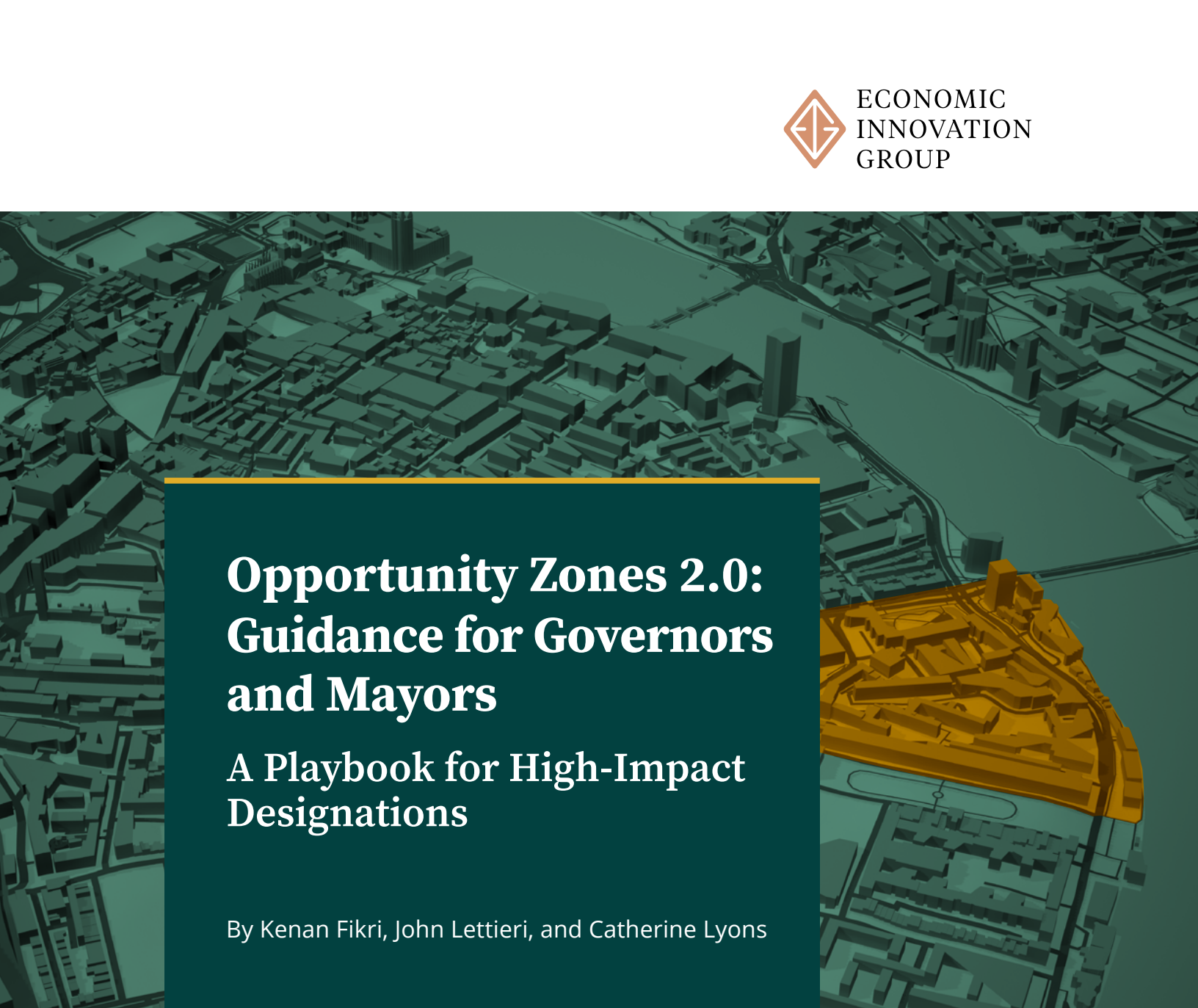




Opportunity Zones 2.0: Guidance for Governors and Mayors

A Playbook for High-Impact Designations

By Kenan Fikri, John Lettieri, and Catherine Lyons

Once a decade, governors have the chance to nominate one-quarter of their low-income census tracts to be designated as federal Opportunity Zones, or OZs. Opportunity Zones are the largest federal community development tax incentive in the United States, and OZ designations provide a rare chance for public officials to encourage private capital to flow towards the communities that need it most. OZ nominations for this next round are due in Summer 2026. This playbook provides state and local officials guidance on how to select high-impact census tracts and navigate the zone designation process with clarity and confidence.

Executive Summary

Governors will soon make a once-in-a-decade decision that will guide tens of billions of dollars of private investment into low-income areas nationwide: selecting the next round of Opportunity Zone (OZ) census tracts.

This guide provides a framework for how to get OZ designation right.

Beginning July 1, 2026, governors will have 90 days to nominate up to 25 percent of eligible low-income census tracts as OZs. These designations will remain in place for 10 years and cannot be revised.

Experience from OZ 1.0 underscores that OZ designation alone does not generate investment. Only well-chosen zones paired with development-ready policies will attract capital and deliver impact at scale.

This guide is organized around eight principles that define successful OZ designation strategies:

1. Get a head start
2. Set a statewide economic vision
3. Designate a lead coordinating entity within state government
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

OZ designation is one of the most powerful economic development tools at governors' disposal — and nominating zones will be one of the most consequential decisions they will make during their tenures. More than \$100 billion in qualifying investment has flowed into targeted areas since the first round of designations in 2018. OZ 2.0 has the potential to generate even greater results, but only if state and local leaders build a foundation for success.



Contents

I. What are Opportunity Zones?	4
II. How the national zone designation process works	6
III. Eight principles for a robust state zone selection process	8
IV. Characteristics of a good OZ tract	17
V. Special rural considerations	19
VI. Beyond zone designations	20
VII. Appendix: Timeline of OZ 2.0 developments	21

The 2025 Reconciliation Act, also known as the One Big Beautiful Bill Act (OBBBA), calls on governors to act in summer 2026 by nominating one-quarter of their low-income census tracts for Opportunity Zone (OZ) status.

