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ARE THERE OPPORTUNITIES IN OPPORTUNITY ZONES?

Introduction

Opportunity Zones (OZ) are an economic development tool designed to spur investment in impoverished areas (census tracts¹). OZs were created by the 2017 Tax Cuts and Jobs Act. They allow investors to defer (and, if investments are held for a long time, to partially exclude) capital gains received from qualified investments made in Opportunity Zones from federal tax.² In this research we speculate on the potential effect of the Opportunity Zones program in the greater Cleveland area. 8,764 census tracts in the United States received Opportunity Zone designation. 320 of them were selected in Ohio. Of those, 317 are low-income census tracts and 3 contiguous non-low-income tracts. Since OZs are a very recent invention (the final OZs included in the program were identified by the end of 2018), there is, as of now, no data or empirical research on them.³

The Internal Revenue Service (IRS) published the following regulations regarding qualified OZ (QOZ) designation:

“A population census tract is eligible for designation as a QOZ if it satisfies the definition of ‘low-income community’” (LIC). In addition, under § 1400Z–1(e) of the Code, a tract that is not a LIC is eligible for designation if both of the following conditions are met: (1) The non-LIC census tract is contiguous with a LIC that is designated as a QOZ (the contiguous LIC QOZ need not be in the same state.); and (2) The median family income of the non-LIC tract does not exceed 125 percent of the median family income of that contiguous LIC QOZ.⁴

Socio-Economic and Demographic Analysis of NEO counties

In the next section we provide a general socio-economic and demographic analysis of the 18 Northeast Ohio (NEO) counties, including Ashland, Ashtabula, Columbiana, Cuyahoga, Erie, Geauga, Huron, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, Trumbull, Tuscarawas, and Wayne counties. We analyze OZs and two types of tracts: (1) Contiguous non-low-income tracts, and (2) Low-income tracts that are qualified, but were not designated as Opportunity Zones. For the completeness of the analysis we also include the remaining (non-low-income and non-contiguous) census tracts in our research. First, we identify the number of parcels⁵ within each tract category (Table 1).

There are a total of 1,070 parcels among the 18 counties. Of these, 125 parcels are located in designated Opportunity Zones. 395 parcels are in low-income census tracts (and, therefore, eligible for OZ designation), but were not selected as OZs. 131 parcels are in non-low-income contiguous census tracts. The remaining 544 parcels are the other parcels located in NEO in non-low-income census tracts. Two of the 18 counties, Ashland and Huron, do not have designated Opportunity Zones (but have eligible tracts).

Table 1. Number of Parcels in Census Tracts, in 2017

County	OZ	LIC (non-OZ)	Contiguous non-LIC	Non-OZ	Total
Ashland	0	5	4	2	11
Ashtabula	2	12	6	6	24
Columbiana	1	7	6	10	23
Cuyahoga	64	184	34	165	383
Erie	2	6	1	10	17
Gauga	1	0	2	18	20
Huron	0	4	3	6	13
Lake	2	5	4	48	57
Lorain	5	25	6	38	69
Mahoning	10	31	6	23	60
Medina	2	0	4	31	35
Portage	1	10	7	17	34
Richland	3	10	6	11	27
Stark	7	24	10	45	79
Summit	16	42	6	71	119
Trumbull	5	16	12	22	50
Tuscarawas	2	6	5	8	19
Wayne	2	8	9	13	30
Total	125	395	131	544	1,070

¹ Census tracts are defined as small, relatively permanent statistical subdivisions of a county or equivalent entity that are updated by local participants prior to each decennial census (<https://www.census.gov/programs-surveys/geography/about/glossary.html>).

² IRS and the U.S. Department of the Treasury

³ U.S. Department of the Treasury

⁴ [IRS Notice 2018-48, 2018-28 Internal Revenue Bulletin 9](#), July 9, 2018

⁵ Parcels are defined as a piece of land, with or without structures, with single ownership (<https://www.lawinsider.com/dictionary>).

