DISPLACEMENT ZONES

How Opportunity Zones Turn Communities into Tax Shelters for the Rich

Strategic Actions for a Just Economy 2019

ACKNOWLEDGMENTS

The authors would like to thank the people of South Central Los Angeles whose voices give life to this report, the members and Steering Committee of Strategic Actions for a Just Economy (SAJE) for informing this work with their perspectives and stories, and the allies who reviewed and contributed to this work.

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ABOUT SAJE

SAJE is a 501c3 non-profit organization in South Los Angeles. SAJE builds community power and leadership for economic Justice. Since 1996 SAJE has been a force for economic justice in our community focusing on tenant rights, healthy housing, and equitable Development. SAJE has taken many notorious slumlords to court, has established a land trust, and helped implement innovative popular education programs.

Strategic Actions for a Just Economy (SAJE) runs a regular tenant clinic, help connect local residents to jobs, and fight for community benefits regarding future development through private agreements and public policies. SAJE believes that the fate of city neighborhoods should be decided by those who dwell there, and convenes with other organizations to ensure this occurs in a manner that is fair, replicable, and sustainable.

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I. EXECUTIVE SUMMARY

FOREWORD

The federal Opportunity Zones program is a much hyped, but little understood provision tucked into the Republican-led 2017 Tax Cuts and Jobs Act and promises to drive billions of dollars of investment into the country's most disadvantaged and most vulnerable neighborhoods. Boosters promised Opportunity Zones would help bring capital to the neighborhoods that most need it, but in reality allow wealthy investors to benefit from huge tax breaks while they speculate at the expense of the most vulnerable communities. The structure of the Opportunity Zones program was designed with the interests of speculators, not communities, in mind. Communities living inside many Opportunity Zones across the country are already experiencing rapid changes. Unregulated speculative investment will throw even more fuel on the fire. The Opportunity Zones program will exacerbate an already unbearable housing crisis by facilitating the wholesale redevelopment of neighborhoods, and favors an eviction based model of real estate investment.

This report is an attempt to develop a community based understanding of the Opportunity Zones program and the threats that it poses. We take Los Angeles County as a case study both because it can be indicative of the trends experienced in many U.S. cities facing increasing development activity, and because Los Angeles is projected to be one of the cities that is most attractive to Opportunity Zone investment. Through an analysis of the program's structure, early investment indicators, and the vulnerability of affected communities, we have identified the specific harms the program threatens. We conclude with recommendations pertaining to how to best combat the program's risks to communities.

KEY FINDINGS

Opportunity Zones were created by the rich, for the rich.

Opportunity Zones are an invention of the Silicon Valley millionaire-backed Economic Innovation Group, and contain some of the most generous tax breaks currently available. The program gives capital gains tax exemptions that scale up based on the length of time an investment is held, eventually culminating in a 15% reduction in the taxable basis of the principal, and complete tax exemption of any profits made on the investment after 10 years. Because the distribution of capital gains income is highly unequal, the overwhelming majority of these tax benefits will flow directly to the richest investors in the country. Indeed, 90% of all capital gains income in the United States is owned by the wealthiest 10% of people, and 70% of all capital gains is owned by the wealthiest 1%.

Besides the fact that the program takes the tax dollars of working people and puts them directly in the pockets of the wealthiest investors and corporations, which as taxable entities also qualify, Opportunity Zones also put the most vulnerable low income communities at risk from direct displacement the program incentivizes, as well as the gentrification inducing consequences of rapidly spiking investment.

Opportunity Zones were selected by criteria that ensures the most vulnerable communities are targeted.

In order to qualify for the program, eligible census tracts had to be considered low income, with a median income of less than 80% of the region's average, or a poverty rate above 20%. This had the practical effect of ensuring that communities who ended up living inside Opportunity Zones are already experiencing high levels of precarity and are extremely vulnerable to displacement.

According to the analysis in this report, Los Angeles County's Opportunity Zones residents are 23% more vulnerable to displacement than the county average. Even worse, we found many of the tracts selected have already experienced substantial levels of investment and gentrification, and were chosen for that reason specifically. By prioritizing areas desirable to investors, the Opportunity Zones program puts communities that have already been subjected to speculation and displacement in further harm's way.

Opportunity Zones are designed to accelerate the type of speculative real estate investment that leads to displacement.

Real estate investment already makes up a huge proportion of the money flowing through the Opportunity Zones program, and this has already lead to devastating effects. Over 85% of all Opportunity Funds listed on major directories have a real estate focus, accounting for more than 26 Billion Dollars of investment capacity. Land sales and prices have skyrocketed in the zones already, far out-pacing the national average.

The disproportionately renter communities living in Opportunity Zones already face severe housing cost burdens, and the rise in prices threatens to become a major driver of displacement. Even worse, in order to receive the tax benefits of the program, properties receiving investment need to undergo "substantial improvements" which in practice will mean the demolition of buildings and the eviction of families. The program also threatens to accelerate the destruction of public housing, and to undermine rent stabilization through redevelopment. Opportunity Zones magnify the power of investors and real estate developers to remake neighborhoods in ways that benefit them, and leaves communities without control or protection.

Opportunity Zones will threaten terrible harm to low income communities and communities of color until repealed.

Communities living in Opportunity Zones have already weathered decades of disinvestment and exclusion from public funding and private finance, followed by decades of urban revitalization programs intended to displace them. Today, low income communities and communities of color in cities across the country are forced to contend with rapidly rising housing costs and the loss of community serving businesses and institutions due to intensifying gentrification. The Opportunity Zones program will compound these injustices, subjecting the same communities to a program of extraction, where the wealthiest investors benefit from speculative investment that threatens these communities with displacement.

RECOMMENDATIONS

1. *Repeal the Opportunity Zones Program*
   Opportunity Zones are intentionally designed to displace tenants and extract wealth from low income communities to benefit the country's richest investors. This doesn't end well for communities, which is why Opportunity Zones must be repealed.
2. *Use Local Government's Land Use Powers to Implement an Anti-Displacement Overlay Zone and Regulate the Program*
   Arguably the greatest powers cities, counties and other local jurisdictions can exercise are those that govern land use development. Every community where Opportunity Zone tracts have been designated would be advised to use these powers to protect local communities and advance community-serving investment objectives over those that primarily benefit profits of large developers and corporations.
3. *Establish Community and Government Oversight at the Local Level*
   One of the most pressing failures of the Opportunity Zones program's structure at the federal level is the complete lack of accountability and transparency for Opportunity Zones investment. Local governments and communities must step in to fill this gap and give communities the data and structures necessary to successfully engage with the program.
4. *Establish Community Controlled Funds for Equitable Development with Governmental and Philanthropic Partners*
   Even the most ardent boosters of the Opportunity Zones program acknowledge that in order for communities to reap any meaningful benefit from investments through the program, local governments, philanthropy, and community based institutions will need to establish a framework for the coordination and direction of investment to community serving objectives. The only way to truly guarantee that investments made by an Opportunity Fund will be community benefiting, however, is to place the funds under community control.

II. UNDERSTANDING OPPORTUNITY ZONES

Opportunity Zones: Turning Communities into Tax Shelters for the Rich

An "Opportunity Zone" is a designation applied to census tracts by a state's governor that allows investments in these tracts to be significantly protected from taxation. Though politicians and business leaders have promised that Opportunity Zone investment will bring much needed capital to neighborhoods that have been historically ignored, in reality the program was created by and for billionaire investors to avoid taxes and remake cities in ways that will primarily benefit them. Opportunity Zones contain some of the most vulnerable and disadvantaged communities in the United States, including in Los Angeles, California where this report originates.

Background: The Framers Had Wealthy Interests in Mind

The Federal Opportunity Zones program was initiated through the passage of House Bill 828—the "Investing in Opportunity Act" of 2017, which was included in the Republican passed tax reform package known as the "Tax Cuts and Jobs Act" (TCJA) of the same year. The tax bill was enacted with famously little public oversight or attention to procedure. In the two month period between bill introduction and passage, no public hearings on the content of the bill were held by the Republicans controlling either chamber of Congress[1], and the final version was released to lawmakers just hours before the voting began[2]. Democrats, prevented from reading the bill by Senate Majority Leader Mitch Mcconnell's parliamentary tactics, were forced to obtain copies from the tax lobbyists who were writing revisions to the bill[3].

The Investing in Opportunity Act was created almost wholly by the billionaire-founded Economic Innovation Group (EIG), conceptualized in a 2015 paper written by then American Enterprise Institute Director Kevin Hassett, who is now Trump's Council of Economic Advisors Chair, and Center on Budget and Policy Priorities fellow Jared Bernstein[4]. EIG presents itself as a bipartisan think tank focused on technocratic and innovative economic policy solutions, and represents one of the first forays of high profile, high income, Silicon Valley founders into policy[5]. The bill had some very high profile boosters from each party, including 2020 Democratic Presidential candidates Corey Booker, and Beto O'Rourke, as well as Silicon Valley Congressman Ro Khanna, and was introduced by Republicans Pat Tiberi and Tim Scott[6]. The TCJA, and thus the Investing and Opportunity Act, was passed in November of 2017, and the program went into effect on January 1, 2018, with a lifespan of 10 years.

> ***"The downtown buildings, that's why there are many living on the street because they kicked them out. They paid $500, $600, and they took them out. Now, those buildings are renting them at $3,000 because they're renovated.***
>
> SOUTH CENTRAL COMMUNITY MEMBER[7]

How Opportunity Zones Were Selected: the Case of California

With the passage of the TCJA, governors in every state were enabled to select up to 25% of all "low income" tracts within the state to designate as Opportunity Zones within 90 days of the bill going into effect. These tracts were required to have a poverty rate above 20% or a median household income below 80% of the state's average. Tracts which are adjacent to qualifying tracts but did not meet these criteria could also be selected, provided that they have a median income not exceeding 125% of the adjacent qualifying tract. The tracts were to be submitted to the Treasury Secretary for approval after a period of 90 days, and no public comment period was mandated in the regulations, though some states used them[8].

Then California Governor Jerry Brown selected 879 tracts after a two week public comment period, of which 274 are in Los Angeles County, and 193 in the City of Los Angeles[9]. The two week period gave an opportunity for community members

1 https://www.brookings.edu/research/the-tax-cuts-and-jobs-act-and-the-2018-midterms-examining-the-potential-electoral-impact/
2 https://www.cnbc.com/2017/12/01/republicans-are-handwriting-their-tax-bill-at-the-last-minute.html
3 https://www.nytimes.com/2017/12/01/us/politics/hand-scribbled-tax-bill-outcry.html
4 https://eig.org/wp-content/uploads/2015/04/Unlocking-Private-Capital-to-Facilitate-Growth.pdf
5 https://www.latimes.com/business/technology/la-fi-tn-economic-innovation-group-20150331-story.html
6 https://www.congress.gov/bill/115th-congress/house-bill/828/cosponsors
7 This and the following quotes attributed to "South Central Community Members" were drawn from the Affordable South LA Project to which SAJE is a member. The project chose to anonymize the narratives they collected for fear that the contributors were particularly vulnerable to landlord abuse. http://affordablesouthla.com/
8 26 U.S. Code § 1400Z-1
9 https://opzones.ca.gov/

KEY TERMS

Opportunity Zone (OZ)	A low income census tract selected by a state's governor to have investment in that area incentivized by giving capital gains tax breaks for investors.
Qualified Opportunity Funds (QOFs)	Funds established by financial firms for investors seeking to benefit from the Opportunity Zone tax breaks to invest their money in. Must invest in Qualified Opportunity Zone Property.
Qualified Opportunity Zone Property (QOZPs)	Ownership stakes in either businesses or properties that are physically inside of opportunity zones.
Investment Vehicle	Any type of corporation or investment fund that is used to take ownership stakes in another business entity.
Capital Gains	The profits made from selling property, including businesses, stocks, and real estate.
Substantial Improvement	For a property to count as substantially improved it must have had sufficient improvements made to it to double its value during the period of ownership, not including appreciation.

