



ECONOMIC
INNOVATION
GROUP

Opportunity Zones 2.0

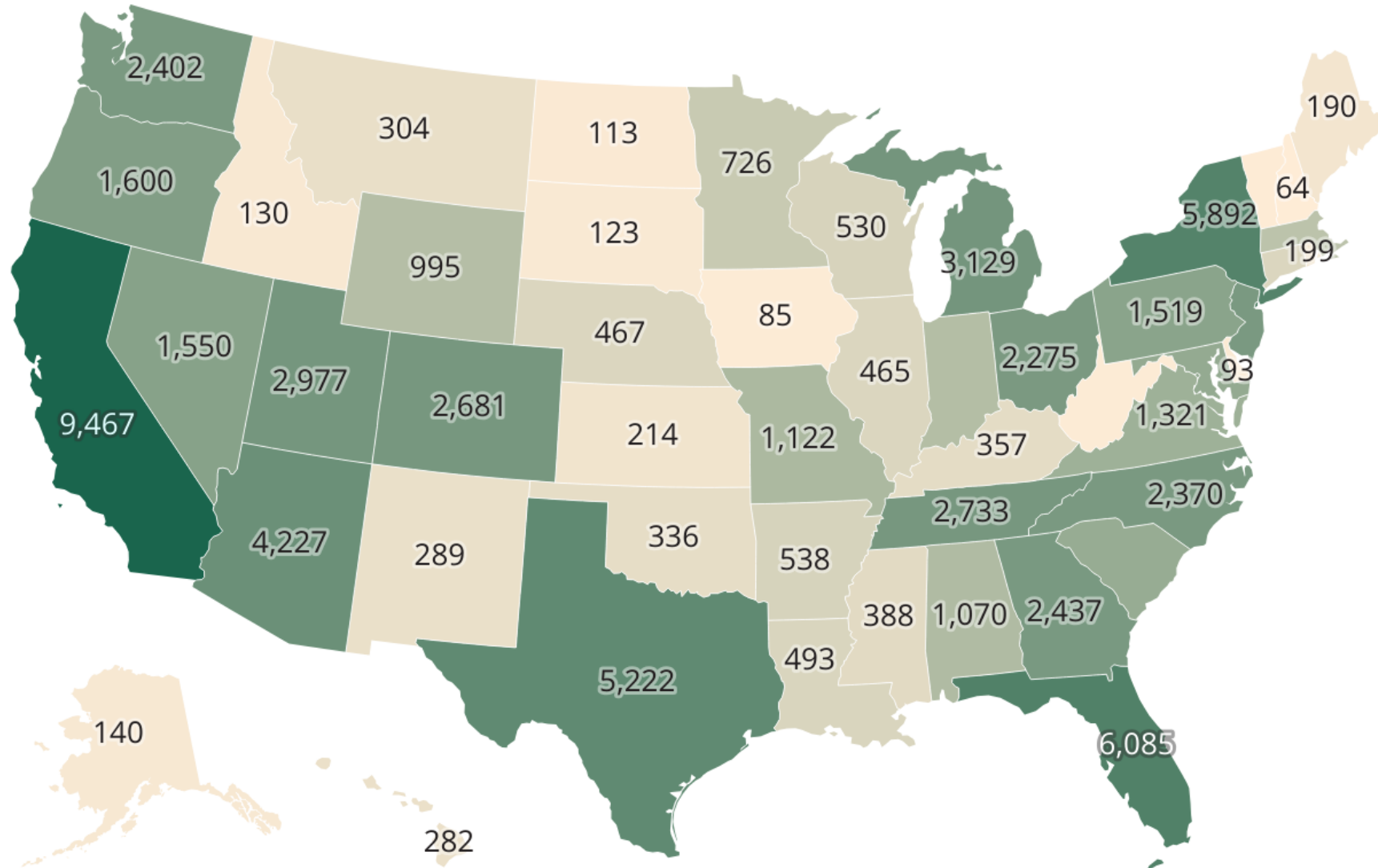
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Total Qualified Opportunity Fund Investment by State

