

Five Strategies for Engaging Opportunity Zone Investors



Communities often have a vision for the kinds of investment and development that will be most beneficial to achieving their goals for an equitable, thriving future. For those with designated Opportunity Zones, communities often wonder, “How can we engage Opportunity Zone investors to support our vision for community revitalization?” Data about Opportunity Zones are clear that most of these census tracts suffer from a lack of ongoing public and private investment. As a result, Opportunity Zones may lack key infrastructure or other assets that investors seek to ensure a productive return on their investment. This quick guide outlines five key strategies for engaging Opportunity Zones investors including resources and tips that can help communities attract investment to their revitalization efforts.

Types of Investors in Opportunity Zones

Opportunity Zone investors are very divers and can be an individual taxpayer or an entity that has recently experienced a capital gain. These investors are in communities of all shapes and sizes and are seeking investment opportunities in both projects and businesses located in Opportunity Zones. Examples of investors include institutional and corporate investors from banks and insurance companies, high net worth individuals, community foundations, or philanthropic impact investors.

As investors experience capital gains, they can move their gains into an Opportunity Fund to realize the tax benefits of the Opportunity Zones incentive. There are three primary incentives available: (1) defer federal capital gains taxes owed today for a period of years; (2) be eligible to receive a reduction in those capital gains taxes; and (3) be exempted from paying future capital gains taxes if certain investment criteria are met. Sometimes an Opportunity Fund is established by an individual investor. More often an Opportunity Fund is maintained by a fund manager that combines

investments from many qualified sources and directs them into Opportunity Zone projects in communities across the United States. In fact, Opportunity Funds can invest in projects or businesses in any of the 8,700+ Opportunity Zones and are not required to invest in the community where a particular investor or fund is located.

To better understand the marketplace for Opportunity Zone investments, Novogradac maintains a [national database of Opportunity Funds](#) that voluntarily report their investment activities. Through September 2020, these Opportunity Funds reported raising over \$12 billion of investment capital to be directed into Opportunity Zone projects and businesses. Novogradac’s analysis shows a diversity of investments, including funds that direct capital to projects in a single city or state, and many with a regional or national focus.

Evaluating Community Resources

In June 2020, the Economic Innovation Group released results from a [national Opportunity Zones survey](#) with analysis from investors and fund managers about investment activities to date. Of note, 40% reported that Opportunity Zone investments would only be possible with other additional forms of capital supporting their projects.

Local communities can show leadership in attracting Opportunity Fund investments by proactively aligning other funding sources for a project. For example, identifying local Development Finance Agencies (DFAs), Community Development Finance Institutions (CDFIs), traditional lenders, tax credit investors, or other government and philanthropic grants can help Opportunity Zone investors understand how their equity fits into the financing plan for a project.

Local communities may also want to consider proactive investments they make today in order to attract investment throughout the life of their Opportunity Zones. Many communities have discovered that investing in local infrastructure, such as improved roads or broadband, updating transportation networks, creating workforce readiness programs, or developing small business lending programs prepares their local economic development ecosystem for Opportunity Zone investment.

In addition, securing funding from federal agencies such as the U.S. Environmental Protection Agency, Economic Development Administration, Department of Housing and Urban Development, or Department of Agriculture for these types of projects can often be a catalyst for attracting long-term private investment in Opportunity Zones.

Strategies for Engaging Investors

Communities may want to consider developing a revitalization financing plan to support their Opportunity Zone goals. A first step could include assembling partners that can speak with expertise and experience about their local economic base and long-term development goals. Most importantly, investors often report that they do not need local communities to be experts on Opportunity Zones statutes and regulations. Rather, investors rely on communities to help align their capital with community priorities. The following five strategies can help communities attract Opportunity Zone investors to support their revitalization goals.

Five Key Strategies

1. Promote Your Community
2. Be Connectors
3. Activate Anchor Institutions
4. Showcase Projects
5. Create a Campaign

1. Promote Your Community

Local Initiatives Support Corporation (LISC) and the Council of Development Finance Agencies (CDFA) published [Navigating Opportunity Zones](#), a playbook for communities to understand the Opportunity Zones incentive. Community leaders, including staff in local governments and agencies, should educate themselves about the basic principles of Opportunity Zones in order to identify potential projects ready for investment. By participating in and presenting at Opportunity Zones gatherings across the country, communities can attract interest from new stakeholders and investors.

