



ECONOMIC
INNOVATION
GROUP

Opportunity Zones 2.0

NH&RA Annual Meeting

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February 21, 2026





Review:
What are OZs and what is their impact to date

What are Opportunity Zones? A refresher

- With broad **bipartisan** heritage, Opportunity Zones were first integrated into 2017's TCJA and reformed and made permanent through 2025's OBBBA.
- Opportunity Zones currently provide a series of **federal capital gains tax incentives** for qualifying investment into qualifying low-income communities.
 - **Deferral:** Delay taxes on any capital gain rolled into an Opportunity Fund.
 - **Step-up:** Adjusted basis for calculating the tax owed on that deferred gain.
 - **Exclusion:** No tax liability on qualifying investments held in OZs for 10+ years.
- Investments must be **patiently held** and **economically additive**.
- **Governors** are called on to designate 25% of their low-income census tracts as Opportunity Zones, with the map in place for 10 years.
 - At present, there are 8,726 OZ census tracts spread across every state and territory.*

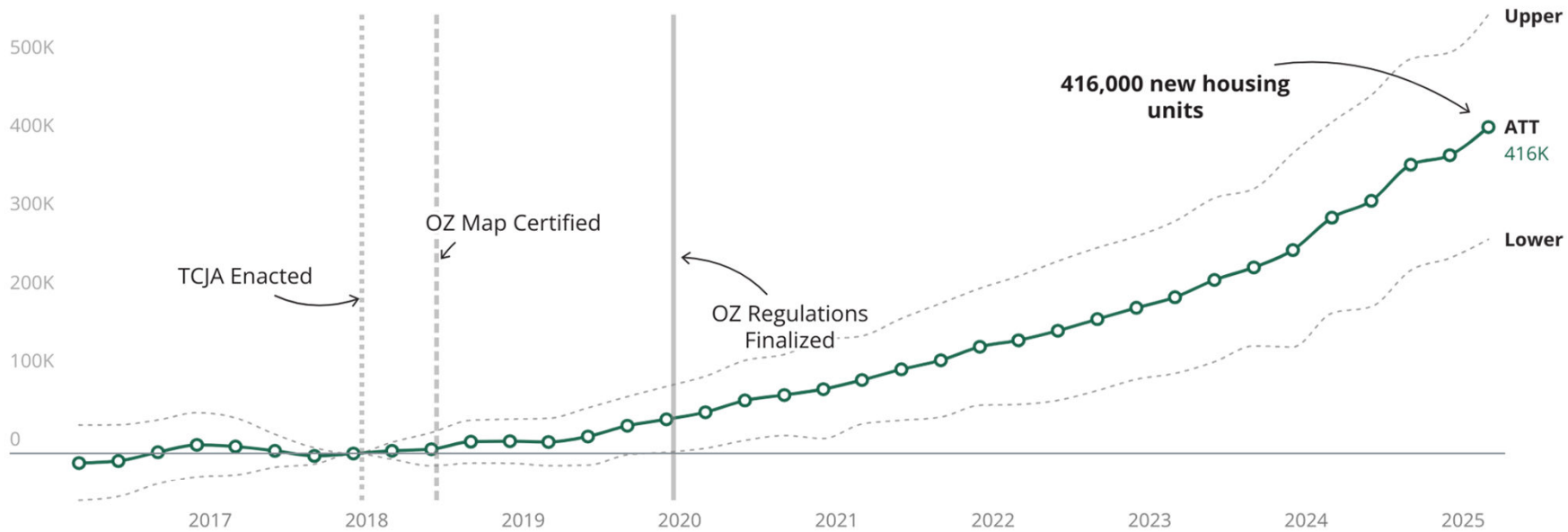
OZ Key Facts

The limited data we have testify to the policy's significance

- ✓ OZs have unlocked more than **\$100 billion** in qualifying equity investment.
- ✓ More than **three-quarters** of all designated OZ tracts have seen investment.
- ✓ The average OZ census tract has a **28% poverty rate** and **median household income** that is only **59%** of the national level.
- ✓ OZ designation produced **large and immediate** development effects, with early evidence pointing to meaningful increases in **housing, jobs, and businesses**.
- ✓ OZ communities experienced **larger improvements in poverty, incomes, and vacancies** than their peers.
- ✓ OZ have **positive spillover effects** on development activity in neighboring areas.

The OZ policy caused the creation of more than 416,000 new housing units through Q1 2025.