Millions of USD

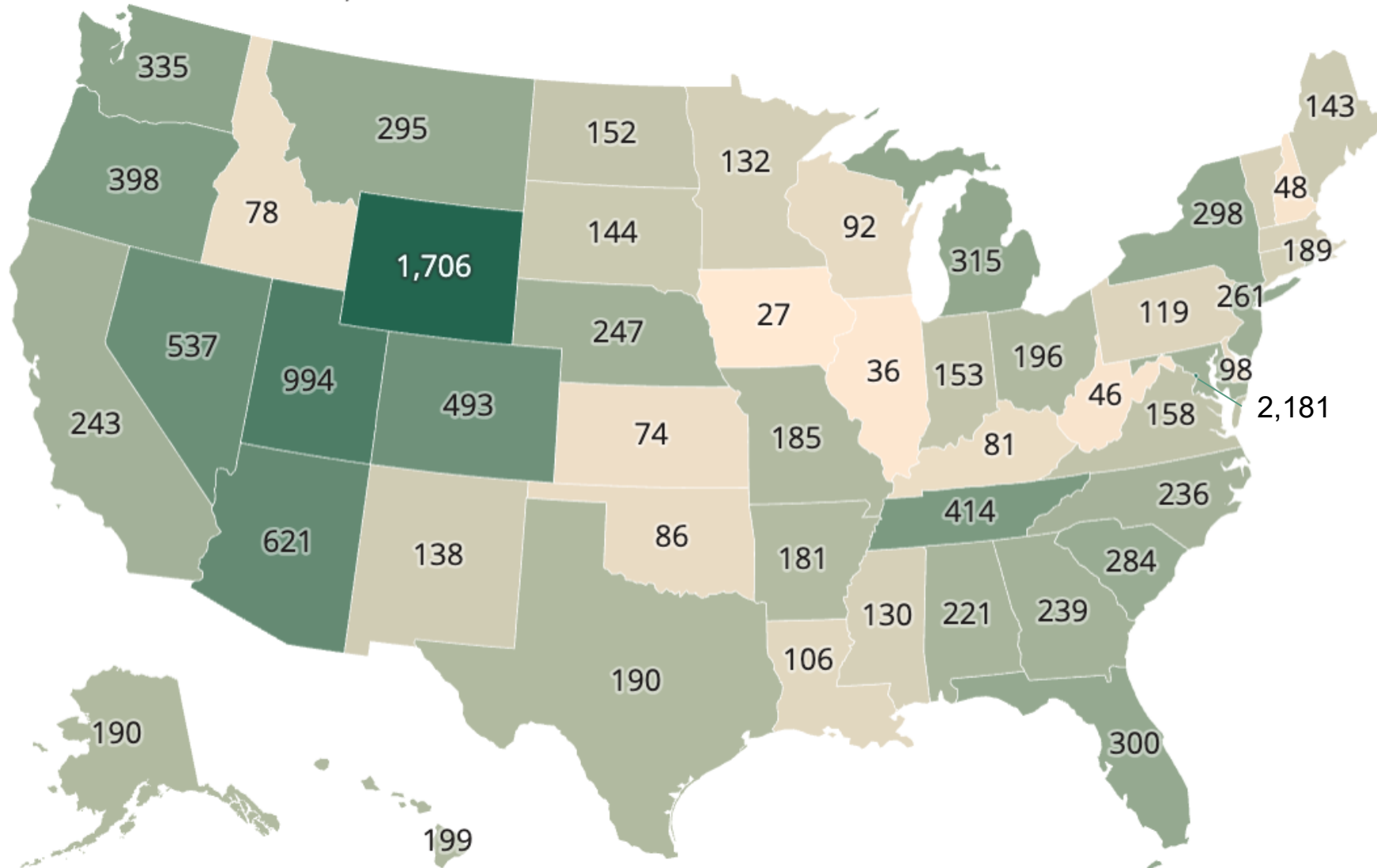


By 2022, **46 states** had received more than **\$100 million** in OZ capital.

