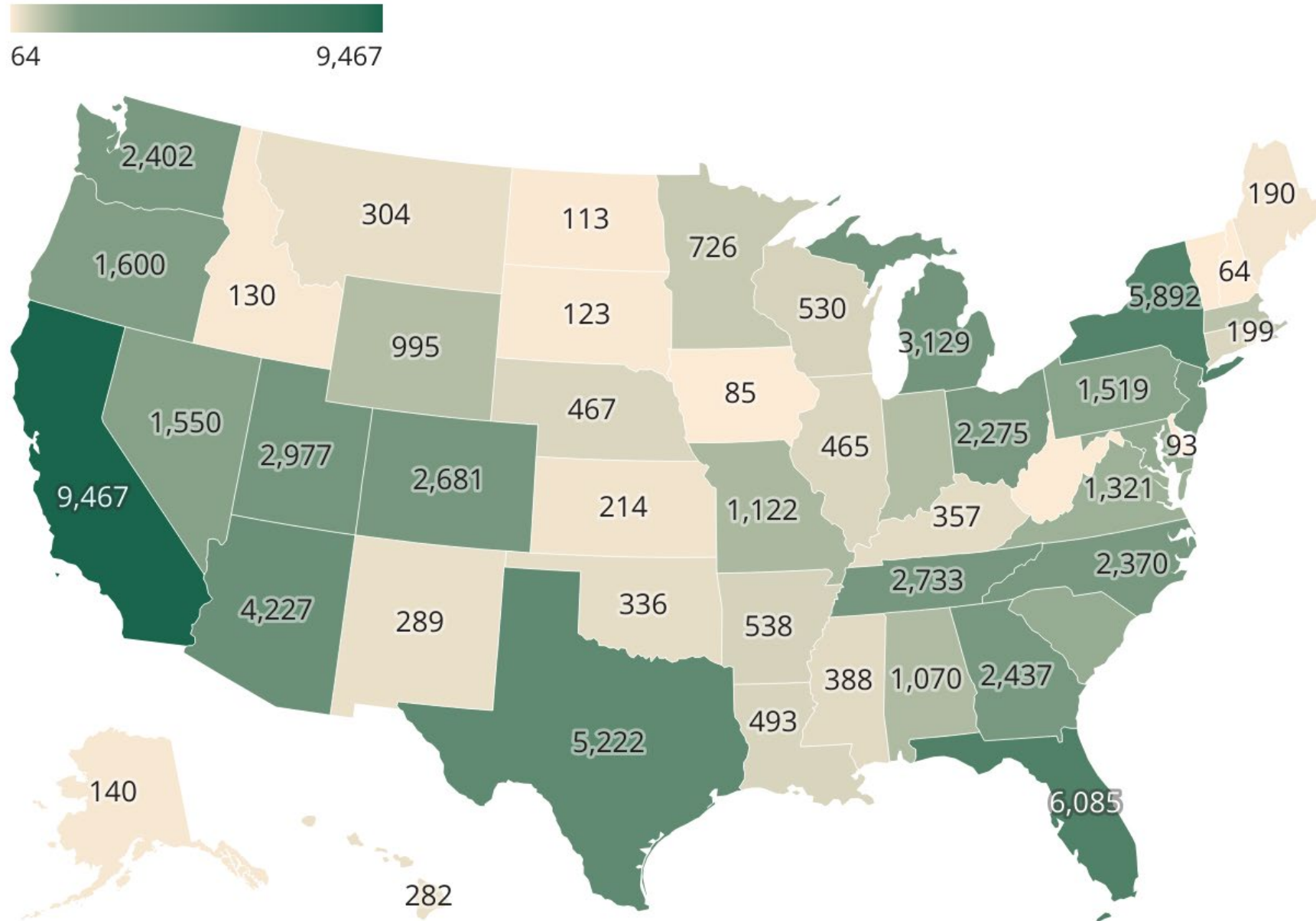
Why do OZs matter?

Because they're bringing capital to communities

- ✓ More than **\$100 billion** in direct equity capital has been invested in OZs.
- ✓ Approximately **three-fourths** of all designated tracts have seen investment.
- ✓ The rate of **housing unit growth** in OZs has more than **doubled** since designation.

Total Qualified Opportunity Fund Investment by State

Millions of USD



Nationwide, **>\$100 billion** has been invested in OZs to date.

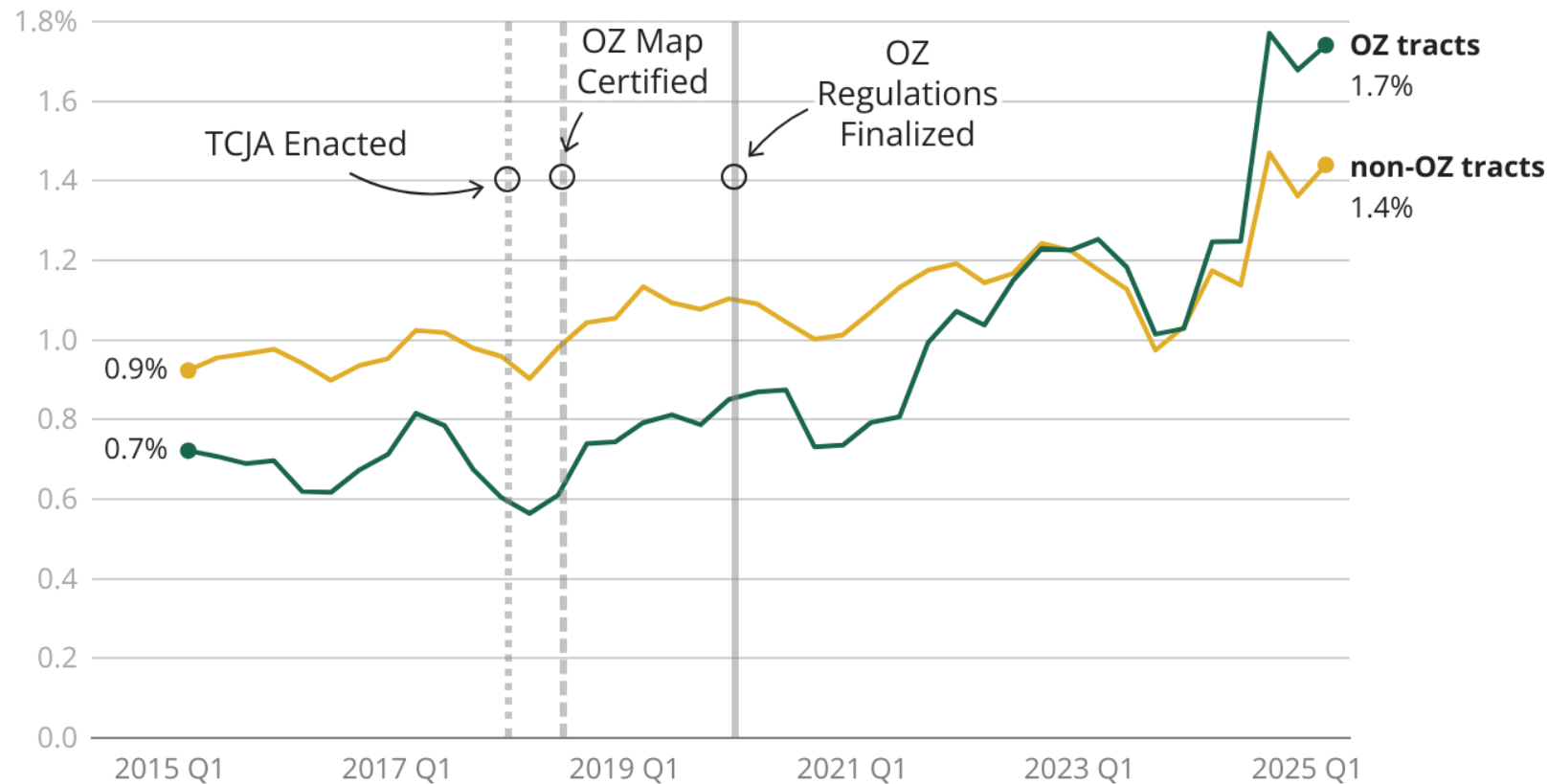
Through 2022, **46 states** had received more than **\$100 million** in OZ capital.

