Opportunity Zones in 2022: Perception vs. Reality

What investors understand about OZ, what they don't, and how the industry can better communicate the initiative's impact on communities

A REPORT FROM JTC AMERICAS AND OPPORTUNITYDB

JTC Americas

OpportunityDb
The Opportunity Zones Database

Executive Summary

Why don’t investors understand that Opportunity Zones are impact investments? And what can fund managers do about those perceptions to raise more capital while helping maximize the program’s ability to improve communities?

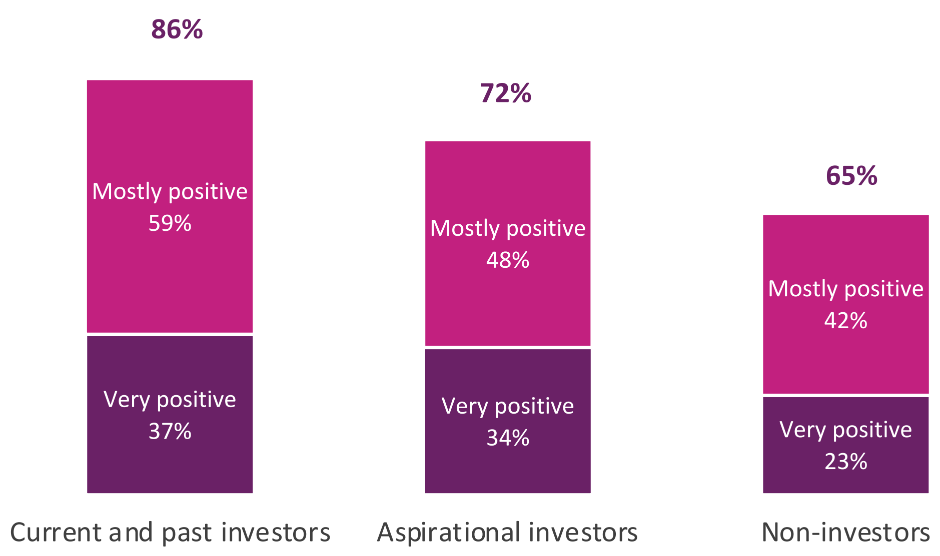
Since going into effect in 2017 as part of the Tax Cuts and Job Act, there has been no shortage of conversation about the Opportunity Zone (OZ) program.

While existing and aspiring OZ investors are broadly optimistic about the program – almost equally due to anticipated ROI and its impact on communities – one vital aspect that has gotten lost in all the hubbub is that OZ investments are impact investments. With interest in impact investments and ESG continuing to skyrocket, that’s important for fund managers from a marketing, education, and, ultimately, an investment-raising standpoint. The takeaways outlined in this report can help fund managers raise more funds more quickly.

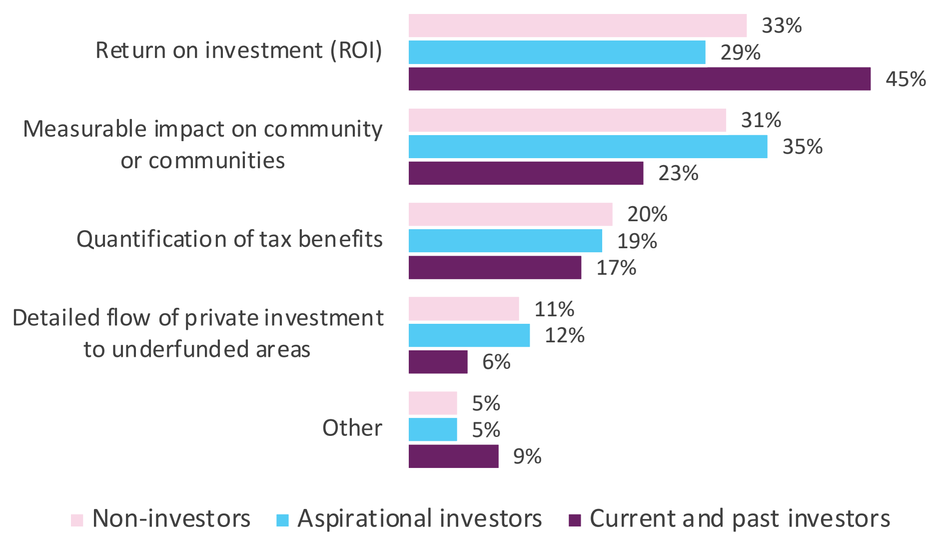
There have been early success stories – from South Los Angeles to Erie, Pennsylvania, to rural Colorado. There have been a series of deadlines and regulatory changes – final regulations weren’t passed until 2019 – as well as new proposals. And, as issues get ironed out, there has been heated debate over whether the program is having the impact it aims to.

These are also some of the key takeaways of JTC America and OpportunityDb’s Impact Investing in Opportunity Zones survey report, which gauges the sentiments of investors, developers, and other industry stakeholders as it relates to perceptions of OZs, what attracts them to

Personal perception of OZs



Most persuasive information for impact investing in OZs



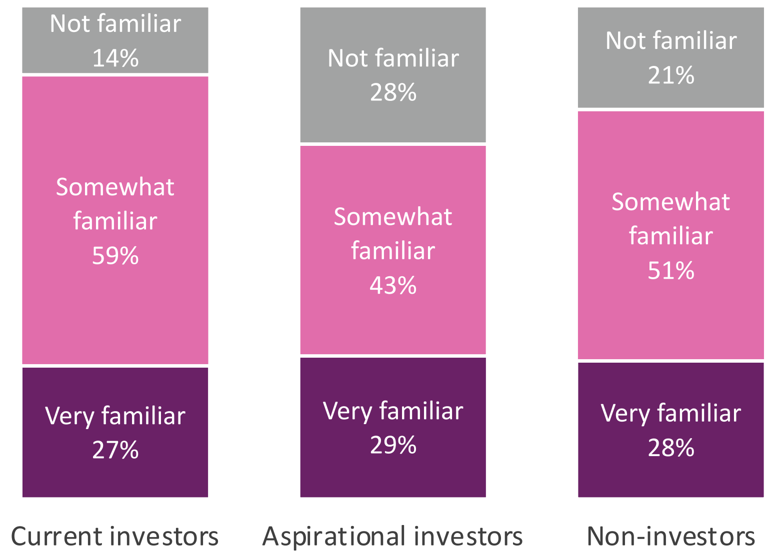
OZ investments, the relationship between OZs and impact investing, and how the program can be improved moving forward. By analyzing these findings, fund managers and other stakeholders can learn what attracts current and potential investors to OZ investments— and the relationship between viewpoints on OZs and impact investing— and how these insights can help fund managers reach current and aspirational investors. We'll also explore how the OZ program can be improved moving forward to ensure that it's doing the good it's intended to do.

The survey, held from December 2021 to February 2022, comprises 145 participants – including investors, developers, brokers, fund managers, bankers, advisors, and other relevant stakeholders from across the country. Nearly two-thirds are existing (35%) or aspirational (42%) OZ investors. More than half of those who have already invested in OZs put between $100 - $500k into at least two funds – and 71% said they are likely to make an OZ investment in the next year.

As the largest provider of specialty fund administration solutions to the OZ sector, JTC Americas – the North American division of JTC, a worldwide leader in financial administration – conducted the survey with OpportunityDb as part of the firm's ongoing effort to help the OZ program do the good it's intended to do. To that end, we hope it will help OZ stakeholders navigate the next evolution of what is often an uncertain landscape.

In the meantime, it's important to remember what can happen when OZs work as intended. "It brings two sectors together in a positive way," one participant told us, "to provide opportunities in communities otherwise overlooked for development investment potential." Fund managers need to harness these messages in communications with current investors and prospects to help them understand the impact OZs can make, which will help raise capital and help OZs reach their full promise.