24 states had received more than **\$1 billion**.

Qualified Opportunity Zone Fund Investment Per-Capita by State

USD

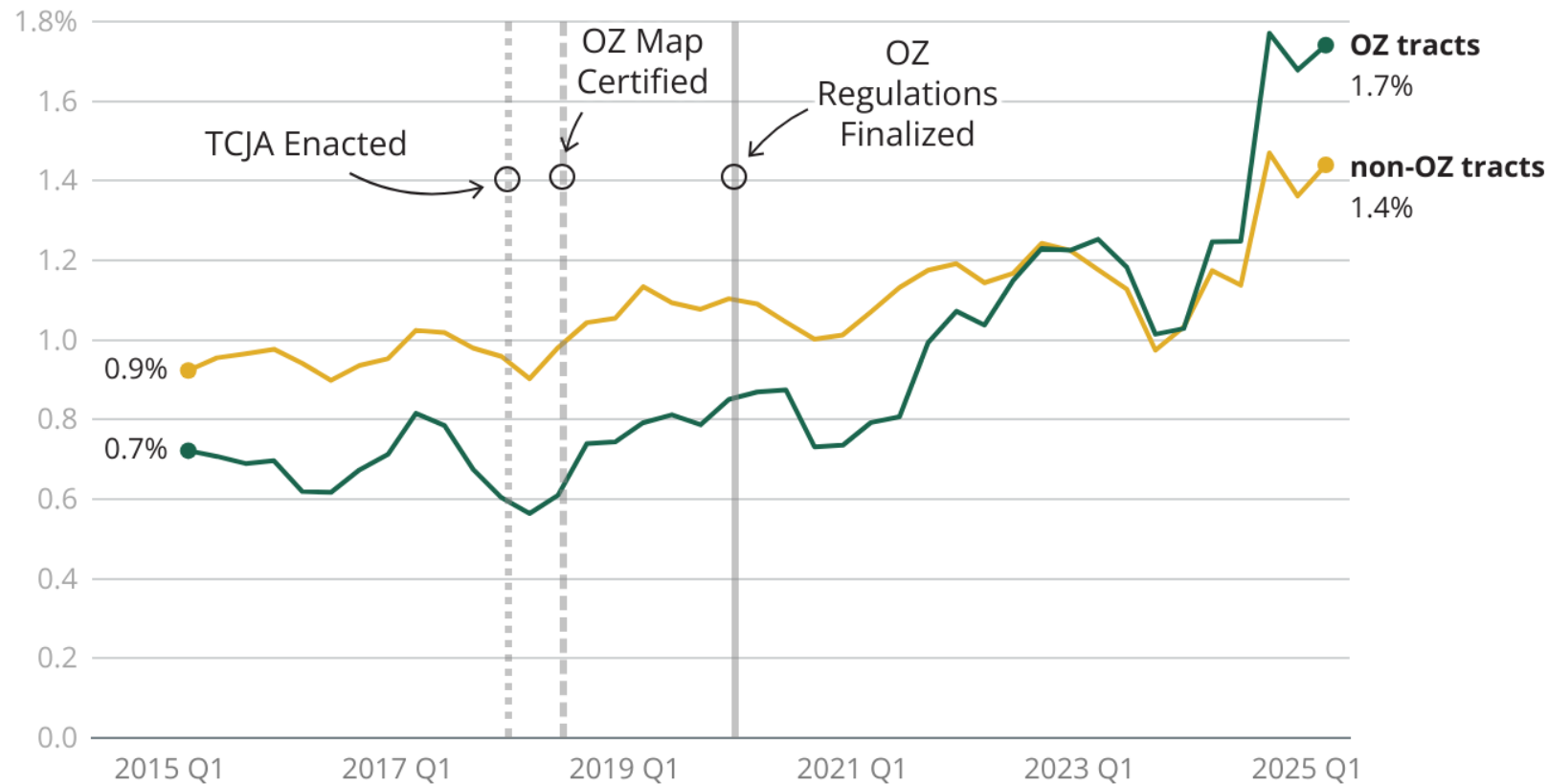


The national per capita **baseline** was **\$238** in OZ investment **per resident** through 2022.

