

# Job Growth from Opportunity Zones

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Discussion by

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# Context

## Opportunity Zones (OZs)

- First large-scale U.S. place-based policy initiative since the 1990s
- Geographically targeted capital gains tax cut
  - Deferral and basis reduction for realized gains reinvested into OZs
  - Tax-free gains on new investment into OZs held for  $\geq 10$  years
  - Investments in OZs facilitated through Qualified Opportunity Funds (QOFs)
- Bipartisan support with explicit aim of creating jobs in distressed areas

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## This paper

- What is the effect of OZ designation on job growth?
- Diff-in-diff comparing designated tracts to eligible but not-designated tracts
- **Key finding:** OZ designation  $\uparrow$  2017–2019 employment growth by 3–4.5 ppt

# My Take

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## Main comments

- **Timing:** When should job growth materialize?
- **Measurement:** Is the effect size too good to be true?
- **Parallel trends:** Because I have to, and only if I have time...

# Timing

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REAL ESTATE | PROPERTY REPORT

## Opportunity-Zone Funds Are Off to a Slow Start, Lagging Behind Heady Expectations

“Every manager I talk to is saying gaining traction is slower than expected,” said John Lettieri, chief executive of the Economic Innovation Group, a nonpartisan think tank that helped develop and promote the opportunity-zone program.

Mr. Lettieri said it isn’t surprising that the program is taking time to pick up steam, especially given that regulations aren’t yet final and these are new markets for many investors. But the slow start is raising fresh questions about investor appetite for the program, and what impact it will have on distressed communities.

3. The Science Behind How the Coronavirus Affects the Brain



4. ‘Personnel Is Policy’: Four Themes Emerge as Biden Selects Team



5. Kilauea Volcano Erupts on Hawaii’s Big Island



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- More detail on the investment timeline for the typical QOF would be helpful

# SkyBridge Opportunity Zone Real Estate Investment Trust, Inc.



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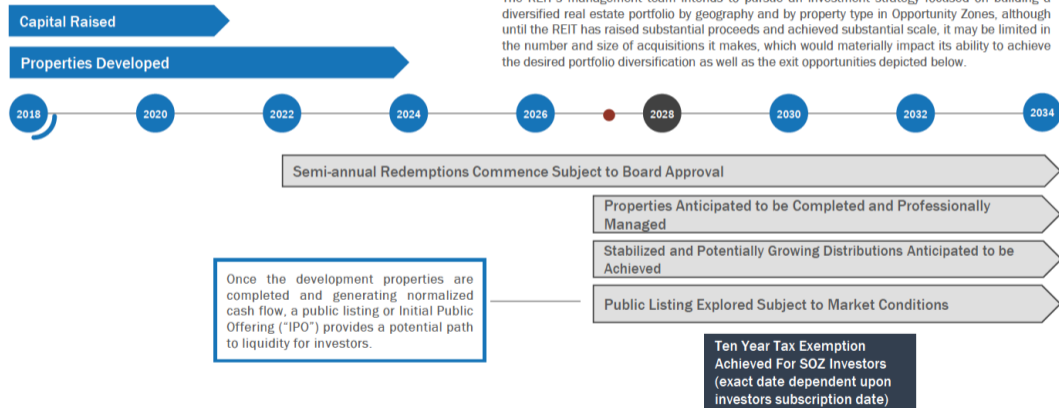


**Morris A. Davis**  
Board of Directors  
11/2018 – 9/2019

# SkyBridge REIT Timeline

## SOZ REIT Indicative Timeline<sup>1</sup>

Based Upon Current Expectations – Subject to Change Without Notice – See Certain Risk Factors – Exit Opportunities in the Private Placement Memorandum



The REIT's management team intends to pursue an investment strategy focused on building a diversified real estate portfolio by geography and by property type in Opportunity Zones, although until the REIT has raised substantial proceeds and achieved substantial scale, it may be limited in the number and size of acquisitions it makes, which would materially impact its ability to achieve the desired portfolio diversification as well as the exit opportunities depicted below.

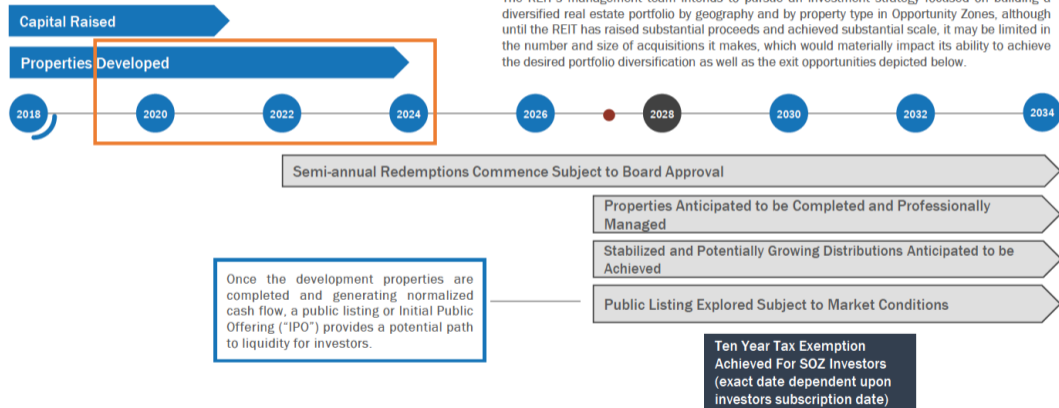
Source: SkyBridge REIT Promotional Slide Deck (07/13/2020)



