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**Opportunity Zones Are About to Get More Scarce as Tax Bills Come Due**

***It’s a temporary shock to a system that new federal legislation has made more permanent and certain***



Opportunity Zones are sticking around, and the tax benefits starting in 2027 will get … well … more beneficial. In the meantime, though, things could get dicey as capital gains taxes come due for current investors and the pool of new funding shrinks dramatically for a time.

The impact of the federal Opportunity Zone program — an incentive to build in designated economically underserved areas in exchange for breaks on capital gains taxes — has always depended a bit on whose opportunity one is referencing.

Despite the spirit of the legislation enacted in 2017, there’s always been a focus on smart investments, with much of the capital deployed in places already on their way up, and not in areas desperately in need of an economic boost.

“There’s a double bottom line associated with Opportunity Zones, but I don’t know that most people are actively doing it for altruistic purposes,” said Travis King, CEO of [Realm](https://commercialobserver.com/company/realm/), an investment platform and a prolific OZ investor that works with a number of family offices and has $10 billion in assets under management.

Whatever social impact the program is having, the potential benefits to investors will soon dramatically increase.

The inclusion of Opportunity Zone expansion in the reconciliation bill passed in early July has brought both permanency and certainty, keys to attracting what proponents hope is an entirely new group of investors. An investment vehicle many considered a pilot and a curiosity when it surfaced during President Donald Trump’s first administration has become a permanent part of the tax code.

The program, via which more than $100 billion in equity investment has been spread across more than 5,600 neighborhoods, now “boasts a stronger foundation,” said John Lettieri, co-founder and CEO of the Economic Innovation Group, the think tank that helped promote and pass the original program.

The One Big Beautiful Bill Act that passed Congress offers a handful of regulatory changes for what will be an entirely new set of zones, as there won’t be changes or extensions to those created in 2018. The new language defining the new set of zones offers deferral benefits on a rolling five-year basis, a 10 percent basis step-up for qualified investments for at least five years, and a boost for investment in rural OZs with a cost-adjusting basis step-up of up to 30 percent, instead of 10 percent, for those zones specifically. (Basis step-ups are used to determine capital gains taxes on assets, with increasing — or stepped-up — value leading to lower taxes.)

Rules establishing capital gains on sales of Opportunity Zone assets after 10 years and blocking the IRS income tax on gains realized from OZs — known as “depreciation recapture” — remain the same as in the original legislation.

That means the new math for the OZ program doesn’t really show up until 2027, when the fresh zones selected by state governors go into effect. (Zone boundaries will be redrawn every 10 years going forward under the new legislation.)

Longtime OZ investors have been warning about this shift. They call it “the dip” — a drawdown in investment in the program due to the switchover between maps and different regulatory structures. Deferred capital gains taxes under the original legislation will be due as of the end of 2026. Investors will be able to exclude 10 to 15 percent of the gain from taxation, depending on how long they held the OZ fund. Taxes on the rest are due.

Lettieri and others think that in the meantime — as investors wait out the final year of those original rules — investment won’t disappear entirely, but it’ll wind way down, with some investors simply spending 2026 raising funds to deploy the following year.

“I think this becomes a real investment strategy that many more investors are going to consider,” said Jason Watkins, a partner at advisory services firm [Novogradac](https://commercialobserver.com/company/novogradac/).

It is already causing a lot more players to start running the numbers, including wealth managers, registered investment advisers and taxable endowments. With more experience and understanding of the potential benefits of these investments, governors tasked with selecting which census tracts to include are likely to be much more strategic in picking Opportunity Zone areas.

The Economic Innovation Group expects a roughly 20 percent decrease in the number of zones due to the new median family income requirement, which redefines low-income communities as earning 80 percent of area median income rather than the prior 70 percent. It also gives local governments time to enact zoning policies and economic development initiatives to piggyback off the OZ 2.0 universe.

“The magic of OZ doesn’t overwhelm your bad local policy,” said Lettieri. “I would think of OZ as a reward for places that get their own house in order to supercharge the effect of the policy.”

[According to an analysis](https://www.novoco.com/periodicals/articles/despite-approaching-2026-deferral-deadline-on-capital-gains-value-remains-in-oz-investments-in-2025) from Novogradac, the real benefit of the program, and the majority of gains, came from the long-term 10-year hold. The 10-year hold is worth more than the years of deferral and the 15 percent capital gains exclusion combined. There’s certainly advantages to waiting until the next round of zones are created, but Watkins said the long-term hold will be the real benefit.

On paper, few things change for existing investors. Since the new legislation doesn’t impact any rules or regulations, or change the 2026 tax deferral cutoff, funds are likely to stick to their business plans and stay the same.

“It really doesn’t give existing investors any new bells and whistles or tax benefits,” said Barrett Linburg, co-founding principal of [Savoy Equity Partners](https://commercialobserver.com/company/savoy-equity-partners/), a Texas multifamily investor.

There are new transparency requirements, which will be necessary for every OZ investor going forward after 2026. The U.S. Treasury Department will now track poverty rates, median family income changes, demographic data, and rent burdens and homeownership rates by census tract, enabling better research and understanding of the program’s impact.

Before the reconciliation bill made OZs permanent, investors wondered if an extension was even in the cards, said Patrick Mullen, vice president of Arctaris Impact Fund, an OZ investor that has launched numerous funds focused on the program. Permanency now means investors finally have a date to work around. The standard 180-day clock to defer capital gains into an OZ fund still exists. So, if that doesn’t extend into the new zones, investors may focus on existing vehicles and “jump in now because they don’t have any choice,” said Mullen.

The hasty way the new regulations came together, according to David Wessel, a senior fellow in economic studies at the Brookings Institution, means investors with a project planned simply have more pressure to get started in the next 18 months.

“For existing investments that I have, there’s literally no change that I could think of other than I will apply more internal resources to looking at future OZ deals,” said Realm’s King. “Everybody knows the existing Opportunity Zones, and it kind of feels like they’ve been a bit picked over.”

Other investors may delay triggering events — selling a company, for instance — into 2027, aiming to plunge those profits directly into an OZ fund dedicated to the new map.

Most analysts believe that excitement, and fundraising, for new OZ investments will start in earnest in the middle of 2026, right around the time when governors will be designating a quarter of their low-income census tracts as new Opportunity Zones. As opposed to the first time around, when state leaders learned on the fly and didn’t always make the most strategic choices — California initially declared an area a few miles from the Stanford University campus part of an Opportunity Zone — this time, hindsight and additional expertise and analysis will likely result in a more sophisticated selection process.

King said he sees interest across property types. Industrial developers will be scouting out plots of land near interstate intersections for logistics property, and residential developers will be seeking sites for potential bedroom communities.

Momentum will build, said Savoy Equity’s Linburg, when investors fully contemplate the program’s true long-term impacts. The initial OZ setup didn’t encourage anything past a 10-year hold. Now investors can essentially refinance or use the cash flow of these investments to reinvest in OZ census tracts. As the fund’s assets appreciate, those proceeds can continually be reinvested in low-income areas. Paired with other One Big Beautiful Bill Act changes to the New Markets Tax Credit and Low-Income Housing Tax Credit, investors have plenty of reason to reconsider the program’s benefits.

“It was like a play thing,” Linburg said, “whereas now, it’s a forever thing.”

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