



THE ADVISORY

BUILDING OPPORTUNITY: Mapping Gentrification and Investment across Opportunity Zones

Eric Willett, Vice President,
and Brett Dunlavey, Analyst

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January 29, 2019 | Eric Willett, Vice President, and Brett Dunlavey, Analyst

Among the more controversial aspects of the Tax Cuts and Jobs Act of 2017 was the designation of certain parcels of land as “Opportunity Zones,” which would allow investors to defer or completely waive all capital gains taxes on qualified investments in these areas.¹ While regulations for opportunity zone investments have yet to be wholly finalized, real estate investors have amassed sizable amounts of private capital to target commercial real estate within these geographies.

Given the significant attention and capital this investment strategy has already attracted, we set out to identify the census tracts that had **most gentrified** in recent years, and therefore would most likely become the target of Opportunity Zone investment. Our analysis quantifies changes in real estate investment, household income levels, and associated demographic characteristics² to build a Gentrification Index that is then applied to every Opportunity Zone in the 25 largest metro areas. Our analysis finds **that there are a number of quickly gentrifying qualified Opportunity Zones**, some with tens of thousands of multifamily units to be delivered over the next several years.

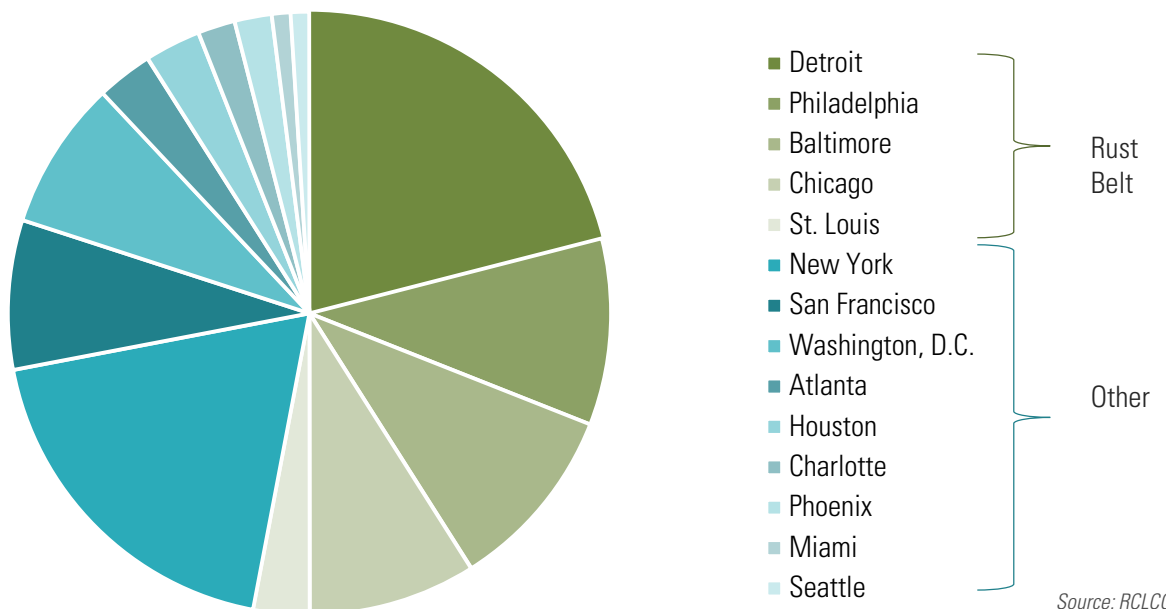
Read through our key findings below, or use the [interactive dashboard](#) to explore the Opportunity Zones in your city that have gentrified the most.

KEY FINDINGS

Highly gentrified Opportunity Zones are concentrated in Rust Belt cities

While gentrification has received significant scholarly and media coverage in wealthier coastal areas such as Brooklyn and San Francisco, Opportunity Zones in Rust Belt cities have seen the most significant gentrification in recent years. Forty-nine of the top 100 most gentrified Opportunity Zones are in Rust Belt cities, including seven of the top 10. Of the eight metros with the highest average gentrification scores, five are Rust Belt cities. These findings highlight the Rust Belt’s comparatively overlooked neighborhood change and growing inequality.