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.

Cumulative reach: Opportunity Zones vs New Market Tax Credits

Number of census tracts receiving investment over the lifetime of each policy

NMTC OZs



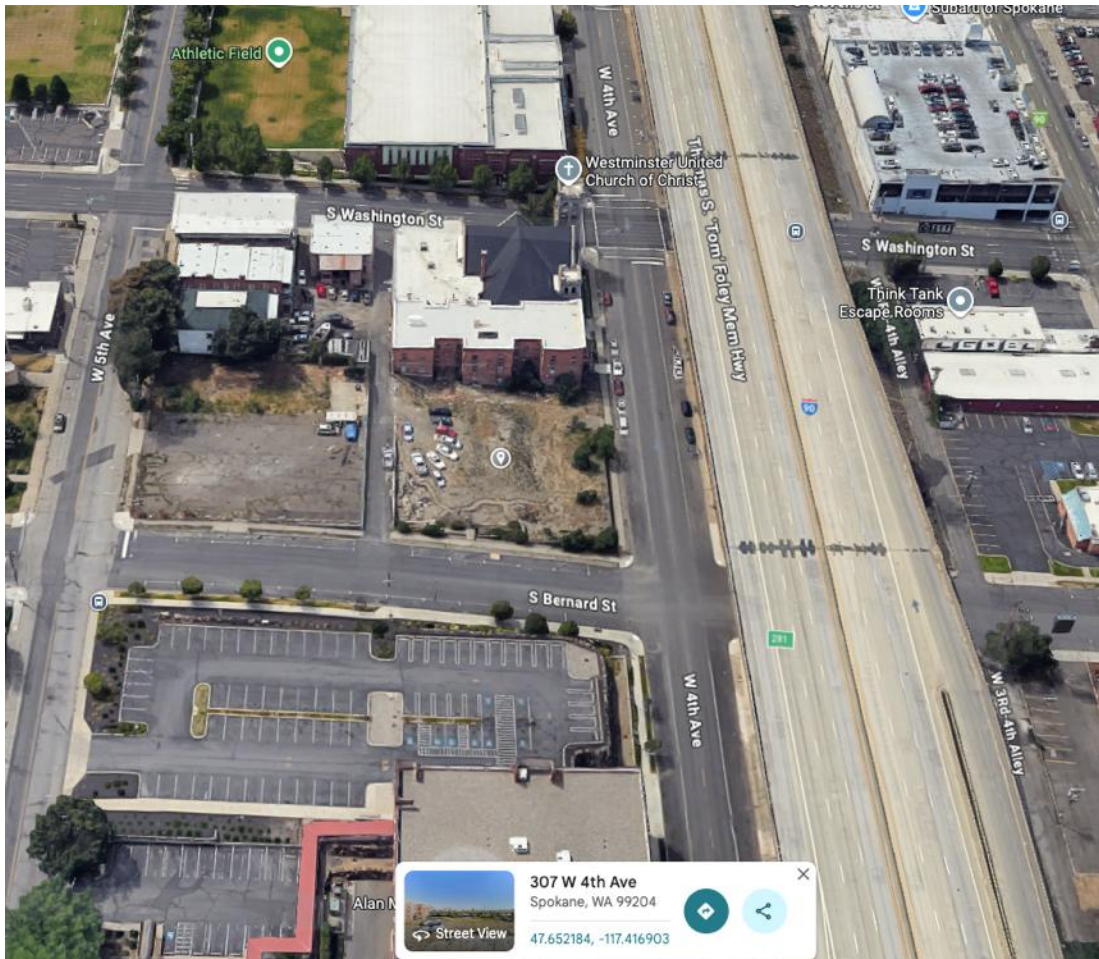
The vast majority of designated OZs have seen OZ investment.