OZ designations guide tens of billions of dollars in private sector investment each year. The zone designation process therefore gives governors a rare opportunity to shape the landscape of investment in their states — and channel that investment towards the low-income communities that need it most.

This guide is intended to help governors and their staff, as well as the mayors and local officials they will consult, make the most informed OZ designations possible. The guide will:

- Explain what Opportunity Zones are and how they work
- Summarize the national zone designation process and timeline
- Establish a framework for selecting zones with purpose, including:
 - How to set up a good selection process
 - How to identify good census tracts for OZ status

I. What are Opportunity Zones?

Opportunity Zones are a federal capital gains tax incentive designed to mobilize long-term private investment in low-income communities.¹ Unlike traditional community development programs, OZs are uncapped, investor-driven, and by-right. Any taxpayer with a capital gain — individuals, corporations, institutions — can invest in a designated census tract and receive preferential tax treatment without applying for federal approval.

The OZ incentive operates through Qualified Opportunity Funds (QOFs), which pool investor capital and deploy it into eligible investments (i.e., qualifying activities) within designated census tracts.

By design, **qualifying activities** are broad. These investments may include new real estate development, rehabilitation of vacant properties, local operating businesses, manufacturing, energy projects, mixed-use developments, and more.² The law requires that capital be put to productive use by applying “original use” and “substantial improvement” tests to ensure that qualifying investments are economically additive.^{3,4} Property cannot simply change hands or be acquired without substantial follow-on investment to claim the OZ tax benefits.

Opportunity Zones encourage investment by providing a series of **capital gains tax incentives** for qualifying activities in designated areas:

- **Deferral:** Investors may defer taxes on capital gains that are reinvested in a QOF for up to five years.
- **Basis step-up:** After the five-year deferral, QOF investors receive a 10 percent reduction (step-up in basis) on their deferred capital gains tax liability (or 30 percent for investments in rural-specific QOFs).
- **Tax-free growth:** Gains earned on investments in QOFs held for at least 10 years are permanently exempt from federal capital gains tax.

1 The policy was first enacted in the 2017 Tax Cuts and Jobs Act (TCJA) and made permanent in 2025's OBBBA. For more details on reforms to the OZ tax provisions in the OBBBA, see: John Lettieri, Kenan Fikri, and Catherine Lyons, [“Opportunity Zones 2.0: Where Things Stand After the One Big Beautiful Bill Act”](#) (Economic Innovation Group, 2025).

2 There is a short list of common “sin businesses” into which investment is not permitted.

3 The “original use” test requires that property first be placed into service in an OZ to be considered an eligible investment. For construction, that means a “greenfield” or ground-up investment; for capital equipment, it means a newly acquired item or an item moved into an OZ from a non-OZ location.

4 The “substantial improvement” test requires that, “during any 30-month period beginning after the property is acquired, additions to the basis of the property exceed an amount equal to the adjusted basis at the start of the 30-month period,” as per the IRS. In short, investors are roughly required to invest as much in the property as they paid for it.

The OZ incentive structure is designed to reward long-term investments that generate lasting value within target communities. By providing capital gains tax relief rather than an up-front tax credit, the incentive is also designed to ensure investors themselves bear the risk: if an OZ investment fails, the 10-year tax benefit never materializes.

The uncapped, flexible nature of the OZ incentive has translated into unprecedented scale and reach for a federal community development incentive. Already more than \$100 billion of qualifying OZ investments have been made across more than 5,300 low-income census tracts nationwide.⁵

Governors play the leading role in determining the **designated areas** where the OZ tax incentives apply. Section II will lay out the eligibility criteria and the process by which these designations are formally made.

An opportunity, not a guarantee

Opportunity Zones are a departure from the traditional model of community development tax incentives, in which scarce federal awards (e.g., grants or tax credits) are allocated and approved for specific projects by a federal authority.

For communities, OZ designation does not guarantee investment. Investors must find attractive investment opportunities to deploy capital. That uncertainty and open-endedness is what makes governors' zone selections so important. Good zones have the potential to unlock capital at scale for places that truly need it. By contrast, poor zone selections can waste designation status on areas where it will not move the needle.

5 Investment figure based on extrapolation from Joint Tax Committee data; tract count as of 2022 from Kevin Corinth, David Coyne, Naomi Feldman, and Craig Johnson, "[The Targeting of Place-Based Policies: The New Markets Tax Credit Versus Opportunity Zones](#)," NBER Working Paper 33414 (2025) derived from privileged access to confidential IRS data.

II. How the national zone designation process works

See the appendix table at the end of this guide for a full timeline of OZ 2.0 developments through the end of 2028.

Governors and the chief executives of U.S. territories are responsible for nominating up to one-quarter of their state's eligible low-income census tracts for OZ designation. Once certified by the U.S. Treasury Department, these designations will remain in place for a decade, determining where qualifying OZ investments flow through 2036.

Since governors are granted deference in selecting zones (the certification process ensures that nominated tracts meet the technical eligibility criteria), the terms “selection,” “nomination,” and “designation” are often used interchangeably. For the purposes of this guide, however, we will differentiate between *governors' selection process* — meaning how states go about identifying census tracts to nominate — and the *national zone designation process* — meaning the procedural steps laid out in statute by which federal OZs are certified by the Treasury.

Submitting nominations

The national OZ 2.0 designation process will kick off on July 1, 2026. Governors will have 90 calendar days from then to transmit their lists of nominated OZ census tracts to the Secretary of the Treasury by September 29, 2026 (expected).⁶ Governors may request an additional 30-day extension to October 29, 2026 (expected).