Cuyahoga is by far the most populous county and has the largest number of designated Opportunity Zones (64).

Table 2 provides mean values for several socio-economic and demographic indicators of the census tracts in 2017. The data comes from the American Community Survey (ACS) by the US Census Bureau. The determination of Qualified Opportunity Zone (QOZ) status and subsequent selection of OZs was based on the ACS 2017 survey results. This analysis also uses 2017 ACS data.

The distribution of male and female residents is similar between OZs and other census tracts. OZs and LICs, while dominated by white residents, tend to have a much higher proportion of black residents compared to more affluent communities. While the proportion of younger individuals is also similar among the four type of tracts compared, residents of OZs and LICs are less likely to have a college education.

Residents in OZs and LICs are also more likely to be unemployed. Over 30% of families in OZs live in poverty (which is not surprising given the requirements for OZ designation), compared to 25.2% in LICs not designated as OZs, and 4.8% in other non-OZ tracts. The median income of households (h/h) residing in OZs has been only about 42% of the median income in non-OZ tracts (\$29,000 in OZs compared to \$69,600 in non-OZs).

Non-OZ tracts have a higher percentage of occupied housing units (93.3%) compared to that of OZ tracts (81.6%). Occupied units in non-OZ tracts are 78.7%

owner-occupied and 21.3% renter-occupied. In contrast, occupied units in OZ tracts are 38.6% owner-occupied and 61.4% renter-occupied. Median values of owner-occupied houses are also much lower in OZ tracts — \$80,340 in OZs compared to \$171,340 in non-OZ tracts. Census tracts designated as Opportunity Zones also have a larger proportion of older houses.

Property Values of Eligible Properties – Cuyahoga County

As discussed earlier, Opportunity Zones allow investors to save on the taxes of realized capital gains. The concept of Opportunity Zones is very new and there is no data to identify the effectiveness of this tax preference. However, the idea of providing tax incentives to spur economic development in blighted areas is hardly novel. In the next portion of our analysis we focus on another tax preference that has been extensively used to help incentivize investment and revitalize blighted neighborhoods — the property tax relief.

For this analysis we select a small subsample of properties in Cuyahoga County to determine whether there are differentials in property values between the parcels that received any property tax advantages in the past 10 years — such as property tax abatements, TIF (Tax Increment Financing) or EZ (Enterprise Zone) designation, and property tax exemptions for certain facilities or organizations — and those parcels that did not receive any property tax reductions.

Table 2. 2017 Socio-Economic and Demographic Characteristics by Census Tract

	OZ	LIC (non-OZ)	Contiguous non-LIC	Non-OZ
Total Population	2,592.7	2,927.2	4,078.8	4,193.6
% male	49.0	47.6	48.6	48.9
% white	48.6	55.5	85.9	90.9
% black	43.2	37.1	9.9	4.8
% Asian	2.2	1.4	1.1	1.8
% not Hispanic or Latino	93.2	92.8	97.3	97.6
% of h/h with individuals under 18	27.0	29.2	28.0	27.7
% 25 and up with bachelor's degree or higher	14.6	14.5	22.3	34.1
Average h/h size	2.2	2.3	2.5	2.4
% civilian labor force unemployed	8.6	7.8	3.8	3.0
% of families in poverty	30.1	25.2	8.8	4.8
H/h mean income	\$39,613	\$43,702	\$63,500	\$87,417
H/h median income	\$29,115	\$33,044	\$52,137	\$69,609
% of occupied housing units	81.6	82.5	91.0	93.3
% of owner-occupied units	38.6	49.5	72.2	78.7
% of renter-occupied units	61.4	50.5	27.8	21.3
% of vacant housing units	18.4	17.5	9.0	6.7
Median value of owner-occupied houses	\$80,340	\$74,707	\$120,170	\$171,340
% of housing units built in 1939 or earlier	43.7	39.7	22.6	14.1

Treatment groups: Eligible properties in Opportunity Zones that received other tax preferences in the past 10 years