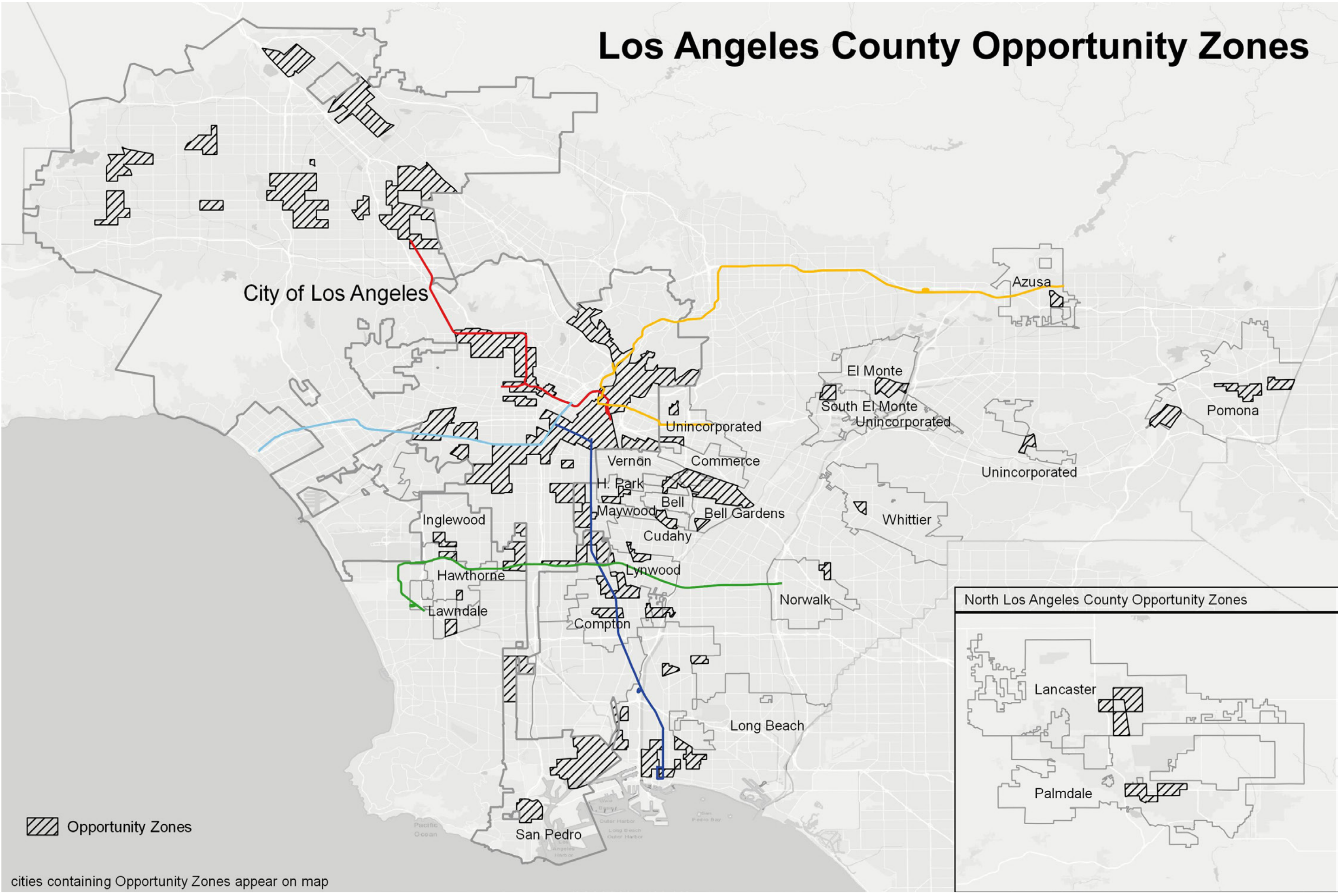
to voice problems with the selection, but the process was not well publicized, taking place online. The comment period also gave investors and people who own properties in the Opportunity Zones a chance to potentially influence selection, however, by lobbying the governor's office. These tracts that have been designated will remain Opportunity Zones throughout the program's 10 year duration.

The Structures Behind Opportunity Zone Investments

The Opportunity Zone program was intended by its framers to channel investment to targeted geographies by presenting investors with the ability to defer, and ultimately reduce, taxation on capital gains income received from the sale of assets like stocks, properties, or businesses. Any capital gains are eligible if they are invested in any investment vehicle that chooses to organize itself as a Qualified Opportunity Fund (QOF). The program also allows investors to avoid taxation on 100% of the profits made by the money invested in that fund. Various entities including Real Estate Investment Trusts (REITs), Exchange Traded Funds (ETFs), Mutual Funds, Unit Investment Trusts (UITs) and Limited Partnerships, serve as investment vehicles and can choose to certify as QOFs provided their purpose is Opportunity Zone investment.

This is a self-certifying process in which these organizations register with the IRS as QOFs for taxation purposes, and are then required to hold at least 90% of their assets in Qualified Opportunity Zone Property as measured by an average of assets at 6 months and end of taxable year or else face a cash penalty. Qualified Opportunity Zone Property includes stocks and partnership interests in Qualifying Opportunity Zone Businesses (businesses that hold 70% of their assets in Qualified Opportunity Zone Property). Business Property ("tangible property used in trade or business") in a qualified opportunity zone that is "substantially within that zone" (90%) and is either originally used or is substantially improved is also Qualified Opportunity Zone Property. Property which ceases to be Qualified Opportunity Zone Property during QOF ownership remains considered qualified for tax purposes for 5 years[10].

10 26 U.S. Code § 1400Z-2



How Opportunity Zones Make the Richest Investors Even Richer

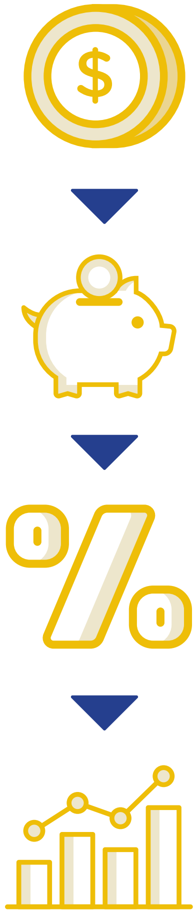
In essence, the way in which investment is to be steered is through a generous tax break that any individual or business entity subject to capital gains taxation can receive. Opportunity Zones provide one of the largest tax breaks currently available under U.S. tax law to investors in Opportunity Funds. As over 90% of capital gains in the U.S. are held by the wealthiest 10% of people, and the wealthiest 1% hold nearly 70% of all capital gains, the program's benefits flow overwhelmingly to the wealthiest people in the country[11]. Those who choose to invest their capital gains in an Opportunity Fund will receive substantial benefits that increase with the length of time the investment is held. If the investment is held for 5 years, 10 % of the original amount invested is exempted from capital gains taxation, after 7 years that percentage increases to 15. If held for 10 years 100% of the profits made on that original investment are exempt from capital gains taxation also[12].

Nearly any business or property—with exceptions for certain "sin businesses" like liquor stores, massage parlors, casinos, and golf courses—can be considered Qualified Opportunity Zone Property so long as it is located inside an Opportunity Zone anywhere in the country. Because the law is so flexible in this respect, there is little guarantee that the businesses and properties chosen for investment will be oriented towards the needs and desires of Opportunity Zone communities. Rather, it is quite likely that investments with the greatest possible returns will be chosen, in order to maximize the benefits from the exemption of all profits made on Opportunity Zone investments held 10 years especially. It is therefore unlikely that investment will be steered to local community serving small businesses, or be used on projects with low margins, including transitional or affordable housing that are desperately needed in many Opportunity Zone geographies. In fact, the law is so flexible that global tech companies can be considered Opportunity Zone businesses, as long as they pay 50% of their salaries to employees working within an Opportunity Zone, a change to the program that was facilitated by

11 https://calbudgetcenter.org/resources/the-federal-opportunity-zones-program-and-its-implications-for-california-communities/

12 [REG-115420-18]

How Opportunity Zones Build Wealth for the Rich



Capital Gains

from sale of assets such as real estate, stocks, bonds, businesses (wealthiest top 10% hold 90% of all capital gains)

Investment

Equity interest in Qualified Opportunity Zone Funds (QOZF)

Tax Exemption Benefits

5 years = 10% original investment exempt
7 years = 15% original investment exempt
10+ yrs = 100% of profits exempt

Increasing Profits

via Qualified Opportunity Zone Properties (QOZP) and Qualified Opportunity Zone Business Properties (QOZBP)

massive amounts of lobbying from corporate and Wall Street interests[13]. Using this provision Amazon could use the program to finance HQ2, which has been vigorously contested by community activists and labor groups for its extractive nature. It will be very hard for "Mom & Pop" businesses and affordable housing to win out over Silicon Beach startups and corporate real estate mega projects.

Operating in the Shadows: How a Lack of Monitoring Makes OZ Investments Invisible

One outstanding issue with the program is the lack of reporting requirements for and oversight of QOFs and Opportunity Investment at any level of governance. No centralized process of registration is required of these funds—as they are self certifying entities—so at this time, not even a fully comprehensive listing of the funds is possible. There is also no collection of information concerning which businesses are registered as Qualified Opportunity Zone Businesses for purposes of investment, or what projects and properties are owned by Opportunity Investors. This makes tracing the flow of investment stemming from the Opportunity Zone program very difficult. Originally, the program as designed by Senators Scott and Booker included such reporting requirements, which include information on the funds and their activities and holdings, as well as the socio-economic effects of Opportunity Investment in Opportunity Zone communities. These proposed requirements were scrapped with the inclusion of the bill into the TCJA[14]. Allowing the effects of the program to be understood, however, does not go far enough to provide any measure of protection from undesirable outcomes, or guarantee access to benefits to communities located in Opportunity Zones. We discuss ways to accomplish these goals below.

From a Policy Lineage of Failure and Displacement

The Opportunity Zones program is the most recent example of a long line of place based urban revitalization policies that use tax benefits to subsidize investment and hiring in "distressed" communities. According to the California Legislative Analyst's Office, similar programs like Enterprise Zones, Empowerment Zones, and the New Markets Tax Credit (NMTC), have failed to deliver any measurable increase in the well beings of targeted communities. Writing specifically about the NMTC program, the office notes that while the program was popular with investors and successful in steering investment the program uniformly failed to improve the incomes of residents of zip codes receiving the funding[15].

The oldest of these policy "solutions," the Enterprise Zones, has a similarly dismal record. One 2010 study of the impact of the program in California found that it unequivocally failed to achieve its stated goal of increasing employment despite offering substantial benefits to businesses operating inside the zones[16]. Other researchers noted that in the longest existing Enterprise Zone in the country the program not only failed to produce jobs in the originally designated area, but in fact jobs were lost, and that benefits flowed overwhelmingly to large corporations rather than small businesses[17].

