The Impact of Opportunity Zones on Housing Supply

Benjamin Glasner,[1] Adam Ozimek, and John Lettieri

[1]Presenting Author,
Economic Innovation Group

December 2, 2025

ECONOMIC
INNOVATION
GROUP

Research Question

- Do Opportunity Zones (OZs) increase local housing supply?
  - How many?
  - How long does it take?
  - What types of places?
- Identification pitfalls:
  - Treatment selection on observable and unobservable characteristics
  - Fuzzy treatment rollout
  - Treatment effect heterogeneity
  - Near-border investment displacement risk

What are Opportunity Zones

- Place-based capital gains tax incentive: investors can defer and reduce existing capital gains tax liabilities by reinvesting them in Qualified Opportunity Funds (QOFs), which invest in qualifying assets/tracts.
- OZs use the New Markets Tax Credit "low-income community" (LIC) rules: poverty $> 20\%$ or median family income $\leq 80\%$ of area median.
- A small share (2.6% of all OZ designations) of non-LIC tracts designated as "contiguous tracts": tracts contiguous with a designated LIC and a median family income that does not exceed 125% of the adjacent LIC's median family income.
- Governors could nominate up to 25% of eligible tracts for Opportunity Zone (OZ) status. In total, 8,764 tracts were designated.

What are Opportunity Zones

Not all investments qualify:

- New productive activity, not transfers of ownership or financial engineering
- "Original use," such as new construction
- "Substantial improvement," the taxpayer must at least double the adjusted basis of an existing asset following acquisition

What can this do?

- Enhance the after-tax returns of projects that might otherwise be financially marginal or unattractive
- Break a cycle of underinvestment at the local level

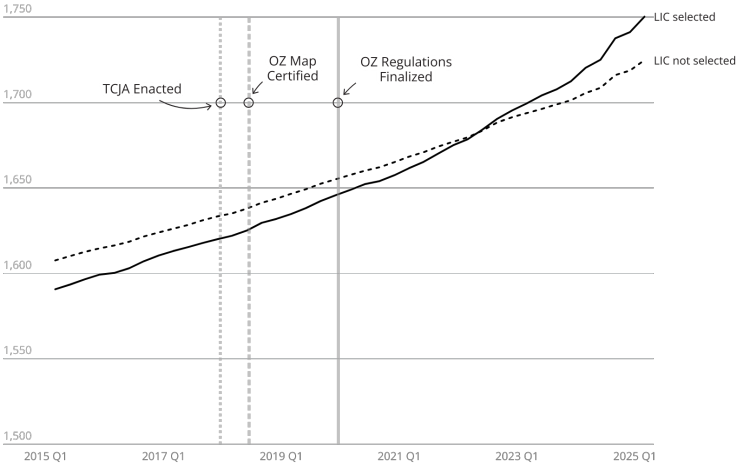
What can't this do?

- Not a targeted income transfer
- Not a hiring credit

Data: HUD Aggregated USPS Administrative Data on Vacancies

- **Measure:** Address counts from USPS delivery records aggregated by HUD.
- **Unit:** Census tract i by quarter t, 2014Q1–2025Q1.
- **Scope:** Active and Vacant *Residential* addresses.
- **Strengths:** High-frequency, national administrative series
- **Caveats:** Addresses proxy units; not strictly 1:1.
- **External check:** Trends align with Census housing stock at aggregated levels.
- **Covariates:** ACS 5-yr covariates (poverty, income, solo-detached housing share) as well as an index for local zoning codes (Bartik et al., 2024).

Average Active/Vacant Res. Addresses per Tract



Outcomes

- **Level:** Y_{it} = active+vacant residential addresses
- **Log scale:** $\log(Y_{it})$
- **Growth rate (outlier-robust, year-over-year):**

$$g_{it} = \frac{Y_{it} - Y_{i,t-4}}{Y_{i,t-4}} \quad \text{winsorized symmetrically at 1\%/99\%}$$

- Why these three? Levels capture absolute supply response; logs benchmark proportional effects; growth rate identifies trend changes.