Opportunity Zones' effect on the count of residential active and vacant addresses



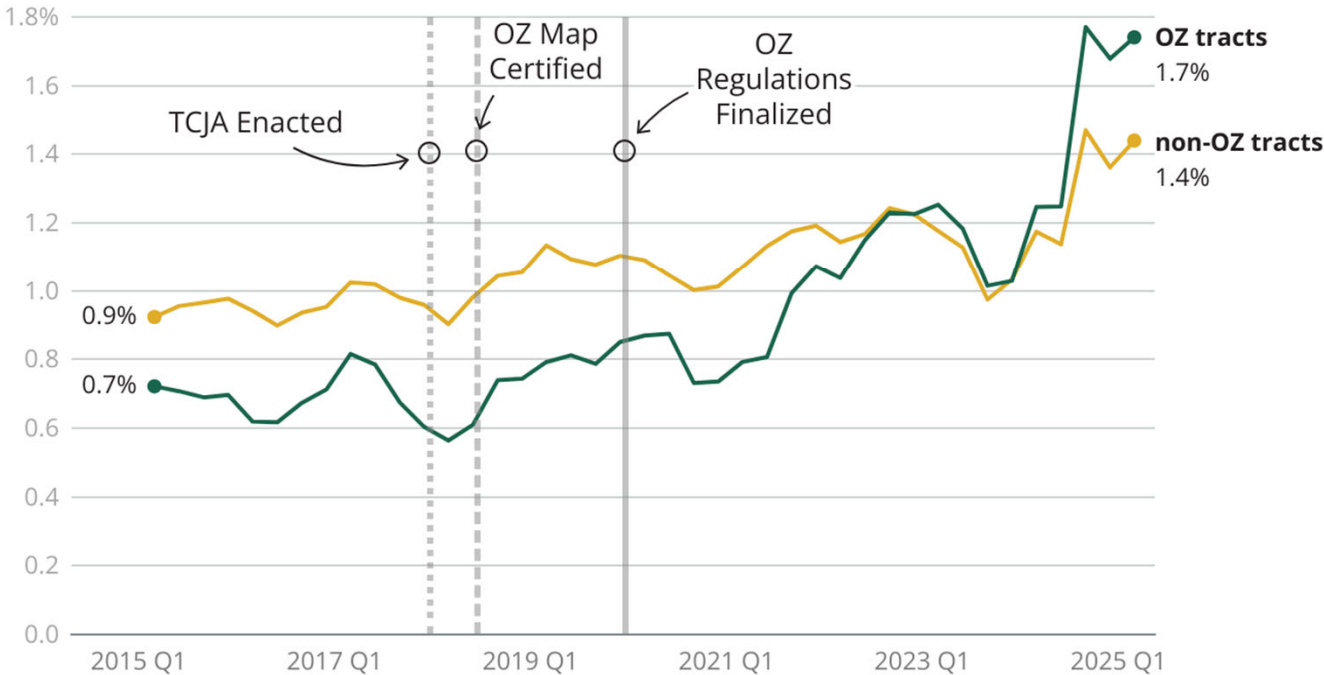
Effect estimates and a 99% confidence interval. Data comes from the HUD Aggregated USPS Administrative Data on Address Vacancies. Regression Results from the Callaway and Sant'Anna difference-in-differences (CSDID) approach, with a universal base period. Using data defined at the 2020 Census tracts level which we then cross walked back to 2010 boundary definitions. The results include conditional parallel trends accounting for the tract's poverty rate, median household income, the share of a tract's housing stock that are defined as solo and detached, and an index on local zoning regulation. The comparison group are defined using a doubly-robust estimator selecting from all un-selected and ineligible non-bordering census tracts.

Source: HUD Aggregated USPS Administrative Data On Address Vacancies

OZ are proving to be one of the most powerful supply-side federal housing incentives in generations.

Annual growth rate in housing units, Q1 2015 to Q1 2025

Using 2020 standardized data crosswalked to 2010 census tract boundaries



The **growth rate** in new housing units in Opportunity Zones **more than doubled** after designation — without taking away from other tracts.

Source: Economic Innovation Group analysis of HUD Aggregated USPS data



Looking forward:
What you need to know about OZs 2.0

OZ 2.0: What's new

- ✓ **Incentive structure.** Changes will result in a smoother, more predictable flow of investment.
- ✓ **Rural provisions.** Significant added tax benefits for rural investments will likely influence behavior.
- ✓ **Zone eligibility and designation.** Stricter targeting criteria will produce a narrower map.
- ✓ **Reporting and transparency.** A robust data collection and publication regime will demystify OZ investment.