13 https://news.bloombergtax.com/daily-tax-report/lobbying-pressure-shows-in-changes-to-opportunity-zone-rules
14 https://news.bloombergtax.com/daily-tax-report/senators-file-bill-to-reinstate-opportunity-zone-data-mandates
15 https://lao.ca.gov/Publications/Report/4038
16 David Neumark, Jed Kolko, Do enterprise zones create jobs? Evidence from California's enterprise zone program, Journal of Urban Economics, Volume 68, Issue 1, 2010, Pages 1-19, ISSN 0094-1190, https://doi.org/10.1016/j.jue.2010.01.002
17 Lambert, T. E., & Coomes, P. A. (2001). An Evaluation of the Effectiveness of Louisville's Enterprise Zone. Economic Development Quarterly, 15(2), 168–180. https://doi.org/10.1177/089124240101500205

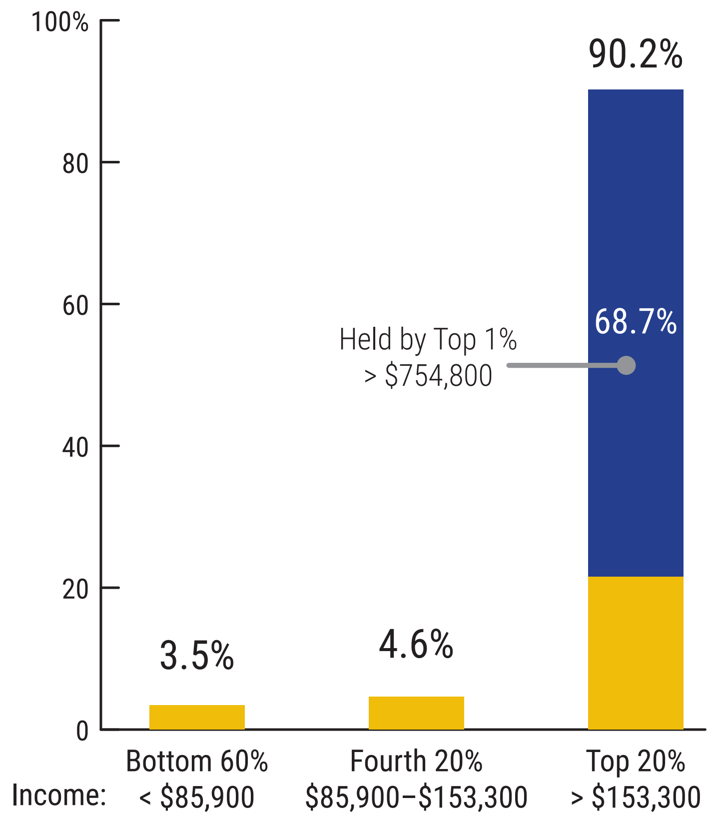
Empowerment Zones have a more mixed record, though they are regarded as being more successful than the other two programs mentioned and incorporated grant making and measures to include communities in the program's implementation[18], few scholars call the program a conclusive success. Researchers have found the primary impact of the program to be an increase in land prices and noted that improvement in the income and the educational attainment of Empowerment Zones residents was almost entirely due to demographic change[19]. The claimed "improvement" resulting in gentrification and the displacement of low income community members. In fact, even scholars who are sympathetic to this type of "Place-Based Policy" acknowledge that they have significant displacement effects even when effective[20], contributing to the erasure of the low income communities and communities of color they target.

Zones of Extraction: Opportunity Zones Are Even Worse Than Their Predecessors

Given the repeated failure of tax incentive based revitalization policies to produce benefits for community members, it is doubtful that was ever the Opportunity Zone program's purpose. In each case, these types of programs have failed to deliver conclusive benefits to community members, but have successfully given out billions of dollars in subsidies to corporations and investors[21]. The Opportunity Zones program is estimated by its boosters to have a 10 year cost of 1.6 billion USD, though as the California Budget and Policy Center points out, that does not include the revenue lost by exempting profit on Opportunity Zones investments from capital gains[22].

Unlike the NMTC, Empowerment Zones, or even Enterprise Zones, which all attempt to subsidize job creation through payroll tax credits—and in the case of Empowerment Zones, grantmaking—the Opportunity Zones program has no such focus or any other mechanism that is intended to deliver concrete local benefit. Also unlike the other policies, the Opportunity Zones program does not subsidize businesses directly, which would limit the degree to which the credits fuel speculation and make sure that benefit capture is primarily within the designated areas—even if it isn't distributed equitably. Instead, the Opportunity Zone program provides massive tax subsidy to nearly any kind of investment into the designated tracts, made by any investor. This not only directly subsidizes speculation, but means the majority of the benefits will be extracted from vulnerable communities, and flow to wealthy investors located outside the zones.

Share of Nationwide Long-Term Capital Gains by Income, 2018



Capital gains are considered long-term if the asset was held for more than one year. Percentages do not sum to 100 due to rounding.
Source: Urban-Brookings Tax Policy Center

> ***"In my community what's going on is residents are being displaced by the banks and all these real estate companies are trying find properties around the area to make new complexes and make the rent go higher.***
>
> SOUTH CENTRAL COMMUNITY MEMBER

18 Graham Squires, Stephen Hall, Lesson (un)learning in spatially targeted fiscal incentive policy: Enterprise Zones (England) and Empowerment Zones (United States), Land Use Policy, Volume 33, 2013, Pages 81-89, ISSN 0264-8377, https://doi.org/10.1016/j.landusepol.2012.12.010.

19 Douglas J. Krupka, Douglas S. Noonan, Empowerment Zones, neighborhood change and owner-occupied housing, Regional Science and Urban Economics, Volume 39, Issue 4, 2009, Pages 386-396, ISSN 0166-0462, https://doi.org/10.1016/j.regsciurbeco.2009.03.001.

20 David Neumark, Helen Simpson, Chapter 18 - Place-Based Policies, Editor(s): Gilles Duranton, J. Vernon Henderson, William C. Strange, Handbook of Regional and Urban Economics, Elsevier, Volume 5, 2015, Pages 1197-1287, ISSN 1574-0080, ISBN 9780444595331.

21 https://fas.org/sgp/crs/misc/RL34402.pdf

22 https://calbudgetcenter.org/resources/the-federal-opportunity-zones-program-and-its-implications-for-california-communities/

Neoliberalism at Its Worst: Prioritizing Private Profit During a Time of Public Crisis

As a policy solution, the Opportunity Zone program has a distinctly neoliberal and supply side bent, which makes it a poor fit as a solution to the affordable housing crisis ongoing in Los Angeles and around the nation. It is instead likely to exacerbate the crisis. The program centers the neoliberal logic that private interests in the free market to decide how to best develop neighborhoods, and incentivise these investors to do so with tax breaks. By structuring the program as a tax break with no specificity as to how the investment may be directed other than that it must be in a certain area and must not be a "sin business," the government has given up any power to have a voice in how development should be done and has also undercut communities from having a say in what happens with the investment as well.

In doing so, the federal government has left the future of neighborhoods up to developers and investors alone, and given them the opportunity to remake cities however they please, meaning however it is profitable. This vision does not typically involve affordable housing or businesses that serve low income customers. Similarly, the program relies on a logic of supply side provision in housing markets that assumes housing affordability is achieved simply by increasing the amount of units available. Like other YIMBY[23] style solutions this approach fails to realize that the housing market is in reality highly segmented.

What this means is that the production of housing units that are luxury priced, or market rate (and therefore more profitable), does not affect very much if at all the price or supply of affordable housing[24]. In reality, the Opportunity Zones program will remove rent controlled housing from the market through redevelopment[25], and as the California Legislative Analyst's Office notes, the program has very little potential to incentivize affordable housing development[26]. In any case, truly affordable housing requires protection from market forces for tenants living there. Permanent affordability covenants[27], decommodified land[28], and public subsidization[29] are proven and needed to make housing affordable, not a specific point on a supply curve.

Who Makes Capital Gains? The Rich.

According to the California Budget and Policy Center, the richest 10% of people in the U.S. receive 90% of all capital gains income, and the richest 1% receive close to 70% of the country's capital gains income. In fact, for the wealthiest, capital gains tend to make up far more of their income than wages.

It is not only the richest people who benefit from the tax-sheltering program either. Wall Street investment banking and private equity firms, and other companies that speculate on the stock market, also have huge amounts of capital gains income eligible for the Opportunity Zone program's tax breaks.

The wealthiest people and companies in the country have the opportunity to receive huge tax breaks, while Communities in Opportunity Zones, which are some of the lowest income in the country, will have to face the effects of the rampant speculation and redevelopment the program promises to accelerate, without any say in deciding what kinds of projects happen in their neighborhoods. The Opportunity Zones program ensures the majority of the benefits will be extracted from vulnerable communities, and flow to wealthy investors located outside the zones.

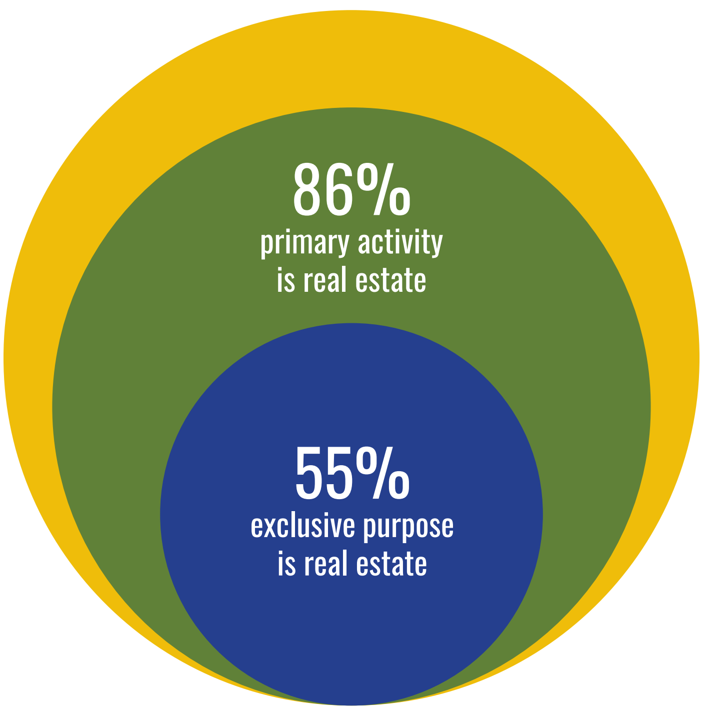
> ***"I guess they're having a hard time because now they're trying to make more money off us.***
>
> WALLACE CONNER, SOUTH CENTRAL COMMUNITY LEADER

23 Yes In My Backyard: https://www.curbed.com/2019/6/28/19154146/yimby-real-estate-housing-apartment-rent-deveopment-zoning
24 https://shelterforce.org/2019/02/19/why-voters-havent-been-buying-the-case-for-building/
25 See "Why the Requirement for "Substantial Improvement" Threatens Tenants to follow
26 https://lao.ca.gov/Publications/Report/4038
27 https://la.curbed.com/2019/6/25/18659812/affordable-housing-los-angeles-covenants-expire
28 DeFilippis, J., Williams, O. R., Pierce, J., Martin, D. G., Kruger, R., & Esfahani, A. H. (2019). On the Transformative Potential of Community Land Trusts in the United States. Antipode, 51(3), 795–817. https://doi.org/10.1111/anti.12509
29 Goetz, E. 2013. New Deal Ruins: race, economic justice, & public housing policy. Ithaca: Cornell University Press.

III. WHAT IS BEING INVESTED IN, AND HOW MUCH?

Real Estate is King When it Comes to Opportunity Zones. According to U.S. Treasury Secretary Steve Mnuchin, the Opportunity Zones program is estimated to result in over 100 billion dollars of private investment into "economically distressed" census tracts[30]. According to EIG, unrealized capital gains constitute 6.1 trillion dollars that would be eligible for investment through the program[31]. The California Economic Forum conservatively estimates that nationwide, the Opportunity Zone program will see 8.5 billion dollars of investment in 2019[32]. According to the most recent update of an Opportunity Fund Directory maintained by the National Council of State Housing Agencies, there are 128 currently registered funds operating in the United States, though this number likely excludes smaller vehicles and projects that are claiming this status[33]. Over 110 of the registered funds list real estate or housing development as potential primary fund activities, some of which already list values up to 3 billion dollars. According to Freddie Mac, over 70 established funds have an exclusive focus on multifamily rental housing redevelopment[34]. Other estimates have 112 listed funds representing a total existing capacity of 26 billion dollars already slated for investment as of April 2019[35].

