

ANALYSIS

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Searching for Opportunity in the Land of OZ

Introduction

One of the most important, though initially overlooked, pieces of the Tax Cuts and Jobs Act of 2017 was the creation of the Opportunity Zone program. Although the program made up only six pages of the 185-page law, it will have an outsize impact on the U.S. economic development footprint over the next decade.

The program, which offers substantial federal tax incentives in exchange for capital investment in under-resourced areas, extends to virtually every corner of the country. This creates some significant data challenges when trying to evaluate the more than 8,700 Opportunity Zones in their entirety.

In this paper, we provided analytical economic insights to ease the burden for investors, policymakers, and economic development stakeholders as they navigate the land of OZ. We cull the thousands of OZs vying for a piece of those reinvested capital gains and identify those most ripe for growth opportunities.

Searching for Opportunity in the Land of OZ

BY DAN WHITE, TODD METCALFE, SARAH CRANE AND HALEY CURTIN

One of the most important, though initially overlooked, pieces of the Tax Cuts and Jobs Act of 2017 was the creation of the Opportunity Zone program. Although the program made up only six pages of the 185-page law, it will have an outsize impact on the U.S. economic development footprint over the next decade.

The program, which offers substantial federal tax incentives in exchange for capital investment in under-resourced areas, extends to virtually every corner of the country. This creates some significant data challenges when trying to evaluate the more than 8,700 Opportunity Zones in their entirety.

Through this analysis and the creation of the Moody's Analytics Opportunity Zone Database, we have attempted to leverage our regional economic expertise and data as much as possible to ease the analytical burden for investors, policymakers, and economic development stakeholders as they navigate the land of OZ.

What are Opportunity Zones?

The OZ program was created through the TCJA to stimulate private investment in struggling places in exchange for preferential tax treatment. OZs are economically disadvantaged census tracts that state governments believe should be targeted for economic development.¹ Census tracts qualify as Opportunity Zones if they have been nominated for that designation by the state in which they are located and certified by the Department of the Treasury.²

¹ Census tracts are small, relatively permanent statistical subdivisions of a county or equivalent entity, generally having a population between 1,200 and 8,000 people. https://www.census.gov/programs-surveys/geography/about/glossary.html#par_textimage_13

² Internal Revenue Code Section 45D(e), <https://www.law.cornell.edu/uscode/text/26/45D>

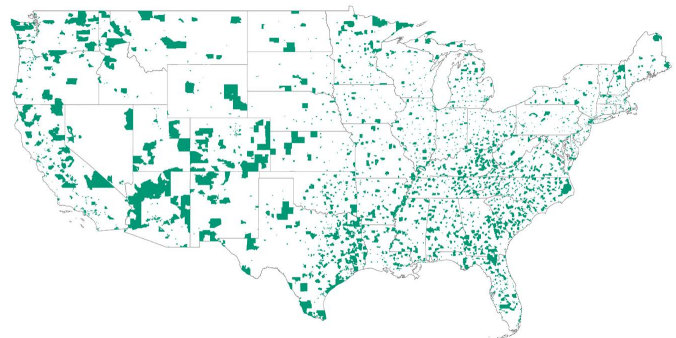
More than 8,700 OZs have been designated across all 50 states, the District of Columbia, and U.S. territories, accounting for about 12% of all census tracts in the country (see Chart 1). OZs in Alaska, Hawaii and U.S. territories were excluded from this analysis due to missing values for some important variables, winnowing our count to just over 7,700. Areas certified as OZs retain their designation for 10 years.

The OZ program encourages investment in targeted geographic areas by offering investors significant federal tax advantages. Specifically, investors who invest in OZs through Qualified Opportunity Funds can defer and reduce capital gains taxes, even on gains that have already been realized.³ Opportunity Funds are managed entirely in the private market and administered by fund managers rather than government agencies or investors. Further, there is no cap on the amount of capital that can be invested in qualified OZs through the program.