Familiarity between impact investing and OZ relationship



74%

of those surveyed believe Opportunity Zones are equally advantageous for communities and investors.

Key Takeaways

Fund managers need to communicate proactively with current and potential investors – particularly around impact measurement and benefits.

When asked at what stage OZ fund managers communicate the community and social impact to investors, 33% were unsure, 10% said only once the fund is set up, and 7% said never. We know this is important because when asked how to make OZs more valuable to impact investors, "quantifying impact," "clear metrics," "match ROI to impact" and "improve reporting" were among the most common responses.

Respondents do not intuitively link OZs with impact investing

Despite understanding the impact benefits of OZ investments, when asked about their level of familiarity between impact investing and OZs, about half (48%) of all respondents said they were only somewhat familiar; 26% said they were not familiar and 27% said they were very familiar.

Investors have an overwhelmingly positive perception of OZs.

When asked about their personal perception of OZs, 4 out of 5 respondents said mostly or very positive, with 74% summarizing the program as an equally advantageous solution for communities in need and wealthy investors. But there's work to be done when it comes to communicating these benefits: existing OZ investors were more bullish on OZs (86% viewed them mostly or very positively) than aspiring investors (72%) and non-investors (65%). (Fund managers were not asked these questions not included in the non-investor category).

The program's incentives attract investments in projects that might not otherwise be made.

When asked if OZ incentives are enough to make them consider investments they would not make otherwise, 68% of existing and aspirational investors agreed that would be the case. Fifty-seven percent said the same when asked whether the incentives are enough such that a project that would not otherwise work seems attractive.

Most investors would also be willing to take a significantly lower return for a good impact project, like OZs.

Over half (54%) of investors would be willing to accept a lower financial return if they were investing in a good impact project – and over 30% would take a reduction of over 25%.

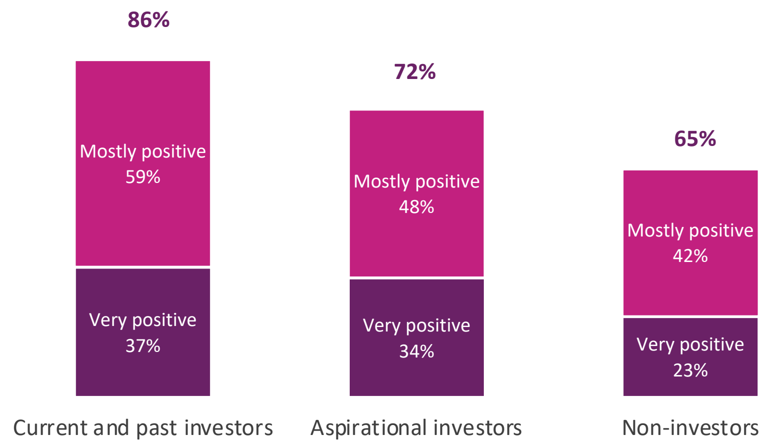
Perceptions of Opportunity Zones

The overarching sentiment from our survey respondents? OZs are working. But aspirational investors are more skeptical.

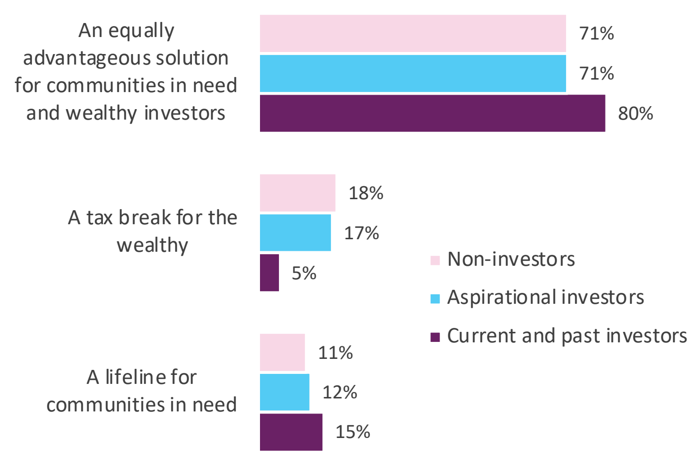
Overall, 80% of participants said they have a very (31%) or mostly (50%) positive perception of OZs; only 4% had a negative one. The most beneficial investments for OZs are, unsurprisingly, in real estate (69%), operating businesses (57%), and infrastructure (55%). And while most current or past (i.e., existing) investors told us they invested in response to a capital gain (55%) versus a planned investment (29%), their reasons for doing so were – significantly – not solely based on ROI.

Forty-five percent of these investors said ROI was the most persuasive factor in considering an OZ investment, with the measurable impact on communities the second most important factor (23%), followed by quantification of tax benefits (17%) and the detailed flow of private investment to

What is your own personal perception of OZs?



Which of the following best summarizes what the Opportunity Zone program is?

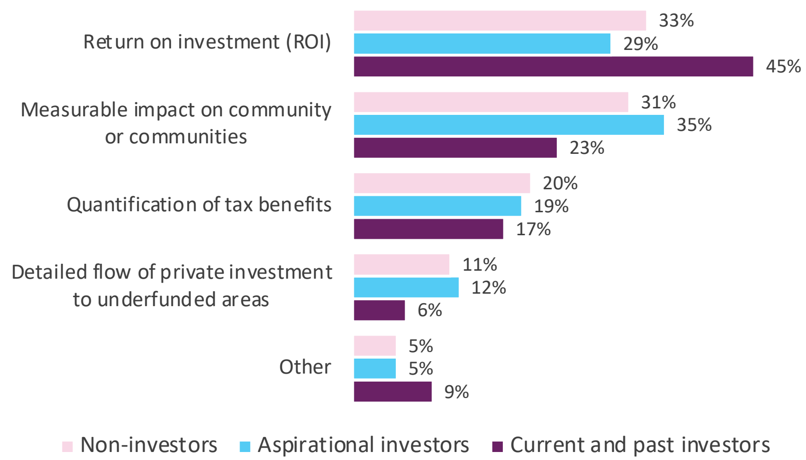


underfunded areas (6%). When asked to define the program, 80% of existing investors said it was an equally advantageous solution for communities in need and wealthy investors.

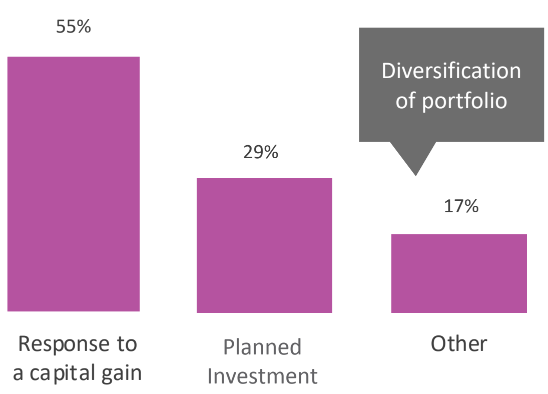
Aspirational investors – here and throughout the survey – are both more attracted to OZs' potential impact and a little more uncertain. Though aspirational investors said they were more compelled by impact than ROI (35% vs. 29%), 17% defined the program primarily as a tax break for the wealthy (compared to 5% of existing OZ investors). Their perception of OZs was slightly less positive than existing investors – 72% compared to 86% said their perception was mostly or very positive – while 65% of non-investors said the same.

Some of this skepticism likely stems from the uncertainty of what might lie ahead for the program. "OZs are a great way to offset capital gains taxes if the projects work out the way they are envisioned to," one respondent noted. "The 10-year time horizon does carry risks, especially when it comes to interest rates and market demand. [It's] very difficult to predict what might happen ten years from now."