Comparison groups: Eligible properties NOT in Opportunity Zones that received other tax preferences in the past 10 years

We selected 89 parcels from the list of all census tracts eligible for Opportunity Zone designation (Figure 1). Our subsample includes 27 parcels eligible for Opportunity Zone designation, but not designated as an OZ and not receiving any sort of property tax relief; 20 similarly eligible, but not OZ properties that received some property tax relief in the past 10 years; 29 parcels that received OZ designation but did not receive any property tax relief in the past 10 years; and, 13 properties that are in an OZ and have received property tax preferences in the past 10 years (Figure 1). The selected properties, in about equal parts (16-17% of total), represent food and drink, heavy and medium manufacturing industries, and medical facilities. 12% of selected properties represent larger retail stores, and about 23% represent light manufacturing.⁶

Table 3 compares data for commercial parcels selected to be in Opportunity Zones, those eligible, but not in OZs, and eligible properties that received and have not received property tax advantages between 2008 and 2018. Eligible parcels that received any property tax preferences tend to be smaller in size. While property value went down over time for all properties, total value for parcels that were subject to lower taxes went down by less than the properties that did not receive any tax ad-

Figure 1. Subsample of Parcels



vantages. Taxable values, after the deduction of all tax credits, abatements, and exemptions, were expectedly lower for parcels that received property tax preferences than those that did not. Interestingly, while there are clear differences between all considered characteristics for two types of properties, none of them are statistically significant. The differences in eligible properties selected or not selected for participation in the Opportunity Zone program, on the other hand, are almost all statistically significant. Properties selected for OZ designation are much smaller in size (significant at a 95% confidence level). They had much smaller total and taxable property values in both 2008 and 2018 compared to eligible, but not designated properties (significant at a 99% confidence level).

Table 3. Property Tax for Eligible Parcels

	In Opportunity Zone		Received tax advantages		
	Yes	No	Yes	No	Diff
Property size, in square feet	345,341	912,614	575,587	692,131	-116,544
Total usable area in building	66,444	97,011	86,595	76,777	9,818
Total property value in 2018, real \$	\$2,679,604	\$6,480,983	\$4,826,634	\$4,604,833	\$221,801
Total property value in 2008, real \$	\$2,033,896	\$10,671,211	\$5,986,148	\$6,906,629	-\$920,481
Taxable value in 2018, real \$	\$2,488,921	\$6,137,415	\$4,094,623	\$4,604,833	-\$510,210
Taxable value in 2008, real \$	\$1,979,949	\$9,036,764	\$3,690,332	\$6,906,629	-\$3,216,297

⁶ Data from Cuyahoga County Auditor's Office

Figures 2 and 3 show total property value and taxable value for the four studied groups of properties.

- Parcels that received any sort of property tax relief were doing better (in terms of total and taxable values) compared to parcels that did not receive such relief.
- Both total and taxable values for properties in census tracts eligible for OZs, but not selected to participate in the program, are higher than those for properties chosen for OZ.
- Both total and taxable values of parcels in low-income census tracts eligible for OZ designation, but not selected to participate in the program, lowered substantively between 2008 and 2018.
- The value of non-OZ parcels not receiving any property tax relief has been steadily lowering by a total of 41% over the considered timeframe. In comparison, total property value for non-OZ properties that received tax relief lowered by only 4%. However, after the subtraction of all tax preferences, the taxable value of such properties (total value with the deduction of all credits, exemptions, and other tax reducers) lowered by 36%.
- The value of the parcels in Opportunity Zones, on the other hand, went up between 2008 and 2018. The total value of the OZ properties not receiving any preferential tax treatment increased by about 8%. The total value of OZ properties that previously received any forms of property tax relief increased by 95%.

