Socioeconomic Profile of the Qualified Opportunity Zones in New York

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EXECUTIVE SUMMARY

Purpose of the Research
In this report, the Newman Real Estate Institute (NREI) examines the socioeconomic characteristics of the qualified opportunity zones and provide a snapshot of those communities, focusing on New York State and New York City.

Median Household Income
Based on the 2017 American Community Survey (ACS) data, the median household income for the 514 selected opportunity zones in New York State is $39,364, which is 63 percent of the statewide median household income. The income gap between the qualified and the non-qualified tracts is also found in New York City.

Housing Price Index
The growth rates of the FHFA House Price Index (HPI) in qualified opportunity zones, between 2017 and 2018, are evidently higher than the rates for the rest of the region (i.e., non-qualified zones) at all geography levels.

Poverty and Unemployment Rates
The average poverty and unemployment rates are significantly higher in the opportunity zones. Particularly, the poverty rate for the qualified zones is more than double the rate for the non-qualified census tracts nationwide (30% vs. 14%).
Background

As part of the recent Tax Cuts and Jobs Act (TCJA), 8,764 census tracts were designated as qualified opportunity zones across the country.1)

The most populous states have the most qualified zones: California (879 tracts), Texas (628), Florida (427), New York (514), Illinois (327), and Pennsylvania (300).

When it comes to the per-capita number of opportunity zones (tracts) in each state, Wyoming designated the highest number of zones per capita (0.43 zones per 10,000 population), followed by Vermont (0.40), D.C. (0.37), Alaska (0.34), and North Dakota (0.34). (See Exhibit 1)

In New York City, 306 census tracts have been labeled as opportunity zones: Brooklyn has 41 percent (125 zones) of all the NYC qualified zones, followed by Bronx (25%, 75 zones), Queens (20%, 62 zones), Manhattan (12%, 36 zones), and Staten Island (3%, 8 zones).

The primary purpose of designating opportunity zones is to catalyze investment in depressed and under-developed neighborhoods while providing affordable housing as well as job creation.

Exhibit 1. The Number of Qualified Opportunity Zones by State

From the investor standpoint, this program provides incentives in the form of the deferral or reduction of taxes on capital gains invested in qualified zones through a Qualified Opportunity Fund (QOF) until December 31, 2026, or the date on which the investment in a QOF is sold or exchanged.

A growing number of research papers analyze the impact of the opportunity zones on the corresponding and adjacent neighborhoods. For example, Sage, Langen, and Van de Minne (2019) estimate the impact of the program on commercial property prices and find a 13.5% price increase for redevelopment of commercial properties and a 9.6% price increase for vacant development sites since the introduction of the opportunity zone program. 2)

Exhibit 1-1. Top Five States by the Number of QOZs

<table>
<thead>
<tr>
<th>State</th>
<th>QOZs</th>
<th>% of the total QOZs</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>879</td>
<td>10.0%</td>
</tr>
<tr>
<td>Texas</td>
<td>628</td>
<td>7.2%</td>
</tr>
<tr>
<td>New York</td>
<td>514</td>
<td>5.9%</td>
</tr>
<tr>
<td>Florida</td>
<td>427</td>
<td>4.9%</td>
</tr>
<tr>
<td>Illinois</td>
<td>327</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Exhibit 1-2. Top Five States by the Number of QOZs per 10,000 population

<table>
<thead>
<tr>
<th>State</th>
<th>QOZs</th>
<th>QOZs per 10,000 population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyoming</td>
<td>25</td>
<td>0.429</td>
</tr>
<tr>
<td>Vermont</td>
<td>25</td>
<td>0.400</td>
</tr>
<tr>
<td>D.C.</td>
<td>25</td>
<td>0.372</td>
</tr>
<tr>
<td>Alaska</td>
<td>25</td>
<td>0.338</td>
</tr>
<tr>
<td>North Dakota</td>
<td>25</td>
<td>0.335</td>
</tr>
</tbody>
</table>

Note: Puerto Rico has the highest number of QOZs per population (2.48 zones per 10,000 population).

Note: Puerto Rico has 863 qualified opportunity zones (9.8% of the total).
In a broader context, the opportunity zone program is comparable to other types of place-based tax incentives, such as state Enterprise Zones, the federal Empowerment Zone, and New Markets Tax Credit (NMTC) programs, which are relevant predecessors to the opportunity zone policy.

For comparison, Freedman (2019) shows that a $1 million investment in NMTC-subsidized census tracts leads to a roughly 2% increase in median home values at the corresponding tract.

Nomination of QOZs

Regarding the designation criteria of opportunity zones, Eldar and Garber (2019) find that those qualified zones are more likely for census tracts with (1) higher unemployment rates and poverty levels and (2) lower household income, and (3) tracts in counties that supported the governor in the last election.  

Specifically, the opportunity zone statute (26 U.S.C. Section 1400Z-1) defines a census tract that is a low-income community can be designated as a qualified zone if the median income is no greater than 80 percent of the statewide or metropolitan area’s median family income, or if the tract’s poverty rate is over 20 percent.

Based on the criteria, each state’s governor selects candidate census tracts in the first stage of the nomination process, and then those tracts are finally approved by the federal government—the U.S. Department of the Treasury, although there is still considerable variation in how qualified zones are selected in each state.