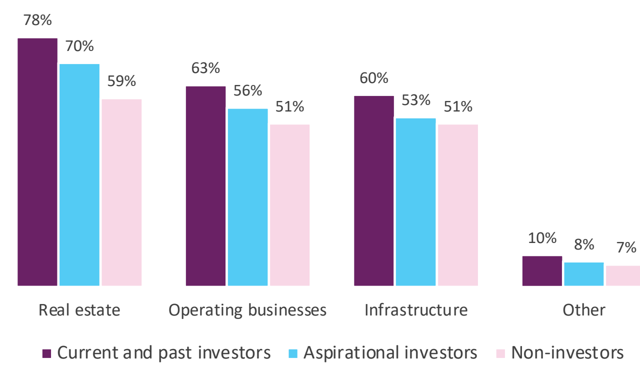
What type of information is most persuasive or compelling in considering investing in an OZ?



Which best describes why you invested in the fund(s)?



What kinds of investments are most beneficial for OZs?



Perception of OZ incentives

Aspirational investors' attraction to impact also shows up regarding perceptions of the OZ program's incentives. Nearly two-thirds of this group (73%) agree that the incentives are enough to make them consider investments that they would not otherwise make (10% more than existing investors). In comparison, 63% agree the OZ incentive is enough to make a project or fund that would not otherwise work attractive (vs. 50% of existing investors).

62%

of current and past OZ investors invested less than $500,000 per fund on average

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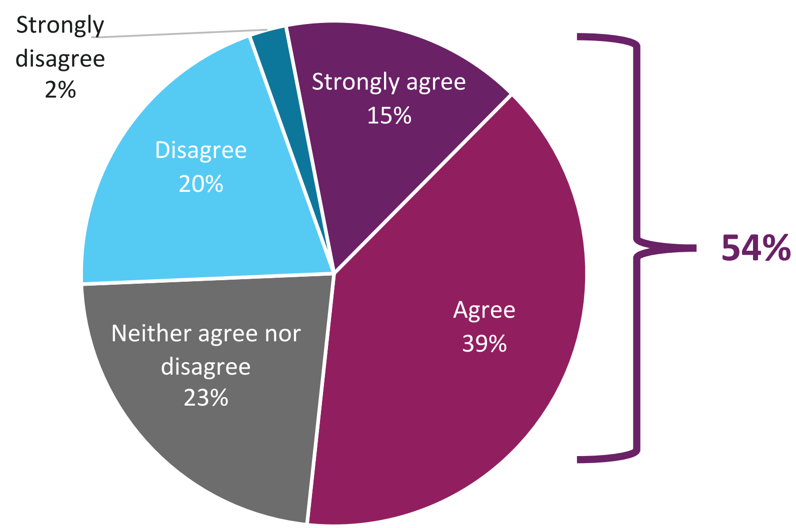

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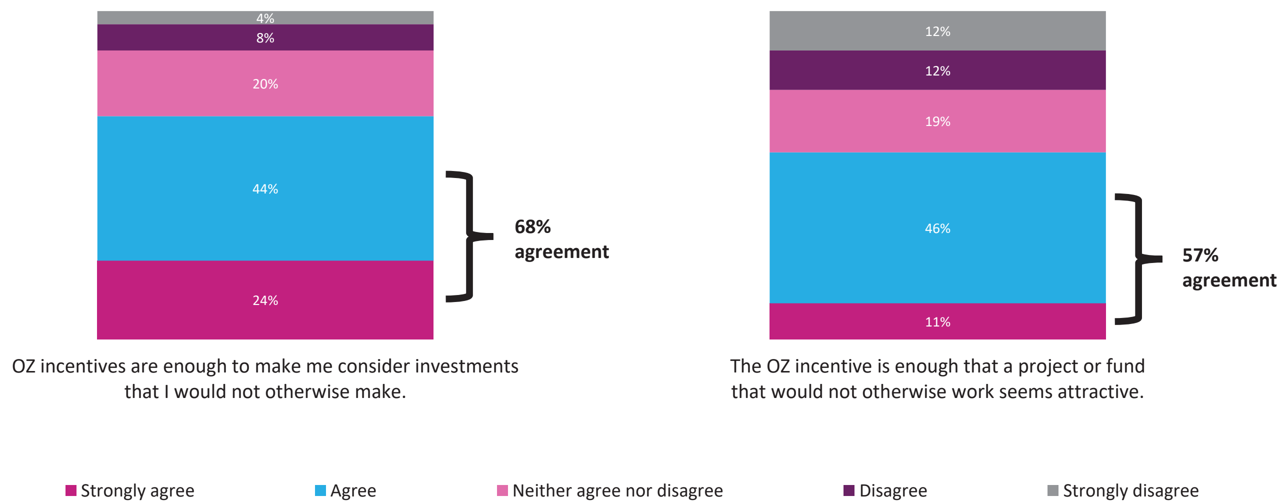


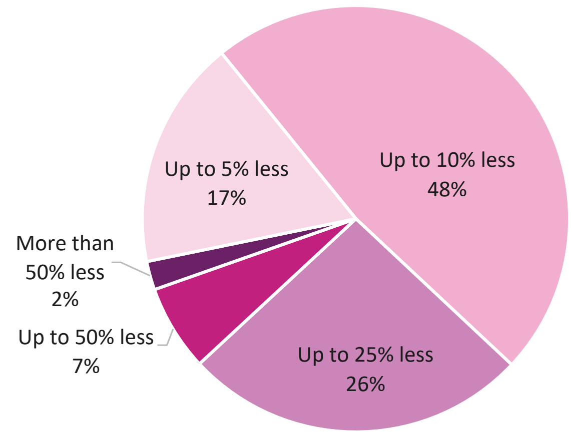
More aspirational investors are also willing to accept a lower financial return for an investment in a good impact project (58% agree vs. 52% of existing investors). However, the range of reduction is more balanced. Though 16% more aspirational investors would take up to or more than 50% of a reduction, most are still – like existing OZ investors – comfortable with a reduction of 25% or less. Overall, 48% said they would accept up to 10% less, and 26% said they would take up to 25% less.

Job increases/employment opportunities were ranked as their number one impact priority for existing and aspirational OZ investors. Both groups also ranked high for affordable housing opportunities, internet accessibility, and alternative/ renewable energy development.

54%

of investors said they would be willing to accept a lower financial return if they were investing in a good impact project.

You indicated that you would be willing to accept a lower financial return if you invested in a good impact project. What range of reduction would be amenable to you?



You indicated that you find language around the measurable impact on the community as important in OZ information. Specifically, which types of information are important?

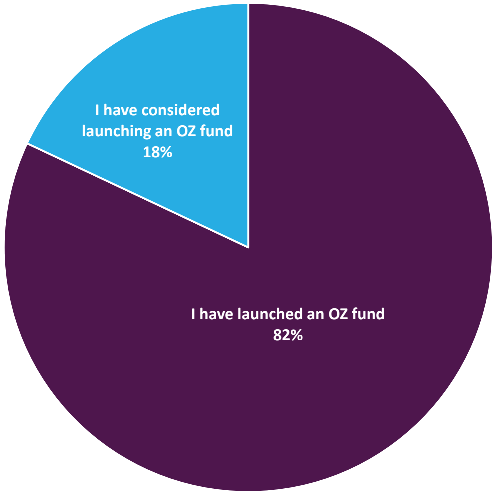
Rank	Current and past investors	Aspirational investors	Non-investors
1	Job increases/ employment opportunities	Job increases/ employment opportunities	Clean water
2	Affordable housing opportunities	Clean water	Job increases/ employment opportunities
3	New educational opportunities/ improved access to education	Affordable housing opportunities	Affordable housing opportunities
4	Internet accessibility for communities	Development of alternative energy/ renewable in community	New educational opportunities/ improved access to education
5	Development of alternative energy/ renewables in	Internet accessibility for communities	Internet accessibility for communities
6	Clean water	Community recycling and waste management programs	Development of alternative energy/ renewables in
7	Community recycling and waste management programs	Reduced cost of utilities	Community recycling and waste management
8	Other	New educational opportunities/ improved access to education	Other
9	Reduced cost of utilities	Other	Reduced cost of utilities