There are several limitations to our current analysis. First, the sample size is small, especially when a subsample of properties is considered. Since this is a small pilot study, a sample of properties was selected using similarities in only several properties, rather than selecting randomized treatment (in OZ) and benchmark (not in OZ) samples. A larger study would be required to select a significantly larger sample of properties and geographies. Therefore, the analysis may not accurately represent mean property values for the entire population of properties in Cuyahoga County. Additionally, we only consider

Figure 2. Total Property Value

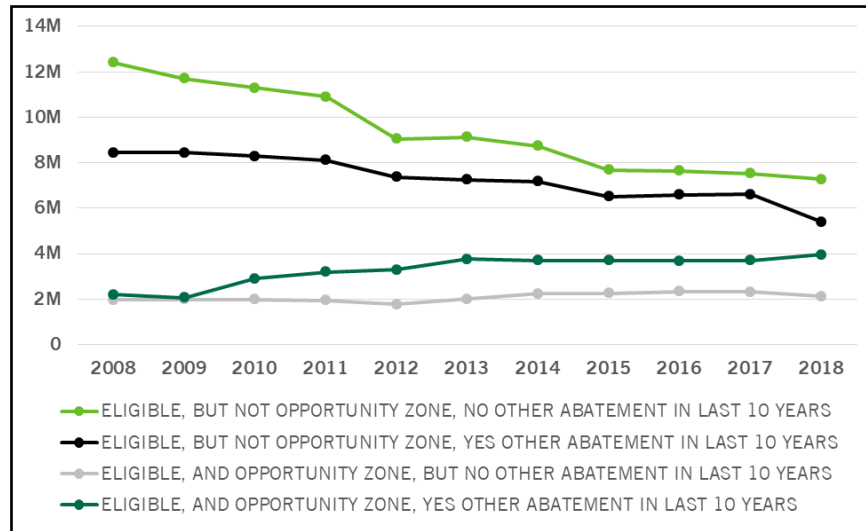
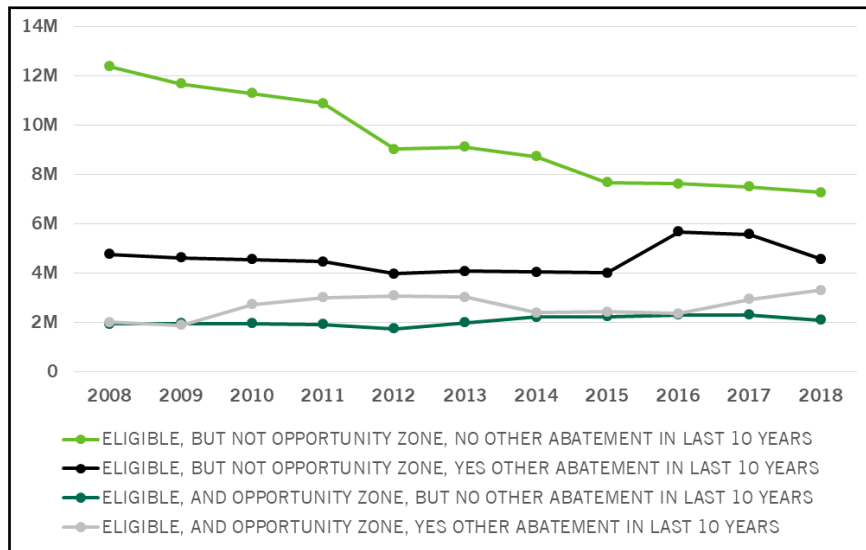


Figure 3. Taxable Property Value



property tax preferences in this analysis. There are other tax and non-tax instruments that can have a revitalizing effect on blighted areas, such as New Markets Tax Credit (NMTC), the Job Creation Tax Credit, Historical Preservation Tax Credit, other tax incentives that target specific geographical regions or industries, direct infrastructure investments, special bond issuance provisions, and others. Finally, we simply considered if studied properties are subject to any property tax preferences. However, the combined effect of several tax benefit programs are not analyzed. This pilot study gives a glimpse at the potential effectiveness of the OZs. A more in-depth study will be able to account for these limitations, as well as analyze other potential dimensions of Opportunity Zones, such as job creation, income, and others.

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