24 states had received more than **\$1 billion**.

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

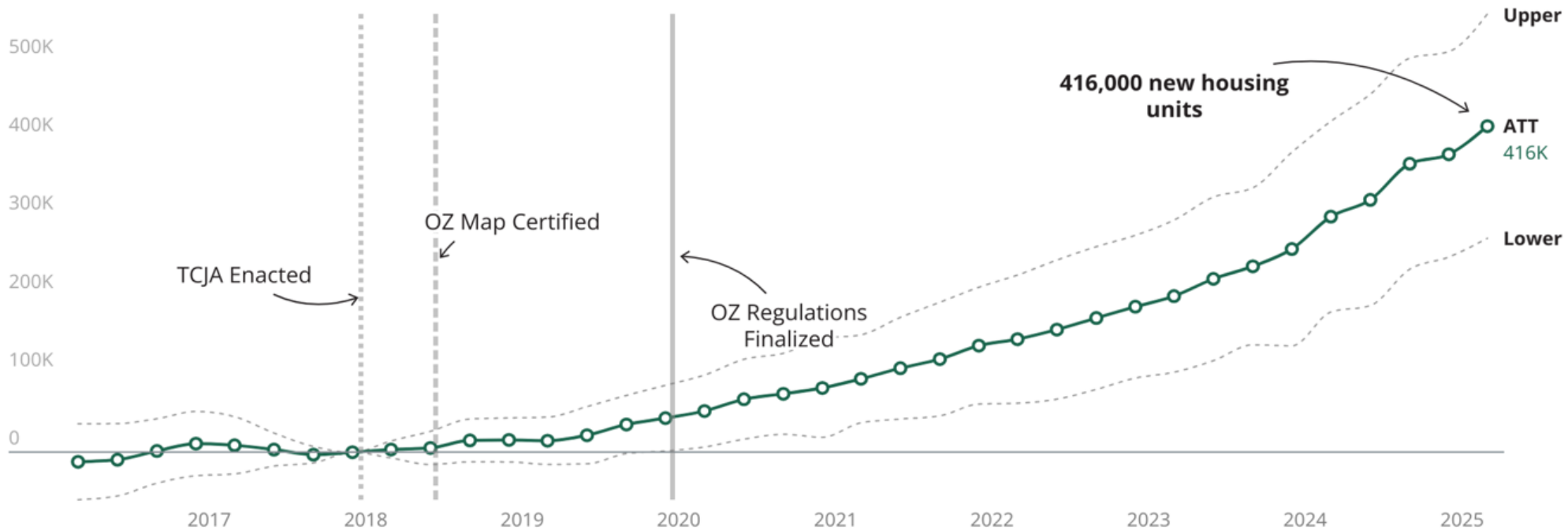
Using 2020 standardized data crosswalked to 2010 census tract boundaries