Role of Real Estate Investment in Opportunity Funds



Source: Freddie Mac

With the passage of the TCJA, real estate sales inside of Opportunity Zones soared almost immediately as speculative buyers flooded the market. The program has rapidly driven up the rate of real estate transaction within the zones already, not only outstripping similar tracts, but all tracts nationally. In each of the first three quarters of 2018, sales of properties inside Opportunity Zones grew by approximately 50%, far faster than in the rest of the country, and since passage aggregate real estate prices in Opportunity Zones have become higher than outside of them, including in Los Angeles[36]. The program has clearly had the effect of steering investment into the designated tracts as well. Non-designated census tracts that have similar characteristics have actually experienced a decline in the rate of land transactions as the generous benefits have led to Opportunity Zones drawing that money away[37]. This speculative boom in land prices is likely to continue, if not heat up as the program continues to be fleshed out and become known to more investors.

Los Angeles: Epicenter of Opportunity Zones Investment

Los Angeles is already emerging as an epicenter of the state and country's Opportunity Zone investment rush. The California Economic Forum estimates that in 2019, 1.3175 billion dollars will be invested in California Opportunity Zones alone, more than 15% of the nationwide estimated total. The statewide geography of Opportunity Zone investment is likely to be similarly uneven with a few high return Opportunity Zones, likely disproportionately in Los Angeles, seeing extremely high levels of investment. The speculative bonanza in property sales in Los Angeles opportunity zones has already driven up

30 https://thehill.com/hilltv/rising/408980-mnuchin-predicts-100b-in-cap-investment-from-new-opportunity-zones
31 https://eig.org/news/opportunity-zones-tapping-6-trillion-market
32 http://caeconomy.org/resources/entry/study-california-conformity-to-federal-opportunity-zone-tax-provisions
33 https://www.ncsha.org/wp-content/uploads/2018/11/Opportunity-Zone-Fund-Directory-Current.pdf
34 https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-tax-incentives-set-drive-multifamily-investments
35 https://www.novoco.com/resource-centers/opportunity-zone-resource-center/opportunity-funds-listing
36 https://www.rcanalytics.com/opportunity-zones-baseline
37 https://www.bloomberg.com/opinion/articles/2019-06-18/trump-opportunity-zones-are-the-last-great-neoliberal-experiment

Downtown and South LA is ranked the #2 most promising area for Opportunity Zones real estate investment in the nation by Fundrise because their already fast rising prices promise huge profits, only behind Oakland.

prices, to the extent that sale prices of properties inside these tracts has eclipsed those outside on average according to RCA Analytics. Fundrise, an Opportunity Zone investor, ranks Downtown and South LA the second most promising area for investment in the nation, noting the contiguity of the zones, and the fast rising land and home prices which make them ripe for continued profitable investment and large projects[38].

In fact, some of the largest funds have already identified Los Angeles as a key geography and begun banking properties in LA Opportunity Zones for development. Fundrise, for example, is perhaps the largest player in Opportunity Zone investment so far and has begun acquiring residential properties, particularly in South/South Central LA, and announced a 500 million dollar fund last year. CIM group, one of the nation's largest real estate companies announced a 5 billion dollar fund and identified Los Angeles as a key target. CIM already holds substantial amounts of properties in LA Opportunity zones including in the West Adams and East Hollywood neighborhoods. Another large company, Equity Multiple, partnered with Silvershore which was once voted as NYC's worst landlord, has also announced a major fund targeting Los Angeles Opportunity Zones and has a history of real estate investment in Los Angeles. The scale of the investment expected in Opportunity Zones nationwide and in California is game changing for neighborhoods affected, and has immediate local consequences for Los Angeles and South Los Angeles in particular.

IV. WHAT KIND OF INVESTMENT MATTERS: HOW OZS WILL ACCELERATE GENTRIFICATION AND DISPLACEMENT

Opportunity Zones Displacement Machine Effect: A Look at Los Angeles

The trends of neighborhood change and increased land prices are likely to accelerate generally, and in Los Angeles specifically due to the heavy focus on real estate investment evident in existing QOFs. The major players in Opportunity Zone investment in Los Angeles are all heavily involved in real estate speculation and have organized their QOFs as REITs or have leveraged existing REITs to jumpstart their funds. Some of the largest Opportunity Funds yet announced belong to companies with a focus on real estate investment in Los Angeles specifically. Fundrise, an early booster of the Opportunity Zone program and one of the fastest funds to become operational owns substantial real estate interests in South LA, especially South Central, and a 500 million dollar fund. CIM group, one of the largest real estate developers in the country has announced a 5 billion dollar fund and owns hundreds of LA properties including many commercial properties in the West Adams Corridor which they plan to redevelop extensively. HighBridge Properties claims a 50 million dollar value for a fund they have created to invest in off campus student housing for California universities, which could accelerate already existing trends of gentrification and displacement near schools like USC.

Opportunity Zones promise to accelerate the financialization of housing, and to increase the amount of properties coming under the control of predatory corporate landlords. The concentration of rental housing as an asset in the hands of financial companies changes the purpose and quality of

38 https://fundrise.com/education/blog-posts/the-top-10-opportunity-zones-in-the-united-states

the housing[39]. Competition with and between corporate investors limits homeownership opportunities for lower income families, and drives up rents and assesses irrational and burdensome fees as investors squeeze tenants for extra profit. A survey of investor owned housing in Atlanta found that corporate landlords evict tenants at far higher rates than Mom & Pop landlords, and also fail to maintain buildings, shifting repair responsibilities to tenants. The monopolization of rental markets by Wall Street also allows for large landlords like Invitation Homes, which controls more than 1% of the nations single family rental homes and far more in LA, to have unfair power in price setting and a permanent ear from local governments[40]. Starwood Homes, another company that profited dramatically off of the foreclosure crisis by buying up homes at cut prices, has also created a 500 million dollar Opportunity Fund to further their speculative and predatory practices[41].

A good example of what happens when corporate landlords view people's housing strictly as an investment is the partnership between before mentioned Equity Multiple, and Silvershore a property management company in LA. Equity Multiple and Silvershore engage in a project they call on their website "relocation and renovation" pushing out long time tenants and "repositioning" the units for wealthier renters. Also on their website the partners describe how on one project they generated a 41% return by "successfully vacating the entire building—beyond the five of seven units initially projected". Writing about an ongoing project, Equity Multiple planned to repeat this on a new eight unit Mid-City building and reap a "53% increase in annual gross rental income" vacating six units, promising even higher returns in the event that all eight units could have their long term rent controlled tenants removed. When corporate landlords treat housing solely as an investment strategy, communities are pushed out to deepen investors profits. In providing powerful tax-sheltering subsidy to investments, the Opportunity Zone program facilitates wealth building for the wealthy, and concentrates real estate in corporate hands, all at the expense of low income people and communities of color.

The 'Substantial Improvement' Rule Nearly Guarantees Displacement

Perhaps the biggest threat in terms of the potential direct displacement of community members, however, is found in the requirements listed for determining the eligibility of qualified property in 26 U.S. Code § 1400Z-2 (d)(2)(D)(ii). This statute requires that all property qualifying as Opportunity Zone Property for investment purposes must be "originally used" or "substantially improved." Substantial improvement means that the "basis" of the property—its value when purchased—must be more than doubled by improvements made to it after purchase by a QOF. Though this does not include the value of land itself, this is particularly problematic when it comes to rental housing. If an occupied building purchased by an Opportunity Fund has a value of $500,000, for example, it would have to be improved to be worth $1,000,001 to become Qualified Property. This would mean the building would either have to be torn down and rebuilt, (to be originally used), or undergo such intensive renovation as to double its value.

> ***"This just seems like a slick way to undermine rent control to me.***
>
> GAYLE CHILDERS, SOUTH LOS ANGELES COMMUNITY LEADER

Either of these situations would very likely entail the eviction of existing tenants, with no guarantee of their return and a sharp increase in rents further ensuring that low income community members would be unable to benefit from the investments. Given the high degree of focus among funds on multifamily housing development, there will be tens of billions of dollars available for eviction, demolition, and redevelopment that threaten tenant families directly thanks to the Opportunity Zones program. Also worryingly, Opportunity Zones are located in areas that have experienced disinvestment by design, which means that they contain disproportionately old housing stock. Historic housing stock, in the case of Los Angeles, is also rent controlled housing stock. The Opportunity Zones program's requirement for 'substantial improvement,' when coupled with the disproportionately old, and therefore rent stabilized, housing inside the zones, form a poisonous combination that threatens rent stabilized housing. The demolition of historic housing stock also threatens to intensify the indirect displacement pressures on community members by further raising land values in surrounding areas, and by creating developments like luxury housing and upscale shopping that do not serve existing community members and will draw new higher income residents, which can further the cycle of gentrification and displacement.

39 Rolnik, R. (2013), Debates and Developments. Int J Urban Reg Res, 37: 1058-1066. doi:10.1111/1468-2427.12062, https://homesforall.org/wp-content/uploads/2014/07/LA-Riverside-Blackstone-Report-071514.pdf, Susanne Soederberg, The rental housing question: Exploitation, eviction and erasures, Geoforum, Volume 89, 2018, Pages 114-123,ISSN 0016-7185,https://doi.org/10.1016/j.geoforum.2017.01.007

40 https://d3n8a8pro7vhmx.cloudfront.net/acceinstitute/pages/100/attachments/original/1516388955/WallstreetLandlordsFinalReport.pdf?1516388955

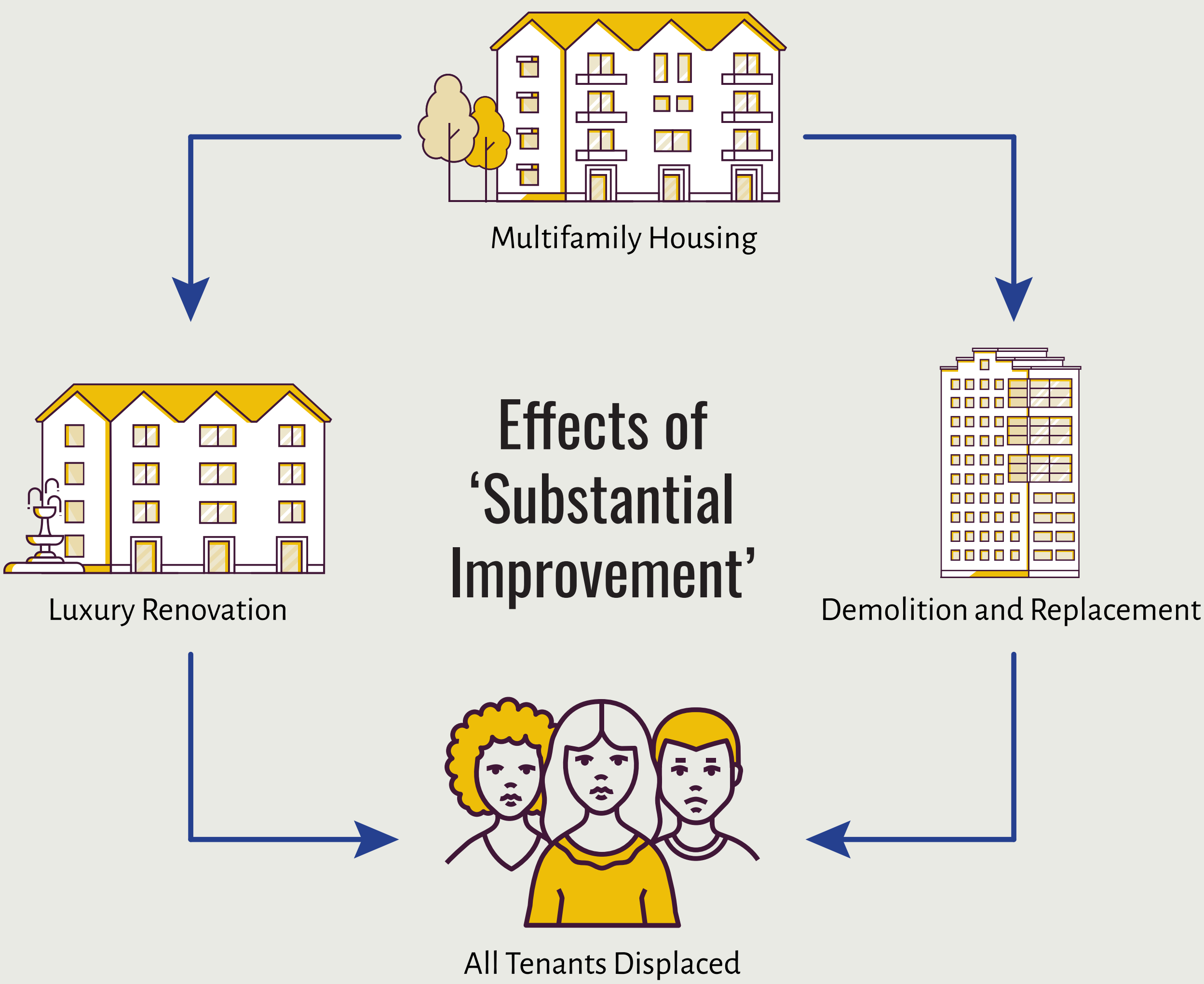
41 https://bluevaultpartners.com/news/starwood-to-raise-500-million-for-opportunity-zone-investments/

