Financing Affordable Housing and Small Businesses through Opportunity Zones

Lessons from Cuyahoga County, Ohio

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Cuyahoga County has a shortage of 43,965 rental units that are affordable and available to extremely low-income renters—the largest shortage in Ohio.

Families living in Cuyahoga County’s Opportunity Zones have an annual median income $19,165 lower than the county overall. Their poverty and unemployment rates are 20 and 10 percentage points higher, respectively, than the county.

Cuyahoga County is roughly 59 percent white, 30 percent black, and 6 percent Hispanic. Its Opportunity Zones are roughly 24 percent white, 65 percent black, and 6 percent Hispanic.

In Cuyahoga County, 73 percent of business owners are white, and these firms account for 95 percent of sales.

Ninety-four percent of taxable gains in the US are held by people with individual gross incomes above $100,000. The median household income in Cuyahoga County’s Opportunity Zones is $26,124.

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 support affordable housing, finance small businesses, and boost job creation? The experiences of investors, developers, government officials, and business representatives show how the incentive is playing out nationally and locally in Cuyahoga County, Ohio.

OPPORTUNITIES AND CHALLENGES OF OPPORTUNITY ZONES

Opportunity Zones are attracting new types of investors

- Developers are attracting investors other than the typical Community Reinvestment Act lenders and social impact investors.
- Although Opportunity Zones improve projects’ internal rates of return modestly, larger benefits may come from those projects’ enhanced visibility and the multiple interactions with local governments it attracts.

Opportunity Zone incentives have an unclear effect on helping deals close

- Some developers acknowledge that they use the incentive only to sweeten the terms of deals that have already been discussed and negotiated.
- Increases in the internal rate of return are reported to be around 2 to 3 percentage points for market-rate projects or for those using the incentive in tandem with the low-income housing tax credit.
- The incentive may be more important and more challenging to use in disinvested communities, such as some rural areas where the cost of construction is similar to the cost in large urban areas but the value of properties or monthly rent is only one-third as much.

Real estate projects are proving easier than investments in current businesses

- Exit strategies after the 10-year mark (when taxes on new gains can be avoided) are more complex for businesses (they might include repurchasing equity, bringing in other partners, and so on).
- Business relocations or physical expansions may present clearer opportunities to tap into Opportunity Zone financing by moving an existing business into an Opportunity Zone.
Opportunity Zones are already increasing the value of land in some communities

- Some developers report land value increases thanks to Opportunity Zones. But city officials worry about unfavorable consequences in parts of Cleveland, such as Tremont or Ohio City, where the property tax burden had already been rising before the program began.

Community buy-in is significant to a project’s success

- Opportunity Zone community members are likely to contribute to the success of the real estate or business project as patrons, buyers, or renters if their input is included in the planning process.

STRATEGIES TO MAXIMIZE COMMUNITY BENEFIT THROUGH OPPORTUNITY ZONE INVESTMENTS

Take steps to lower the risk of investments in communities of need designated by the Opportunity Zone program

- Public-private partnerships can help develop the infrastructure that certain real estate and business projects may require to improve their chances of success.
- Economic development agencies can be useful partners in plans to relocate a business into an Opportunity Zone.
- Facilitating and promoting community buy-in through alternative financial investments can also lower investment risk; these might include offering guarantees, easing the zoning or entitlement processes, or pursuing policies aimed at increasing residents’ incomes.

Investment Scores of Opportunity Zones in Cuyahoga County, Ohio


Notes: Investment score indicates level of investment flows to tracts based on commercial lending, multifamily lending, single-family lending, and small business lending. 1 is the lowest, and 10 is the highest.