Incentive structure

OZs offer three capital gains tax benefits:

- ✓ **Deferral** of taxes on any capital gain rolled into a qualified Opportunity Fund
- ✓ **Step-up** in basis on those deferred gains once the tax comes due
- ✓ **Exclusion** of any gain on investments made in OZs and held for at least 10 years

New changes allow for **rolling deferrals** and a **fixed step-up**.

- Investors can roll recently realized capital gains into an Opportunity Fund at any point and benefit from a **standard 5-year deferral** and **10% step-up in basis**.
- This will smooth investment over time, avoiding the cliffs from OZs 1.0.
- New provisions come into effect January 1, 2027.

Rural provisions

Investors into a special class of Qualified Rural Opportunity Funds (QROFs) benefit from

- a stronger **30% step-up** (compared to the new 10% standard) and
- a lower **50% substantial improvement** threshold (instead of the standard 100%)
 - The lower improvement threshold came into effect immediately.
- QROFs must hold at least 90% of their assets in qualifying OZ investments in rural areas.
- The definition of rural is complex and requires further guidance from Treasury to parse.
 - The statute reads that rural areas are those outside of cities or towns with more than 50,000 inhabitants or any urbanized area contiguous and adjacent to such places.

EIG's read: These benefits are likely to increase rural OZ investment significantly.

Special note: Rural areas tend to host a wide mix of OZ use cases, incl. industrial and commercial.

Governors may wish to take anticipated investor interest in rural opportunities into consideration when designating zones (although rural areas were not underrepresented in 1.0)

Zone eligibility and designation

Decennial zone selections

- New investment maps will be set every 10 years starting January 1, 2027
- The 1.0 map will still be in effect for the first two years of the 2.0 map (until December 31, 2028)
 - *Key date: the 90-day window for new zone designations will kick off July 1, 2026.*

Eligibility criteria

- **Poverty rate** remains at 20%
 - However, tracts qualifying on poverty must have a median family income *below* 125% of the area benchmark.
- **Median family income** falls from 80% of the area benchmark to 70%.
 - This reduces the number of eligible tracts and future OZs by >20%.
- No special treatment for **Puerto Rico**; no **contiguous** tracts

As before, **governors nominate 25%** of their qualifying tracts as OZs, with a 25 tract minimum.

Reporting and transparency

The reporting, data collection, and transparency regime long sought after is now in place.

Opportunity Funds will provide detailed project-level information to the IRS:

- New fields include housing units created, job estimates, and affordability measures

IRS/Treasury will provide detailed tract-level data to the public:

- **Annual** reports on QOF numbers and assets, investment across industries, tracts with confirmed investment, and tract level detail on the amount of investment, housing, and jobs.
- **In years 6 and 11** a report on **outcomes** from the incentive across **poverty, new business starts, employment, and other economic indicators.**
 - Complete with comparisons to peer tracts.

EIG's take: These requirements will make OZs among the most transparent tax incentive programs ever and truly raises the bar for policy evaluation.

Timeline



July 4, 2025: OBBBA signed into law; rural substantial improvement provisions in effect

January 1, 2026: New reporting provisions come into effect for Opportunity Funds and investors