Count of 100 Most Gentrified Opportunity Zones



Opportunity Zones in new technology areas have also experienced high rates of gentrification

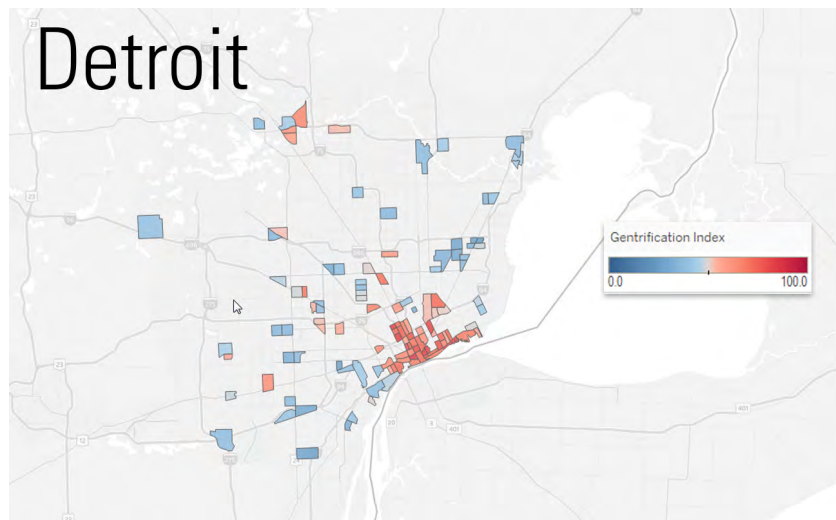
With high salaries, a disproportionately white workforce, and increasingly urban campuses, technology companies have been at the center of gentrification discourse. It comes as no surprise that the Opportunity Zones in new technology areas have experienced high rates of gentrification in the past several years. Indeed, two of the largest technology markets, San Francisco and Denver, are also the two most gentrified metro regions by average score.

Gentrification is most pronounced in urban neighborhoods

After decades of urban exodus, urban in-migration from young, college-educated households has characterized the 2010s. The return to urban centers by these wealthy demographic cohorts has been a primary driver of gentrification, and of the top 100 most gentrified Opportunity Zones, 75 are within urban areas.

The Opportunity Zones around Detroit demonstrate this pattern clearly. Zones located in or near the urban core have gentrified rapidly over the past decade, illustrating the impact of substantial real estate investment, most notably by Dan Gilbert’s Quicken Loans and Bedrock. Meanwhile, Opportunity Zones in the city’s suburbs have experienced minimal investment, ranking well-below average on nearly all factors examined.

Gentrification Index Map



Source: RCLCO

While the vast majority of selected Opportunity Zones fall within economically challenged neighborhoods, there remain significant outliers

Keeping with the stated aims of Opportunity Zones, most census tracts selected to be part of the Opportunity Zone program are in neighborhoods that RCLCO has classified as economically challenged. However, as our research illuminates, there remain a number of Opportunity Zone tracts within more affluent communities. We found *70 qualified Opportunity Zones in high-end neighborhoods*, including Brooklyn Heights, New York, in which 2 out of 3 residents has a bachelor’s degree or higher and the current median income is \$94,000.

Many of the least gentrified opportunity zones are located in Sun Belt cities

55 of the 100 least gentrified Opportunity Zones are located in Sun Belt cities. Different rates of gentrification primarily reflect the land use in these areas. Sun Belt cities are overwhelmingly suburban —75% of Opportunity Zone tracts in Sun Belt regions are categorized as suburban by RCLCO compared with 55% in the other regions analyzed. Furthermore, the comparatively low barriers to entry and lower land prices in these metros create less pressure on local populations and fewer incentives for densification and reinvestment in contested neighborhoods.

Learn more about RCLCO’s research on Opportunity Zones and how it can help your investment strategy - [contact our strategy planning and management consulting team](#).

ABOUT OPPORTUNITY ZONES

Opportunity Zones were added to the tax code by the Tax Cuts and Jobs Act of 2017 in order to spur economic development in previously disinvested areas. The Treasury Department established guidelines for qualifying Opportunity Zones in 2018, and states nominated individual census tracts pursuant to those guidelines. The tax benefits to investors within Opportunity Zones are significant:

- » Investors in an Opportunity Zone fund can defer taxes on prior gains until the lesser of the sale of the investment or year-end 2026.
- » If the investment in a qualified Opportunity Zone is held for five years, there is a 10% exclusion of the deferred gain; at seven years, the exclusion increases to 15%.
- » Further, if the investment is held for 10 years, the basis of the investment in the Opportunity Zone will be increased to fair market value on the date of sale.

GENTRIFICATION INDEX METHODOLOGY

We defined gentrification here as a multi-stage and non-linear process indicated by increases in investment, increases in income, and changes in demography.