³ A Qualified Opportunity Fund is a U.S. partnership or corporation that intends to invest at least 90% of its holdings in one or more qualified OZs. IRC Section 1400Z-2, <https://www.law.cornell.edu/uscode/text/26/1400Z-2>

Chart 1: Opportunity Zones

Census tracts



Sources: IRS, Moody's Analytics

Generally, the types of eligible investment projects must be one of the following:

- » Partnership interests in businesses that operate in a qualified OZ.
- » Stock ownership in businesses that conduct most or all of their operations within a qualified OZ.
- » Property such as real estate located within a qualified OZ.

Under existing tax law, when investors sell or exchange appreciated assets such as stocks or real estate, they realize capital gains, triggering a tax event. Under the OZ program, if investors reinvest their realized capital gains in a Qualified Opportunity Fund within 180 days, they not only can defer having to pay taxes on those original gains, but also can exclude a certain percentage of those gains from taxation altogether. If the new OZ investment is held

for at least five years, they can exclude as much as 10%, and if the new investment is held for at least seven years, they can exclude as much as 15%. Just as important, if investors hold their new investments for a full decade, any gains on that new investment will be tax free.

Policy goals

Gauging the efficacy of the OZ program is difficult prospectively, but we can at least establish some criteria based on the two main policy goals of the program. One policy goal is to encourage more capital gains to be realized and reinvested in the economy. This looks to be very much achievable given the way the program is structured. Currently, investors already can roll over an existing long-term capital gain into another investment in the same asset class if they do so within 180 days of realizing the original capital gain. For example, if investors realize long-term capital gains in the stock market over a period of many years, they can sell the stocks, realize the capital gains, and reinvest the capital gains in the stock market within 180 days to postpone having to pay taxes on that gain.

Where the OZ program really supercharges that provision of the tax code to encourage more new investment is by not only allowing investors to roll capital gains into a different asset class if they so choose, but also offering tax reductions for holding the new investment for a specified period of time. Taking the previous example through

How to Qualify

To qualify for nomination as an OZ, a census tract must meet the following criteria:

- » A poverty rate of at least 20%; or
- » A median family income of:
 - » No more than 80% of the state-wide median family income for census tracts within non-metropolitan areas.
 - » No more than 80% of the greater statewide median family income or the overall metropolitan median family income for census tracts within metropolitan areas.

Up to 25% of census tracts of each state or territory that meet this criteria could be nominated. An additional 5% of each could qualify if they meet a different set of income and geographic qualifications:

- » A census tract contiguous with a low-income OZ; and
- » A median family income of no more than 125% of the median family income of the adjacent qualified OZ.

the OZ program, an investor with long-term stock market gains could roll over those gains within 180 days to a Qualified Opportunity Fund investment in real estate development instead of just another stock, and could both delay having to pay capital gains taxes and reduce the amount of owed taxes.

The second primary policy goal of the program is to encourage more capital to find its way into under-resourced areas. This too looks achievable. The ability to write off new potential gains over the next decade tax free is surely to bring attention to some areas that investors have been wary of in the past. However, results around this goal are likely to be uneven across the country.

Unlike other forms of economic development tax incentives that can often make or

break an investment opportunity, the tax benefits associated with an OZ in and of themselves will rarely be enough to make a project profitable. Because of the way OZ tax incentives are structured, they are marginal enough for a project to have to stand on its own merit in terms of profitability but important enough to sway an investment decision in favor of one project or another.

Not all OZs are created equal. This is certainly by design in certain instances, as there is more than one way to qualify as an OZ, and is a result of state-level political realities in others. Thus, not all OZs will be able to attract the same levels of investment, especially early in the program. Investors, local economic development stakeholders, and policymakers will need to be especially vigilant in pursuing and monitoring OZ investments as a result.

In search of opportunity

In this analysis we attempt to help cull the thousands of OZs vying for a piece of those reinvested capital gains, and identify those most ripe for growth opportunities. The first step in that process is to classify OZs in an effort to better compare and contrast their opportunities. The OZ universe represents a diverse array of census tracts throughout the country, which can be grouped into three broad categories based on their population density. Each of these three categories—urban, suburban and rural—comes with its own opportunities and challenges and will attract different types of investment.