2. Be Connectors

The Urban Institute offers statewide recommendations in [An Opportunity Zone Guide for Governors](#), many of which can also be applied to local communities. Local leaders should regularly communicate with Opportunity Fund managers to highlight investment opportunities and develop relationships with investors and mission-driven financiers that align with local goals and strategies. For example, communities could provide matchmaking services that connect local investors with appropriate fund managers. In addition, hosting community conversations with updates about projects and strategies can help to cultivate continued relationships with investors.

3. Activate Anchor Institutions

Drexel University published a series of detailed recommendations for local communities to develop Opportunity Zone strategies in [From Transactions to Transformations: How Cities Can Maximize Opportunity Zones](#). One idea is to coordinate with local, place-based anchor institutions, such as hospitals, universities, or other major employers or economic drivers. Local anchor institutions might already have investor relationships that can help a community's Opportunity Zone efforts. For

example, hospitals and universities often support new businesses and technologies, which can lead to strong relationships with investors. Additionally, anchor institutions benefit from a thriving economy, so there is an incentive for them to partner on revitalization efforts, especially in distressed neighborhoods and communities.

4. Showcase Projects

Many communities have found success by concentrating on one marquee project to develop investor interest. This focused strategy can lead to new investor relationships as that initial project takes shape and begins to demonstrate returns. The Governance Project has a [Toolkit for Maximizing the Impact of Opportunity Zones](#) that outlines steps for identifying priority projects. Further, to attract investors outside of the community, consider using an interactive platform to promote projects and development opportunities. Organizations like [The Opportunity Exchange](#) provide options for sharing project goals to a national audience of interested investors.

5. Create a Campaign

For projects located in an Opportunity Zone that need to attract capital, consider creating a fundraising campaign with the same spirit that philanthropic organizations often employ. Many high net worth individuals who donate to charitable causes may also be interested in allocating their capital gains toward local Opportunity Zone projects. In order to see a local redevelopment project take shape, community leaders can come together to ask neighbors to help address a financing gap by investing in an Opportunity Fund. Raising public awareness about redevelopment and revitalization efforts has the potential to attract investors from within the community and creates a feedback loop to refine the plans based on community voices and involvement.

Thinking About Positive Community Impact

By proactively coordinating with Opportunity Zone investors, communities can identify investors who share similar goals for social impact. Clarifying these goals up front and developing a mutual investment strategy will help communities and investors work together in achieving the revitalization they both seek.

The U.S. Impact Investing Alliance, the Beeck Center for Social Impact + Innovation at Georgetown University, and the Federal Reserve Bank of New York partnered to create the [OZ Framework](#) a set of guiding principles to help investors align their capital to effectively address community needs and priorities. They note that many investors (including those entering the Opportunity Zones market) have an explicit goal of creating positive social, economic, and environmental impact. Local community leaders are important actors in helping to bridge the gap between the capital raised in Opportunity Funds and the social, economic, and environmental returns that investors seek.

The OZ Framework outlines how communities and investors can engage in conversations to mutually identify investment priorities, equitable returns, and transparency in their financial decisions. Communities can coordinate with investors and fund managers to proactively identify measurable goals and data that can be collected to track social returns such as community wealth building, improvement in infrastructure, access to jobs, and livable wages.

Readiness Checklist

Local communities can control many key site redevelopment steps to enhance the attractiveness of a property to investors. Communities that want to engage with investors using any of the five strategies mentioned in this guide can assess their readiness, and address key indicators of readiness for investment. Many of these steps align with requirements for state and federal funding and technical assistance programs to secure site control.

- Assess and address environmental issues
- Remove unusable buildings and infrastructure
- Ensure zoning matches future use goals
- Build or enhance public infrastructure such as streets and utilities
- Align local leadership around a shared future use vision
- Identify financing programs and incentives that can support gaps and meet Return on Investment needs

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