Sources: Community Development Financial Institutions Fund, Joint Committee on Taxation, U.S. Department of the Treasury Office of Tax Policy

OZs in Action: Spokane

OZ investments frequently take the form of multifamily residential in-fill development

Before



OZs in Action: Spokane

OZ investments frequently take the form of multifamily residential in-fill development

After



Looking forward:

What state and local leaders 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 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.

*Remember, OZ investment is **flexible** in:*

- ***Who** can use it (anyone with a capital gain)*
- ***How much** they invest (low overhead means large or small)*
- ***What** it goes towards (as long as it's new or improved, economically additive and in a zone, it's likely qualifying).*

Wherever there's a place for equity investment, there's an opening for OZ capital.

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.

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.*

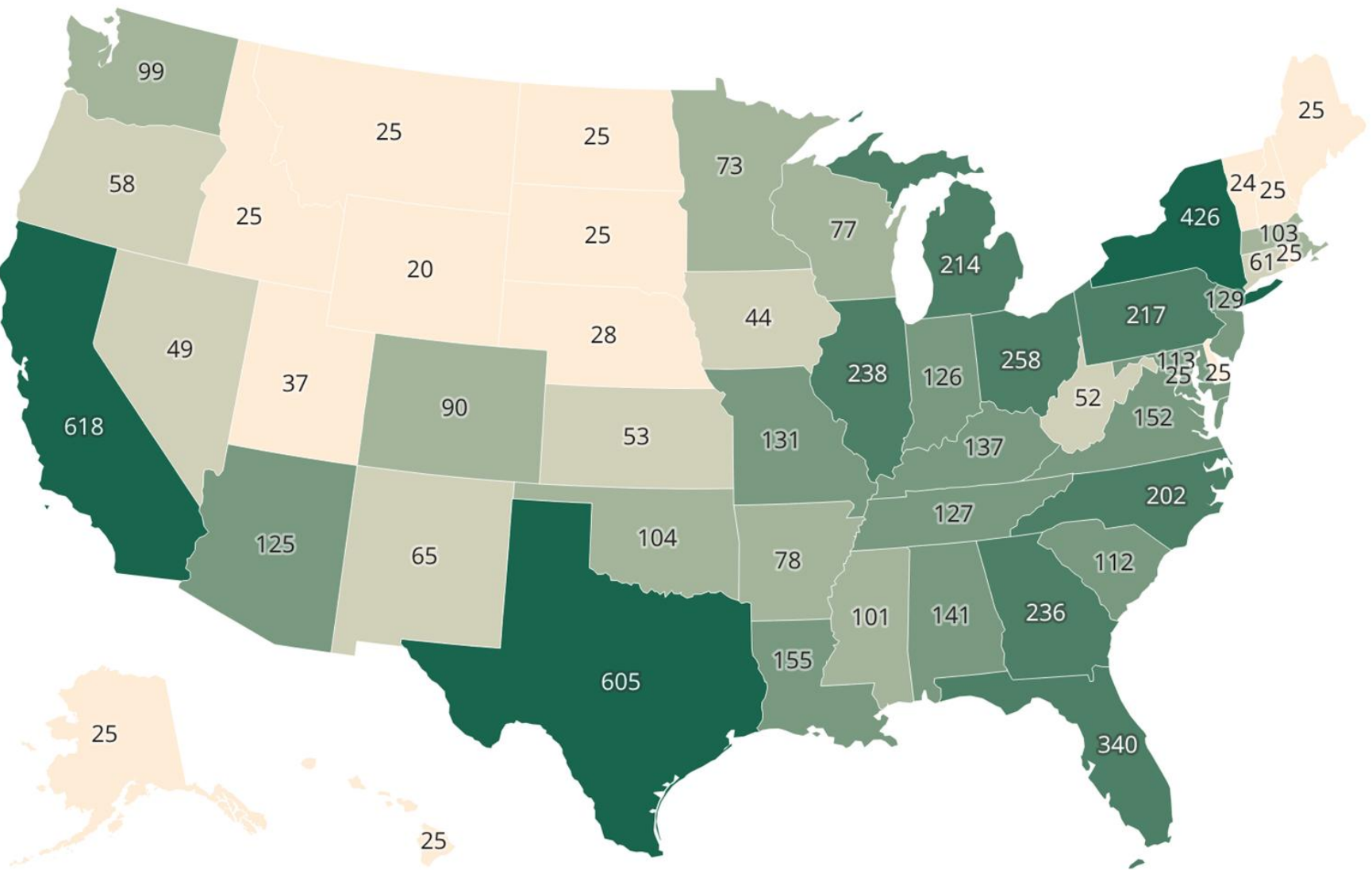
Eligibility criteria

- **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%.

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

Number of Expected Opportunity Zones by State

2026 designation cycle



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

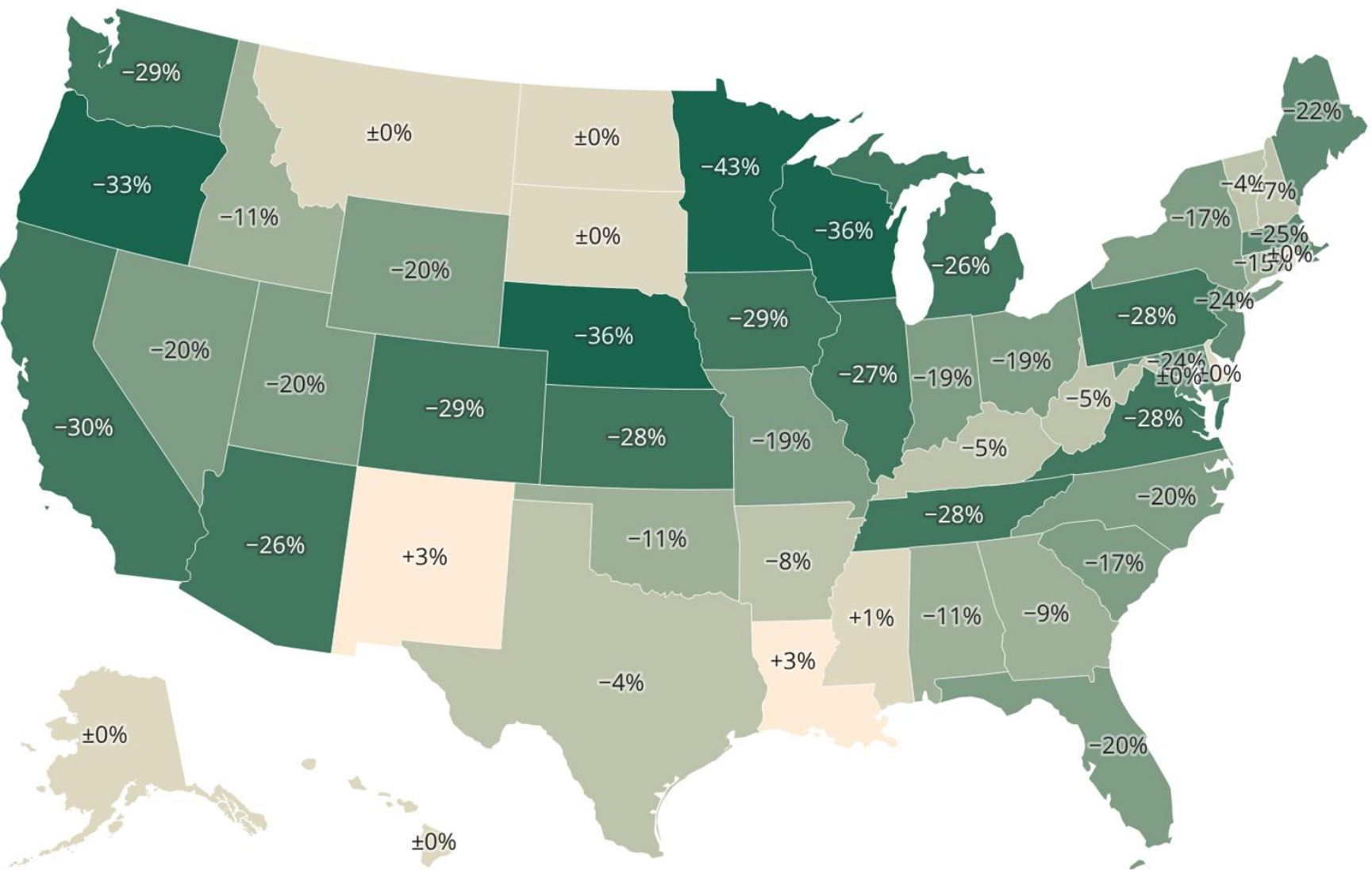
Nationally, the number of OZs is expected to fall from 8,726 to **6,304**.