Fund Manager Perspectives

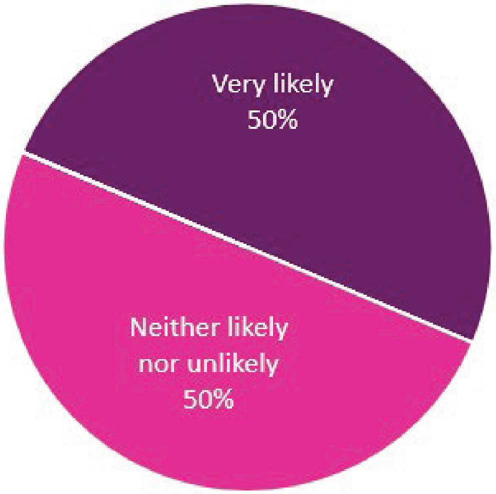
Four in five fund managers surveyed had already launched an OZ fund

Fund managers skew higher than the overall average in terms of positive OZ sentiment, though lower than current investors

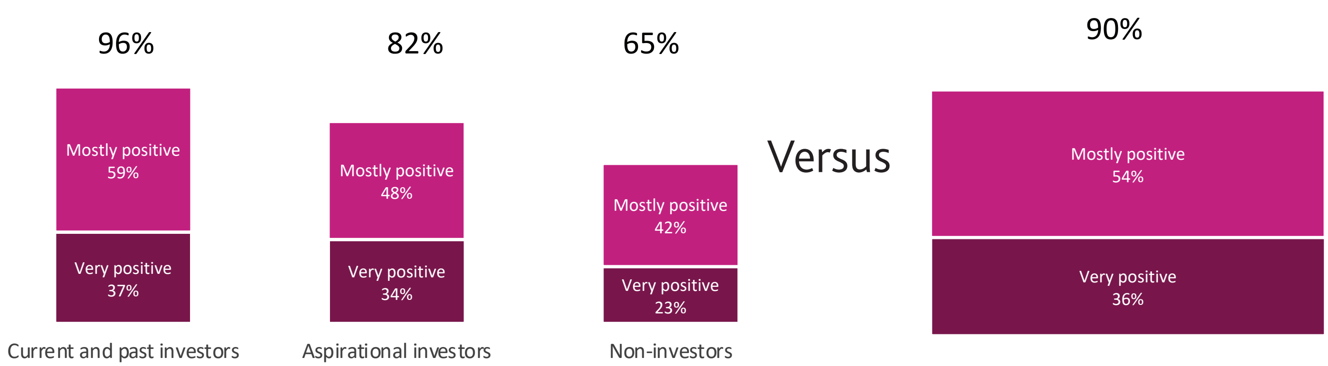
What has been your experience to date when it comes to OZ fund management?



How likely are you to launch an OZ fund in the future?

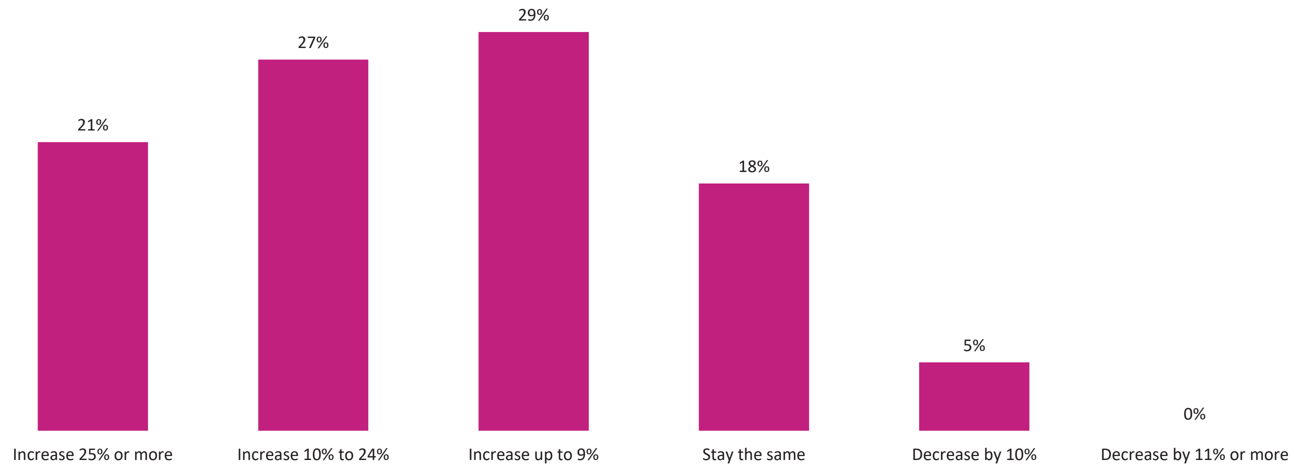


What is your own personal perception of OZs?



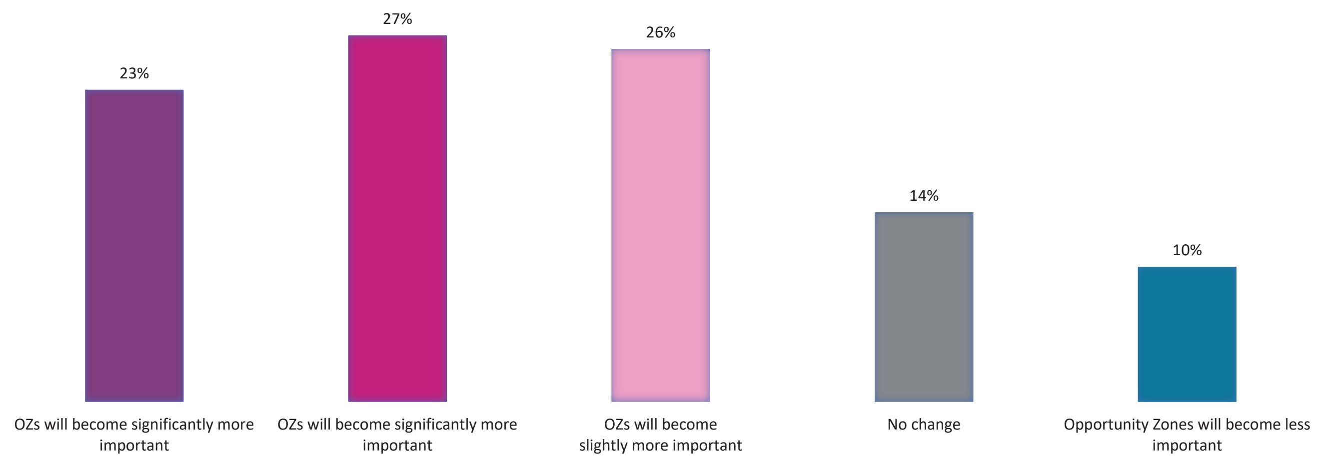
Fund managers largely believe that OZ fund investment will increase over the next year

How do you expect investment in OZ funds to change over the next year?



Fund managers are mostly in line with current investors in how they view the OZ and impact investing relationship over the next year

How, if at all, do you expect the relationship between Opportunity Zones and impact investing in changing over the next year?



