Leveraging Opportunity Zones to Boost Affordability in Hot Markets

Lessons from King County, Washington

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About **290,100** households in King County, or around one in three, were cost burdened in 2017.

A family of four earning 80 percent of the area median income can pay **$1,920** in monthly rent without being cost burdened. But the fair market rent in King County for a three-bedroom apartment is **$2,933**.

About **113,221** people live in King County's **23** Opportunity Zones.

Families living in King County's Opportunity Zones have an annual median income **$33,395** lower than the county overall. Their poverty and unemployment rates are **12** and **1 percentage points** higher, respectively.

King County is roughly **62 percent** white, **17 percent** Asian American and Pacific Islander, **9 percent** Hispanic, and **6 percent** black. Its Opportunity Zones are roughly **33 percent** white, **24 percent** Asian American and Pacific Islander, **17 percent** Hispanic, and **19 percent** black.

The Opportunity Zones tax incentive, created by the Tax Cuts and Jobs Act of 2017, was designed to spur investment in low-income and undercapitalized communities. How can stakeholders use the program to benefit disinvested neighborhoods and expand access to affordable housing? The experiences of investors, developers, government officials, and philanthropy representatives show how the incentive is working nationally and locally in King County, Washington.

OPPORTUNITIES AND CHALLENGES OF OPPORTUNITY ZONES

Opportunity Zones provide a new tool for mission investment

- The incentive has allowed some developers to raise capital more quickly (but under stricter time constraints).
- The program's low barriers to entry (compared with tax credits) allow more individuals with capital gains to invest in communities.
- The program can help lower the cost of capital for new business owners who are ready to accept equity investments.

Absent other subsidy sources, Opportunity Zones aren't enough to produce deeply affordable housing

- Although the program may lower costs and help raise capital, developers and investors report that Opportunity Zones financing is not sufficient to produce deeply affordable housing.

High impact and high return are difficult to achieve in the same investment

- Most traditional investors expect market-rate returns (10 to 14 percent), even for mission-driven projects. But such returns are less compatible with benefits to low- and middle-income Opportunity Zone residents.
- Some investors are motivated by social benefits and are willing to accept lower returns to subsidize impact when projects help specific groups, such as tribal communities.
- Family investment offices are helpful partners because they have greater flexibility in investment decisions.

A 10-year investment time line is a challenge and an opportunity

- The program's 10-year investment hold incentive allows for medium- and long-term impact approaches. But it requires investors to develop exit strategies for the 10-year mark while (ideally) finding a way to leave some of the subsidy in the business or property and maintaining affordability.

STRATEGIES TO EXPAND ACCESS TO AFFORDABLE SPACES THROUGH OPPORTUNITY ZONES

Design sustainable long-term approaches

- Co-op conversions are one responsible exit strategy. Tenants could have part of their rents credited to this purpose, and investors could be paid by the co-op through shared payment contributions.
- Investors could involve the community with a slice of the company ownership from the start and facilitate their full acquisition of the property at the end of the 10-year period.
- Making up to 20 percent of units affordable in market-rate developments can deliver community benefits that are sustained over time by palatable returns.

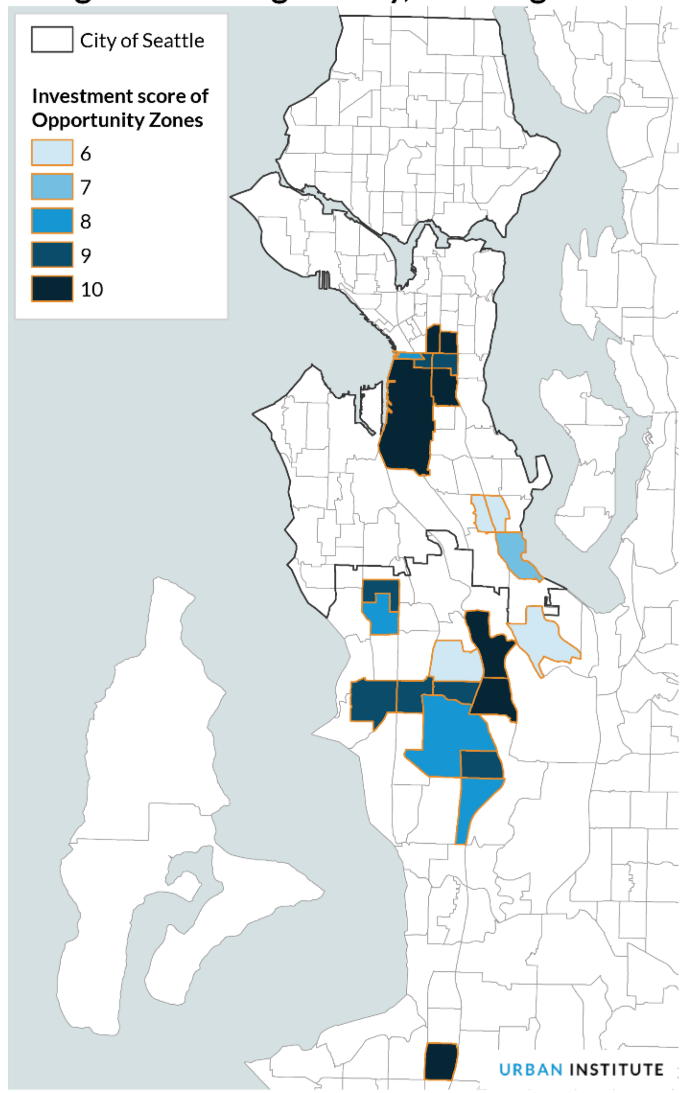
Tie Opportunity Zone funding to other credits and subsidies

- Opportunity Zones financing can help fill gaps in the equity required to access other federal, state, and local programs.
- These include, among others, the new markets tax credit, the low-income housing tax credit, community development block grants, the US Small Business Administration 504 loan, and the Section 108 Loan Guarantee Program.

Partner strategically with local government and philanthropy

- Local subsidies and risk-mitigation approaches can set the guardrails that are absent from federal regulations (such as income verification), and they can provide some missing capital that may thwart mission-driven projects.
- Many community development financial institutions and community organizations are close to the communities that a project would serve. Their networks and expertise can better create the conditions where low and moderate-income residents benefit from investment.

Investment Scores of Opportunity Zones Designated in King County, Washington



Source: Urban Institute analysis of 2011–17 CoreLogic data, 2015 Longitudinal Employer Household Dynamics Origin Destination Employment Statistics Workplace Area Characteristics, 2011–17 American Community Survey data, 2000 Decennial Census data, 2011–17 Home Mortgage Disclosure Act data, and 2011–17 Community Reinvestment Act.
Notes: Investment scores indicate the level of investment flows to tracts based on commercial lending, multifamily lending, single-family lending, and small-business lending. Scores range from 1 (lowest) to 10 (highest).

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