Identification & Estimators

Counterfactual: LIC non-designated tracts and similar ineligible tracts.

Treatment timing: 2018Q1. OZs were established under the TCJA; designations were completed in June 2018, and regulatory guidance arrived in three waves between October 2018 and December 2019.

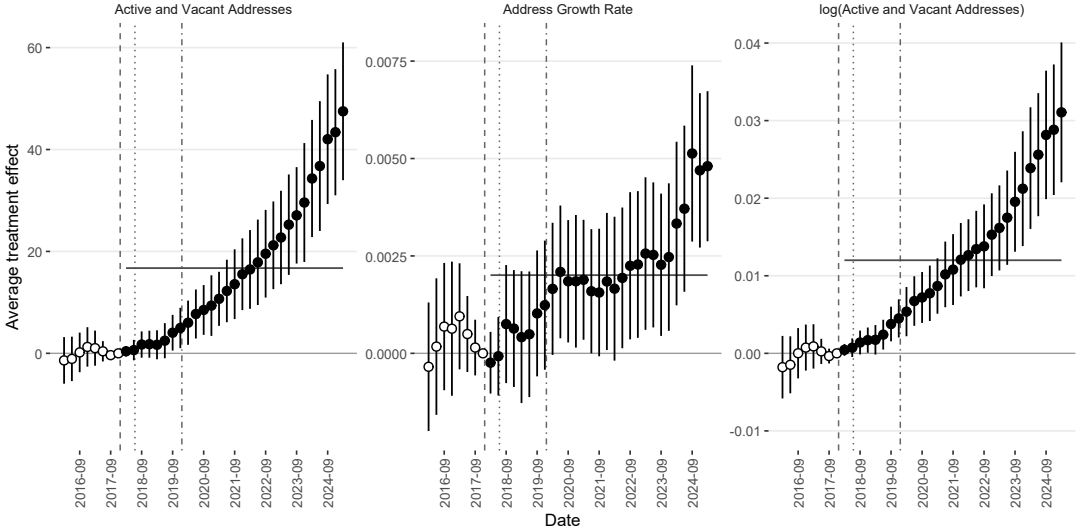
No-neighbor variant: Exclude LIC controls that share a boundary; limit contamination.

Geographic typology: *Large Urban* — *Mid-sized Urban* — *Small Urban* — *Suburban* — *Small Town* — *Rural*.

Primary estimators

- **CSDID (Callaway–Sant'Anna):** doubly-robust modern DID.
- **TWFE:** benchmark with unit and time FE.
- **Matrix Completion (FECT):** low-rank $\widehat{Y}_{it}(0)$ to form tract-level paths $\widehat{\tau}_{it} = Y_{it} - \widehat{Y}_{it}(0)$ and support spillover accounting.

Event Study by Outcome (All Treated Tracts)