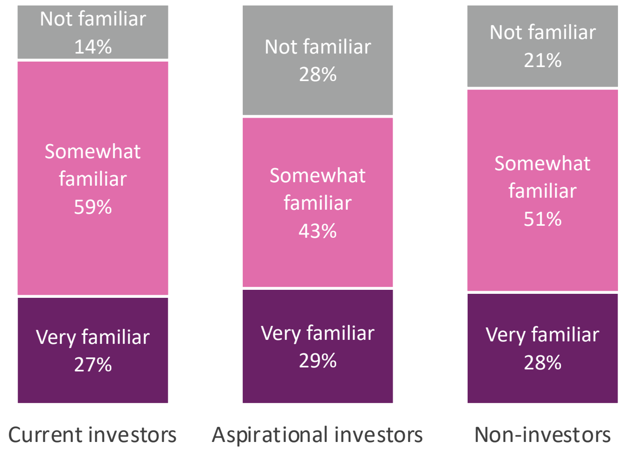
OZs and Impact Investing

Throughout the survey, respondents indicated that they understood OZ investments as impact investments. For instance, when asked to categorize their expectations for “OZ impact investing” on a spectrum of mission versus returns, all respondents – especially aspirational investors – perceived these investments as (slightly) more mission than return-focused.

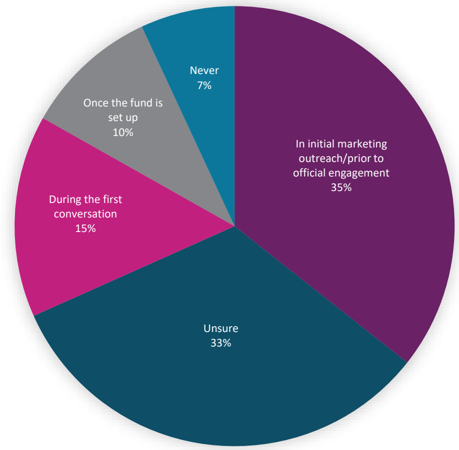
Later, when asked about the relationship between impact investing and OZs, 54% said OZs bring a new segment of returns-driven investors into impact investing and 39% said OZs are another tool in the impact investing space. Only 5% said the OZ model wasn’t conducive to impact investing. Respondents also view OZs and impact investing mostly or very positively (81% for OZs, 70% for impact investing). There were no significant differences among existing, aspirational, and non-investors here. (Fund managers were not asked these questions nor included in the non-investor category.)

And yet, despite all this, the link between OZs and impact investing isn’t intuitive – especially among aspirational investors, of whom 28% said they were not familiar at all about the relationship between the two and 43%

What is your level of familiarity regarding the relationship between impact investing and Opportunity Zones?



At what stage are Opportunity Zone fund managers communicating the community and social impact to investors?



70%

of investors surveyed have a positive perception of impact investments.

said they were only somewhat familiar. For existing investors, 14% were not familiar, but 59% were only somewhat familiar. Non-investors came down in the middle, with 21% not familiar and 51% somewhat familiar.

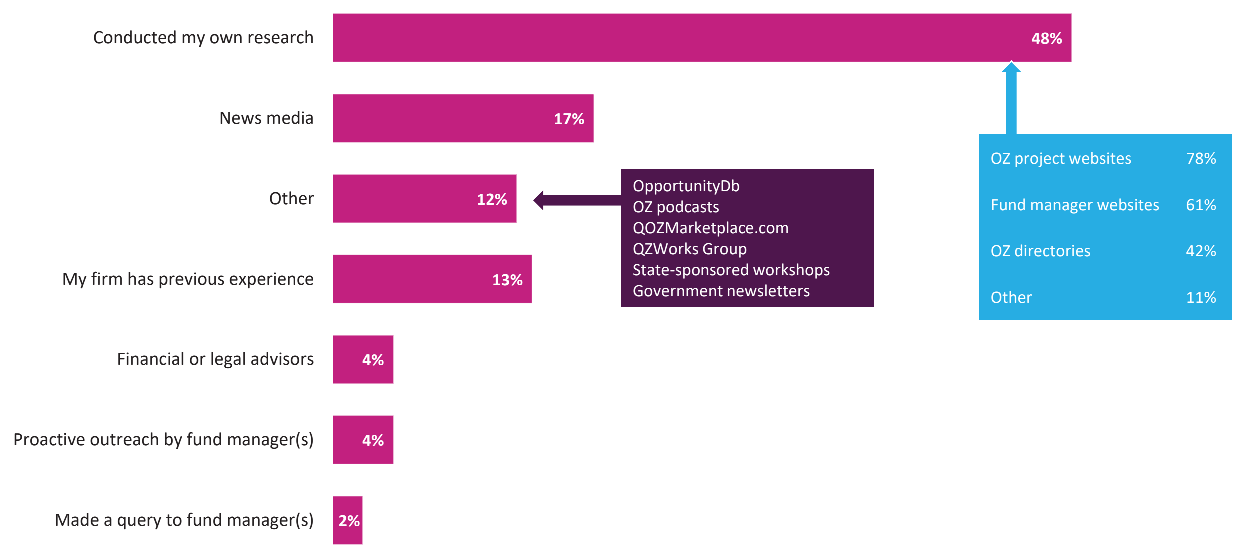
One reason why this might be the case is that many do not hear about impact proactively from OZ fund managers. When asked how they first learned about impact investing in OZs, 48% said they did so through their research and 17% said news media; only 4% cited proactive outreach by fund manager(s). When asked at which stage OZ fund managers communicate community and social impact to investors, 33% were unsure, 10% said only once the fund is set up, and 7% said never. (There were no significant differences between different groups here.) When it comes to OZs communicating impact metrics effectively, there's a fairly equal split among existing and aspirational investors between those who agree they do, who are unsure, and who disagree.

As we'll discuss in the following section, the current state suggests an awareness problem and a marketing opportunity. The need to do so will only grow in importance as time goes on: half of respondents (and nearly 60% of aspirational investors) believe that OZs will become moderately or significantly more important to impact investing over the next year; only 10% said they would become less important.

71%

of current and previous OZ investors are likely to make at least one impact investment in an OZ over the next year

How did you first learn about impact investing in OZs?



What's next – and how can fund managers and industry groups prepare?

The snapshot of OZs captured in this report gives a picture of a program that is at once satisfying its mission and still rife with uncertainty and untapped potential. Yet, just as the data collected here provides a look into where OZs currently stand, it also points to the future – and how the OZ program can be improved.

Here's what fund managers and industry groups should keep top-of-mind moving forward.

Proactive communication linking OZs with impact investing can attract new investors.

As noted above, respondents aren't intuitively connecting OZs and impact investing, even as they expect OZs to play a prominent role in impact investing in the coming year. Much of this likely stems from a lack of proactive communication about OZs' impact potential and measurement, which is especially important to aspirational OZ investors.

The good news? Respondents are finding out about impact investing in OZs through OZ project websites, fund manager websites, and OZ directories; the bad news is they have to search for it themselves.

48% of respondents said they first learned about impact investing in OZs by conducting their own research, while only 17% said they learned about it from the news media, and 4% said proactive outreach from fund managers. Of those that conducted their own research, the most-common sources were OZ project websites (78%) and fund manager websites (61%).

Several conclusions can be drawn from this data, some positive and some negative:

1. The news media is largely ignoring the impact OZs are having. More proactive media relations could increase the number of people who learn about OZ as more than just a tax incentive.
2. The desire for impact investments is great enough that people are willing to search out information on their own. That's promising news for the future of the impact space.
3. Once they get to the websites of OZ projects and fund managers, investors are seeing information that properly explains the impact OZs have. That means funds are producing information that is attractive and helpful.
4. With only 4% of respondents saying they learned about OZ impact through proactive outreach from fund managers, it's clear this direct approach has been extremely underutilized. Fund managers have the tools to educate the public on impact in OZs, but aren't directly exposing potential investors to the necessary information.