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

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

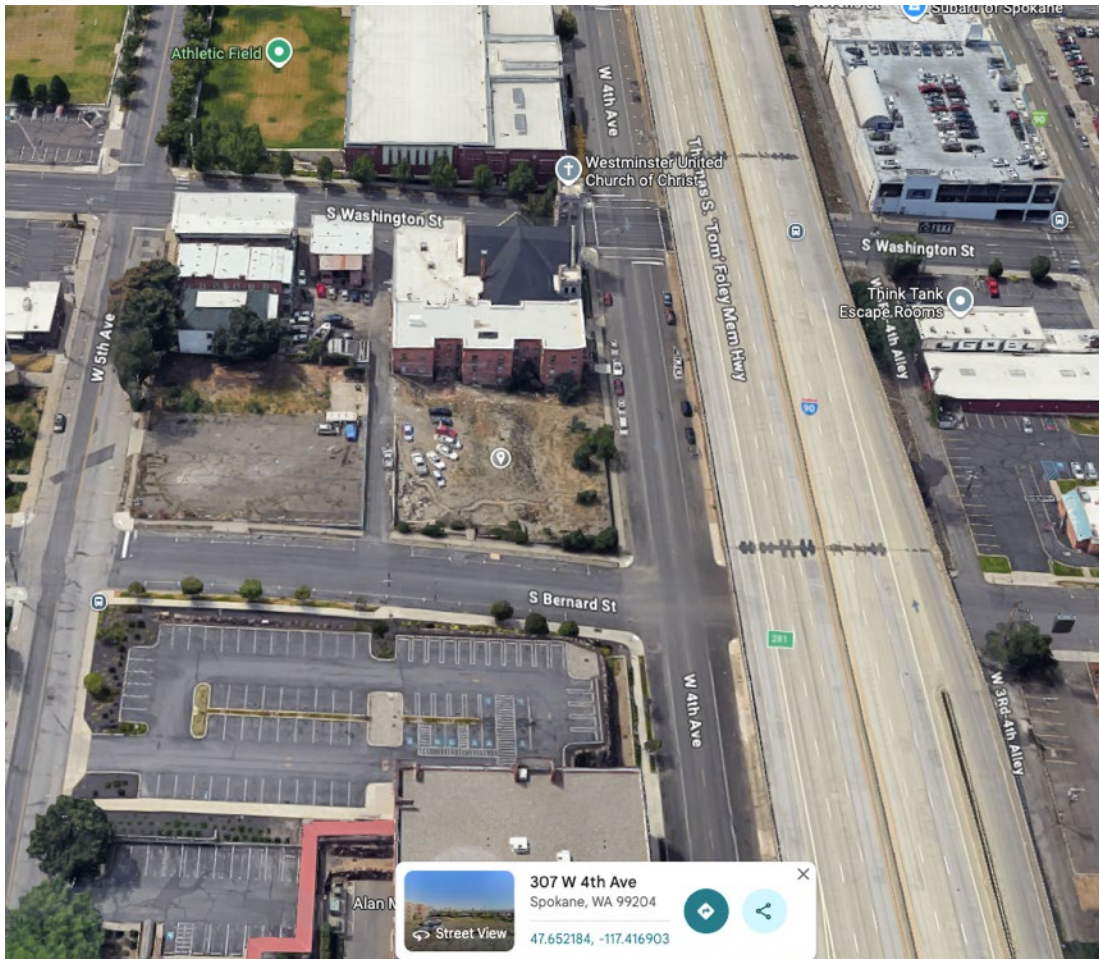


Effect estimates and a 99% confidence interval. Data comes from the HUD Aggregated USPS Administrative Data on Address Vacancies. Regression Results from the Callaway and Sant'Anna difference-in-differences (CSDID) approach, with a universal base period. Using data defined at the 2020 Census tracts level 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

OZs in Action

OZ investments frequently take the form of multifamily residential in-fill development

Before



OZs in Action

OZ investments frequently take the form of multifamily residential in-fill development

After



How OZs work

Who are OZ investors?

OZs offer capital gains tax incentives, meaning **any private entity** with a **capital gains tax** liability is a **potential OZ investor**.

✓ Individuals

✓ Institutional investors

✓ Banks

✓ Corporations

✓ Private equity

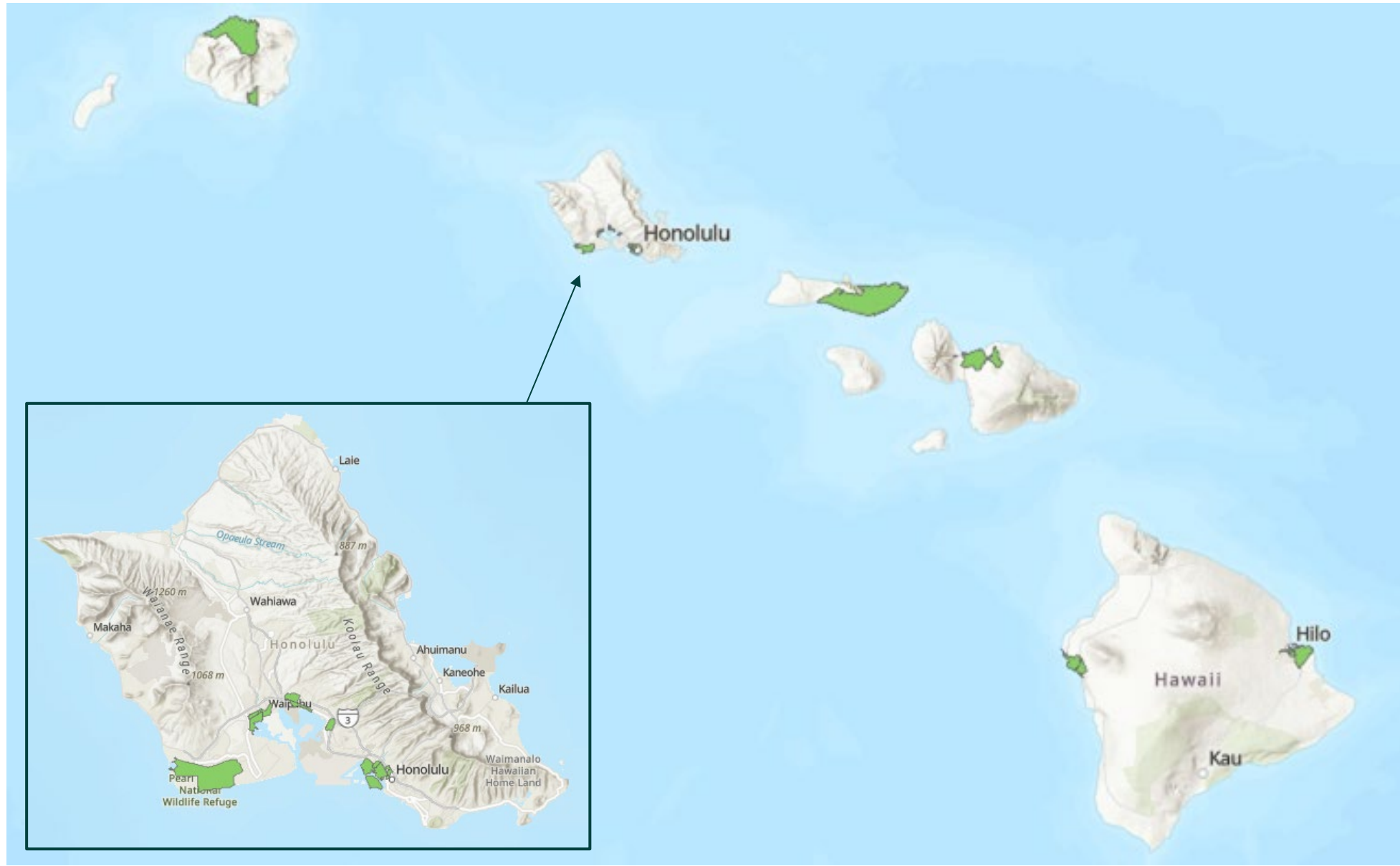
✓ Landowners

Where are OZs?

Opportunity Zones are low-income census tracts (LICs) **designated by governors.**

- ✓ Governors nominate **25%** of their eligible LICs to be OZs, where investors are entitled to certain tax benefits.
- ✓ Governors are preparing to nominate the next round of tracts with OZ designations that will **last a decade.**
- ✓ Getting zone nominations right is fundamental to long-term success.