The Treasury Secretary has 30 days to certify each state's nominations after receipt, and certified OZ designations will take effect on January 1, 2027, allowing eligible investments to flow under the new OZ provisions enacted by the OBBBA at that time. ***Once made, designations will remain in effect for a decade until December 31, 2036.***

Before the July 2026 nomination window opens, governors can expect the federal government to publish the definitive list of exactly which census tracts are eligible for designation as well as guidance on how to formally transmit nominations from governors' offices to the Treasury.

⁶ Governors and their teams should refer to forthcoming official guidance for verified deadlines.

Determining eligibility

In order to be considered eligible for OZ designation, census tracts must have:

- *Either* a **poverty rate** of 20 percent or higher
- *Or* a **median family income (MFI)** less than 70 percent of the relevant benchmark.⁷
 - For metropolitan tracts, the relevant benchmark is the metro area's MFI. For non-metropolitan tracts, the benchmark is the statewide MFI.
- If qualifying on poverty, a census tract's MFI must not exceed 125 percent of the relevant benchmark.

The number of census tracts governors can nominate is determined by the number of tracts that meet these criteria. Governors are allowed to nominate up to 25 percent of eligible tracts statewide, with a minimum guarantee of 25 tracts.⁸

Official eligibility will likely be based on the 2020–2024 American Community Survey (ACS) 5-Year Estimates that are expected to be published in January 2026. Until then, the 2019–2023 ACS estimates provide preliminary estimates of the number of tracts each state can expect to nominate.

Key changes under OBBBA vs. TCJA

OBBBA tightened eligibility thresholds for OZ 2.0 designations, reducing the expected eligible pool of qualifying tracts by roughly 20 percent — from 8,726 to approximately 6,300 nationwide. The effects will vary significantly across states:

- Several small population states can expect to see no reduction in OZ counts due to the 25-tract minimum.
- Two states — Louisiana and New Mexico — can expect to see a slight increase in eligible tracts.
- The steepest reductions are expected to occur in parts of the upper Midwest, where the tightened income criteria had a disproportionate impact.

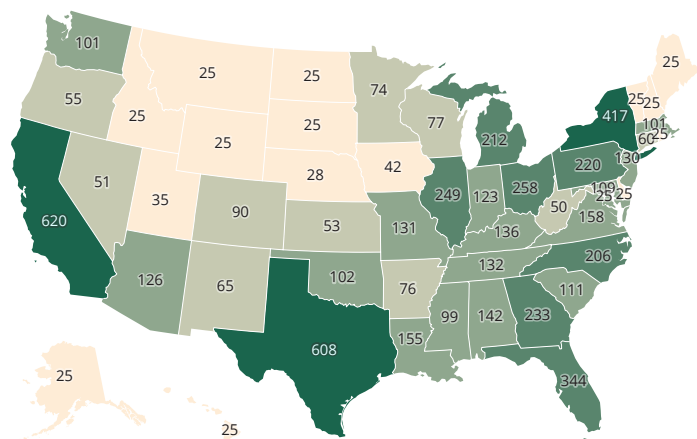
7 This 70 percent threshold is revised down from the 80 percent threshold that governed the initial OZ designations made under the 2017 Tax Cuts and Jobs Act.

8 Further guidance from the Treasury is required for states with fewer than 25 total eligible tracts. Until that guidance is provided, states and territories with fewer than 25 eligible tracts should assume that they will be permitted to nominate all their qualifying tracts, but no non-qualifying ones.

In general, the changes enacted under the OBBBA will require governors to be **more selective** than in the 2018 designation cycle.

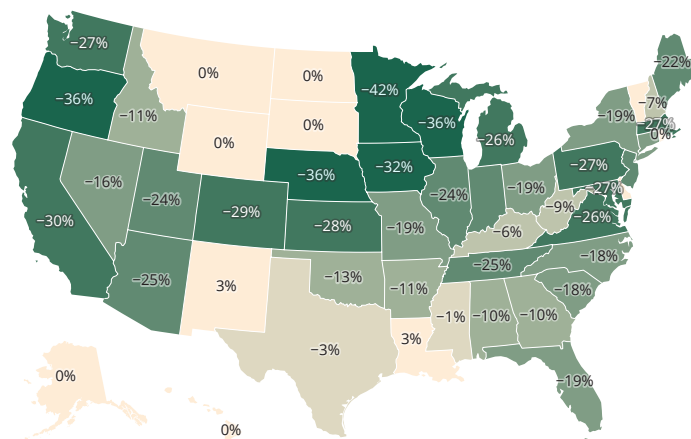
Expected number of OZ census tracts

For designation by governors in July 2026



Expected percent change in OZ census tracts

Between TCJA- and OBBBA-era designations



Preliminary estimates based on 2019–2023 ACS data. Final counts of eligible census tracts will be determined by forthcoming 2020–2024 ACS data.

III. Eight principles for a robust state zone selection process

The OZ 2.0 designation cycle will be more competitive and consequential than the first. With so much investment potential on the line, state and local governments need to make the most informed zone selections possible.

Leaders should start by asking themselves: *How does OZ designation fit within our broader statewide and regional economic development strategy?*

Being clear about the goal will help governors, their teams, and their local partners be strategic about their own selection process and screening criteria.

Ultimately, successful states will be those that regard the tract selection process as an *economic* opportunity rather than a political one. They will insist on an economic rationale behind each and every nomination.

We recommend that governors apply eight key principles to ensure their designations are strategic, transparent, and investment-ready.

1. Get a head start.

Governors' teams should get started well ahead of the formal kickoff on July 1, 2026. Teams should take advantage of the long lead time to share information, gather input, and get the necessary stakeholders engaged. Much of the preliminary tract vetting can be done before Treasury releases the final eligibility lists.

Establishing a brain trust is a crucial first step. Every state is now home to experienced OZ investors, project managers, and related stakeholders. Governors should tap trusted members of this network to help inform the state's OZ strategy. This network can provide the governor with frank advice and set realistic expectations about the viability of OZ investment in different locales. Credible voices can also help educate policymakers on what other state or local policies, programs, reforms, or initiatives are likely to support increased investment in designated communities.