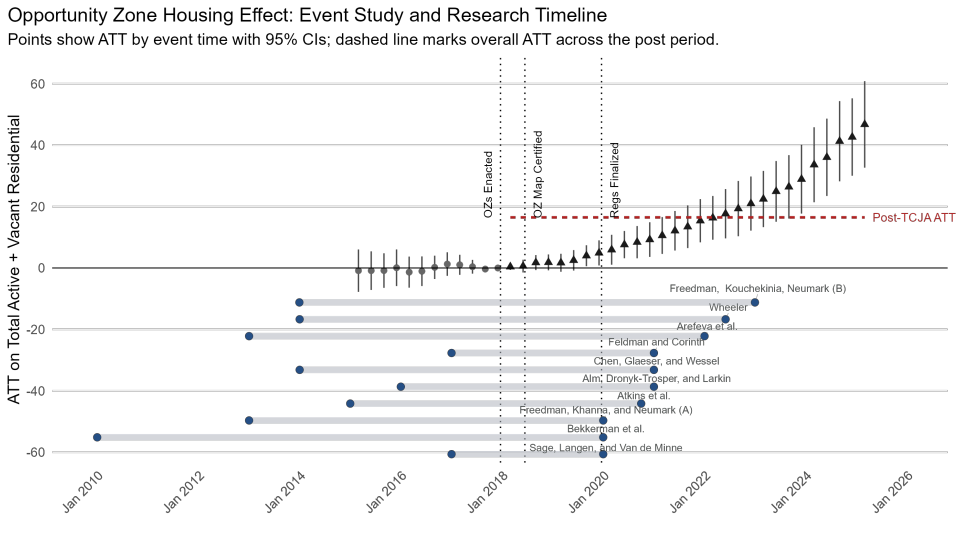
Magnitudes & Interpretation

- **Average tract effect (2025Q1):** $\widehat{\tau} \approx 47.5$ additional addresses per OZ tract.
- **Scaling to analytic sample** (LIC OZs, $N = 7{,}580$): $\approx$ **360,048** new addresses.
- **Share of post-2019 additions in treated tracts (sample):**

$$\frac{360{,}048}{875{,}528} \approx \mathbf{41.12}\%.$$

- **National implication** (all 8,764 OZ tracts): $\sim$ **416,000** new addresses.
- **Interpretation:** Large, economically meaningful effects; still accruing.

Somewhat mean context for this analysis...



Heterogeneity by Geographic Typology

- Largest final-period effects in **large urban** and **mid-sized urban** tracts.
- Pattern consistent with fixed costs, zoning capacity, and deal pipeline density.

Outcome Variable	Active and Vacant	Address Growth Rate (pp)	log(Active and Vacant Residential)
All	47.5 ***	0.4802 ***	0.031 ***
	(4.854)	(0.065)	(0.003)
Large urban	78.701 ***	0.6218 ***	0.052 ***
	(9.746)	(0.1326)	(0.006)
Mid-sized urban	73.024 ***	1.3442 ***	0.035 ***
	(19.656)	(0.4626)	(0.01)
Small urban	88.664	0.4047	0.084
	(41.822)	(0.5559)	(0.044)
Suburban	36.206 **	0.2725	0.022 **
	(11.655)	(0.1267)	(0.007)
Small town	6.35	0.3035	0.013
	(12.884)	(0.1664)	(0.007)
Rural	23.45	0.3421	0.009
	(10.078)	(0.1588)	(0.005)

Additionality: Spillover Accounting

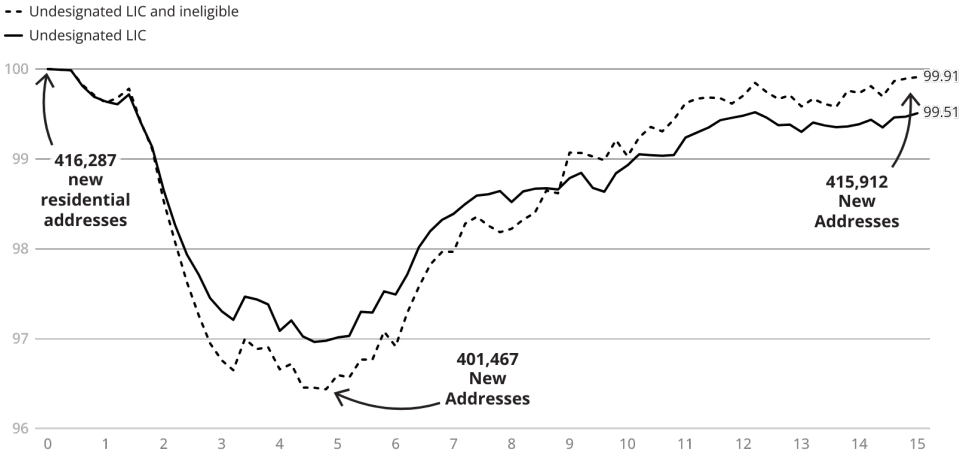
Goal: Distinguish net new supply from near-border reshuffling.