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# Measurement

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## Headline finding

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# Summary Statistics

Table 1: 2017 Characteristics of Eligible Tracts

Variable	Obs.	Mean	SD	Median	Minimum	Maximum
Designated	41,174	0.190	0.392	0	0	1
Number of entered establishments	41,174	48.7	70.6	30	0	2,456
Number of exited establishments	41,161	43.4	67.9	28	0	4,709
Percent of entered establishments	41,161	0.279	0.215	0.224	0	9
Percent of exited establishments	41,161	0.235	0.094	0.216	0	1
Number of establishments	41,174	202	266	130	1	12793
Growth in the number of establishments	41,161	0.044	0.180	0.016	-0.864	9
Employment	41,174	2,148	4,013	1,137	1	235,158
Employment growth	41,161	0.039	0.349	0.014	-0.985	41.1

**Mean pre-period (2015-2017) job growth rate = 4 ppt**

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## May, however, contain substantial measurement error

*“...approximately 49% of the businesses have their location employment size verified through telephone interview. When an employment number cannot be verified through the telephone interview process, a model is built to estimate the employment size. **About 51% of businesses have their location employment size modeled.** The model uses a multi-step approach, with over 7 million telephone verified employment figures as the cornerstone...”*

– Your-economy Time Series 2019 Database Description

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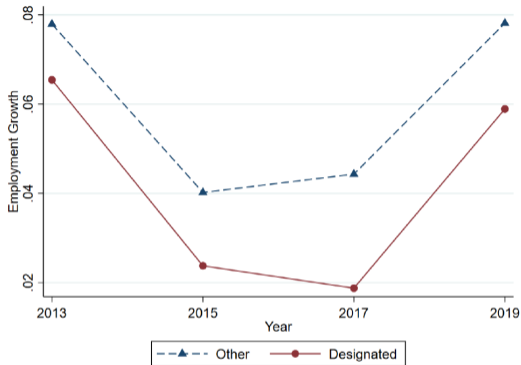
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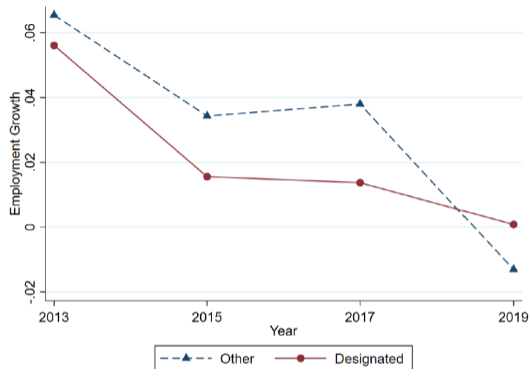
Some further discussion of magnitudes would be very helpful

## Parallel Trends

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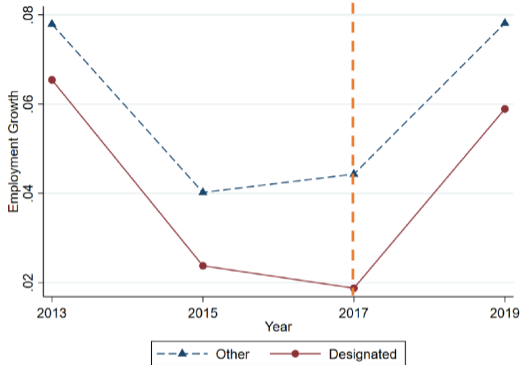
(a) Employment Growth, Raw Data



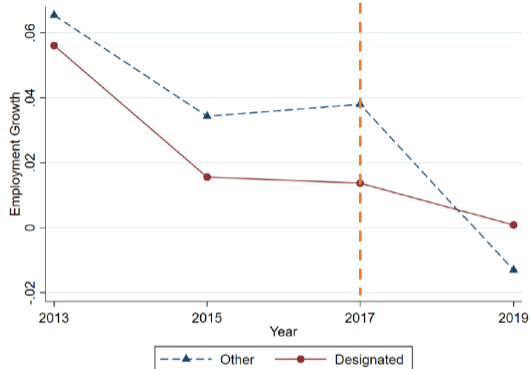
(c) Employment Growth, Winsorized at 1%

**If you had to guess, which year is the policy year?**

# Parallel Trends



(a) Employment Growth, Raw Data



(c) Employment Growth, Winsorized at 1%

**Why does winsorization matter so much, and only in 2019?**  
**Is the policy stemming job losses or accelerating job growth?**



# Conclusion

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## **My take**

- More discussion/institutional detail on timeline of QOF investment needed
- More discussion of magnitudes and data validation needed
- Kick the tires more on diff-in-diff assumptions
- Should be possible to add more recent data soon!