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Opportunity Zones and Affordable Housing: Perfect Together?

Two of the most topical subjects in commercial real estate are the dire need for affordable housing, and the prospects for investing in opportunity zones. Can the solution for the two issues be intertwined, like the old candy commercial where chocolate meets peanut butter?

The picture on affordable housing is dire, one that grows worse by the year. As apartment rents increase faster than income, the number of households that pay a substantial portion of income on housing is rising. Meanwhile, supply of affordable units is constrained by rising land and construction costs and stringent restrictions on building in many metros.

Opportunity zones were created by the 2017 tax law to encourage development in areas with low household incomes. Investors may defer taxes on capital gains and to avoid paying taxes on profits for investments in qualified zones that are held for the long term. A law designed for development of real estate in low-income areas should help solve the demand for affordable housing. Although off to a slow start while capital was being raised and regulations are being clarified, the number of opportunity zone funds and projects started has begun to gain momentum. There's little doubt that opportunity funds will contribute to the effort on housing affordability.

However, because of the complicated nature of affordable housing, the nuances of the opportunity zone program and the demands of investing in real estate risky submarkets, it will take several years to get a full picture of the impact on the affordable housing puzzle.

Properties in Opportunity Zones: National Overview

| | In-Place + UC | Planned + Prospective | Total |
|----------------------|---------------|-----------------------|---------|
| Multifamily OZ Units | 1.9 Mil | 455K | 2.3 Mil |
| % of Total MF Units | 13.1% | 19.3% | 14.0% |

Source: Yardi Matrix (as of August 2019)