

FEDERAL OPPORTUNITY ZONES AND THE DISENFRANCHISED



DOWNTOWN MARKETING & DEVELOPMENT

By Barry Cassidy

How do you breathe life into a dying town or a census district that has a lot of poverty and disinvestment? It is pretty tricky when you come to the realization that no one has invested in these areas or properties for a good amount of time. Stores are vacant and the housing becomes the refuge of the low-income population.

Sometimes in our system, low-income people get steered in different locations. In cities, much of the time, the low-income renters are also a racial or ethnic minority. Low-income people become low-income for many reasons, and it is difficult to pinpoint one cause of poverty, so it is a diverse mix being clustered in a community.

These people are living life as they know it and calling it home. The common tie in the cohort group is the location of the housing in which they live. Low apartment rent, clustered subsidized housing policies by government entities, combined with years of redlining and real estate steering has created an area ripe for deterioration, both on the housing end and in the public sector spaces and the downtown.

Now enter the Federal Opportunity Zone, which offers the benefits of reduced capital gains tax for real estate investment and a hold of five, seven or 10 years. In most cases, in theory, investors will fix up the commercial spaces, create jobs and improve the area. Rental housing is also eligible, as it is a business investment and many of the residential units could be a good investment in the rapidly appreciating area that is seeing a boom in investment.

In an ideal world, everyone gets well as the downtown develops a retail and employment base, and the property values are rising. The next question is what happens to the people currently residing in the zone housing? In some cases, the low-income residents already have their rent maximized according to their income and spend over 30 percent of their income on housing and related housing expenses. For example, 66 percent of the renters in Coatesville's Federal Opportunity Zone are over the 30 percent threshold. The building has gone through the appreciation cycle and commands higher rent.

I would think that since some of the same families have lived in a zone location for at least three or four generations, they should have some consideration in the process. In a scenario like this, the key for the investor is the appreciation, and the key for the low-income individual is the status quo. In most of these cases it is the appreciation that wins.

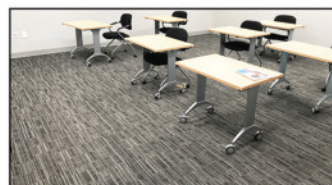
The system is decentralized, so a gradual change occurs, as individual owners decide what the rents will be in the area.

(Continued on page 44)



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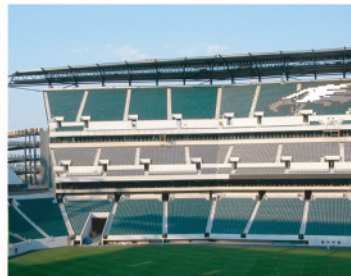
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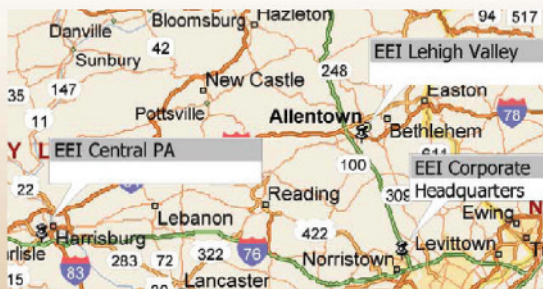
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(Continued from page 43)

It is not impossible to see significant change, but it depends how the real estate market reacts and what the expectation is for the area. It is playing with local residents' lives as people strive not to pay capital gains. Is that an acceptable way to approach investments in this zone?

I would think that there is no straight answer to the question, but it is more of a mobility and migration issue, one socio-economic group to another. Migrations happen all of the time, since the early days of the Asian steppe region. This iteration may not know any geographical bound for its origin other than the Federal Opportunity Zone designation map.

It would appear to me that this would be a good time for people from all of the communities surrounding the zone to make housing more affordable — to culturally and economically diversify a little bit to more represent America, rather than what has been. To a great extent that will never happen as things have changed but not that much. People associate lower income with lesser housing values, and it is their nest egg. In some cases, it is racial prejudice.

On a more positive note, one way would be to interpret the regulations to work in favor of the low-income population and help them share in the

prosperity. There are a few things that you could do on the job front, such as have a hiring preference for local people, and create job specific training programs to help the people compete in the local job market. Normally you find these kinds of training programs are popular, and if it is able to link a skill to a need, these could be powerful in transforming people's lives.

Another way to do it would be to help people buy houses. Make them homeowners if they are qualified. I have found that there are many people living in low income areas who are not low income, and just residents of the city, but not blended in because of racial of ethnic considerations for living in a certain area.

Either course of action will bring critics, especially on the homeownership front. Considering that much of the real estate bought is for specific hold period of five, seven, or 10 years, the front-end renter could be the back end, take out buyer. As more and more people are becoming aware of the opportunity zone, more strategies to work with the existing residents will evolve as the capitalist investment climate changes.

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