Now is the time for fund managers and industry groups to channel that information into more proactive marketing and educational awareness efforts. Participants cited "presentations through OZ fund expos," "communications that lead with mission," and "customized opportunities" as efforts that were effective in communicating impact investing in OZ efforts effectively.

Help investors navigate OZ timelines and ongoing regulatory proposals.

Numerous participants cited the 10-year time horizon and other deadlines as shaping their perceptions of OZs. Given the complexity of these deadlines – and their implications on returns and capital raising – fund managers and industry groups should be prepared to help investors navigate these timelines.

Regulatory proposals are also part of the picture moving forward, whether the Biden Administration's proposal to empower the Treasury Department to ensure the program provides distinct social and community benefits or Senator Tim Scott's bipartisan legislation aimed at providing a robust analysis of OZ investment impacts.

Focus on effective impact measurement and reporting.

When asked how to make OZs more valuable to impact investors, the most cited phrases were "quantify impact," "develop clear metrics," "match ROI to impact," and "improve reporting." One respondent, for instance, cited "clearer metrics on the actual impact that is occurring"; another directed, "Communicate specific job creation benefits and that there will not be displacement of existing residents or businesses." This is aligned with the findings that investors – especially aspirational ones – are compelled to invest in OZs in large part due to their impact on communities.

This heightened investor demand, combined with regulatory pressure, should be a wake-up call to fund managers and industry groups that improved impact measurement and reporting are invaluable to the program's continued success. The benefits offering data-driven impact measurement to investors are twofold: 1) it will set the fund apart in a sector where investors clearly want better metrics but they are often not provided, and 2) it will ensure funds are prepared for the types of regulatory changes that are likely, given the desire for them from a breadth of industry stakeholders. As the leader in OZ fund administration and a pioneer in monitoring and reporting on impact, JTC sees these results as a clear indication that impact reporting is the key to both fund success and the success of the OZ initiative as a whole.

Spotlight success stories.

Despite several ongoing critiques of the program, this survey found that perceptions of OZs were overwhelmingly positive. There's good reason to be optimistic. Investments in operating businesses (and OZ funds at large) are growing. A 2020 report by the White House Council of Economic Advisors showed that OZ investments nationwide are on track to decrease the poverty rate by 11 percent and have created at least 500,000 new jobs. And though investments so far have occurred in only about 1,300 of over 8,700 OZ census tracts, this is much greater than some long-established incentives, like the New Markets Tax Credit program, which supported investment in only 400 during the same period.

In other words, while the OZ program may not be perfect, it's doing much good in some of our hardest-hit communities. Fund managers and industry groups should continue to highlight these success stories.

The conversation about OZs is ongoing and ever-evolving. We hope this survey report can cut through the noise and illuminate what OZ investors and industry stakeholders feel about the program: how they define it, what draws them to it, and how it can be improved.

With these insights in hand, we look forward to continuing the discussion – and doing everything we can to ensure OZs are doing the good they're intended to do for investors and communities alike.

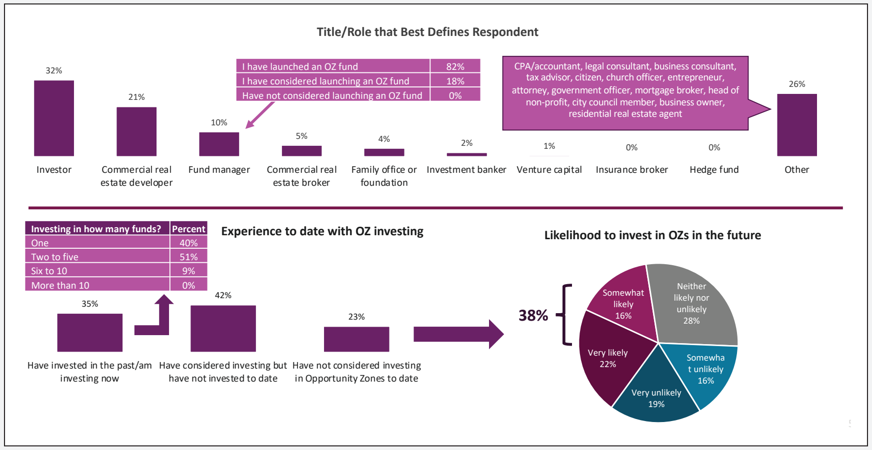
Methodology

From December 2021 through February 2022, JTC Americas and OpportunityDb distributed a 10-minute online survey to clients and friends of the firm. In total, 145 respondents completed the survey. Responses were analyzed in the aggregate. Demographic breakdowns can be viewed on the next several slides.

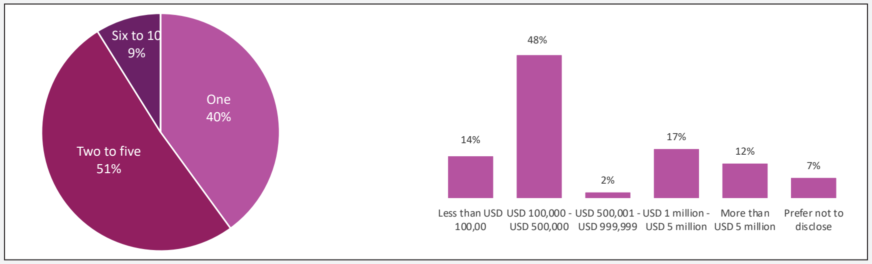
For our analysis, those who indicated in the survey that they have invested in the past or are investing now are referred to as "existing investors." Those who have considered investing in OZs in the past but have not yet done so are referred to as "aspirational investors." In contrast, those who have neither invested nor considered investing in OZs—other than fund managers, who were not asked questions related to these demographics— are referred to as "non-investors."

Appendix

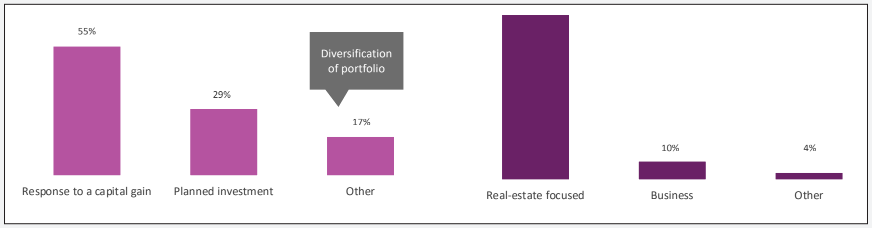
If you have not considered investing in OZs how likely are you to consider investing in OZs in the future?



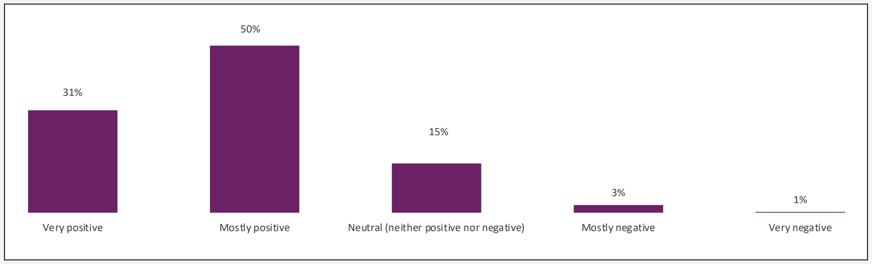
[Asked to those who have invested or are currently investing in OZs] How much money have you invested in each fund, on average?



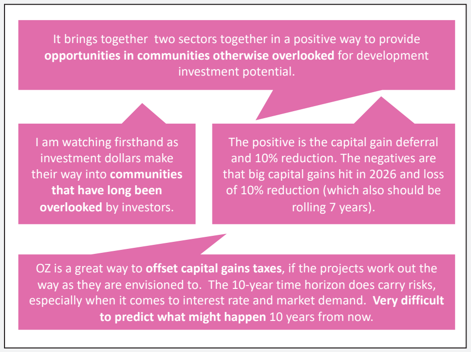
[Asked to those who have invested or are currently investing in OZs] Which best describes the fund(s)?