July 1, 2026: Governors' 90-day window to designate new OZs opens

December 31, 2026: End of OZs 1.0 deferral window

January 1, 2027: OZs 2.0 provisions in effect. OZs 2.0 map activates

December 31, 2028: OZs 1.0 map formally sunsets

VII. Appendix: Timeline of OZ 2.0 developments

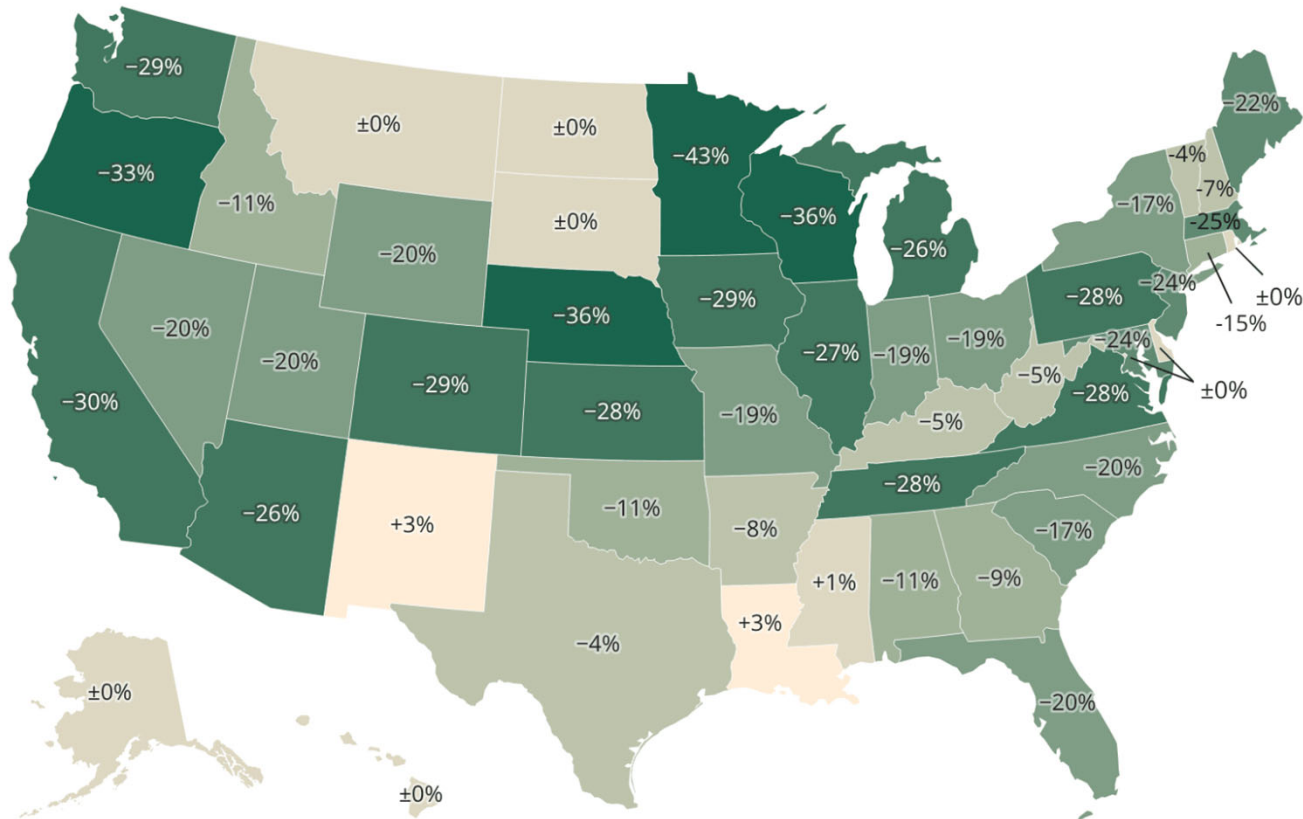
Quarter	Q3 2025			Q4 2025			Q1 2026			Q2 2026		
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
OZ milestone	Jul 4: OBBBA passes and OZs made permanent. Jul 4: New substantial improvement threshold goes into effect for rural investments.		Sep 30: IRS guidance identifying OZ 1.0 tracts that meet rural definition released.			2020–2024 ACS data expected to determine census tract eligibility to be released.	Official list of eligible census tracts released by Treasury (expected).					
Recommended activity for state and local officials				Identify core team and lead state agency to manage the zone selection process. Begin preliminary data analysis into likely eligible census tracts based on available 2019–2023 data ASAP; shift to 2020–2024 data as soon as available. Begin targeted outreach to trusted advisors, visionary local leaders, and knowledgeable OZ market participants.				Activate zone nomination process in earnest. Sketch and socialize a vision for the state's OZ nominations. Gather zoning, land use, and other necessary data to inform decision-making. Set agenda and expectations for other state agencies and local government partners to align rules, regulations, and initiatives behind desired outcomes in OZs.				Arrive at a shortlist of eligible tracts that align with the state's vision. Conduct public engagement, publish draft recommendations, and solicit public comment before the formal nomination window opens. Interagency work gets underway in earnest.

OZ 2.0 policy milestone
 OZ 2.0 tract designation milestone
 OZ 1.0 milestone

Quarter	Q3 2026			Q4 2026			Q1 2027			Q4 2028
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	DEC
OZ milestone	Jul 1: Zone designation window opens: Governors have 90 days to nominate 25% of their eligible census tracts for OZ status.		Sep 29: Deadline for governors to submit zone nominations to U.S. Treasury (expected).	Oct 29: Deadline to submit zone nominations for states that requested a 30-day extension (expected). Oct 29: End of 30-day window U.S. Treasury has to certify on-time zone nominations (expected).	Nov 28: All OZ 2.0 tracts certified by the U.S. Treasury (expected).	Dec 31: Close of 2026 tax year and end of OZ 1.0 deferral period. All deferred tax must be paid in this year's tax filings.	Jan 1: New OZ designations take effect. Jan 1: OZs 2.0 incentives (i.e., rolling 5-year deferral, standard 10% step-up) take effect. Jan 1: Remaining enhanced rural incentives take effect (i.e., 30% step-up).			Dec 31: End of eligible investment window into 1.0 OZ tracts.
Recommended activity for state and local officials	Core teams finalize proposed nominations, present to governor.			Announce complementary initiatives, policies, or programs to support investment and desired outcomes in OZs.			Continue raising awareness among investor and community stakeholders. Proactively encourage investment into 1.0 tracts before they sunset. Launch complementary programs and initiatives.			