Why the Requirement for 'Substantial Improvement' Threatens Tenants:

Substantial improvement means that the value when purchased must be more than doubled by improvements made to it after purchase by a QOF. Though this does not include the value of land itself, this is particularly problematic when it comes to rental housing. If an occupied building bought by an Opportunity Fund has a value of $500,000, it would have to be improved to be worth $1,000,001 to become Qualified Property. This would mean the building would either have to be torn down and rebuilt, or undergo such intensive renovation as to double its value.

Either of these situations would very likely entail the eviction of existing tenants, with no guarantee of their return and probably be followed with a substantial increase in rents, guaranteeing low income community members will be unlikely to afford the new units. Also worryingly, Opportunity Zones are located in areas that have experienced disinvestment by design, which means that they contain disproportionately old housing stock. This also means that Opportunity Zones contain an outsized share of Los Angeles' rent stabilized units. Redevelopment could mean the removal of rent stabilization protection from thousands of units that have provided long term housing stability to working class residents.

> ***"In my community what's going on is residents are being displaced by the banks and all these real estate companies are trying find properties around the area to make new complexes and make the rent go higher.***
>
> SOUTH CENTRAL COMMUNITY MEMBER



Portion of Public Housing within Opportunity Zones

86% of Housing and Urban Development's Choice Grants, which fund public housing demolition and redevelopment, have been disbursed inside Opportunity Zones.

"A lot of time what happens is that the owners want to knock down and build new apartments and charge more. That is why those of us who have been living for some time, have suffered instigations, lack of services, because investors want to remove rent control. We can not leave our house, we are trapped there. To move also costs a lot of money.

SOUTH CENTRAL COMMUNITY MEMBER

Opportunity Zones Are a Threat to Public Housing

Public housing "redevelopment" is a form of state led gentrification, that both directly and indirectly displaces thousands of predominantly non-white families[42]. Since the early 1990s, the federal government has steadily pursued the demolition and redevelopment of public housing projects, as part of the larger privatization driven assault on public social provision. The introduction of the Opportunity Zones program threatens to accelerate this process where public housing sites are found within the designated tracts. Through the HOPE VI plan for "poverty deconcentration," and now its successor in the Choice Neighborhood Grants program, the Department of Housing and Urban Development (HUD) directly funds, and leverages private investment to demolish and redevelop public housing[43]. As housing scholar Edward Goetz has demonstrated, this state led gentrification is a racist practice. Historically, demolitions of public housing projects began as the residents of the units became disproportionately Black, and still today buildings slated for demolition have significantly higher proportions of Black residents than those preserved or rehabilitated. The neighborhoods that have received HUD funding for redevelopment through these programs have seen large percentages of their Black residents forced out[44].

The Opportunity Zones program and efforts to align HUD and federal housing policy generally to its objectives represents a serious new threat to public housing, which is disproportionately located in the designated Opportunity Zone tracts, especially in Los Angeles. Well over half the public housing units in Los Angeles and nearly 40% of nationwide public housing units are located inside of Opportunity Zones. According to a HUD release on Opportunity Zones, 86% of Choice Grants for public housing redevelopment projects currently being disbursed are distributed to project areas inside the designated tracts[45].

The nearly limitless potential funding streams Opportunity Zones can generate promises to accelerate the demolitions, displacements, and redevelopment of public housing neighborhoods into the mixed-use projects that planners and politicians favor. Despite being required to replace demolished subsidized units on a 1 to 1 scale, redevelopment projects still have a record that is tainted with the direct displacement of community members in many cases[46]. Redevelopment also

42 Goetz, E. 2011. Gentrification in Black and White. Urban Studies 48 (8):1581–1604. http://journals.sagepub.com/doi/10.1177/0042098010375323

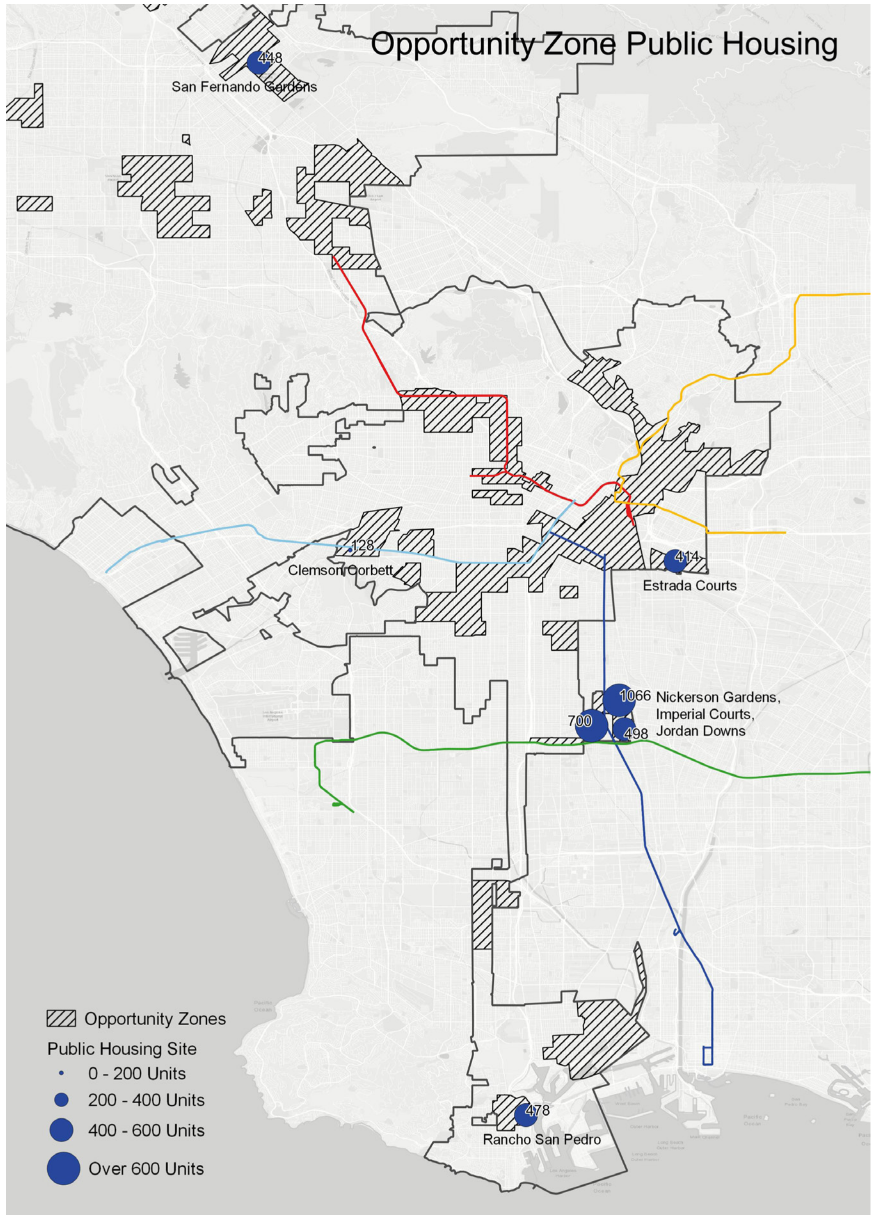
43 Goetz, E. 2013. New Deal Ruins: race, economic justice, & public housing policy. Ithaca: Cornell University Press.

44 Goetz, E. 2013. Public Housing Redevelopment and the Displacement of African Americans. In Reinventing Race, Reinventing Racism, eds. J. Betancur and C. Herring. Leiden: Koninklijke Brill

45 https://www.federalregister.gov/documents/2019/04/17/2019-07682/review-of-hud-policy-in-opportunity-zones#p-41

46 https://slate.com/business/2016/08/why-families-don-t-return-to-redeveloped-communities-after-public-housing-is-demolished.html

indirectly displaces community members in surrounding areas by intensifying gentrification and land value pressures on rents. Upscale mixed-use developments also often lead to the displacement of working class and nonwhite peoples from neighborhoods through exclusion by preventing them from moving in due to cost or hostility from new wealthy white arrivals[47].