Hawaii's Current OZ Designations



What are the OZ tax benefits?

OZ investors are eligible for a series of capital gains tax incentives.

- ✓ A **5-year deferral** of taxes owed on a capital gain rolled over into a dedicated Opportunity Fund (OZ investment vehicle).
- ✓ A **10% step-up in basis** on that tax bill once it comes due.
 - 30% in **rural** areas.
- ✓ A **permanent exclusion** (i.e., no capital gains taxes) on any subsequent **qualifying** (i.e., economically additive) investment made in OZs and held for at least 10 years.

How do OZs work?

- ✓ OZ designations **do not** guarantee investment.
- ✓ OZs reward investing in low-income communities by **increasing the potential returns** on successful investments.
- ✓ OZs deliver **equity** capital to projects.
- ✓ The OZ incentives can be used to build new **structures** and **rehabilitate** old ones. They can also be used to invest in businesses, business property, and capital **equipment**.

*Remember, the OZ incentive 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.

What's new in 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 influence behavior.
- ✓ **Reporting and transparency.** A robust data collection and publication regime will demystify OZ investment.
- ✓ **Zone eligibility and designation.** Stricter targeting criteria will produce a narrower map.

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 from the US Department of Agriculture.
 - 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.

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:

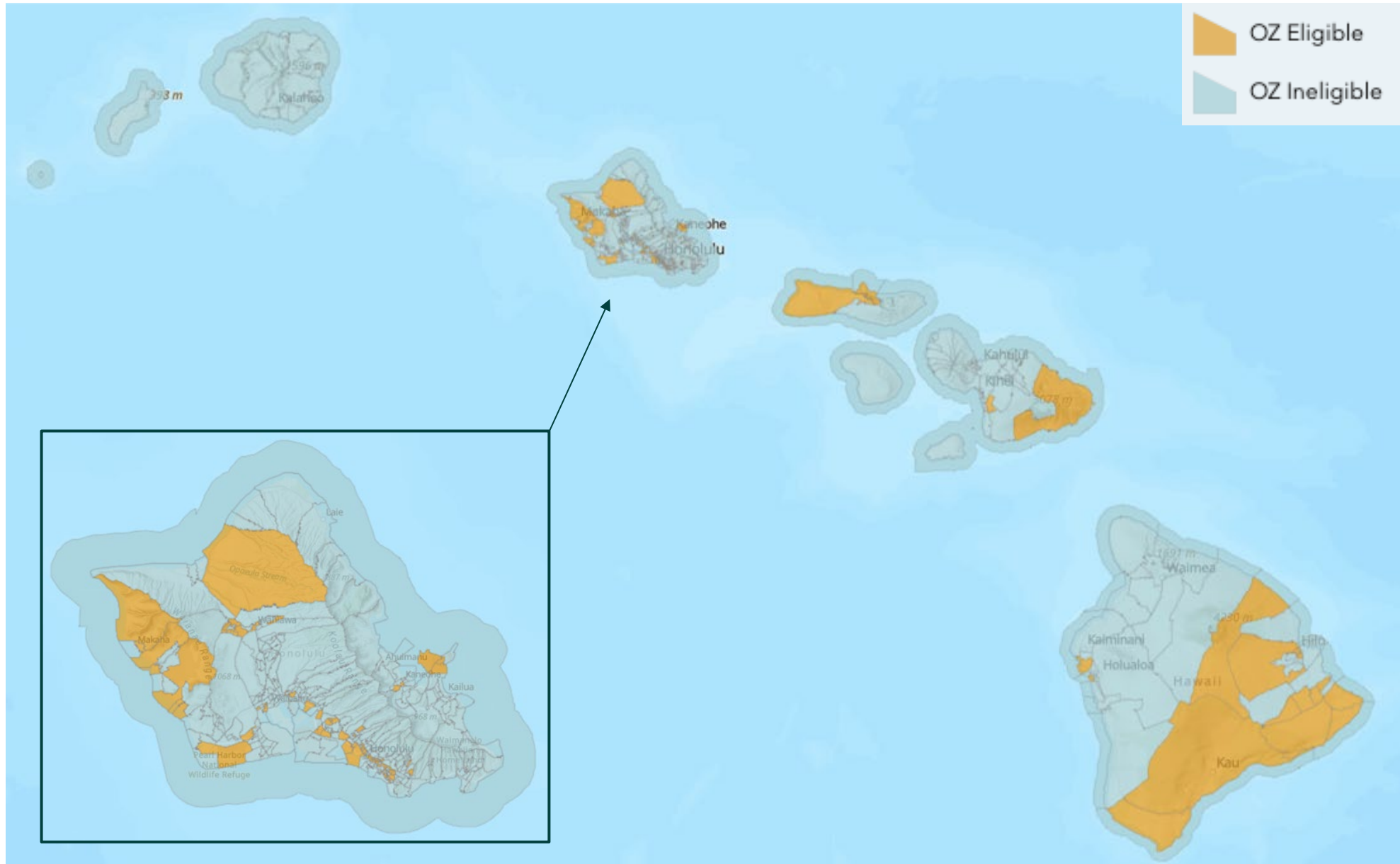
- New fields include housing units created, job estimates, and affordability measures

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.