Expected Change in Opportunity Zones by State

Between 2018 and 2026 designation cycles



Stricter eligibility criteria mean that most states will have **~20% fewer** OZ tracts to nominate in 2026.

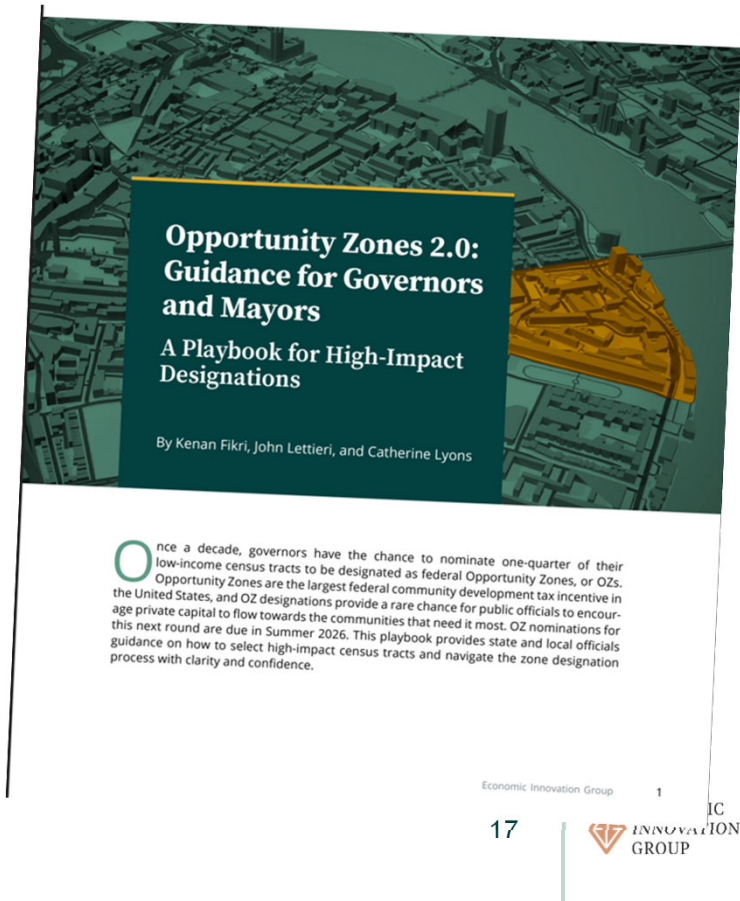
Nationally, the number of OZs is expected to fall from 8,726 to **6,544**.

Note: VT and WY have fewer than 25 eligible tracts, the minimum number of OZs guaranteed in statute. This map assumes they can designate all eligible tracts but no more. Final determinations rest with the U.S. Treasury.

Source: 2020-2024 American Community Survey 5-Year Estimates

Eight principles for a robust zone designation process

1. Get a **head start** preparing data and speaking with trust advisors now
2. Set a **vision** for how your state or community aims to harness OZs
3. Designate a lead **coordinating entity** within state government
4. Engage **local partners** strategically
5. Balance economic **need** and investment **potential**
6. Combine both **quantitative** and **qualitative** insights
7. Embrace purposeful **transparency**
8. **Align** OZ nominations with supportive policy tools



A three-part test for identifying good OZ tracts

1. The community test:

Does the area genuinely need new investment to grow and diversify their economies so that residents can prosper?

2. The market test:

Does the area areas have a reasonable chance to attract private capital and put it to productive use within the policy's timelines?

3. The policy test:

Are local policies investment-friendly and conducive to economic development?

Resources

- **OZ 2.0: A Guide for Governors and Mayors:** <https://eig.org/ozs-guidance/>
- **Current OZ Map with Rural Overlay:** <https://eig.org/opportunity-zones/resources/>
- **OZ 2.0 Draft Eligibility Map:**
<https://www.arcgis.com/apps/dashboards/c473c71f0704408f934fbdc342caf1f1>
- **EIG's OZ 2.0 Analysis:** <https://eig.org/opportunity-zones-2-0-where-things-stand/>
- **EIG OZ Webinar on What State and Local Leaders Need to Know:**
<https://eig.org/events/what-state-and-local-leaders-need-to-know/>

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