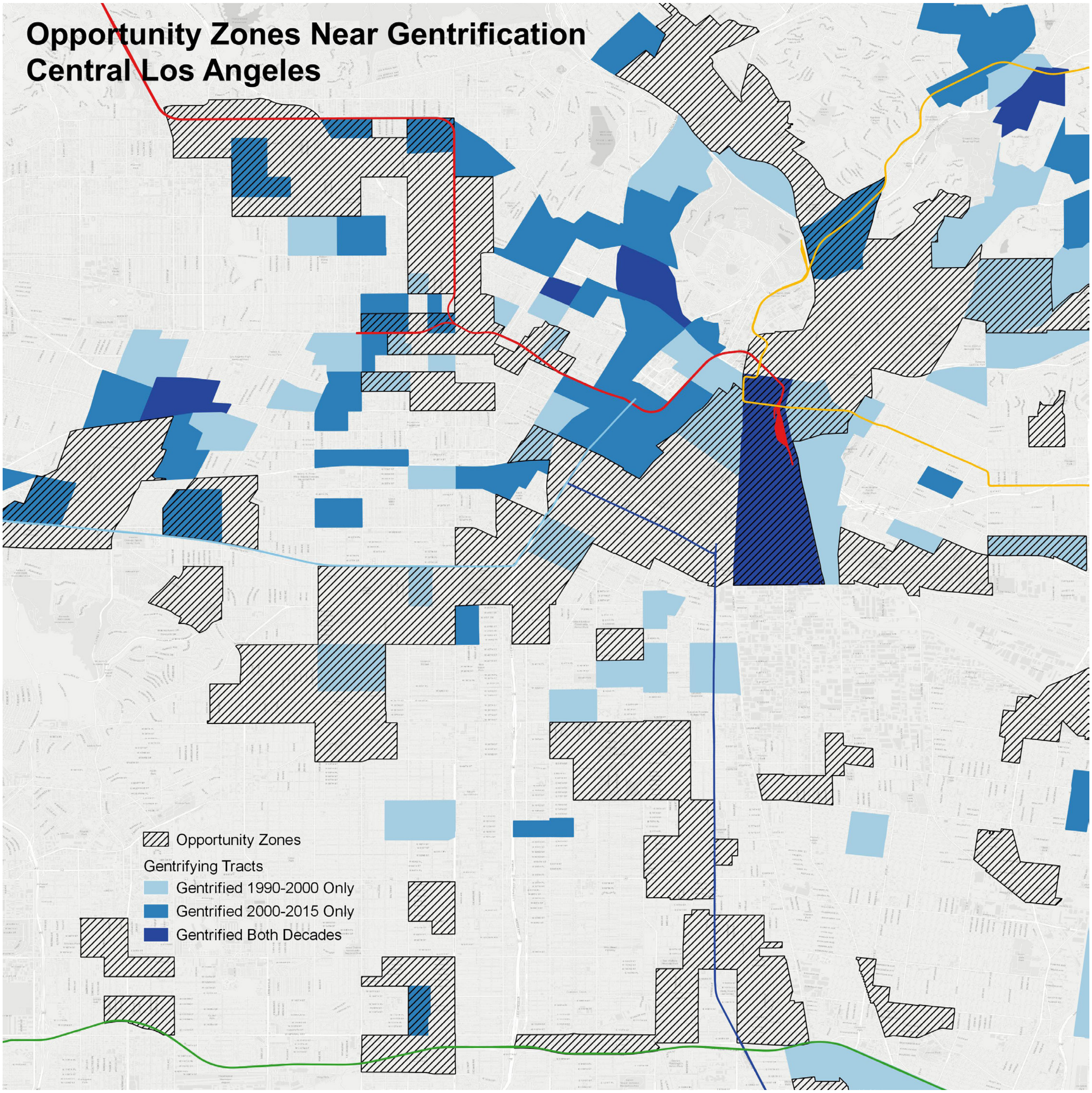


Rancho San Pedro, home to 478 families, is one example of public housing in Los Angeles that is slated for demolition and redevelopment into a mixed-use-mixed-income megaproject as part of the area's broader waterfront revitalization program. In 2018, the project already displaced many longtime small business owners in now demolished Ports O'Call Village, despite the tenants fighting the Port of Los Angeles in court to remain in their stores[48]. The Rancho San Pedro site is going to be redeveloped into a 1,626 unit complex including hundreds of market rate apartments and condominiums, as well as thousands of feet of retail space through a public private partnership[49]. The project promises huge profits to the developer, the Richman Group, which beat out nonprofit developer options like Abode Communities and New Economics for Women with their bid[50]. Though the developer promises to replace the 478 existing units, the residents will lose the security of public housing—if they are in fact able to return—and their state funded residential assistance will be filling the bank account of a private company. Even with the replacement of the units, the project can indirectly displace thousands of San Pedro community members and contribute to the exclusionary displacement of even more.

Investments For Whom: Designated Opportunity Zones Favor Corporate Interests

An issue that has consistently been raised with the program is the selection of tracts that were already experiencing high levels of investor interest and gentrification. Some have asserted that this is because of the fact that investor interests had the ability to lobby the selection of Opportunity Zones[51]. An analysis by the Urban Institute found that nearly ⅓ of the tracts selected by governors had already been experiencing substantial investment interest[52]. In a letter of comment to the Treasury Secretary, the Center for American Progress likewise pointed out that the selection process seemed to be tarnished by concerns of profitability and potential political patronage, pointing out the selection of the tract which contains the new Las Vegas Raiders' football stadi-

47 Davidson, M. and Lees, L. (2010), New-build gentrification: its histories, trajectories, and critical geographies. Popul. Space Place, 16: 395-411. doi:10.1002/psp.584
48 https://la.curbed.com/2017/9/19/16334224/ports-o-call-shopkeepers-lawsuit-port-of-la-evictions
49 https://urbanize.la/post/city-selects-team-rancho-san-pedro-redevelopment
50 https://urbanize.la/post/four-teams-vying-redevelop-rancho-san-pedro
51 https://www.wnycstudios.org/podcasts/trumpinc
52 https://www.urban.org/sites/default/files/publication/98445/did_states_maximize_their_opportunity_zone_selections_7.pdf



um, but which does not meet the low income or poverty level requirements[53]. Similarly, an analysis by RCLCO Real Estate Advisors found that many Opportunity Zones were already experiencing very high levels of gentrification. Not only did the analysis find the vast majority of tracts experiencing high levels of investment at the beginning of the program, but 70 of the selected tracts were found to be in "high end neighborhoods" which they considered the most investable[54].

The issue of gentrification-biased tract selection is extremely relevant in Los Angeles, as 32 of the 193 tracts selected in the city of Los Angeles have already undergone gentrification (as measured by the Urban Displacement Project) since 1990, as did more than half of the tracts selected in Downtown LA. The Urban Displacement Project methodology considers tracts that have experienced both increasing incomes and increasing proportions of white residents to be gentrifying, and

53 https://cdn.cremodels.com/wp-content/uploads/2018/12/Opportunity_Zone_Comment_Letter_CAP.pdf
54 https://www.rclco.com/publication/building-opportunity-mapping-gentrification-and-investment-across-opportunity-zones

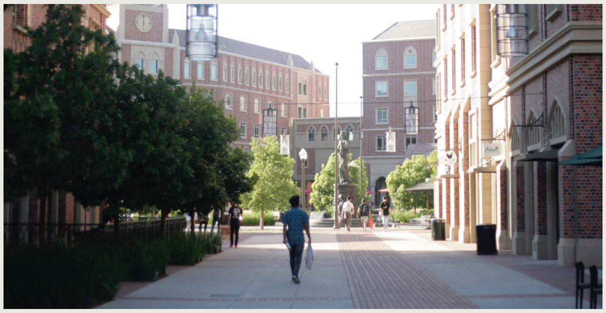
the selection of gentrifying or gentrifying adjacent tracts is likely to magnify these trends with increased investment[55].

The Downtown Arts District is a particularly lurid example. Despite decades of intense gentrification and being ineligible for selection based on the poverty and income thresholds, it was chosen on the basis of adjacency to Qualified Opportunity Zones which was allowed for up to 5% of the Governor's selections. Similarly, a 2018 Brookings Institution report criticized California's selection of tracts specifically due to the inclusion of several tracts around USC which already experience high levels of speculative investment and have seen spiking land prices[56]. South Central Residents have long fought displacement stemming from USC's real estate practices[57].

The practices of corporate landlords compound the issue of already gentrifying areas being selected. With the assistance of sophisticated algorithms that predict where they can expect the greatest appreciation on real estate investments, institutional landlords target gentrifying tracts and particular properties with high redevelopment potential. One Opportunity Fund, Cadre, which is controlled by Jared Kushner, the son-in-law of President Donald Trump, uses an algorithmic scoring system to rank each census tract and metro area based on potential returns for investment, intending to target a "small subset" of zones that have increasing populations and incomes[58]. Fundrise, a major player in Los Angeles Opportunity Zone investing, with large property holdings in South LA specifically also uses a proprietary algorithm to select properties for investment that are likely to see high levels of appreciation.

University of Southern California's History of Displacement

USC stands to benefit greatly from the Opportunity Zones program. The private university's main South Central campus is surrounded by designated tracts in which it owns a huge amount of real estate with plans for expansion. Additionally, the university's medical center, and properties acquired for a huge health sciences campus expansion to anchor LA's proposed "Biotech Corridor," also fall within an Opportunity Zone in the north part of Boyle Heights, just blocks from the Ramona Gardens public housing complex. USC has an over 5.5 billion dollar endowment which it is not afraid to put to use as a real estate developer, and a history of expansion that is dotted with displacement and limited community engagement, beginning with the decades long city-driven Hoover project facilitating the campus's growth that has driven out many predominantly Black and Latinx community members[59]. Only after immense pressure from the community, mediated by local government, was USC willing to initiate a community benefits process though a development agreement for its most recent South Central expansion[60], though the university's activities remain a large source of displacement pressure[61]. Community members represented by the Eastside LEADS coalition are now engaged in a similar struggle with the university over the health sciences campus expansion, supported by elected officials, to produce a similar agreement[62].



All of USC's campus and many of its other real estate holdings are within Opportunity Zones. The university has a long history of displacing its neighbors.

> ***"I am not against USC or the students, but USC has displaced many people...I could not find an apartment because the owners only wanted to rent the students. They did not want to rent to anyone else. I do not want to blame the students either because USC charges a lot for the rent and they can not pay either, but there is so much displacement.***
>
> SOUTH CENTRAL COMMUNITY MEMBER

55 https://www.urbandisplacement.org/map/socal
56 https://www.brookings.edu/wp-content/uploads/2018/10/Looney_Opportunity-Zones_final.pdf
57 See "USC's History of Displacement"
58 https://cadre.com/investing-with-us/opportunity-zones/
59 https://dornsife.usc.edu/assets/sites/242/docs/Planning_Power_Possibilities_UNIDAD_PERE_final_report.pdf
60 http://www.unidad-la.org/wp-content/uploads/2015/09/USC-Development-Agreement.pdf
61 http://dailytrojan.com/2019/04/16/local-tenants-organize-protest-usc-expansion/
62 https://boyleheightsbeat.com/usc-pledges-to-involve-residents-in-boyle-heights-development-projects/

V. COMMUNITIES IN OPPORTUNITY ZONES VULNERABLE TO DISPLACEMENT

Opportunity Zone investment is going to bring major changes to the communities whose neighborhoods are on the receiving end of the program. The rising land prices, rents, more expensive stores, and exclusive developments that accompany gentrification driven by mass investment are not likely to benefit existing communities in Opportunity Zones without strong protections from displacement and input into what gets built where, and for who. In fact, the selection criteria for opportunity zones guarantees that the residents of these zones are extremely vulnerable to displacement when redevelopment and gentrification take place. This is true both nationwide and in Los Angeles in particular.

Opportunity Zone residents are unlikely to benefit from rising land prices, which for them will most likely manifest as higher rents. Communities living in Opportunity Zones already face extremely high rates of severe rent burden, and tend to have high rates of overcrowding in their living situations. Rising rents threaten to push many tenants past the point of being able to maintain their housing situations, displacing them from their neighborhoods, or rendering them houseless.

Metric	LA County	LA County OZs
Homeownership	44.82%	22.20%
Severe Rent Burdening	28.08%	34.46%
Overcrowding	16.20%	27.04%
Severe Homeowner Cost Burdening	16.35%	22.24%
% Black	7.76	11.67
% Latinx	47.82	68.33
% White	28.68	11.56
Above 200% Poverty Level	57.03%	34.78%
Median Income	$52,602	$32,026