- » To quantify changes in investment, we compared per capita deliveries of new multifamily developments over the last decade. More gentrified census tracts were those with historically low levels of investment but significant increases in current development levels.
- » Each tract's income index was scored based on 2010 median household income and the change in median household income between 2010 and 2017.
- » Prior research has indicated that gentrification is often associated with increases in educational attainment, decreases in the percentage of non-white residents, and changes in household size. Our demographic index is based on the change in these three factors between 2010 and 2017.

Each census tract is scored on a scale of 1 to 100 with higher scores indicating greater gentrification. For further information on the gentrification index, contact RCLCO.

Our analysis also relied on previous work by RCLCO to categorize census tracts by neighborhood characteristics. Further information on the methodology for the urban-suburban dichotomy can be found at rclco.com/neighborhood-atlas.

KEEP READING FOR REGIONAL INFOGRAPHICS >>

Reasonable efforts have been made to ensure that the data contained in this Advisory reflect accurate and timely information, and the data is believed to be reliable and comprehensive. The Advisory is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort and general knowledge of the industry. This Advisory contains opinions that represent our view of reasonable expectations at this particular time, but our opinions are not offered as predictions or assurances that particular events will occur.

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MID-ATLANTIC

OPPORTUNITY ZONES KEY TAKEAWAYS

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ON AVERAGE, THE OPPORTUNITY ZONES IN THE MID-ATLANTIC ARE MORE GENTRIFIED THAN OTHER REGIONS

51.5
Average Gentrification Index Score

Opportunity Zones in the Baltimore, New York, Philadelphia, and Washington, D.C. metro areas have an average Gentrification Index score of 51.5 compared with 48.9 across all Opportunity Zones.



HIGH-EARNING HOUSEHOLDS

The higher degree of gentrification reflects the more urban nature of the region in addition to the in-migration of educated, high-earning households. Several of the nation's most affluent Opportunity Zones are located in the Mid-Atlantic.

Areas of Brooklyn Heights with median household incomes well over \$100K are Opportunity Zones, and D.C. has three Opportunity Zones with median household incomes above \$90K: Langley Park, Sterling, and Arlington.

NEW YORK, NEW YORK

New York's most gentrified Opportunity Zones are primarily within the boroughs of Brooklyn and the Bronx.



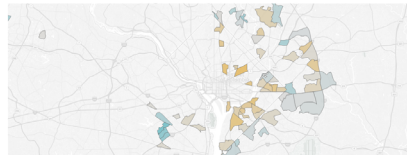
31%
Increase in Household Income

The Crown Heights neighborhood includes several of the nation's most gentrified Opportunity Zones including the sixth most gentrified zone (where household incomes rose by 31% since 2010).

Opportunity Zones in Prospect Lefferts Gardens saw dramatic demographic change – in several Opportunity Zones the non-white share of the population declined by over 5% in the same period.

5%
Decline in Non-White Population

WASHINGTON, D.C.



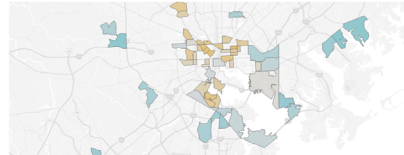
Many of Washington, D.C.'s most gentrified Opportunity Zones are located **outside the urban core**. For example, Southeast Washington and Barry Farm/Congress Heights have gentrification scores of 70.6 and 76.0, respectively.

94

Percentile Ranking of Southwest Waterfront

SOUTHWEST WATERFRONT Southwest Waterfront, an Opportunity Zone adjacent to the Navy Yard neighborhood has a gentrification score of 71.6 and scores in the top 6% of Opportunity Zones evaluated.

BALTIMORE, MARYLAND



Consistent with RCLCO's analysis that **post-industrial cities experience the greatest degree of gentrification** in Opportunity Zones, Baltimore has the highest Gentrification Index of the cities examined.

20%

% of Upton Residents with Bachelor's Degrees

UPTON Gentrification is concentrated in and around Upton where the percent of residents with Bachelor's degrees or higher has doubled since 2010 (from 10% to 20%) and median incomes have also risen more than 25%.

Joshua A. Boren, Business Development | (310) 984-1757 | JBOREN@RCLCO.COM

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CALIFORNIA

OPPORTUNITY ZONES KEY TAKEAWAYS

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CALIFORNIA'S OPPORTUNITY ZONES ARE SLIGHTLY MORE EFFECTIVE AT TARGETING LESS GENTRIFIED COMMUNITIES

47.3

Average Gentrification Index Score

California's average Gentrification Index score is 3% lower than the 48.9 average across all Opportunity Zones.