Governors should not only tap investors and developers, of course, but knowledgeable community leaders from the local government and non-profit sectors who are likely to provide constructive input, too.

Where has OZ capital actually flowed?

States will want to know what happened in their initial Opportunity Zones before nominating the next round. Unfortunately, the absence of any detailed tract-level data published by the U.S. Treasury will leave most state and local leaders guessing as to how much investment the first round of designations actually attracted and where.⁹ Nationally, we know that nearly three-quarters of all designated tracts across the 50 states and DC registered OZ investment, but further granularity is largely missing.¹⁰ The robust data collection and reporting requirements included as part of the OBBBA will answer these questions in future years, but too late for governors approaching this nomination cycle.

In the absence of official data, state and local teams can take inspiration from academic researchers who have piloted a variety of effective measures for estimating OZ impacts using administrative data.

9 The exception is Ohio, which collected detailed investor and project-level information through its complementary state income tax credit program for OZ investors. Appendix tables in Development Ohio's annual tax credits reports provide a rich survey of the OZ landscape in one state and can help other states' teams better grasp the diversity and contours of the OZ marketplace.

10 Kevin Corinth, David Coyne, Naomi Feldman, and Craig Johnson, "[The Targeting of Place-Based Policies: The New Markets Tax Credit Versus Opportunity Zones](#)," NBER Working Paper 33414 (2025).

Scholars have been able to detect a strong impact of OZ status on the number of building permits and residential addresses in targeted communities.^{11,12} These data sources can be tapped and analyses replicated by nomination teams to identify OZ tracts where permitting activity or address counts spiked in the years following designation. Complemented with local knowledge on the development pipeline (as well as review of large scale industrial or commercial developments that may be missed in residential data), such analysis should allow teams to make educated assessments of where OZ designation was catalytic.

States and localities without a team of economists on staff can work with university partners to obtain and analyze such data. Moreover, the limited information available on 1.0 investments increases the importance of establishing a brain trust of knowledgeable market participants who can educate OZ teams on how and where the incentive has been at work in the state.

2. Set a statewide economic vision.

Governors should articulate how Opportunity Zones fit into the state's broader economic development strategy. Governors will need to identify priorities such as housing abundance, rural revitalization, downtown densification, industrial reshoring, and equitable neighborhood investment — and then balance nominations across them.

Actively setting a vision will help governors make tough choices and navigate the political economy of allocating a scarce resource (OZ status) with clarity of purpose.

More passive frameworks can increase the likelihood that designations get wasted on census tracts that are unable to leverage their OZ status to attract investment. For example, states where governors took a more hands-off approach in 2018 and allowed their zone nominations to be governed by rote geographic proportionality requirements (e.g., a guarantee that every county with an eligible census tract would get a nomination) were less successful in unlocking OZ investment than those that adopted a more strategic approach.¹³

In Colorado, a clear vision to harness OZs to foster rural economic development led the state's tract selections to skew rural. Backed by supportive state policymaking (e.g., rural capacity building grants), strategic intent helped the state emerge as a rural OZ investment leader.

11 Ben Glasner, Adam Ozimek, and John Lettieri, "[The Impact of Opportunity Zones on Housing Supply](#)" (Economic Innovation Group, 2025).

12 Harrison Wheeler, "[Locally Optimal Place-Based Policies: Evidence from Opportunity Zones](#)," Working Paper (2022).

13 Based on EIG's knowledge of states' 2018 zone selection processes (garnered through discussions and surveys) as well as EIG's analysis of the limited available IRS data.

3. Designate a lead coordinating entity within state government.

Each state should appoint a lead person or agency to manage the zone nomination process and be the final arbiter of recommendations to the governor. This role should coordinate across state agencies, municipalities, and stakeholder groups.

The lead entity should have the capacity to conduct research, map potential zones, and set up a digital interface to inform and engage the public. Importantly, this entity should lead a genuinely interagency process that leverages the expertise of multiple relevant departments.

There is no “right” agency to lead the process. Typically, the economic development or housing agency might assume the role. In some states, departments of finance, taxation, or revenue led the 2018 zone nomination process, but the hands-off and actuarial nature of those offices generally made them less effective homes for a place-based incentive such as Opportunity Zones, where local context really matters.

Governors should also set the expectation that the agency leading the zone nomination process will be responsible for leading the design and development of complementary policies and programs to support OZ-related goals.

In 2018, **Indiana** established an advisory panel to present final census tract recommendations to the governor. The panel was supported by state agencies and staffed by five leaders from different regions of the state. It included former state and local government officials, non-profit executives, and private sector leaders. Several other states included similar panels as part of their zone selection process.¹⁴

4. Engage local partners strategically.

Mayors, county executives, and other local and municipal leaders are closest to market and best positioned to identify the portions of their communities with the greatest OZ potential. Governors should provide guidance to counties and cities on the state’s priorities but ensure that local voices shape the map. For example, governors might direct local leaders to suggest tracts in areas that align with long-term local development plans or where recent zoning reforms have made it easier to build housing.

Especially in large population states with hundreds of tracts to nominate, local knowledge will be an essential ingredient in informed decision-making.

14 Economic Innovation Group, “[Opportunity Zones: The Map Comes into Focus](#)” (June 2018).

In 2018, **Colorado** and **Vermont** were the first states to convene large statewide conferences to assemble key stakeholders and educate the public about Opportunity Zones. These forums served to activate professional services providers, inspire community stakeholders, get OZs on the radar of potential investors, and provide critical early feedback to governors' teams.

5. Balance economic need and investment potential.

Governors are given total discretion to select Opportunity Zones from among their qualifying low-income census tracts. They and their teams should strive to select places that are genuinely distressed and inadequately supplied with capital from private markets. At the same time, they should seek out places with the infrastructure, assets, and fundamentals to attract and absorb capital.