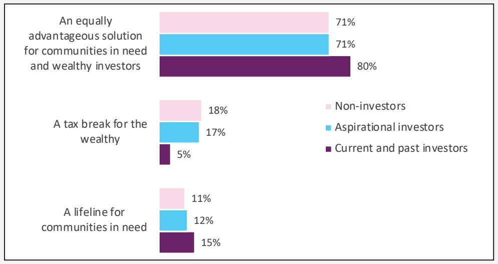
What is your perception of OZs?



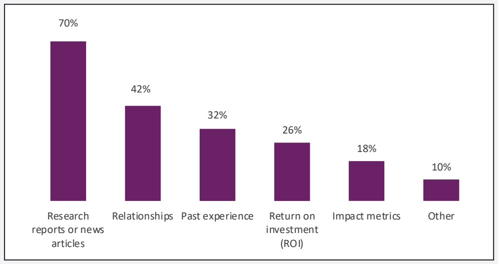
Briefly, why do you feel the way you do about Oportunity Zones?



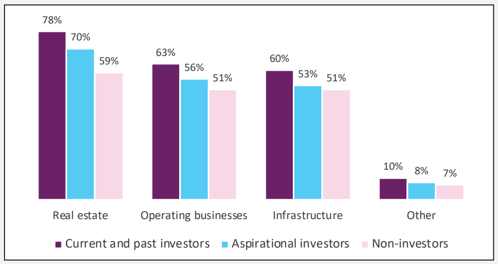
What best summarizes the Opportunity Zone program?



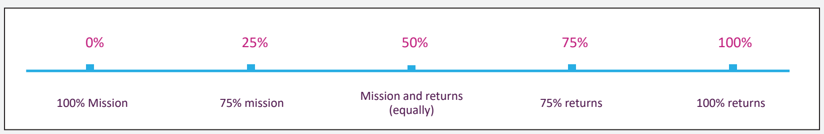
What has most influenced your perceptions toward OZs?



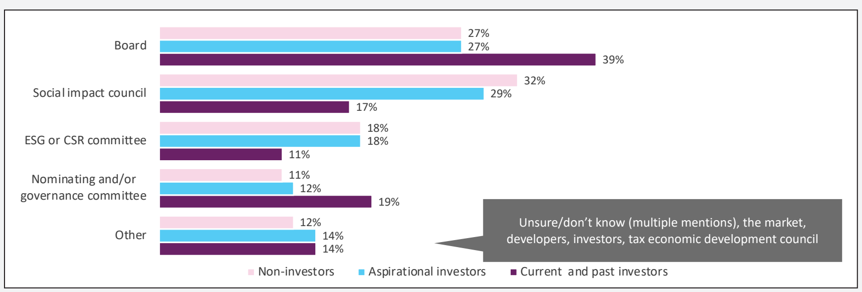
What kinds of investments are most beneficial for OZs?



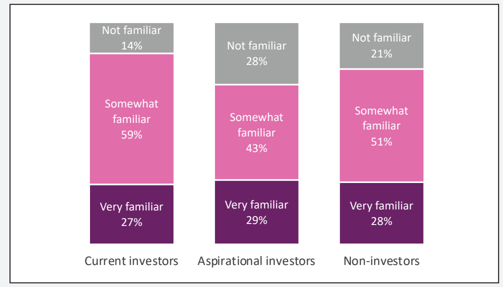
On the spectrum of mission versus returns, which best categorizes your expectations when it comes to OZ impact investing?



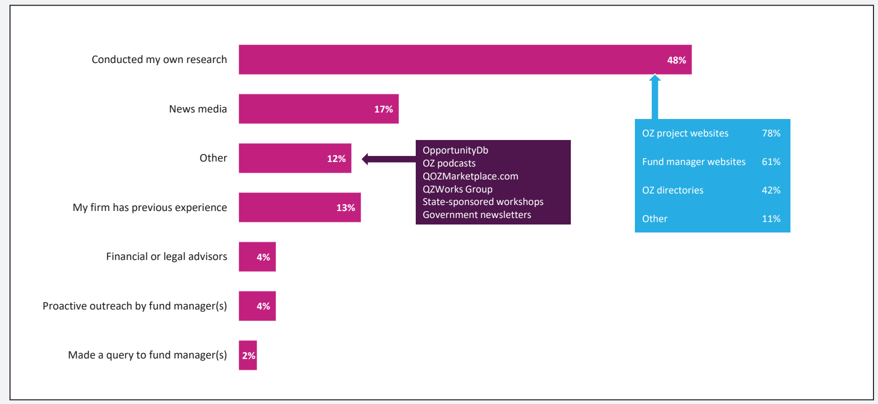
Who should be responsible for developing impact metrics for OZ funds?



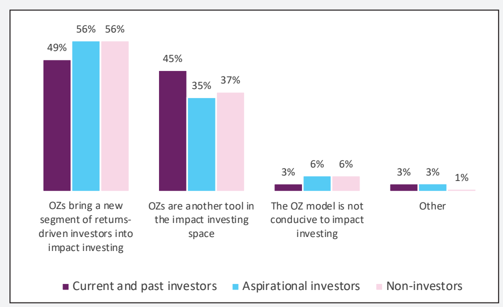
What is your level of familiarity regarding the relationship between impact investing and OZs?



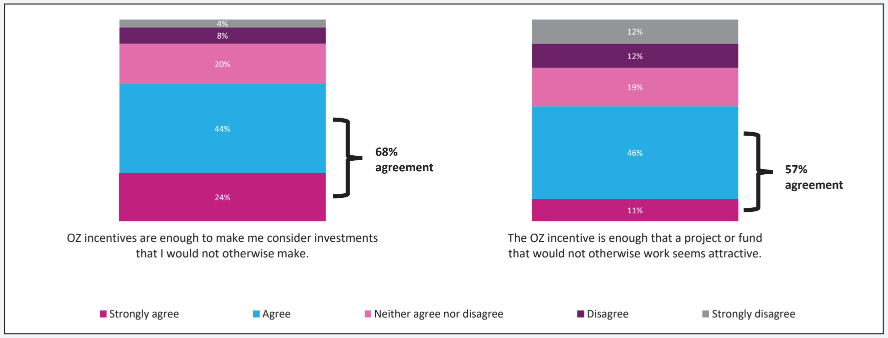
You indicated that you conducted research in learning about impacting investing in OZs. Which sources did you consult in doing this research?



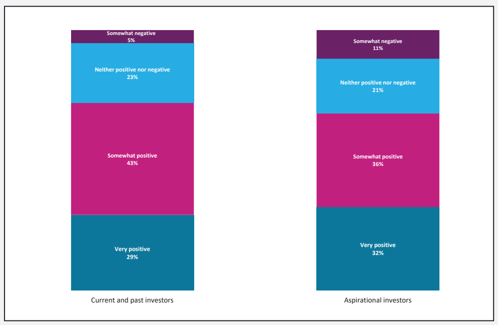
Which of these statements best illustrates the OZ and impact investing relationship?