Eligible Census Tracts for OZ 2.0 Designation



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

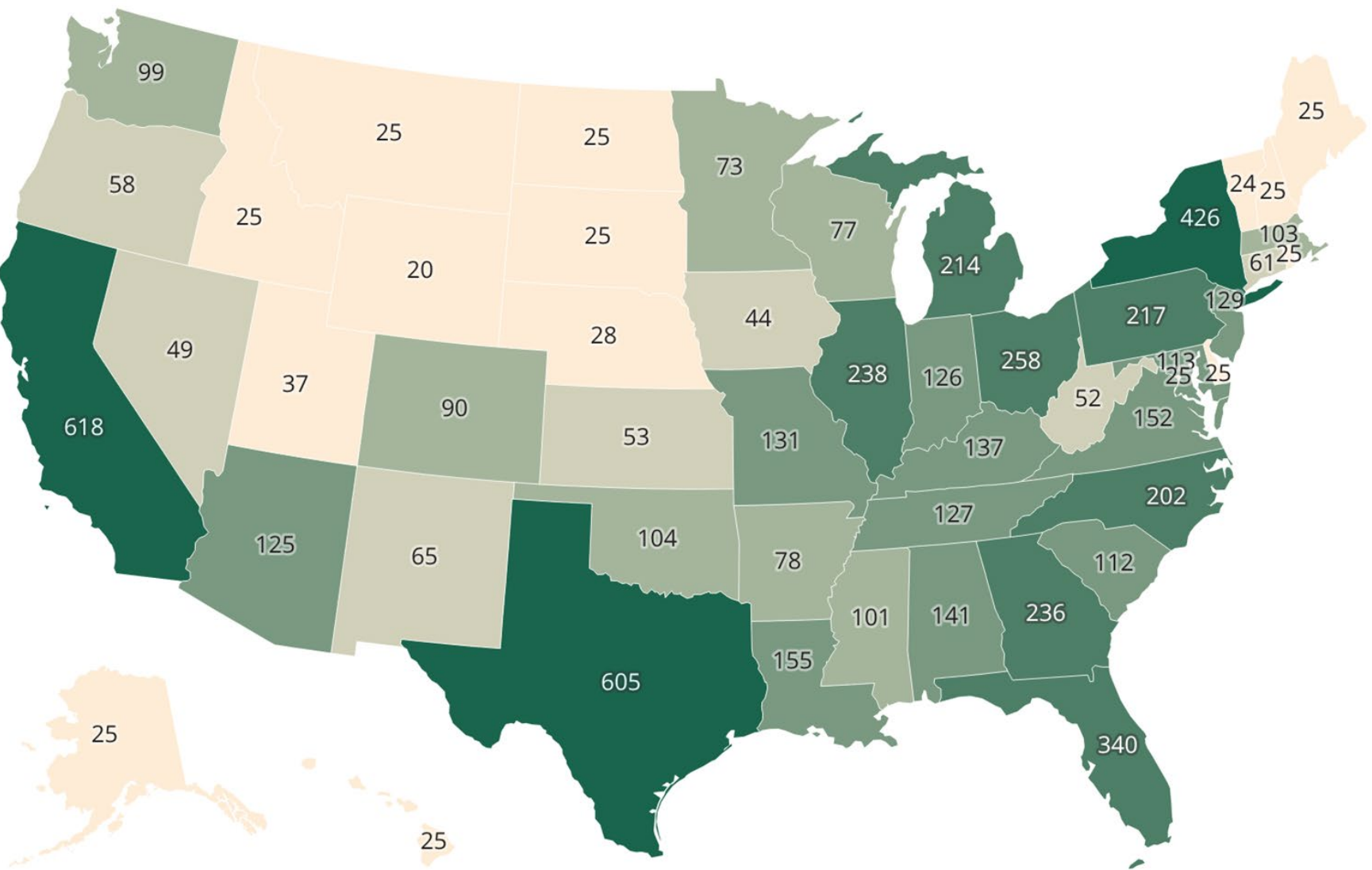
- **Poverty rate** remains at 20%
 - However, tracts qualifying on poverty must have a median family income *below* 125% of the area benchmark.
- **Median family income** falls from 80% of the area benchmark to 70%.
 - This reduces the number of eligible tracts and future OZs by >20%.

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

Zone designations deep dive

Number of Expected Opportunity Zones by State

2026 designation cycle



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**.

Note: VT and WY have fewer than 25 eligible tracts, the minimum number of OZs guaranteed in statute. This map assumes they can designate all eligible tracts but no more. Final determinations rest with the U.S. Treasury.

Source: 2020-2024 American Community Survey 5-Year Estimates

EIG has mapped eligible census tracts on our website

Census Tracts Eligible for Opportunity Zone Nomination 2026

Filter by rural status
All tracts

OZ Eligibility

- OZ Eligible
- OZ Ineligible

MAP INFORMATION

This map depicts the Treasury Department's official list of eligible Opportunity Zone tracts according to the budget reconciliation act of 2025. Eligible census tracts may be nominated by governors for designation beginning July 1 2026. Note that the Treasury Department has published rural status for eligible OZ tracts only. We classify the remaining non-eligible tracts as being rural or non-rural based on criteria laid out in the legislation. Contact us at research@eig.org with any questions.

Download Data:

- Download XLSX
- Download SHP
- Download KML

<https://eig.org/ozs-resources/>

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Why should communities care about OZs?

- ✓ OZs can help **close deals** and get good projects off the ground.
- ✓ OZs can drive **in-fill** development; complete the neighborhood fabric.
- ✓ OZs can help mobilize local **reinvestment** or “local-vesting” efforts.
- ✓ OZs can directly help address **housing shortages** at all price levels.
- ✓ The boosted **rural** incentives should spark **economic development**.
- ✓ OZ designation can put more power—and private capital—**behind your plans**.