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

Expected Change in Opportunity Zones by State

Between 2018 and 2026 designation cycles



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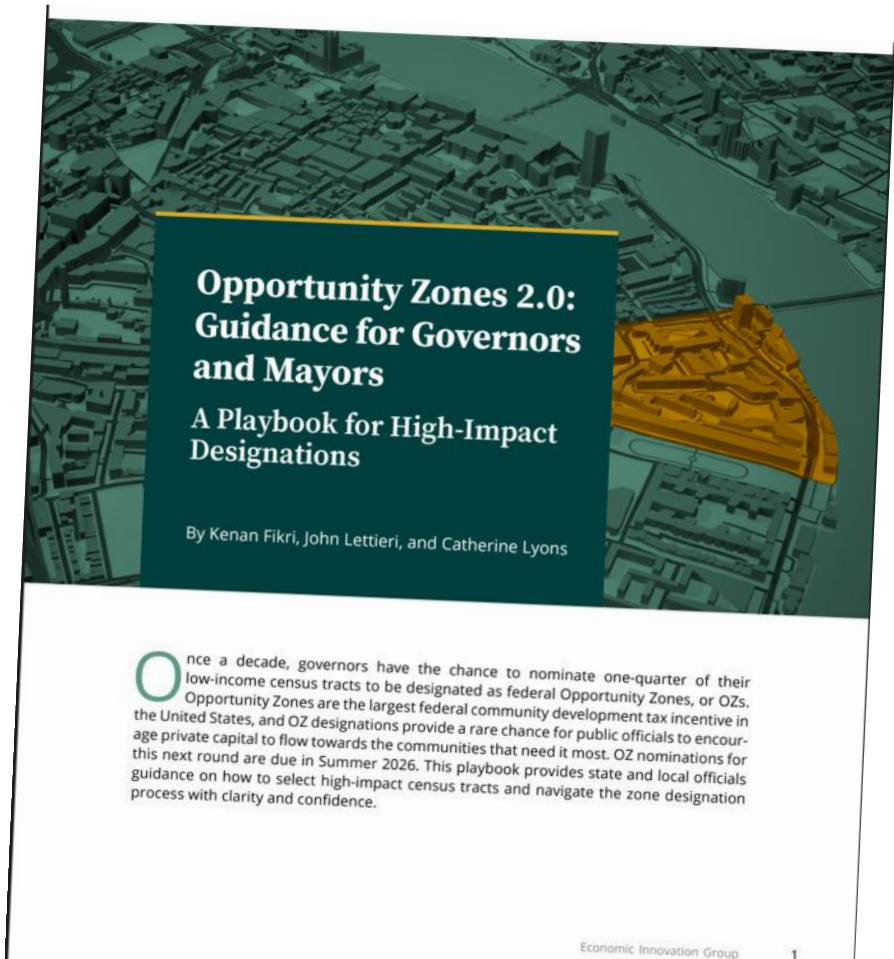
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Eight principles for a robust zone designation process

1. Get a **head start**
2. Set a **vision**
3. Designate a lead state govt **agency**
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



For additional resources visit eig.org/ozs-resources/

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