In this context, this report examines the socioeconomic characteristics of qualified opportunity zones and provides a snapshot of those neighborhoods.

Socioeconomic Characteristics of QOZs

Exhibit 2 compares the median household income of the qualified opportunity zones with the income for the non-qualified tracts, and the entire region in New York.

The median household income for the 514 selected opportunity zones is $39,364, which is 63 percent of the statewide median income.

When we compare the median household income of the opportunity zones to the income of non-opportunity zones, the figure becomes only 55 percent (compare columns 1 and 3 for New York State in Exhibit 2).

Zooming into New York City, where 306 census tracts have been qualified as opportunity zones, the median household income ($42,080) is 68 percent of the citywide median income.

Queens has the highest median income for opportunity zones ($52,387), while the Bronx has the lowest income ($27,490) among five boroughs in New York City.
The FHFA (Federal Housing Finance Agency) House Price Index (HPI) in qualified opportunity zones, between 2017 and 2018 are evidently higher than the rates for the rest of the region (i.e., non-qualified zones) and the entire regions, at all geography levels. (See Exhibit 3)

At the national level, the HPI increased by 6.48 percent, on average, during the same period, while the price index increased by 8.01 percent in the opportunity zones.

The same patterns are also found at the state and the county level (i.e., New York State and the five boroughs in New York City), as shown in Exhibit 3.

**Particularly in New York City, the qualified opportunity zones experienced a sharp increase in the HPI by 10.88 percent between 2017 and 2018.**

As mentioned above, the opportunity zone program can be categorized as a place-based incentive policy, in a broader sense, that governments subsidize firms or investors who operate in specific zones or neighborhoods, often with the intent to revitalize economically depressed communities. 

In this regard, it is required for the policy evaluators to measure how the program successfully revives those target areas. Among various factors, poverty and unemployment rates are the two main characteristics that are often used to evaluate the place-based incentive programs.

**Exhibit 4 presents the poverty and unemployment rates comparing three different geographic groups:** (1) the qualified opportunity zones only, (2) non-qualified census tracts, and (3) the entire region, at the national, state, and county level.

Based on the datasets obtained from the 2017 American Community Survey (ACS), the average poverty rates are evidently higher in the opportunity zones, compared to those rates for the rest of the region.

Particularly, the poverty rate for the qualified zones is more than double the rate for the non-qualified census tracts nationwide (30% vs. 14%).

All five boroughs of New York City also show the significant difference between the two geographic boundaries. Furthermore, the opportunity zones are associated with higher unemployment rates across the state and county.
Conclusions

Since the period of the opportunity zone program is still too short to measure the program’s socio-economic outcomes on both the designated and adjacent communities, the focus of this report is to provide a snapshot of the qualified census tracts, with a comparison to the non-selected areas.

Considering the nomination guidelines specified in the opportunity zone legislation, the qualified tracts in New York State and New York City, on average, sufficiently satisfy the requirements of the median household income no higher than 80 percent of the area’s median income and the poverty rate over 20 percent.

As described, the purpose of the opportunity zone program is to catalyze investment in depressed and under-developed neighborhoods while providing affordable housing as well as job creation. Therefore, it is more important to monitor if the program achieves its goals of boosting investment in low-income communities and thus invigorating their economy.

We hope our analysis provides a useful starting point to track the performance of the program. Further research will be done at the Newman Real Estate Institute to learn how the designated census tracts become vitalized in many aspects both in the residential and commercial markets.
End Notes

1. The first set of opportunity zones were designated on April 9, 2018, covering parts of 18 states. Afterward, additional opportunity zones have been designated covering parts of all 50 states, the District of Columbia and five U.S. territories. We obtained the full list of qualified opportunity zones from the U.S. Department of the Treasury website.


4. These definitions are the same as established for the New Markets Tax Credit program, in section 45D(e).


8. Following the Office of Management and Budget’s (OMB) Statistical Policy Directive No. 14, the Census Bureau uses a set of income thresholds that vary by family size and composition (e.g., age of the family members) to determine who is in poverty. For example, the poverty threshold for a family of four members (two adults and two children) is $24,858 in 2017.

About the Steven L. Newman Real Estate Institute at Baruch College-CUNY

The real estate industry is a magnet for talent and creativity, a world in which even those from humble beginnings can make great fortunes and leave enduring legacies. It has enormous impacts on society, the economy, and the environment, and it is deeply intertwined with public policy at the local, national and international levels.

Since its founding in 1996, the Institute, housed within the Zicklin School of Business and Baruch College at CUNY, has pursued and provided timely insight on critical urban issues beyond those traditionally associated with core real estate topics.

Focus areas include sustainability, historic preservation, asset repositioning, energy efficiency, comparative market analysis, econometrics, property remediation, building retrofits, and public transportation needs to name but a few.

The Institute’s approach is to identify pivotal theoretical knowledge and research and convert it into a clarified form for immediate assimilation by industry and professional groups, agencies, and related organizations.

With our varied programs and extensive network, the Institute provides applied research, professional education (online certificate in real estate finance), and conferences to the real estate industry, as well as to organizations focused on public policy.

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