Back in 2018, some states sought to nominate their most distressed census tracts, using screening criteria such as high crime rates to identify the deepest areas of disadvantage. Despite good intentions, reliance on criteria that were more likely to push economic activity away from target communities led to many nominations that failed to pique investor interest.

Part of the challenge governors face is to identify where OZ designation can make a difference — and recognize where it can't.

Different states will strike different balances between need and opportunity. For example, in 2018 **Mississippi**, one of the poorest states in the union, nominated a set of low-income census tracts that were among its most competitive eligible options. Likely as a result, 64 percent of the state's OZ tracts had registered investment by the end of 2020, one of the highest shares nationwide.¹⁵ The balance may look very different in higher income states, where connecting growth to deeply distressed corners may be the higher priority.

15 David Coyne and Craig Johnson, "[Use of the Opportunity Zone Tax Incentive: What the Data Tell Us](#)," Office of Tax Analysis Working Paper 123, U.S. Department of the Treasury (2023).

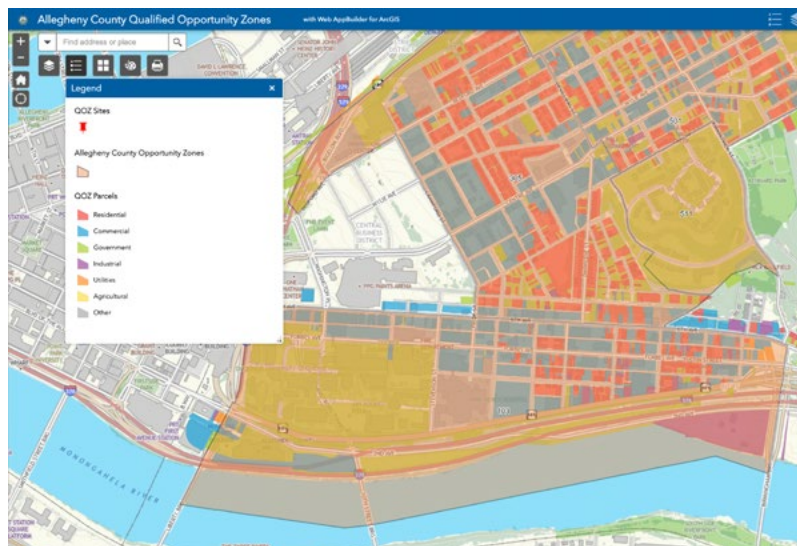
6. Combine both quantitative and qualitative insights.

Selection teams should embrace administrative data and qualitative information to help identify the strongest OZ candidates. Information on local market conditions can help identify incipient turnarounds that OZ designation might boost. Local administrative data on zoning, construction permits, vacancies, and development activity can complement traditional statistics such as the poverty rate to identify worthy high-potential tracts.

Much of this needed local insight can be garnered from the creative use of nontraditional data sources. Federal EPA data on brownfield sites can identify longstanding areas of blight and disinvestment that may be primed for redevelopment. USPS data on business vacancies can reveal corridors with the capacity to absorb new demand. Local government data on building permits can be analyzed to identify areas with burgeoning investor interest. Local zoning data can differentiate between the tracts that are primed to see development and the tracts where it's virtually impossible.

Allegheny County, Pennsylvania's, integrated OZ mapping tool is a model for taking qualitative information (zoning codes), rendering it into data, and overlaying it with OZ and OZ-eligible tracts.

Allegheny County, PA's, integrated zoning platform



Layering on **vacant parcels, brownfield sites**, and other such information would be especially useful for the selection process

Available at <https://www.alleghenyopportunityzones.com/>.

7. Embrace purposeful transparency.

Zone selection rests on public trust. Governors are delegated the responsibility because they can make better and more accountable decisions than remote bureaucrats in Washington. Transparency should therefore be a central pillar of every state's zone nomination process.

Transparency can take different forms. In some states, it might mean issuing a press release or standing up a website that outlines the governor's vision and explains how the state will go about selecting its OZ tracts. It might mean holding public listening sessions across the state to gather input or hosting informational webinars.

Many states will also open their zone selection process up for public comment, establishing official channels for constituents and stakeholders to suggest tracts, share their priorities, and voice their concerns.

Critically, quality outweighs quantity when it comes to public comment. Left unmanaged, the process can be hijacked by lobbyists with narrow interests or activists with competing agendas. The sheer volume of public comments can overwhelm the ability of state officials to identify truly useful information.

OZ leads should therefore provide the public with guiding questions to increase the likelihood of receiving constructive input. These prompts can be high-level (e.g., what industries, use cases, or types of communities should the state prioritize?) or specific (e.g., which rural census tracts might have strong development opportunities that might be missed in official data?).

No matter the approach, for public comment to be useful states must solicit it early — several weeks before the nomination deadline at the latest, and potentially as soon as the list of eligible tracts becomes available.

In 2018, four states — **California, Michigan, Nevada, and Vermont** — plus **Washington, DC**, set the gold standard in transparency by publishing draft tract nominations for public comment. This step had several benefits. First, it improved the quality of zone nominations by vetting them with local knowledge. Second, it helped direct public comment by giving interested stakeholders something concrete to which they could respond. Third, it helped garner community buy-in and legitimize governors' selections by subjecting proposals to public scrutiny.

8. Align OZ nominations with supportive policy tools.

States and localities should work to harmonize OZ nominations with policies and regulations designed to support desired outcomes in designated areas.

On its own, a capital gains tax incentive may not be enough to catalyze investment in targeted communities. To increase the likelihood that investors find investment opportunities, local leaders should start by nominating zones where land use regulations and other policies encourage development. They should then follow up on zone nominations with deliberate steps to make it easier to invest in the area. That might include infrastructure investments, faster and more predictable permitting, making the adaptive reuse of aging or vacant buildings easier, cleaning house of counterproductive regulations that discourage investment, and generally identifying and dismantling barriers to development.