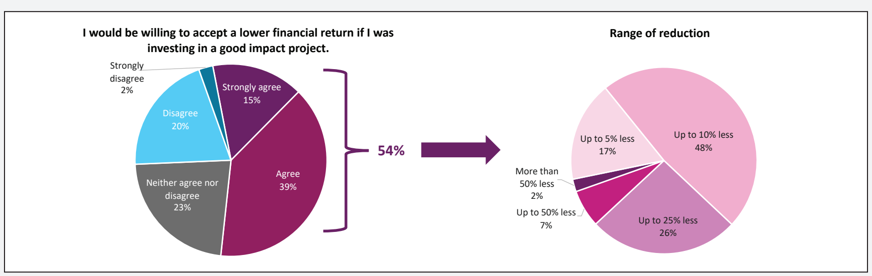
[For those who have invested in OZs in the past, are investing now, or are considering investing in OZs = 85] Please state your agreement with the following statements:



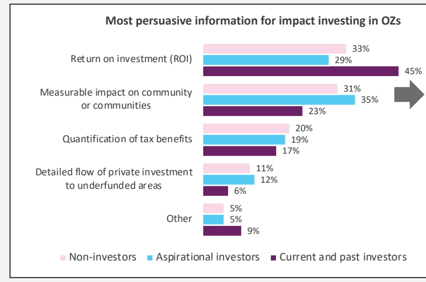
[For those who have invested in OZs in the past, are investing now, or are considering investing in OZs = 85] What are your perceptions toward investment opportunities promoted as impact investments?



[For those who selected "Strongly agree" or "Agree" in the previous question = 46] You indicated that you would be willing to accept a lower financial return provided you were investing in a good impact project. What range of reduction would be amenable to you?

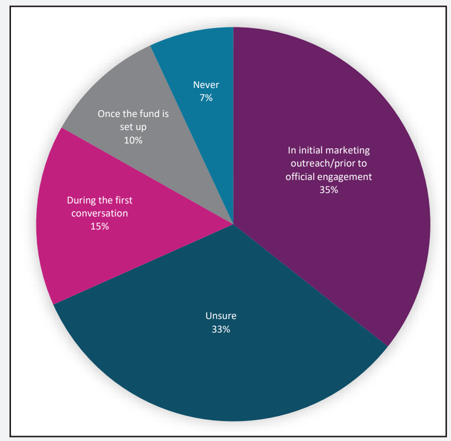


[For those who selected "measurable impact on community or communities" in the previous question = 36] You indicated that you find language around the measurable impact on the community as important in OZ information. Specifically, which types of information are important?

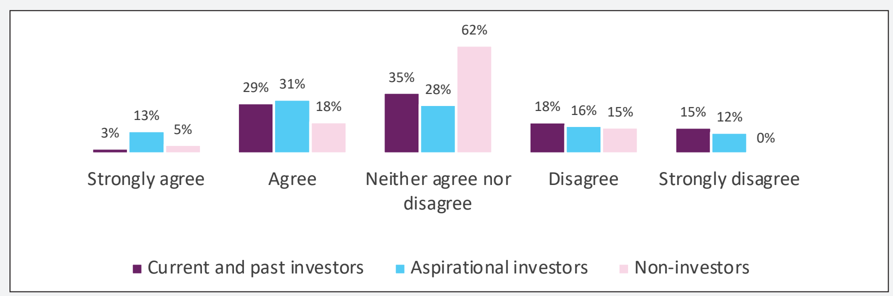


Rank	Current and past investors	Aspirational investors	Non-investors
1	Job increases/ employment opportunities	Job increases/ employment opportunities	Clean water
2	Affordable housing opportunities	Clean water	Job increases/ employment opportunities
3	New educational opportunities/ improved access to education	Affordable housing opportunities	Affordable housing opportunities
4	Internet accessibility for communities	Development of alternative energy/ renewable in community	New educational opportunities/ improved access to education
5	Development of alternative energy/ renewables in	Internet accessibility for communities	Internet accessibility for communities
6	Clean water	Community recycling and waste management programs	Development of alternative energy/ renewables in
7	Community recycling and waste management programs	Reduced cost of utilities	Community recycling and waste management
8	Other	New educational opportunities/ improved access to education	Other
9	Reduced cost of utilities	Other	Reduced cost of utilities

At what stage are Opportunity Zone fund managers communicating the community and social impact to investors?



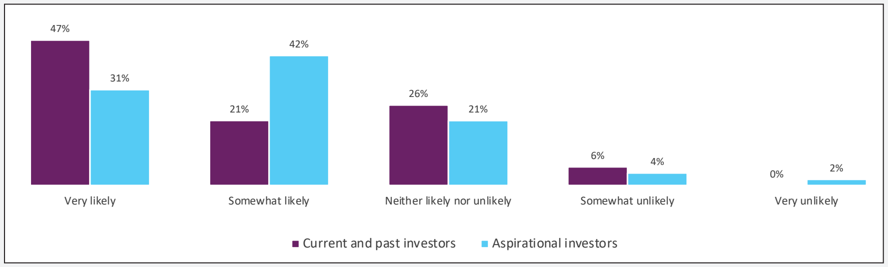
To what extent do you agree that OZs communicate impact metrics effectively?



[For those who said that they agree that OZ funds communicate impact metrics effectively] If you are able, please share one to two examples of OZ communications or best practices that effectively outline metrics.

Very few examples	Overarching OZ info is one thing, but customized opportunities resonate. Some memorable examples involve OZ appeal for retirees looking to invest.
	Presentations through the OZ Fund Expos (multiple mentions)
	Communications that lead with the mission (multiple mentions)
	Many examples at our Facebook page: https://www.facebook.com/opportunityzonesmarketplace/

[For those who have invested in OZs in the past, are investing now, or are considering investing in OZs = 85] How likely is your firm to commit to an impact investment in at least one OZ over the next year?



In just a few words, what would make Opportunity Zones more valuable to impact investors?

Demographic questions:

Q37 - How many people does your organization employ	Response	Percentage
	1-499	80%
	500-999	14%
	1,000-4,999	5%
	5,000-9,999	0%
	10,000-24,999	1%
	25,000-49,999	0%
	50,000+	0%
	Total	**100%**

Q38 - What was your estimated 2020 net worth, in USD?	Response	Percentage
	< USD 500K	23%
	USD 500K to USD 1 million	21%
	USD 1 million to USD 5 million	26%
	USD 5 million to USD 10 million	14%
	USD 10 million to USD 100 million	13%
	USD 100 million+	3%
	Total	**100%**

Q39 - Where is your organization headquartered?	Response	Percentage
	California	11%
	Texas	11%
	Illinois	10%
	Florida	7%
	Michigan	4%
	New York	4%
	Pennsylvania	4%
	Maryland	4%
	Virginia	4%
	Arizona	3%
	Colorado	3%
	Georgia	3%
	Massachusetts	3%
	North Carolina	3%
	Tennessee	3%
	Delaware	2%
	Louisiana	2%
	Nebraska	2%
	Nevada	2%
	Others (14 additional states with one participant each)	18%
	Total	100%

Q40 - What is your age?	Response	Percentage
	Under 30 years of age	3%
	30-34	9%
	35-39	11%
	40-44	3%
	45-49	11%
	50-54	10%
	55-59	15%
	60-64	13%
	65+ years of age	19%
	Prefer not to disclose	7%
	Total	**100%**

About JTC Americas

JTC Americas is the North American division of JTC. JTC is a publicly listed, global professional services business with deep expertise in fund, corporate and private client services. JTC Americas is a leader in specialty financial administration, serving US markets characterized by high administrative complexity, elevated transaction security needs and challenging compliance requirements.

JTC acquired NES Financial in 2020, positioning JTC Americas as the leading provider of third-party administrative solutions to US impact investment sectors, including the Opportunity Zones initiative and the EB-5 Program, as well as to private equity fund managers and 1031 exchange participants. The company's technology-driven solutions streamline best practices in these markets by simplifying specialized financial transactions, reducing back-office overhead, curtailing fraud and abuse, and offering security, transparency and regulatory compliance through each step of an investment's life cycle.

For more information, visit jtcamericas.com/oz

JTC Americas

50 WEST SAN FERNANDO ST., SUITE 300
SAN JOSE, CA 95113
1-800-339-1031
JTCAMERICAS.COM

AICPA SOC