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Tax Break Creates New Frontiers of "Opportunity"

A program created by tax reform could pave the way for a flurry of investment activity in struggling communities nationwide.

The Tax Cut and Jobs Act of 2017 contained a provision that allows investors to defer or avoid taxes on capital gains if the money is reinvested in designated "Opportunity Zones." The goal is to generate economic activity in areas that once thrived but have fallen on hard times. More than 8,700 areas in the U.S. have been certified by the Treasury Department as opportunity zones.

Although activity has been limited by the many unanswered questions about the program, fund managers are starting to raise capital for opportunity funds and momentum is expected to pick up once regulators provide guidance on details that were not included in the bill.

The nature of the program makes it unlikely to move the needle for institutional investors or core commercial real estate, but opportunity zones have the potential to draw capital from non-traditional sources—such as high-net-worth individuals, family offices and endowments—and to spur revitalization in blighted urban areas and tertiary markets.

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