Selecting zones is not enough; state and local governments must also pursue the reforms that will make those designations successful. Aligning OZ nominations with other tools in the local policy toolkit will also position communities to welcome investment and development on their own terms. For example, contributing state- or city-owned land can provide local officials with an opening to shape a project and help it achieve community goals.

It is likely no coincidence that the number two and three states for OZ investment dollars per capita through 2022 — **DC and Utah** — were two of the top-ranking jurisdictions for housing construction permits per capita, too.¹⁶ Population growth certainly helped these communities attract capital, but pro-growth and pro-development regulatory regimes are what unlocked OZ investment at scale.

Overall, the key lesson from the 2018 designation cycle is that good processes produced good zone selections. Where processes were guided by vision, informed by strategy, and vetted through transparency, OZ designation catalyzed housing construction, spurred industrial development, rejuvenated commercial corridors, and revitalized neighborhoods.

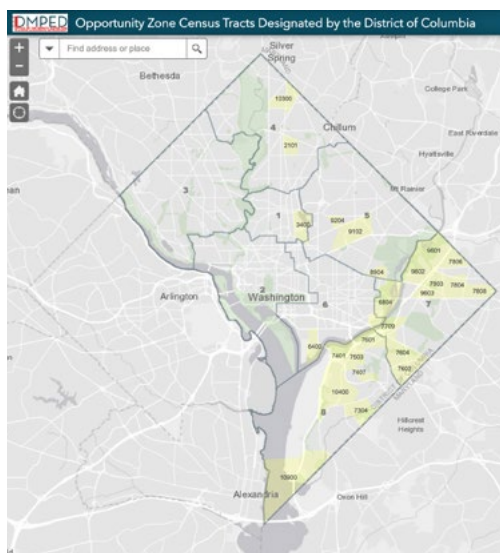
Where processes fell short, governors were much more likely to select tracts that languished without meaningful investment or failed to connect growth to residents. Some processes failed because they relied on quantitative information without

¹⁶ Utah ranked #1 nationally for housing permits per 1,000 residents in 2021 and DC ranked 1st in 2022, based on U.S. Census Bureau data as tabulated in EIG's Index of State Dynamism. Wyoming ranks 1st for OZ investment per capita, a small population state outlier.

sufficient qualitative vetting — meaning they relied too much on spreadsheets and not enough on maps and local knowledge. Some other processes failed because they were overly centralized with opaque decision-making — essentially black boxes. And others failed because they were overly *decentralized*, granting too much deference to local authorities without providing sufficient direction.

The **District of Columbia (DC)** offers a useful case study precisely because its hybrid status as a city/state-equivalent means all relevant parties can learn from its 2018 zone designation process. The state adopted a highly transparent, collaborative, data-driven method for identifying optimal OZs that were aligned with the city's key development priorities. Their replicable seven-step approach proceeded as follows:

DC's unique status makes it a model case study for state and local coordination around zone designations.



DC's zone designation Process

- Step 1: Determine initial eligibility, remove **outliers**.
- Step 2: Identify tracts with **commercial** land, high unemployment, and aligned with **city priorities**.
- Step 3: Gather **public input** via survey allowing respondents to rank priorities and **semi-finalist** tracts.
- Step 4: Consult neighborhood **commissioners**; public.
- Step 5: Analyze data on **recent investments**, etc.
- Step 6: Overlay **complementary incentives** such as Supermarket Tax Credit and Great Streets grant program.
- Step 7: **Finalize** tracts prioritizing **disadvantaged** areas with high **investment** potential, high **impact** potential, and high public **support**.

Learn more at "How DC designated our Opportunity Zones"

<https://dmped.dc.gov/page/how-dc-designated-our-opportunity-zones>.

IV. Characteristics of a good OZ tract

Under the OZ 1.0 map, the most effective OZ selections were not necessarily the poorest or those closest to growth, but rather the ones that effectively combined community need, investment readiness, and policy alignment.

Governors should therefore select tracts that meet three fundamental tests:

- **The community test:** areas that genuinely need new investment to grow and diversify their economies so that residents can prosper.
- **The market test:** areas that, with the incentive's help, have a reasonable chance to attract private capital and put it to productive use within the policy's timelines.
- **The policy test:** areas in which state and local policies are investment-friendly and conducive to economic development.

With those tests in mind, state and local leaders should look for the following characteristics to identify high-potential tracts:

- **Zoned for multifamily residential, industrial, or commercial development.**

Census tracts that are zoned for multifamily or a mix of uses are much more likely to garner OZ investment than those zoned predominantly for single-family homes.

OZs have emerged as the strongest federal lever to support housing supply in decades.¹⁷ Estimates from IRS data suggest that approximately half of all OZ investment has flowed into multifamily residential rental housing, or apartments.¹⁸

OZ investment is not restricted to housing, however. OZ capital has flowed into manufacturing, logistics, agriculture, healthcare, hospitality, and recreation. OZ capital has been used for data centers, clean energy assets, broadband, and port facilities. It supports community theaters, food halls, grocery stores, and art galleries.

The common thread: OZ capital flows to where there are equity investment opportunities. Only census tracts zoned for development (or redevelopment) are likely to attract it.

- **Contain underutilized land with latent potential.**

The rules governing OZs require that capital be deployed into projects quickly and substantively. Investors must put their money to work rapidly in order to meet fixed timelines in the law. Their investments must be additive, meeting either original use (i.e., wholly new) or substantial improvement thresholds.

17 Ben Glasner, Adam Ozimek, and John Lettieri, "[The Impact of Opportunity Zones on Housing Supply](#)" (Economic Innovation Group, 2025).

18 Kevin Corinth, David Coyne, Naomi Feldman, and Craig Johnson, "[The Targeting of Place-Based Policies: The New Markets Tax Credit Versus Opportunity Zones](#)," NBER Working Paper 33414 (2025).