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

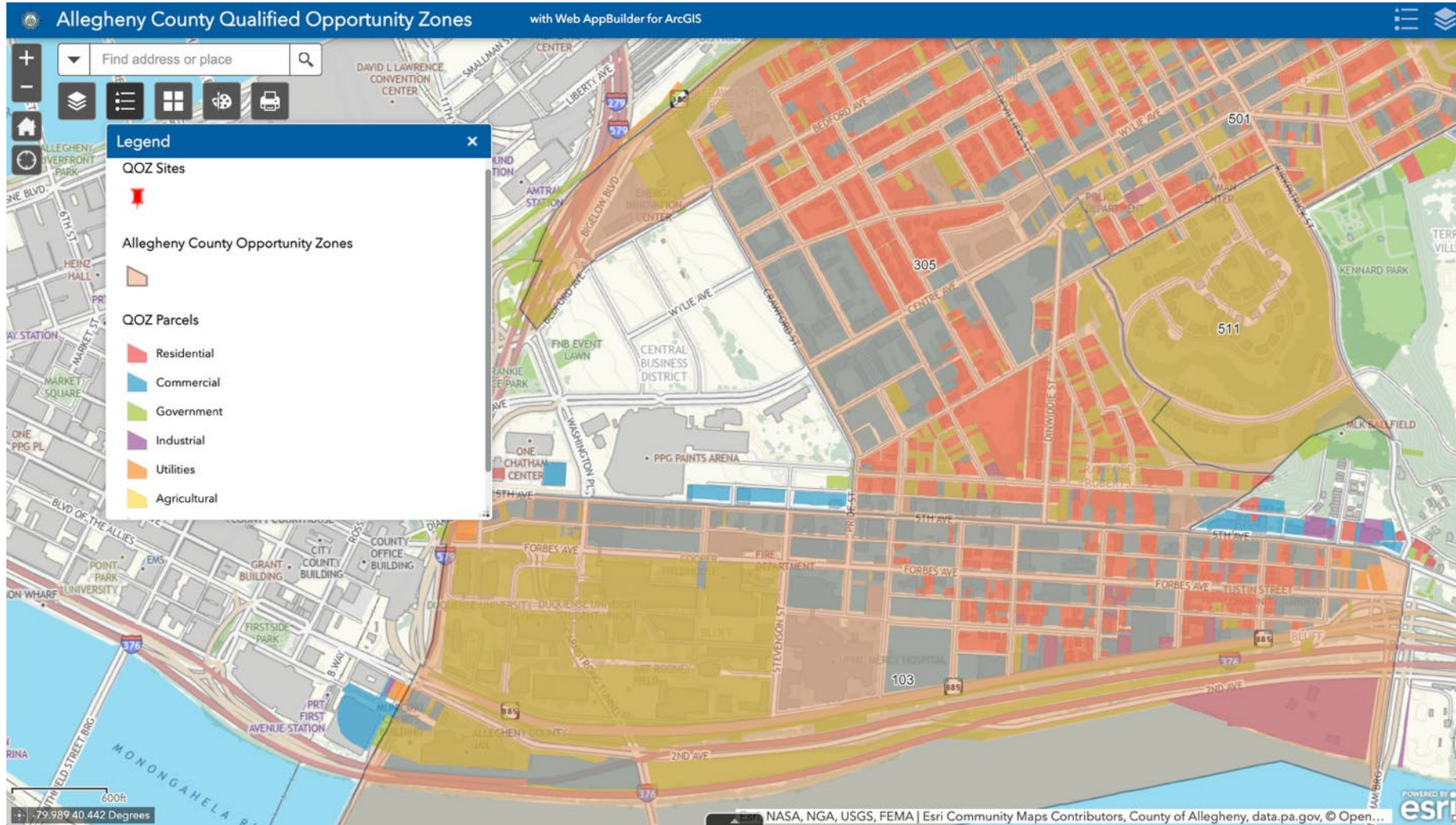
3. The policy test:

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

Key questions for local leaders

- *Where do you wish to **channel development**?*
- *Where have you recently invested in **infrastructure** or enacted **zoning** reform?*
- *What are your priority neighborhoods for economic **revitalization**?*
- *What are your core **anchor assets** in eligible census tracts?*
- *Which tracts might be primed for **housing** and which for **commercial** development?*
- *Where are your **brownfield** sites? Where is there the greatest potential for **in-fill**?*
- *Are there nascent poles of **population growth** on which you'd like to build?*
- *Are there opportunities for **workforce housing** along key **transit corridors**?*
- *Where does the county have **land** that could be contributed to high-impact projects?*

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

Aligning Projects, Capital, and Policy

What worked in OZs 1.0

Worked!

- New and refurbished multifamily rental housing
- Workforce housing
- Mixed-use developments
- Adaptive reuse and historical rehabilitations
- Real estate for commercial purposes
- Urban, semi-urban, and suburban in-fill development

Sometimes worked...

- Deeply affordable housing
- Pairing with LIHTC and NMTC
- Business investment
- Diversified rural investments*
- CDFI/impact sector engagement*

Did not work.

- Single-family homes (especially for sale)
- Venture-style equity investment
- Direct investment into small businesses
- “Retail” investor participation
- Widespread rural investment*
- Transparency*

**expect to change or improve with 2.0*

What tools are at your disposal to influence outcomes?

To **contribute to projects**:

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

To **drive investment towards impact**:

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



Impact Case Study: Opportunity Alabama

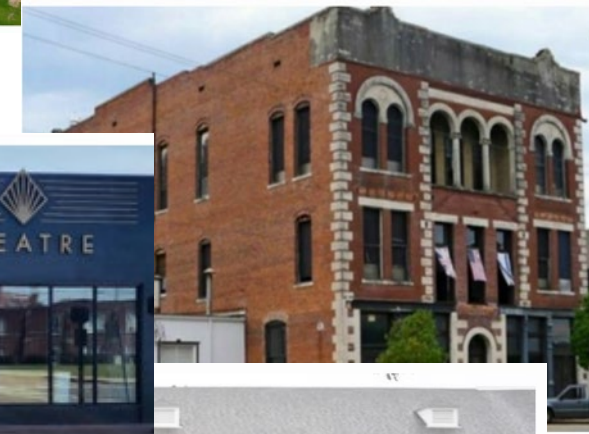
“OZs did not come with a playbook. In AL, we decided we needed one.”

How it works:

- ✓ A non-profit **“created to be a catalyst for investments in meaningful projects and underserved places across Alabama”**
- ✓ Civic **entrepreneurship** and institutional **innovation** at work
- ✓ Seeded by local **utility, banks, and other anchors**
- ✓ Supported by **EDA, philanthropy, others**
- ✓ **Certified CDFI** with an affiliated investment fund

OPAL **builds capacity and solves problems:**

- ✓ Cultivates an **investor base** *and* a project pipeline
- ✓ Engages in **predevelopment** work
- ✓ Helps ready **distressed rural** regions for investment
- ✓ Connects **committed capital** to **high-impact** projects
- ✓ **Coordinates** capital and incentives



Impact Case Study: Sharswood Ridge

Local Philadelphia development brings more than just affordable housing

- ✓ Creates **78 workforce housing units** for renters earning 80-100% AMI and **20 deeply affordable units** through project-based **vouchers** from the Philadelphia Housing Authority
- ✓ Provides a much-needed grocery store, bank, medical clinic, and ample retail space to this **medically underserved food desert**
- ✓ Made possible through many public, nonprofit, and for-profit investments and financing tools, including locally **crowdsourced capital**
- ✓ Led by a local, minority-owned developer and the city's PHA, it is been called one of the **largest and ambitious revitalization efforts** in the country
- ✓ Expected to create **300 permanent jobs**, most of which will go to local residents



Impact Case Study: Erie Flagship Complex

Local anchors harness OZs for downtown transformation

- ✓ A **high-capacity** downtown development corporation and large **anchor** financial institution harnessed OZs to **accelerate local plans**.
- ✓ That **local capacity and commitment** unlocked **additional capital** from national impact investors.
- ✓ Multi-property **historic redevelopment** project consisting of food halls, commercial spaces, and residential units.
- ✓ Brought first **grocery store** to downtown, a food desert, in decades.
- ✓ Market-rate units bringing **residents and a tax base** back to downtown.
- ✓ Prime real estate creates numerous opportunities for **local small business owners**.