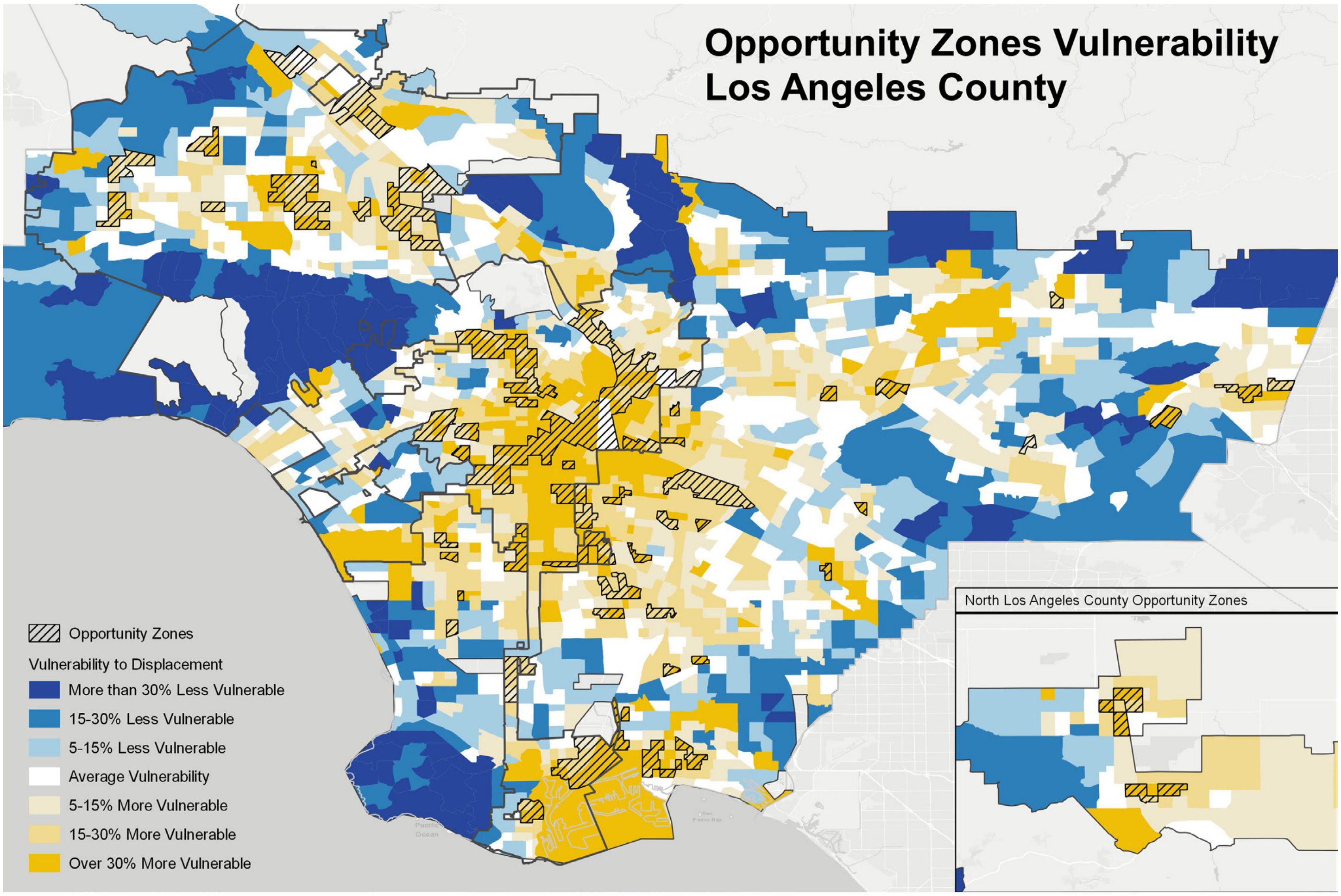
Homeowners, though less under threat are also unlikely to receive serious benefits. This is because communities in Opportunity Zones have very low levels of homeownership, and many of the homeowners who live in Opportunity Zones are already cost burdened. Rising prices may do more to push them out than to provide them the financial benefits of rising home values, by raising the incentive for them to sell their homes and move to cheaper locales. That said, some homeowners may benefit from appreciation, but the vast majority of their neighbors are renters, and will be further burdened with high rents, displaced and/or rendered houseless.

In Los Angeles, communities in Opportunity Zones are also disproportionately communities of color. Bringing investment to communities of color that have been historically excluded from private funding would be an admirable goal were that the intent of the program and were communities given control over the investment and protection from rising prices. Unfortunately as the program stands, the benefits flow exclusively to investors, and the federal guidelines give neither communities nor local government any mechanism for input into what can be done with the money flowing into their communities. That said, local jurisdictions can and should act decisively and use their land use authority to effect protections and provisions for community oversight and benefits recapture as discussed in this report's recommendations section.

Investors seeking high returns are not likely to build things that serve existing communities, but will be incentivized to build luxury apartments and high end shopping. Communities in Opportunity Zones are also disproportionately low and extremely low income in comparison to LA County as a whole and are unlikely to desire or benefit from this type of development.

Measuring the Displacement Risk of Communities in Opportunity Zones

All told, communities in Opportunity Zones are much more vulnerable to displacement than LA County residents as a whole. Taking into account various economic indicators including those listed above and comparing communities in Opportunity Zones to LA County residents as a whole, the extent



to which communities in Opportunity Zones are more vulnerable to displacement can be calculated. With this in mind, the author of this report developed a "Displacement Threat Index" to capture a sense of the particular vulnerability of communities living in Opportunity Zones to displacement.

After conducting a review of the relevant scholarly literature , specific indicators of displacement risk that have been established as causally related to displacement were chosen as metrics for the analysis. These indicators consist of employment rates, rates of people living above 200% of the poverty line, median income, the inverse percentage of extreme homeownership cost and rent burdenings, the inverse percentage of overcrowded residents, and the homeownership rate.

Data was collected on the relevant indicators mentioned above from the CAL HPI data on a census tract level from all tracts in LA County. Each of these were points of comparison between the targeted geographies and the "average" represented by the value for all tracts in LA county. The relative performance reflects the value of the target metric divided by the baseline (average all tracts) value. Measure 1 is the average of all of the "V" scores for each targeted geography, and Measure 2 is the inverse of this value.

Metric	LA County	LA County OZs	Relative Performance
Employment	67.3%	63.18%	0.938781575
200% Above Poverty	57.03%	34.78%	0.6098544626
Median Income	$52,607	$32,026	0.6087782995
Severe Rent Burden-1	71.92%	65.54%	0.9112903226
Severe Owner Burden-1	83.65%	77.76%	0.9295875672
Overcrowding-1	83.8%	72.96%	0.8706443914
Homeownership	44.82%	22.2%	0.4953145917
Measure 1			0.7663216014
Measure 2 (Displacement Threat Index)			0.2336783986

How Many People Do Opportunity Zones Threaten?

More than **1.1 million** Los Angeles County residents live in Opportunity Zones and are directly threatened with displacement by speculation. Almost **3.5 million** Los Angeles County residents live in vulnerable communities in and adjacent to these zones and are threatened with direct and indirect displacement. **6.5 million** residents of Los Angeles County live in communities that are more vulnerable to displacement than the county's average community.

Los Angeles County Opportunity Zones have a Displacement Threat Index Score of 0.233. This indicates that communities in Opportunity Zones are **23% More Vulnerable to Displacement** than the average Los Angeles County Community.

Measure 1 indicates the relative performance of the targeted geographies in the data areas in comparison to the county average, therefore a score of 0.7663216014 for Opportunity Zones indicates that the zones perform 76.6% as well as the average tract by these metrics. A positive score for Measure 2 indicates the degree to which Opportunity designated tracts are more vulnerable than the average tract in Los Angeles County to displacement. A score of 0 would indicate that the tracts are as vulnerable as the average, a score below 0 indicates they are less vulnerable. So a score of 0.2336783986 is to say that Opportunity Zones are 23.3% more deficient in these categories (and thus 23.3% more vulnerable to displacement) than the average tract. Again, this is a demonstration of how neighborhoods chosen are more vulnerable to the very kinds of displacement that are accelerated by the designation of the Opportunity Zones program.

Communities in Opportunity Zones have real need stemming from decades of disinvestment, however, that could be addressed through Opportunity Zone investment provided it was done in a community-benefitting, community-directed manner. Los Angeles' communities in Opportunity Zones have poor supermarket access, limited amounts of publicly accessible green space, and live in some of the most polluted environments in California:

- California Healthy Places Pollution: 22nd Percentile
- Residents with Public Greenspace Access: 66.99%
- Residents with Supermarket Access: 70.67%

South Central Community Leaders on SAJE's Steering Committee consider the Opportunity Zones program.

"We are worthy of fair housing, but also a decent home, with a healthy environment for our babies...The majority do not care what positions we are in, and the truth is that to some extent absurd, because it is better to be, repairing little by little, than one day they have to tear down everything.

SOUTH LA COMMUNITY MEMBER

"We do not oppose that there is a growth, an advancement, but we want to be included.

SOUTH CENTRAL COMMUNITY MEMBER

VI. RECOMMENDATIONS

Local communities can, indeed, push back and regulate development that would happen in Opportunity Zone census tracts, despite the notion commonly-expressed by local elected officials that communities have no tools to respond to this federal tax program. Indeed, communities MUST act to protect people, land, culture and local economies.

OVERVIEW OF RECOMMENDATIONS

In general, there are four ways local stakeholders and elected officials can act in order to protect and advance local interests:

I. **Repeal**
Communities must mobilize with national organizations to call for the immediate repeal of this damaging program.

II. **Policy**
Land use policy change at the local and state levels that defend against displacement and require community-benefiting investments. Meanwhile, equity focused groups must advance the necessary national work to repeal the Opportunity Zone federal tax program.

III. **Community Planning, Monitoring and Action**
Community-based initiatives to monitor, respond to and directly engage active Opportunity Zone Funds and the developments they are investing in locally.

IV. **Funds for Equitable Investment**
Build social justice-oriented funds that commit to no displacement and investing directly in the people and the needs of the most vulnerable communities. Use this fund to draw investors away from other harmful Opportunity Zone Funds and to invest in businesses and development that uplifts communities of color and low-income communities.

RECOMMENDATIONS IN DETAIL

I. **Federal Repeal of the Opportunity Zones Legislation**
Opportunity Zones are intentionally designed to displace tenants and extract wealth from low income communities to benefit the country's richest investors. This doesn't end well for communities, which is why Opportunity Zones must be repealed. As this report demonstrates Opportunity Zones:

A. **Compound racist histories of disinvestment** with new predation. Backers of the Opportunity Zones program have touted the potential direction of substantial investments to areas that have historically suffered from a lack of access to capital. This historical injustice has been perpetrated by the racist practices of finance and government that have for decades actively denied access to capital to communities living in these places, and demands correction. Upon closer examination, However it is clear that Opportunity Zones will worsen rather than correct this injustice. Despite the promises made the programs boosters in finance and politics, Opportunity Zones guarantee no benefit to community members, and they provide not even a modicum of control to communities over the money mobilized. The prioritization of investors over communities makes clear the purpose of the program—that is to shelter the capital gains of the wealthiest people in the country from taxation.

B. **Displace communities to benefit the already wealthy.** Many backers of the program waive away concerns about Opportunity Zones' lopsided benefits because it will bring money into low income communities. As Housing Secretary Ben Carson has been quoted, the mantra is "the rich are going to get richer anyways." This bad-faith argument its based on the insincere logic that any investment is necessarily good for communities. The history of cities in the United States bears witness to this falsehood, as working class communities and communities of color have been repeatedly displaced through the transformation of their neighborhoods by speculative investment.

C. **Magnify the power of speculators and developers.** If the real intentions of the program are less than promising, structural features of the Opportunity Zones program guarantee that the program will ensure a repeat of this same story. Opportunity Zones give generous subsidies to speculative investment, magnifying the power of real estate and finance to remake the built environment to their liking, a vision that prioritizes investability over the dignity and livelihood of the communities that actually live there. The requirement of "substantial improvement" also ensures that buildings home to community members and businesses will be torn down and redeveloped.

D. **Accelerate the commodification of a human need.** Together, these processes accelerate the transformation of land's purpose from the home of a community, to a place of wealth-building for investors. Through this, communities that have already borne the costs of disinvestment are now subjected to a project of extraction, where the financial institutions that deprived communities of capital to begin with now profit at their expense. Opportunity Zones will fail to benefit communities, and lead to displacement not because of an unintended consequence of well meaning policy, but instead because that is the programs intention.

How Communities Can Fight Back

Because the federal Opportunity Zones Program is designed to accelerate gentrification and displacement (as described in this report) and comes with disastrously-few monitoring and oversight regulations, communities must stand firmly against this program. In order to effectively do so, communities may (i) immediately raise the significant concerns with federal officials; (ii) generate their own monitoring programs, tracking the impacts of OZ investments at the local level; (iii) build power among residents living in and around Opportunity Zone census tracts and align with other communities across the country to advocate for the abolishment of the Opportunity Zones program.

II. Policy Change to Prevent Displacement and Require Community-Benefiting Investment

Yes, state and local officials can act to shape how Opportunity Zone investments are made. Namely, local and state governments can:

A. **Use land use and permitting powers** to significantly regulate what is built and/or renovated in Opportunity Zones.

B. **Align state and local tax programs** to incentivize anti-displacement behaviors by OZ Funds.

C. **Utilize other regulatory frameworks**—such as environmental protections or existing local anti-displacement policies—to enhance protective measures specifically in Opportunity Zone tracts. Resists any policy efforts that, instead, seek to use Opportunity Zones as an opportunity to further efforts to deregulate industry at the expense of the health and well-being of people and the environment.