Together, these rules serve to nudge investors towards in-fill development, the adaptive reuse of vacant properties, or new-builds on development-ready sites. In other words, OZ designation helps realize untapped potential by seeding or accelerating neighborhood turnarounds and by converting vacant buildings to new uses — i.e., turning parking lots into apartments or reactivating remediated brownfield sites.¹⁹

- **Promise reasonable prospects of growth and returns.**

The OZ tax provisions offer investors tax-free capital gains on investments held for 10 years or longer. That tax-free treatment is only attractive if investors can expect the value of their investments to appreciate over time. Viable investment opportunities are therefore a prerequisite for unlocking capital through OZs.

OZ investors are nevertheless diverse and will be attracted to a range of different opportunities and markets. Some will pile into growing sectors, from logistics or recreation to reshored manufacturing, clean energy, and data centers. Others will gravitate towards locations experiencing population growth or neighborhoods with strong fundamentals, like transit access.

Descriptive statistics like poverty or income matter much less than these more qualitative and contextual factors in determining where OZ investors find investment opportunities.

Questions for screening potential census tracts

Several strategic questions should guide governors and their local partners as they narrow down the list of census tracts to nominate for OZ status:

- **Where do state and local partners wish to channel development?**
Are there innovation districts, large brownfield sites, or other areas primed for residential, industrial, or mixed-use development in line with local area strategic plans? Are there tracts with large amounts of publicly owned land that can be leveraged to steward investment, or areas with particularly strong community buy-in for OZ status?
- **Which neighborhoods are primed for revitalization but undercapitalized?**
Where can private investment stabilize or grow the population, catalyze job creation, reinvigorate commercial corridors or business districts, and unlock long-term growth? Have local governments identified certain neighborhoods as priorities for mixed-income development?

19 Reinforcing the point, academic research has found that OZ designation disproportionately increased the value of vacant land and identified a strong causal impact on building permits activity in parts of cities with large amounts of developable, underutilized, and relatively inexpensive land. See Alan Sage, Mike Langen, and Alex Van De Minne, “[Where is the Opportunity in Opportunity Zones?](#)” *Real Estate Economics* 51 (2) (2023) and Harrison Wheeler, “[Locally-Optimal Place-Based Policies: Evidence from Opportunity Zones](#),” Working Paper (2022).

Census tracts screening questions (continued)

- **Where have barriers to development come down?**
Have certain communities revised zoning codes and undertaken other steps to make it easier to build? Overlaying OZ designations could help reward such efforts and unlock private capital in response.
- **Which tracts are zoned for development?**
OZ investment often takes the form of mixed-use or multifamily housing developments. Which areas are zoned for such activity? Where are there opportunities for transit-oriented development or strategic densification?
- **What assets exist?**
Are there growth poles, anchor institutions, or infrastructure assets around which local leaders wish to build?
- **Where can aligned state and local incentives be layered on top?**
Are there complementary state or local programs or incentives with which OZ designations should overlap? For example, can designations match up with state Enterprise Zone programs to support job creation, tax-increment financing districts to advance major developments, or Main Street grant programs to support placemaking?
- **Which tracts are poor fits for the OZ incentive?**
Where might an OZ designation risk being wasted? Identify and eliminate tracts that do not meet the spirit and intent of the policy, contain few private investment opportunities (e.g., where government or non-profits such as universities are the largest landowners, or rural areas with few infrastructure connections), or are zoned only for single-family housing.

V. Special rural considerations

The IRS reports that OZ investments into rural areas reached \$6.1 billion between 2018 and 2022.²⁰ While meaningful, rural areas attracted a disproportionately small share of OZ capital. Rural areas represented one-third of all census tracts but only one-tenth of all investment.

The OBBBA contains several provisions to boost rural OZ investment. Specifically, investors in a new class of rural Qualified Opportunity Funds will be eligible for two enhanced incentives:

- **A boosted step-up in basis.** Instead of the standard 10 percent step-up, rural investors will receive a 30 percent step-up in basis on capital gains deferred and deployed into a Qualified Rural Opportunity Fund (QROF) after five years.
 - This enhanced “front-end” benefit is intended to offset the expected lower long-term appreciation potential of investments in rural areas (i.e., the “back-end” or 10-year tax benefit).

20 Joint Committee on Taxation, “[Opportunity Zones Tax Provisions Report](#)” (2024).

- **A lower substantial improvement threshold.** Rural investors who acquire an existing asset must only meet a 50 percent substantial improvement threshold, rather than the 100 percent threshold that remains in place in urban tracts.

In practice, this lowers the amount of capital investors must place into rehabilitating structures or equipment in rural OZs. The lower improvement threshold also better aligns the OZ rules with the economics of investing in rural areas, where costs tend to be lower. It is intended to help preserve affordable and workforce housing by eliminating the need to raise rents to cover excessively high refurbishment costs, for example.

The lower improvement threshold was effective the date of enactment, while the other rural benefits take effect on January 1, 2027, along with new zone designations.

In light of these extra incentives, governors should not be dissuaded from nominating rural tracts because of rural areas' limited success under TCJA-era rules. At the same time, governors should resist over-selecting rural tracts because of the enhanced incentives. The investor base remains thin in many rural areas, and the usual market hurdles to investing in distressed rural areas in particular — limited infrastructure, workforce constraints — still apply.

VI. Beyond zone designations

Governors' statutory role with Opportunity Zones ends with zone designations. However, state and local leaders have numerous other levers at their disposal to shape OZ outcomes and cultivate investment ecosystems in their communities. In the coming months, EIG will publish a companion guide to supportive policymaking with innovative ideas inspired by best practices from across the country. These will include complementary state tax credits that encourage local capital to invest locally, examples of direct municipal collaboration on high-impact projects, and other ways to forge the connective tissue between incoming investment and economic opportunity for the residents of low-income communities.

In the meantime, states should utilize their leverage in the OZ designation process to help local and municipal governments help themselves — meaning states should use this opportunity to drive frank conversations around relieving hurdles to investment and making desired development easier. Most states will have far fewer tracts to nominate in 2026 than they did in 2018. Governors should use OZ nominations to reward the places that take proactive steps to position themselves for success.