- Use MC to produce $\widehat{Y}_{it}(0)$ for all tracts.
- Compute tract effects $\widehat{\tau}_{it} = Y_{it} - \widehat{Y}_{it}(0)$ in final period.
- Aggregate *inclusive totals* within radius R by summing significant effects in bands $d \in \{[0, 0.2), \ldots\}$.

Result by radii:

- R=2 km: inclusive total $\approx$ 98.5% of direct treated effect;
- R=5 km: $\approx$ 96.6%;
- R=15 km: $\approx$ 99.9% (near one-for-one net gains).

Cumulative net effect by distance (km) from Opportunity Zone boundary



Takeaways

- **Positive, growing supply response:** OZ designation raises tract-level housing supply; effects continue to accrue in late periods.
- **Geographic heterogeneity is pronounced:** Largest final-period effects in *large urban* and *mid-sized urban* tracts; smaller but positive elsewhere—consistent with fixed costs, pipeline density, and capacity/zoning constraints.
- **Additionality:** Inclusive-total accounting shows minimal near-border reallocation; net gains persist as the radius widens.
- **Policy implication:** A *novel place-based capital gains tax incentive* can effectively channel private investment into areas that had previously been left behind, translating into measurable new housing supply.

References I

Arefeva, A., Davis, M. A., Ghent, A. C., and Park, M. (2024). The Effect of Capital Gains Taxes on Business Creation and Employment: The Case of Opportunity Zones. *Management Science*, page mnsc.2022.03223.

Bartik, A., Gupta, A., and Milo, D. (2024). The costs of housing regulation: Evidence from generative regulatory measurement. *Available at SSRN 4627587*.

Been, V., Ellen, I. G., and O'Regan, K. (2025). Supply Skepticism Revisited. *Housing Policy Debate*, 35(1):96–113.

Bernstein, J. and Hassett, K. A. (2015). Unlocking private capital to facilitate economic growth in distressed areas. *Economic Innovation Group*.

Bratu, C., Harjunen, O., and Saarimaa, T. (2023). JUE Insight: City-wide effects of new housing supply: Evidence from moving chains. *Journal of Urban Economics*, 133:103528.

References II

Chen, J., Glaeser, E., and Wessel, D. (2023). JUE Insight: The (non-) effect of opportunity zones on housing prices. *Journal of Urban Economics*, 133:103451. Publisher: Elsevier.

Corinth, K. and Feldman, N. (2024). Are Opportunity Zones an Effective Place-Based Policy? *Journal of Economic Perspectives*, 38(3):113–136.

Dawkins, C. J. (2024). Land Use Regulations, Housing Supply, and County Eviction Filings. *Journal of Planning Education and Research*, 44(3):1719–1729. Publisher: SAGE Publications Inc.

Feldman, N. and Corinth, K. (2023). The Impact of Opportunity Zones on Commercial Investment and Economic Activity.

Freedman, M., Kouchekinia, N., and Neumark, D. (2025). A longer-run evaluation of the employment effects of opportunity zones.

References III

Glaeser, E. L. and Gottlieb, J. D. (2008). The economics of place-making policies. Technical report, National Bureau of Economic Research.

Gyourko, J., Hartley, J. S., and Krimmel, J. (2021). The local residential land use regulatory environment across US housing markets: Evidence from a new Wharton index. *Journal of Urban Economics*, 124:103337. Publisher: Elsevier.

Sage, A., Langen, M., and Van De Minne, A. (2023). Where is the opportunity in opportunity zones? *Real Estate Economics*, 51(2):338–371.

Soltas, E. J. (2022). The price of inclusion: Evidence from housing developer behavior. *Review of Economics and Statistics*, pages 1–46. Publisher: MIT Press One Rogers Street, Cambridge, MA 02142-1209, USA journals-info ....