20%

CA comprises over 20% of surveyed Opportunity Zones

Although California comprises over 20% of surveyed opportunity zones, the correlation between number of opportunity zones per state and average score is near 0.

Many college campuses qualified for opportunity zones, despite their attractiveness to student housing developers.

As documented by the Brookings Institute, several college town neighborhoods were selected because the large number of students pushed the median household income down enough to qualify, even though many of these areas are clearly already target areas for student housing and related development.



THE UNIVERSITY OF SOUTHERN CALIFORNIA SCORES IN THE 13th PERCENTILE OF ALL CALIFORNIA OPPORTUNITY ZONES



UC BERKELEY SCORES IN THE 15th PERCENTILE OF ALL CALIFORNIA OPPORTUNITY ZONES

MOST GENTRIFIED OPPORTUNITY ZONES IN CALIFORNIA: OAKLAND



The well-documented in-migration to the Bay Area, often for tech or tech-adjacent roles has contributed to high rates of recent housing development and associated demographic and income changes.



In recent years, the previously low-income Oakland has become a hotbed for new housing development catering to the higher salary workers.

>4K

Case in point, Oakland permitted 4,284 new homes in 2017, more than double the 2,121 permitted in 2016.

LEAST GENTRIFIED OPPORTUNITY ZONES IN CALIFORNIA: INLAND EMPIRE



In general, areas in urban cores have gentrified far faster, but the Inland Empire has significantly higher historical development, significantly lower recent and projected development than other California Opportunity Zones.



The Inland Empire's average change in median household income is significantly below other California Opportunity Zones.

9%

The Inland Empire's average percentage of residents with bachelors degrees or above is 9%, significantly below other California Opportunity Zones (17%).

Joshua A. Boren, Business Development | (310) 984-1757 | JBOREN@RCLCO.COM

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TEXAS

OPPORTUNITY ZONES KEY TAKEAWAYS

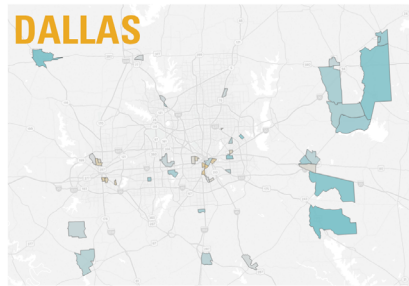
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*Mapping Gentrification and Investment
across Opportunity Zones*

**OPPORTUNITY ZONES
IN TEXAS ARE LESS
GENTRIFIED THAN OTHER
STATES COMPRISING THE
MOST POPULOUS 25 METRO
AREAS**

45.5

Average Gentrification
Index Score

Texas Opportunity Zones have an average gentrification score of 45.5, well below the 48.9 average across all Opportunity Zones.



In Dallas, Opportunity Zones in Downtown and Uptown have experienced some gentrification, but suburban zones such as those in Plano have seen relatively little change compared to those in the other states.

**IN TEXAS, THE MOST GENTRIFIED
OPPORTUNITY ZONES ARE CONCENTRATED
NEAR EACH CITY'S URBAN CORE**



Across the state, urban Opportunity Zones have an average gentrification score of 49.9 compared with 43.4 in suburban areas.



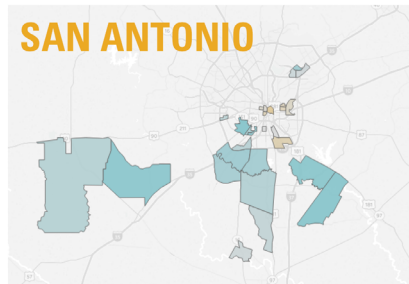
80 of the state's 100 **least gentrified** Opportunity Zones are located in suburban areas outside of the urban core.

40%

Income Growth

Texas Opportunity Zones have seen dramatic changes in area demographics. In 24 Opportunity Zones, area median income has grown by over 40% since 2010.

SAN ANTONIO



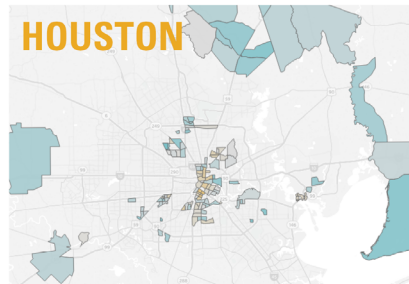
43.9

San Antonio's Average
Gentrification Index Score

Opportunity Zones in San Antonio have a lower average gentrification score than those in the rest of the South (45.8) and nationwide (48.9).