VII. Appendix: Timeline of OZ 2.0 developments

Quarter	Q3 2025			Q4 2025			Q1 2026			Q2 2026		
Month	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
OZ milestone	Jul 4: OBBBA passes and OZs made permanent. Jul 4: New substantial improvement threshold goes into effect for rural investments.		Sep 30: IRS guidance identifying OZ 1.0 tracts that meet rural definition released.				2020–2024 ACS data expected to determine census tract eligibility to be released.	Official list of eligible census tracts released by Treasury (expected).				
Recommended activity for state and local officials				Identify core team and lead state agency to manage the zone selection process. Begin preliminary data analysis into likely eligible census tracts based on available 2019–2023 data. Begin targeted outreach to trusted advisors, visionary local leaders, and knowledgeable OZ market participants.			Identify eligible tracts and activate zone nomination process in earnest. Set a vision for the state's OZ nominations. Gather zoning, land use, and other necessary data to inform decision-making. Set agenda and expectations for other state agencies and local government partners to align rules, regulations, and initiatives behind desired outcomes in OZs.			Arrive at a shortlist of eligible tracts that align with the state's vision. Conduct public engagement, publish draft recommendations, and solicit public comment before the formal nomination window opens. Interagency work gets underway in earnest.		

OZ 2.0 policy milestone

OZ 2.0 tract designation milestone

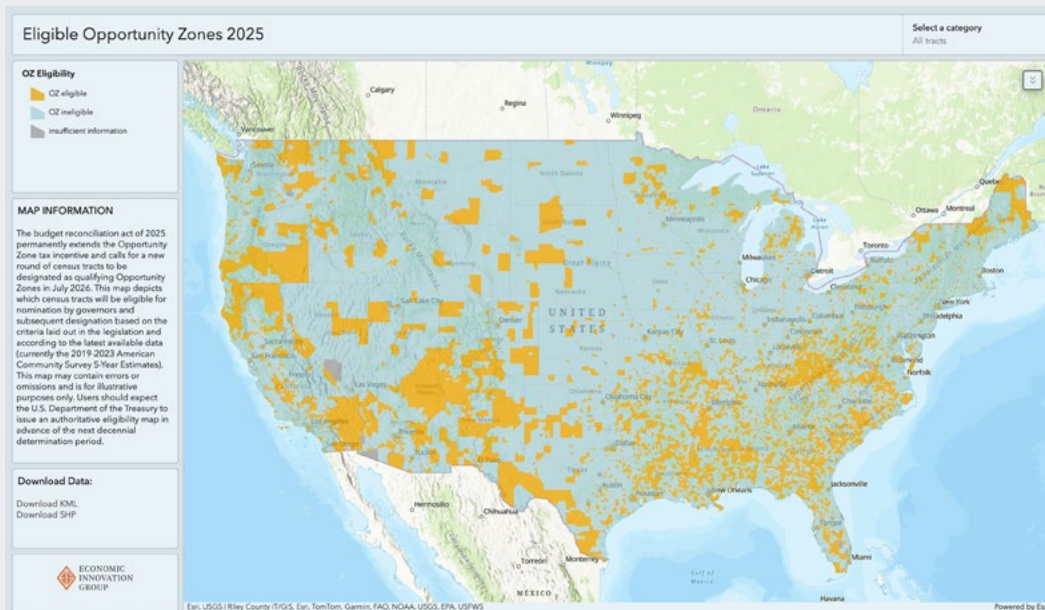
OZ 1.0 milestone

Quarter	Q3 2026			Q4 2026			Q1 2027			Q4 2028
Month	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	DEC
OZ milestone	Jul 1: Zone designation window opens: Governors have 90 days to nominate 25% of their eligible census tracts for OZ status.		Sep 29: Deadline for governors to submit zone nominations to U.S. Treasury (expected).	Oct 29: Deadline to submit zone nominations for states that requested a 30-day extension (expected). Oct 29: End of 30-day window U.S. Treasury has to certify on-time zone nominations (expected).	Nov 28: All OZ 2.0 tracts certified by the U.S. Treasury (expected).	Dec 31: Close of 2026 tax year and end of OZ 1.0 deferral period. All deferred tax must be paid in this year's tax filings.	Jan 1: New OZ designations take effect. Jan 1: OZs 2.0 incentives (i.e., rolling 5-year deferral, standard 10% step-up) take effect. Jan 1: Remaining enhanced rural incentives take effect (i.e., 30% step-up).			Dec 31: End of eligible investment window into 1.0 OZ tracts.
Recommended activity for state and local officials	Core teams finalize proposed nominations, present to governor.			Announce complementary initiatives, policies, or programs to support investment and desired outcomes in OZs.			Continue raising awareness among investor and community stakeholders. Proactively encourage investment into 1.0 tracts before they sunset. Launch complementary programs and initiatives.			

About the Economic Innovation Group

The Economic Innovation Group (EIG) is a bipartisan public policy organization dedicated to forging a more dynamic and inclusive American economy. From our headquarters in the nation's capital, EIG develops original research, convenes leading experts from the public and private sectors, and advances creative policy proposals that bring new jobs, investment, and economic dynamism to U.S. communities.

Opportunity Zones were first proposed in an EIG white paper, and EIG worked tirelessly to support the policy's initial passage. Since then, EIG has been a leading source of information for public and private sector stakeholders on Opportunity Zones. This included fielding a survey of state officials involved in the initial nomination process, the results of which informed portions of this guide. EIG has also been a leading advocate for improvements to the OZ tax provisions, many of which were enacted in 2025. The team continues to work to ensure OZs deliver on their original promise of restoring economic opportunity to the American communities that need it most.



For the latest Opportunity Zones insights and resources from the Economic Innovation Group, visit eig.org/opportunity-zones.