

COMMENTS ON
WHERE IS THE OPPORTUNITY IN OPPORTUNITY
ZONE?
THE (NON-)EFFECT OF OPPORTUNITY ZONES ON
HOUSING PRICES

Susan M. Wachter

Sussman Professor, Professor of Real Estate and Finance
The Wharton School
University of Pennsylvania



Will this significant tax-based subsidy lead to neighborhood improvements?

- There is a long history of economic policy that has been associated with mixed evidence of development gains.
 - Empowerment Zones
 - New Market Tax Credit
- OZs are different, significant tax subsidies.
- These two carefully done studies will add to the literature on development policy with specific contributions to issue of pricing effects.
- Controversy: OZ prices rise due to tax advantages: past year (through May) house prices faster than national increase in @ half and increased in 2/3. Zillow data of earlier price rises.

OZ Goal and Empirical Question

- **Goal:** increase economic development that otherwise would not occur.
 - For this, it is **necessary** but **not sufficient** that tax advantages do not result in price increases that absorb all value gains without incentivizing new development.
 - Without price gains, what is the evidence that the OZ designation has had any impact?
 - Focus of papers is to identify whether, ceteris paribus, prices rose with OZ designation.
 - Selection process likely to have qualified “promising” neighborhoods.

Possible Scenarios

1. Prices increase without new development*
2. Prices increase with new development
3. Prices do not increase because no new development will occur
4. Prices do not increase or decrease because new housing supply is forthcoming.

* “New development” refers to development that would not otherwise have occurred.

The (Non-)Effect of Opportunity Zones on Housing Prices

Jiafeng Chen, Edward Glaeser, and David Wessel

- Compares single-family price growth within and across Ozs → reflection of buyers belief in the ability of the program to generate neighborhood change\
- **Data:** Nationwide, FHFA HPI
- **Conclusions:**
 - Price impacts are minimal (typical 0.0-0.5%, maximum 1.5% increase with 95% confidence)
 - Price reductions are observed in some markets due to expectations of supply increase
 - Price increases more likely in commercial areas than residential

Do Opportunity Zones Create Opportunities?

James Alm, Trey Dronyk-Trosper, and Sean Larkin

- Estimates the impact of the Qualified Opportunity Zone designation on economic development → measured via residential and commercial real estate prices
- **Data:** Florida, 2016-2020
- **Conclusions:**
 - The OZ designation has “little impact” on residential/commercial RE prices

The (Non-)Effect of Opportunity Zones on Housing Prices

(Chen, Glaeser, and Wessel) Results

- Treatment effect is small and insignificant
 - Price increase $< 1\%$ in 2018-2019 relative to the previous years
 - Rule out a price impact of 1.5% or more annually at the tract level with 95% confidence
 - Robust results when the time-varying impacts of tract covariates are considered
- Heterogeneity in the treatment effect
 - Split zip codes in half based on the level of employment to residential population prior to 2017; interact the residential indicator with the treatment variable
 - Price grew by 1.7% in more commercial OZ, and by 0.29% in more residential OZ
 - The difference in the treatment effect is not significant, when tract covariates are controlled and time-varying impacts are considered

The (Non-)Effect of Opportunity Zones on Housing Prices

(Chen, Glaeser, and Wessel) Discussion

- Time-varying effects of tract covariates attenuate the positive OZ effect
 - Reconcile with the finding about the positive OZ effect in Zillow's study. OZ selection bias and tract heterogeneity are important
 - How important is the issue of the missing data on the tracts or zip codes to the key result? (p. 4; footnote 14).
 - How does the clustering of the errors play a role in the finding of the insignificant treatment effect?
 - Time horizon (1-2 years) is short for identification of price effects for overall goal. Construction or business takes time to develop in a neighborhood
- Most interesting result: residential areas prices rise less than commercial. Interpret differing results for residential and commercial as indicating that there may be supply effects that are anticipated to lower housing prices.

Do Opportunity Zones Create Opportunities?

Method (Alm, Dronyk-Trosper, and Larkin) Method

- Use Florida data (2016-2020) to estimate the impact of Qualified Opportunity Zone (QOZ) designation on residential and business real estate prices
 - Examine tracts classified as Low-Income Census tracts and control for demographic, political, economic variables
 - Consider the endogenous QOZ designation
- Estimate the likelihood of OZ nomination, controlling partisanship and demographic variables
 - Instead of QOZ indicator, use the estimated probabilities of OZ nomination based on the national sample of census tracts
 - Regression discontinuity using the cutoff of poverty rate or income to estimate the selection probability into the treatment
 - 2SLS: use the percent of a census tract zoned as residential in 2017 to instrument the probability that a tract is nominated as OZ

Do Opportunity Zones Create Opportunities?

Result (Alm, Dronyk-Trosper, and Larkin) Results

- The OZ designation has “little impact” on residential/commercial RE prices
 - Also examine the sample by whether properties are vacant or are residential
 - Consistent results using different methods
- OLS: weak evidence that RE prices have grown at a slower rate in OZ
- Predicted OZ nomination: no evidence that OZ has an impact on RE prices
- Regression discontinuity: mixed and statistically insignificant results
- 2SLS: results are not significant after other variables are controlled.

Do Opportunity Zones Create Opportunities?

Discussion (Alm, Dronyk-Trosper, and Larkin)

- While the paper states that there are no effects
- Mixed impact of OZ on real estate values
 - OZ have had a positive effect on non-vacant residential property values.
 - The impact on commercial and vacant property is unclear.

Do Opportunity Zones Create Opportunities?

Alm, Dronyk-Trosper, and Larkin

- Paper is self-contradicting in its conclusion of positive effects:
 - “...little impact on either residential or business real estate prices” (5)
 - Analysis specifies that there are positive effects on residential, but not elsewhere
- **Results:** “weak evidence that overall real estate prices have in fact grown at a slightly slower rate in opportunity zones compared to the rest of the state” (13)
 - Authors suggest that results are driven by growth in vacant real estate prices

The importance of the Glaeser et al. finding that prices decline in low income areas:

- If this finding holds up and is buttressed with findings of actual increases in new supply, it will be important for policy:
- Gentrification harms low-income renters due to higher rents but increasing housing supply mitigates these losses and creates gains for middle-income renters (Couture, Gaubert, Handbury & Hurst, 2020, based on a calibrated model and counterfactuals.
- Asquith, Mast, and Reed (2019) support showing the local effects of market-rate housing developments in low-income areas.
- New construction may slow rent increases associated with gentrification.
- **Bottom line: we will need to wait for construction activity analysis for policy conclusions.**