These Opportunity Zones are also more urban – 43.3% are classified as urban compared to 39.6% nationwide.

HOUSTON



Houston's most gentrified Opportunity Zones are immediately adjacent to downtown in East Downtown and South Central Houston.

When compared to the broader South, Houston's Zones are more concentrated in the urban core, while also housing a wealthier and more non-white population.

Joshua A. Boren, Business Development | (310) 984-1757 | JBOREN@RCLCO.COM

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SOUTHEAST

OPPORTUNITY ZONES KEY TAKEAWAYS



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**OPPORTUNITY ZONES
IN THE SOUTHEAST
U.S. ARE LESS
GENTRIFIED THAN THE
OTHER 25 METRO AREAS
ANALYZED**

46.6
Average Gentrification
Index Score

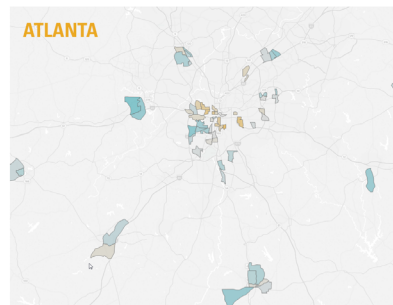
Opportunity Zones in the five Southeast metros of Orlando, Tampa, Miami, Charlotte, and Atlanta have an average Gentrification Index score of 46, 6% lower than the 48.9 average across all Opportunity Zones.

74%

of Southeast Opportunity
Zones are in the Suburbs

The most **gentrified** Opportunity Zones in the Southeast United States are evenly split between Urban and Suburban Areas.

SUBURBAN CONCENTRATION:



In Atlanta, suburban neighborhoods to the west of downtown have gentrified most rapidly in the past decade.

The neighborhoods of Bankhead and Grove Park, in particular, have seen rapid rises in income and changes in demographic composition.



For instance, in Bankhead median household income increased 17% between 2010 and 2017 and the percent of the population with Bachelor's degrees increased from 6% to 12%.

MOST GENTRIFIED OPPORTUNITY ZONES IN THE SOUTHEAST: MIAMI



Miami's most gentrified neighborhoods are in communities that have already seen tension between long-time residents and newcomers.



In Miami, neighborhoods like Little Haiti, Liberty City, and El Portal have been the site of vigorous debate around gentrification, and RCLCO's ranking confirms that these communities are undergoing rapid gentrification.

5%

El Portal receives an overall gentrification score of 73.4, ranking in the top 5% of opportunity zones evaluated.

LEAST GENTRIFIED OPPORTUNITY ZONES IN THE SOUTHEAST: TAMPA & ORLANDO



Despite having small pockets of gentrification – around Ybor City in Tampa and Parramore in Orlando – the overwhelmingly suburban nature of these metros contributed to comparatively little gentrification.



The Opportunity Zones in these cities have experienced relatively little investment and similarly limited rise in household incomes.

19%

Only 19% of Orlando Opportunity Zones are more gentrified than the national average.

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"I have engaged RCLCO many times over the past 20 years. Each assignment resulted in community lot sales pace and lot prices above my pro forma values. RCLCO is the GOLD standard for real estate consulting."

-- Jimmie Jenkins, Vice President, Toll Brothers, Inc.

Since 1967, RCLCO has been the "first call" for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development.

RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over 50 years and thousands of projects—touching over \$5B of real estate activity each year—RCLCO brings success to all product types across the United States and around the world.

RCLCO has expertise in five major areas: real estate economics, investment strategy, asset management, management consulting, and legal support. Our multidisciplinary team combines real-world experience with the analytical underpinnings of thousands of consulting engagements.

We develop and implement strategic plans that strengthen our clients' positions in a market or sector, add value to a property or portfolio, and mitigate price erosion.

Since we first opened our doors, RCLCO has been governed by our core values. We believe that excellence, integrity, honesty, respect, exceeding expectations, and quality are great goals that all firms must possess. These goals and values shape the culture and define the character of our firm. They guide how we behave and make decisions. Our extensive network provides us with a unique and comprehensive outlook on the industry, not to mention unmatched access to the best minds in real estate.

CONTACT US TODAY!

Joshua A. Boren, Director of Business Development
P: (310) 984-1757 | E: JBOREN@RCLCO.COM



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(310) 984-1757
RCLCO.COM

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