Impact Case Study: Adaptive re-use in Frederick, MD



Ox Fibre Apartments

Location: **Frederick, MD**

Congressional District: **Maryland 6th**

Opportunity Fund Manager: **BCC Opportunity Zone I, LLC**

QOZ Business: **400 Church Street Owner, LLC**

Investment Date: **Q3 2019**

Project Details: **Adaptive reuse of historic warehouse into 83 new affordable apartments**

- ✓ Historic industrial building converted into 83 affordable housing units.
- ✓ Available to families making 40-60% AMI in the center of a vibrant and amenity-rich neighborhood.
- ✓ Combined state LIHTC and HTC funding (\$15.4m in state-sponsored debt).
- ✓ OZ equity helped close a delicate capital stack and bring the project over the finish line.

Capital Stack



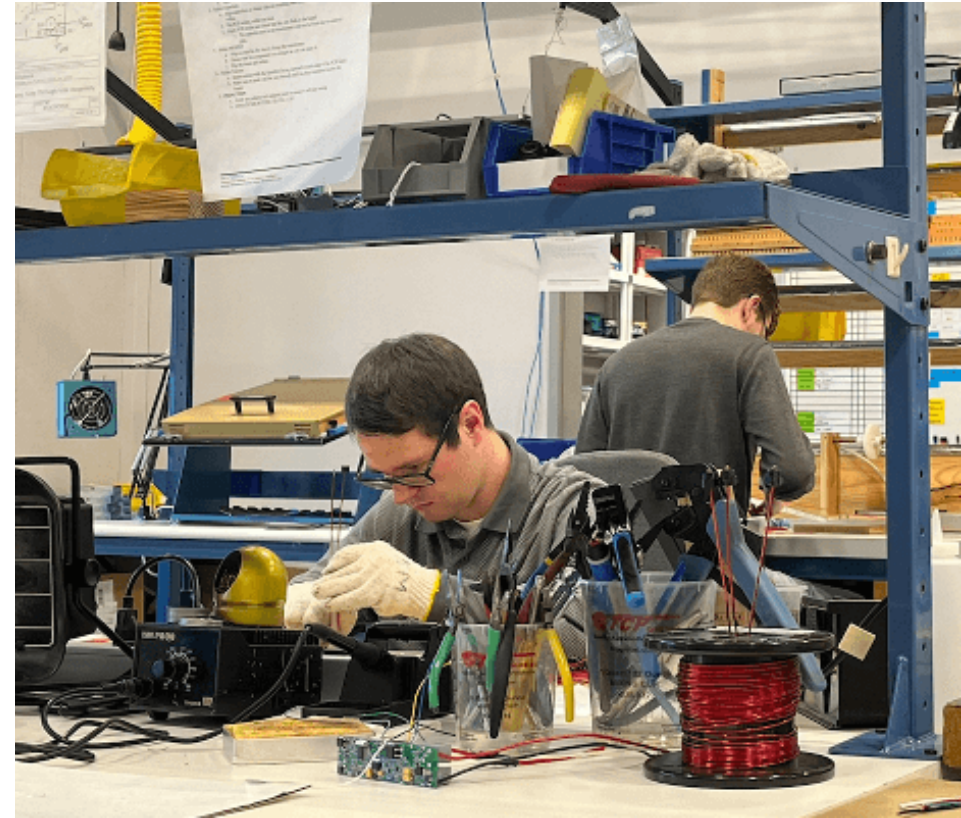
- Federal Housing Administration (FreddieMac) debt – \$10.5 million
- Housing Credit equity – \$7.1 million
- Historic Tax Credit equity – \$4.4 million
- Opportunity Zones equity – \$830,000
- State and County debt – \$3.4 million
- Deferred Developer Fee – \$670,000

Total Development Cost: Approximately \$27 million

Impact Case Study: nth Innovation center

Concept to commercialization under one roof in Coatesville, Pennsylvania

- ✓ **30k sq ft of space** for offices, events, and manufacturing, including facilities for **engineering, prototyping, and product testing** for tech startups
- ✓ **First QOZ project** in Chester County, PA and first major private commercial project for Coatesville in **over 50 years**
- ✓ Fostered **multiple Qualifying OZ business startups** manufacturing in Coatesville.
- ✓ Provides **workforce training** and **job opportunities** for those with barriers to employment
- ✓ Robust **STEM internship program** provides real work experience to high school students and some are **named as co-inventors** on patents
- ✓ **\$5 million** private equity investment from Proudfoot Capital
- ✓ Serves as a **community meeting place**
- ✓ Benefits from **complementary state** zone-based programs



Case Study: Brookville, IN

- ✓ Brookville had not seen any new development in more than 20 years when leaders approached a local developer with a plan to redevelop the **historic downtown**.
- ✓ Brookville's size, lack of recent development, and the mixed-income, mixed-use nature of the project made it **difficult to finance**.
- ✓ The original plan was **scaled back and delayed** until Brookville was designated as an OZ.
- ✓ An OZ investment by a local couple allowed the concept to move forward.
- ✓ The Valley Flats project offers 27 apartments with **assisted living** services for seniors, 20 **market-rate units**, a pharmacy, **restaurant**, and a movie theater.
- ✓ The investors also used OZ financing to acquire a local **newspaper**, allowing it to modernize and continue to serve the community, and bring the first **hotel** to the area.



Investment Case Study: Port Angeles Wharf

Rehabilitation of an anchor development

- ✓ 2020 OZ investment substantially improved a deteriorating waterfront asset central to the city's revitalization.
- ✓ Investment 3x the initial acquisition cost (300% improvement compared to required 100% under OZs 1.0; 50% under OZs 2.0).
- ✓ Occupancy has risen from 65% to 95% post-OZ investment.
- ✓ Locus of job creation for 9 new small businesses.
- ✓ Encountered real pain points around supply and labor constraints, leading to improvisation.
- ✓ Had to maneuver around state obstacles.
- ✓ Commitment from local bank was pivotal.



