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Opportunity Zones: The Antidote To Los Angeles' Housing Crisis

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It's no secret that there is an [affordable housing crisis](#) in Los Angeles, and it doesn't appear to be getting any better. To help paint the picture, let's explore a few key statistics regarding the state of the city's housing needs.

According to a report from the California Housing Partnership and the Southern California Association of Nonprofit Housing, Los Angeles County has a major affordable housing shortfall, with [approximately 600,000 new units needed](#) to satisfy the immediate demand from the lower-income rental market.

A *Los Angeles Times* [article](#) published last year reported that the "state will need anywhere from 1.8 million to 3.5 million new homes by 2025 to absorb existing demand and future population growth."

The solution is simple, right? Just build more homes.

Well, it's not that easy, as the same article mentioned the current construction pace was 80,000 new homes per year in California, which is 100,000 less than what is needed to satisfy even the lowest estimated needs. While this problem does impact the middle class, it's the lower-income set that is bearing the brunt of this shortage.

There is a supposed antidote available to help cure the affordable housing problem: opportunity zones. Opportunity zones were introduced by Congress through the Tax Cut and Jobs Act of 2017, and altogether [more than 8,700 opportunity zones exist](#) across every state and territory in the United States. Most of these areas have also historically seen little new development and, as a result, almost no inventory of finished product. I believe opportunity zone incentives are sure to spark the much-needed development cycle within these areas, creating newer, safer and better housing options than currently exist.

Opportunity zones can offer very strong investment returns, while also making a socially strong impact on the local Los Angeles community, especially in areas that have been trailing in development. The tax incentives and investment potential combined can attract the funds required to make a meaningful dent in creating supply. I encourage investors to consult a tax

professional to fully understand the [common questions](#) regarding opportunity zones, but in a nutshell, they were established to attract investment dollars to areas that are currently struggling and experiencing slow economic growth by incentivizing investment into those markets. Ultimately, investment money in opportunity zones will lead to the development of more affordable housing, which the country — and in particular, my home of Los Angeles, where my firm has focused its opportunity zone funds — so desperately needs.

In order to take advantage of the tax breaks offered by the opportunity zone program, you need to place your money into an opportunity fund, which are set up specifically for investing in projects located within the established zones. Any investment placed in a qualified fund must originate from capital gains in a previous investment. The regulations are a clever way to get gains that have been triggered recently back into locales that need help, instead of them just being squirreled away.

The reason I am such an advocate for the potential opportunity zones have when it comes to helping aid the affordable housing problem in Los Angeles is that they provide a win-win outcome in the end. Socially conscious investors put their money into areas that desperately need it, and the areas experience improvements. The local affordable housing shortage is lessened, and the investors take advantage of tax laws they otherwise wouldn't be able to leverage to garner greater-than-normal returns.

Of course, while no investment is 100% safe, there is a seemingly never-ending demand for affordable housing in the greater Los Angeles area, making it a very low-risk investment in my view, especially when you take the tax breaks into consideration when evaluating the risk and return potential. There are no limitations as to where you can invest in these zones, location-wise. The 10-year hold requirement also gives a longer duration to let the assets and their return streams mature, reducing project risks even further.

I believe educating investors on the many benefits will play a major role in the success of the program, which will directly and positively impact the affordable housing crisis Los Angeles is currently experiencing. We need to educate investors on the benefits of liquidating appreciating capital assets and reinvesting in qualified opportunity zone funds.

There are three tax benefits that make opportunity zone investments highly attractive to investors:

- The ability to defer capital gains taxes until December 31, 2026.
- A reduced tax payment of up to 15%.
- As little as 0% tax on profits resulting from an opportunity fund, as long as it's held for 10 years.

I feel that if more effort is allocated toward building awareness and educating investors about these incentives, it will result in a huge influx of investment dollars that would be responsible for directly solving the affordable housing shortage in Los Angeles and the combined 8,700-plus

designated communities throughout the United States. The key is to convey these tax advantages and put them in front of investors who would love to take advantage of them. How can this be accomplished?

I believe the Economic Innovation Group needs to run marketing campaigns targeting active accredited investors and highlighting the benefits of opportunity zones. Content marketing campaigns with data-backed infographics and videos would be a very effective way to spread the message. The various building industry associations should also educate all their developer members regarding the opportunity zone benefits and encourage development projects. An educational message campaign has the potential to drive awareness, resulting in the capital injection needed to improve these communities and their immediate need for more affordable housing.