Outside of supporting repeal efforts, state and local governments have considerable powers available to reform the Opportunity Zones program in a manner that prevents its worst abuses. Arguably the greatest powers cities, counties and other local jurisdictions can exercise are those that govern land use development. Every community where Opportunity Zone tracts have been designated would be advised to use these powers to protect local communities and advance community-serving investment objectives over those that primarily benefit profits of large developers and corporations. Berkeley, California, is currently exploring the creation of an "Opportunity Zone Displacement Mitigation Overlay," potentially providing a model for future efforts[63].

An Anti-Displacement Overlay District can include:

1. Anti-Displacement Land Use measures:

    i. **Anti-demolition provisions** for any development in Opportunity Zone tracts.

    ii. **Tenant protections against "renovictions":** displacement that results from the rehabilitation of a housing unit. Local permitting powers can be exercised to prevent displacement and ensure tenant protections are upheld.

    iii. **A contractual guaranteed right of return, affordable rents and tenant protections.** Where demolition or renova-

63 https://www.cityofberkeley.info › City_Council › 06_June › Documents

tion still occurs, a required contractual arrangement with all tenants who currently live on the site of a proposed development or renovation—and all tenants who have been displaced from the building in the last 10 years—to guarantee their return to their same units, at deeply-affordable rents, and with a full suite of tenant protections (including rent control, just-cause eviction requirements, anti-harassment provisions, etc.) tied to all units.

iv. **Additional affordable units required** beyond those guaranteed for current tenants so that any investment results in a net gain of affordable units.

2. Requirements for Equitable Development:

   i. **Keep Public Land in the Public's Hands.** Many Opportunity Zone tracts include publicly-owned land. Local jurisdictions and agencies have particular control over how this land is used. Above all else, this land should first be used to support community-control of land (e.g., community land trusts), permanently affordable housing, green space expansion and economic opportunities for communities most impacted by development.

   ii. **Community-land trusts and cooperative housing** developments can be prioritized by local and state governments.

   iii. **Inclusionary requirements for deeply affordable housing** units for any new development on vacant or non-residential land located in an Opportunity Zone.

   iv. **Local and targeted hiring requirements** for all construction and permanent jobs that utilize a narrow radius around the project site and a community-based "first source referral system" in order to ensure jobs truly go to residents most impacted by the development.

   v. **Good job requirements** for all construction and permanent jobs that ensure strong, living wages, labor protections and stringent workplace safety standards.

3. Support for Investment in Community-Serving and Cooperative/Community-Controlled Small Businesses:

   i. As designed, Opportunity Zone investment targeting businesses is likely to focus primarily on enterprises that are already well-financed and resourced. Many businesses that originate from low-income communities and communities of color do not have strong financial backing that can support their survival and thriving in the contexts of gentrification and large corporate consolidation. Yet **community-serving businesses**, by definition, provide goods and services most needed by economically-marginalized groups. Meanwhile, democratically-structured **cooperative and community-controlled businesses** often lack supportive public policy despite their effective ability of growing wealth for all workers. For these reasons, business investments should prioritize community-serving businesses, and cooperative and/or community-controlled businesses.

4. Investment in Climate Resilience and Just Transition Initiatives.

   Communities living in Opportunity Zones are burdened with some of the most polluted and unhealthy environmental conditions in California, a reality that will only worsen, as low income communities of color are set to be disproportionately affected by the worst impacts of a changing climate. A land use overlay should:

   i. Impose fees on new construction to **fund environmental cleanup** like soil remediation and indoor air filtering for schools, and tree planting.

   ii. Require new developments in Opportunity Zones to include **public greenspace access** for all community members to help close the greenspace access gap.

   iii. **Address the climate gap**[64] by devoting funding to local mitigation projects, resilience infrastructure, and green jobs attentive to the specific conditions and climate risks of low income communities and communities of color including disproportionate heat exposure.

   iv. **Prohibit extractive and polluting** industrial projects in Opportunity Zones to prevent the worsening of unjust local pollution issues from the program by restricting toxic uses everywhere in the tracts.

64 https://dornsife.usc.edu/assets/sites/242/docs/The_Climate_Gap_Full_Report_FINAL.pdf

III. Community Planning, Monitoring and Action

One of the most pressing failures of the Opportunity Zones program's structure at the federal level is the complete lack of accountability and transparency for Opportunity Zones investment. Local governments and communities must step in to fill this gap and give communities the data and structures necessary to successfully engage with the program.

In order to protect communities, it is important that a strong framework of oversight and community control is developed:

A. Local government should monitor Opportunity Zone investment outcomes and establish a data collection framework and strict reporting requirements for such projects.

B. Community Based Organizations must develop an awareness and analysis of the Opportunity Zones program relevant to the specific conditions of their neighborhoods and plan a community initiated response to the threats from the program.

C. Communities and local officials should partner to develop a robust and mandatory program of community engagement for new Opportunity Zone projects, and to produce and publicize a neighborhood level framework for equitable development projects and proposals for investment.

IV. Funds for Equitable Investment

Even the most ardent boosters of the Opportunity Zones program acknowledge that in order for communities to reap any meaningful benefit from investments through the program, local governments, philanthropy, and community based institutions will need to establish a framework for the coordination and direction of investment to community serving objectives. The only way to truly guarantee that investments made by an Opportunity Fund will be community benefitting, however, is to place the funds under community control. Some jurisdictions like the Los Angeles County Board of Supervisors, and Berkeley City Council, are considering the creation of publicly administered funds[65]. Examples like Enterprise Community Partners' East Coast based Emergent Communities Fund, Oregon nonprofit Rockwood Community Development Corporation's Opportunity Funds, and Habitat for Humanity's leveraging of Opportunity Zone investment to build affordable housing demonstrate that it is possible for communities and social justice oriented organizations to wrest positive results from the program.

Together, local government, philanthropy, and communities can realize the creation of funds that will fuel equitable development, not displacement through a fund that:

A. **Leverages philanthropic** technical support and seed funding; the official backing, promotion, and financial support of **local government**; and existing networks for **community representation** to facilitate the creation of a **community serving fund**.

B. Pursues investments that help start and **support community serving local businesses** and **businesses with alternative and democratic ownership structures** like worker owned cooperatives.

C. **Expands the community ownership of land** by supporting community land trusts, establishing permanently affordable limited equity housing co-operatives, and exploring other alternative land ownership models.

D. **Avoids even the temporary displacement of residents** by developing publicly owned brownfield sites leased or transferred by local government agencies.

E. **Taps existing community based initiatives** like Promise Zones and Transformative Climate Communities implementation areas to maximize potential funding streams.

F. **Is financially viable** for private investment through the deployment of innovative and established techniques like the donation leveraged principal protection pioneered by Kresege[66], donation tax benefit stacking[67], and guaranteed buyout agreements.

65 http://file.lacounty.gov/SDSInter/bos/supdocs/137198.pdf, https://www.cityofberkeley.info › City_Council › 06_June › Documents
66 https://kresge.org/news/kresge-foundation-commits-22m-back-arctaris-community-capital-management-opportunity-zone-funds
67 https://www.aemcpas.com/cpa-firm/news/nonprofit_qualified_opportunity_zone.html

VII. WHAT WE STAND FOR

Opportunity Zones represent a vision of development where deep-pocketed investors are the leaders and beneficiaries, and where communities are forced to deal with the impacts. This type of development empowers speculators, and accelerates gentrification and displacement, while disempowering and putting families at risk. We believe that a more equitable form of development is possible - one that centers and empowers communities to exercise their vision of transformation is possible.

With this belief in mind, South Central LA residents came together at a People's Planning School in 2014 to establish a core set of principles that guide the work of the United Neighbors in Defense Against Displacement (UNIDAD) coalition.

EQUITABLE DEVELOPMENT PRINCIPLES

United Neighbors In Defense Against Displacement (UNIDAD)[1]

Equitable Development means:

- Investing in people first. The land should support human development and economic equity
- Preserving the culture and values of the local people
- Institutionalizing the genuine participation of low-income communities—at the earliest stages of planning—in decision-making, implementation and monitoring
- Promoting and advancing opportunities for community control of land and resources
- Not causing or leading to the displacement of residents from their homes or communities
- Providing tangible and enforceable economic benefits for local residents, including ample housing for low-income households, jobs with family-supporting wages, targeted hiring for local and disadvantaged residents and the opportunity to build equity and wealth among low-income individuals and communities
- Preserving and creating an abundant supply of housing affordable to working-class and low-income residents
- Ensuring all housing promotes the physical, emotional, mental and economic health of residents
- Strengthening the health and well-being of residents through the expansion of quality health care services, walk-able and bike-able streets, and the preservation and increase of parks and open space while making appropriate investments to ensure their safety and security
- Guaranteeing that public infrastructure investments and zoning changes that increase land values serve to benefit all community members
- Supporting the rights of tenants to be long-standing members of the community
- Addressing critical issues including legal and illegal rent increases, harassment of tenants and illegal evictions

1 http://www.unidad-la-org

SAJE stands with communities across the world in advancing towards a Right to the City. To assert a Right to the City means that we believe that it is the collective and democratically held right of all communities to shape the material and social conditions of the places that they inhabit. We contrast this with the everyday reality of urban transformation, which as reflected in Opportunity Zones, reserves the capacity to transform the city to a privileged few.

The Right to the City Alliance[2] is a national alliance of racial, economic, and environmental justice organizations of which SAJE is a member, and abides by the following principles.

Land for People vs. Land for Speculation

The right to land and housing that is free from market speculation and that serves the interests of community building, sustainable economies, and cultural and political space.

Land Ownership

The right to permanent ownership of urban territories for public use.

Economic Justice

The right of working class communities of color, women, queer and transgender people to an economy that serves their interests

Indigenous Justice

The right of First Nation indigenous people to their ancestral lands that have historical or spiritual significance, regardless of state borders and urban or rural settings.

Environmental Justice

The right to sustainable and healthy neighborhoods & workplaces, healing, quality health care, and reparations for the legacy of toxic abuses such as brown fields, cancer clusters, and superfund sites.

Freedom from Police & State Harassment

The right to safe neighborhoods and protection from police, INS/ICE, and vigilante repression, which has historically targeted communities of color, women, queer and transgender people.

Immigrant Justice

The right of equal access to housing, employment, and public services regardless of race, ethnicity, and immigration status and without the threat of deportation by landlords, ICE, or employers.

Services and Community Institutions

The right of working class communities of color to transportation, infrastructure and services that reflect and support their cultural and social integrity.

Democracy and Participation

The right of community control and decision making over the planning and governance of the cities where we live and work, with full transparency and accountability, including the right to public information without interrogation.

Reparations

The right of working class communities of color to economic reciprocity and restoration from all local, nation and transnational institutions that have exploited and/or displaced the local economy.

Internationalism

The right to support and build solidarity between cities across national boundaries, without state intervention.

Rural Justice

The right of rural people to economically healthy and stable communities that are protected from environmental degradation and economic pressures that force migration to urban areas.

2 https://righttothecity.org and https://homesforall.org

APPENDIX

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Community serving storefronts like this Leimert Plaza are directly threatened by the Opportunity Zones program, which greatly incentivizes the redevelopment of such properties

"I just got evicted out of where I was living because the original homeowners sold the building. Since we weren't on the contract the owner was going to jack up the rent by $500.

SOUTH CENTRAL COMMUNITY MEMBER

"The rent is rising because there is gentrification. There's a lot of construction in downtown Los Angeles and that's the reason why the rent is going up. This zip code has many families living in a single apartment.

SOUTH LA COMMUNITY MEMBER

SAJE