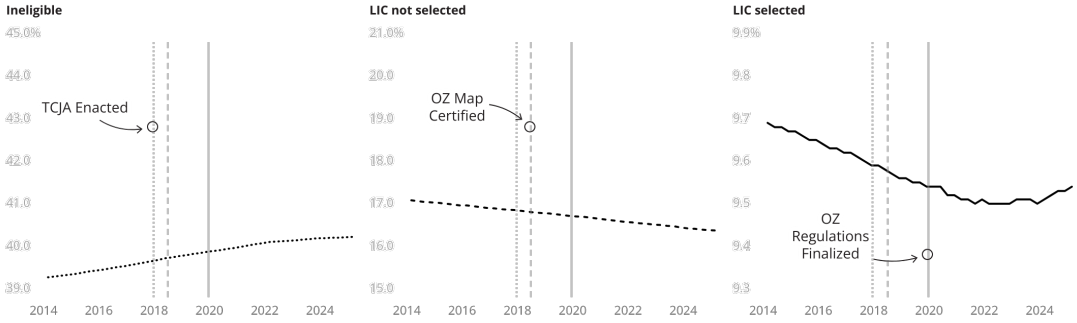
Literature: OZs & Place-Based Policy

- **Policy background & intent.** OZs intended to unlock private capital for distressed areas; design emphasizes equity rollovers and long holds (Bernstein and Hassett, 2015).
- **Investment & economic activity.** Early evidence documents sizable commercial investment and activity responses within OZs (Feldman and Corinth, 2023); job creation and business formation effects are present in administrative and survey data (Arefeva et al., 2024; Freedman et al., 2025).
- **Property markets.** Mixed to limited capitalization into prices: muted land value responses and small/no average house-price effects in tract-level designs (Sage et al., 2023; Chen et al., 2023).
- **Synthesis/assessment.** Broad review concludes OZs likely reshaped investment patterns, with uneven evidence on resident outcomes to date (Corinth and Feldman, 2024).

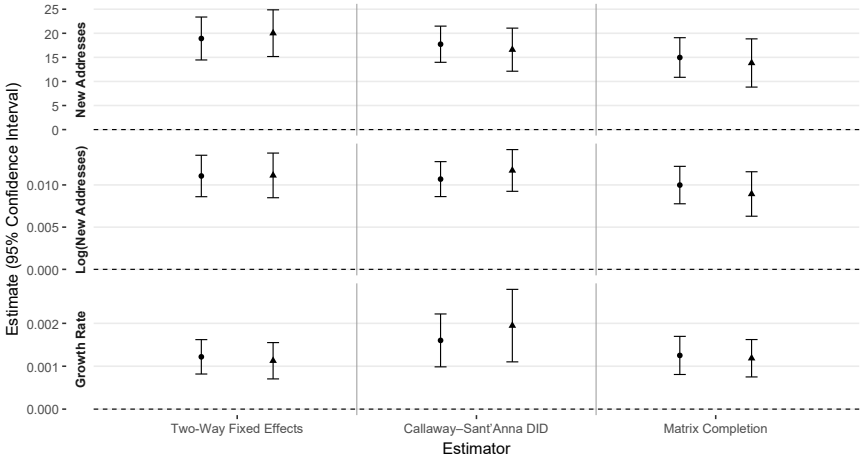
Literature: Housing Supply Mechanisms Relevant to OZs

- **Supply creates downstream affordability via filtering/moving chains.** New units trigger citywide re-sorting and affordability gains beyond the project footprint (Bratu et al., 2023).
- **Regulatory frictions and developer behavior.** Inclusionary mandates and related constraints raise marginal costs and shift the extensive margin of project viability (Soltas, 2022). Land-use regulation stringency is negatively related to supply responsiveness (Dawkins, 2024; Gyourko et al., 2021; Glaeser and Gottlieb, 2008; Been et al., 2025).

Change in the Share of Addresses by OZ Category



Estimated ATTs in the Post-Treatment Period



Backup: Event Study by Control Group