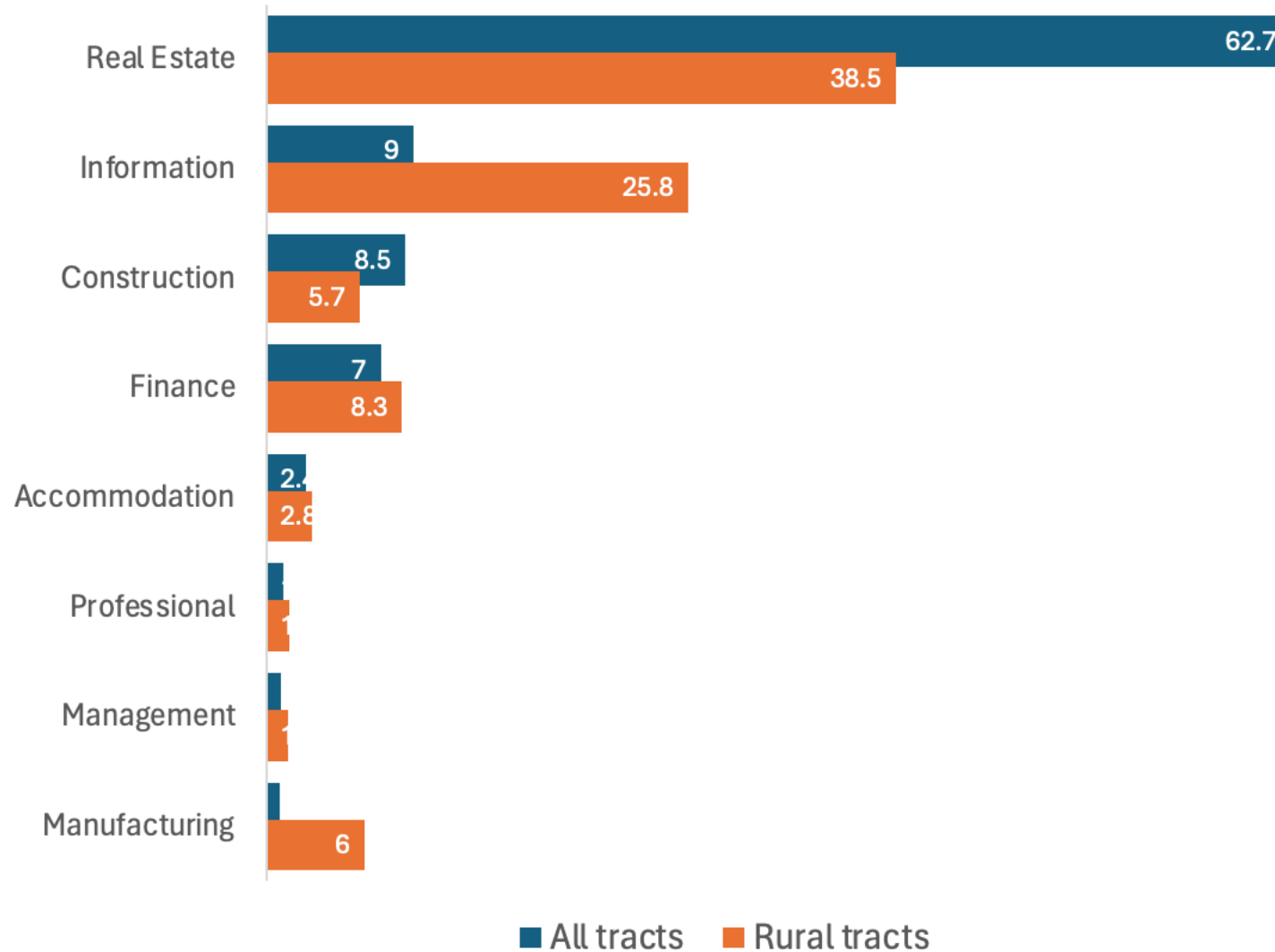
Room for growth

Rural and industrial use cases

What do we know about OZ activity in rural places?

- ✓ Rural areas **were well represented** in the zone designation process:
 - 23% of OZ tracts are rural/non-metropolitan
 - 1/3 in North Carolina, 40% in Georgia, and 76% in Vermont
- ✓ **\$6.1 billion** in OZ equity has gone to rural areas* so far.
- ✓ Rural OZs are home to some of the nation's most impactful and novel investments.
 - Rural areas seem to have a particular advantage in **business investments**.

OZ investments in rural areas skews towards information and manufacturing



A nationwide sample of rural OZ investments



Tourism - Selma, AL



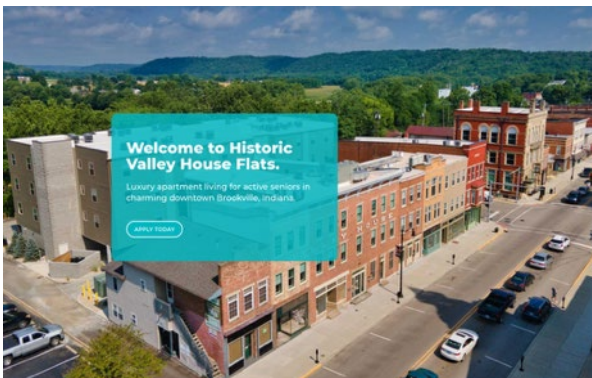
Workforce housing –
Glenwood Springs, CO



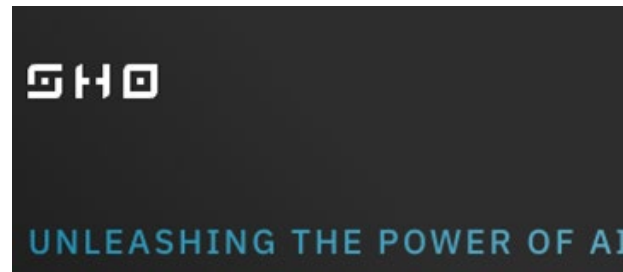
**Building 100 at Regional
East Alabama Logistics
(REAL) Park**

Location: **Macon County, AL**
Congressional District: **AL - 3rd**
Opportunity Fund Name: **OPAL Fund**
Opportunity Fund Manager: **OPAL Advisory
(a subsidiary of Opportunity Alabama)**
Investment Date: **Q2 2022**
Project Details: **New industrial park in rural AL**

Industrial development - AL



Downtown revival - Brookville, IN



AI startup - Cape Girardeau, MO



Agile Space Industries

Location: **Durango, CO**
Congressional District: **CO-3**
Opportunity Fund Name: **CORI Innovation Fund**
Opportunity Fund Manager: **Center on Rural
Innovation**
Investment Date: **Q2 2020**
Project Details: **Innovation startup in a rural
community**

Rural innovation - CO

A nationwide sample of commercial and industrial OZ investments



Agriculture – Berlin, NH



Culture – Birmingham, AL



Automotive manufacturing – Detroit, MI



Shipbuilding – Mobile, AL



PPE manufacturing – Grove City, OH



Mining – Yuma, AZ

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

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