To develop these classifications, we leverage existing Moody's Analytics research, which established the appropriate cutoffs between urban and suburban designations and suburban and rural designations at just over 6,000 residents per square mile and just over 260 residents per square mile, respectively.⁴ Although rural census tracts make up a large share of overall surface area nationally, they are home to a relatively small share of the total population (see Table 1). Meanwhile, just over half of all OZs are categorized as suburban.

⁴ Adam Kamins and Emily Fazio, "Urban Myths: How Real Is the Surge in City Living?" Moody's Analytics Regional Financial Review, November 2016.

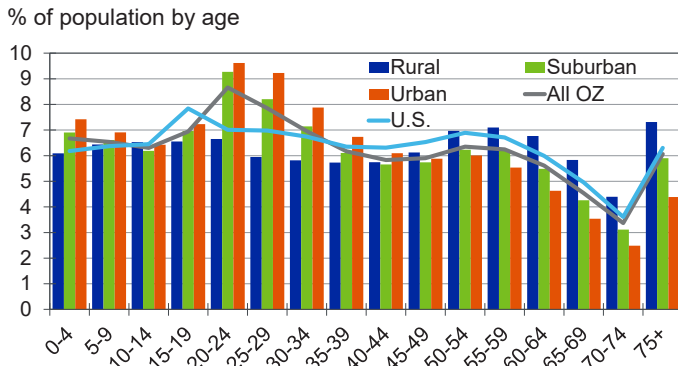
Table 1: Opportunity Zones by Category (# and % of total)

OZ classification	Number	Population, #	Land area, sq mi
Rural	1,619 (20.8%)	6,790 (21.8%)	311,452 (96%)
Suburban	4,119 (53%)	15,881 (50.8%)	12,348 (3.8%)
Urban	2,032 (26.2%)	8,582 (27.4%)	708 (0.2%)
All OZs*	7,770	31,255	324,509

*OZs in Alaska, Hawaii and U.S. territories were excluded from this analysis due to missing values for some important variables.

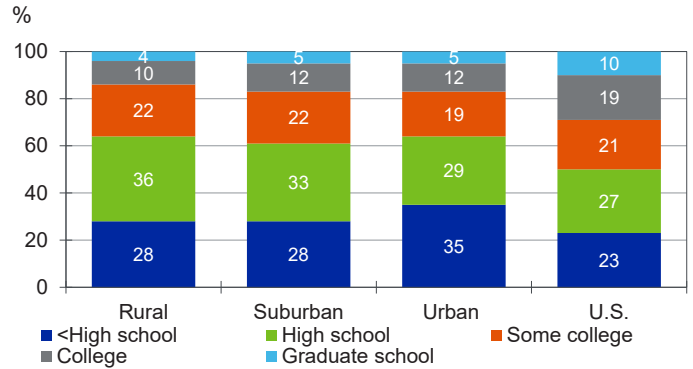
Sources: Census Bureau, IRS, Moody's Analytics

Chart 2: Opportunity Zones Skew Younger



Sources: Census Bureau, IRS, Moody's Analytics

Chart 3: Educational Attainment Is Lower



Sources: Census Bureau, IRS, Moody's Analytics

When sorting through thousands of census tracts by population density alone, certain unique factors create small distortions in these groupings. For example, OZs consisting largely of parks in major cities were not classified as urban because of their low population density. Similarly, commercial areas, especially large industrial parks, were occasionally treated as suburban or rural even when located in the heart of a major city. On the other hand, universities in which large numbers of students live in relatively tight quarters often pushed what might otherwise qualify as suburban tracts into the urban category. Exceptions along these lines were rare and did not have a significant influence on the final results of our analysis.

Opportunity Zone Database

The next step in identifying opportunity was to compile a sufficient dataset to adequately evaluate OZs across important

measures for potential growth. Though each individual OZ investment will be unique and depend on its own merits, we can reasonably rely on a broad range of existing Moody's Analytics regional economic research to identify those OZs most ripe for producing attractive opportunities.

In light of this research, we have created a Moody's Analytics Opportunity Zone Database that includes more than 100 tailored economic, demographic and geographic metrics at the OZ and corresponding county levels. This helps facilitate mapping OZs across datasets, broad searches, and filtering by specific characteristics, as well as taking deep dives into the data and characteristics of specific OZs.

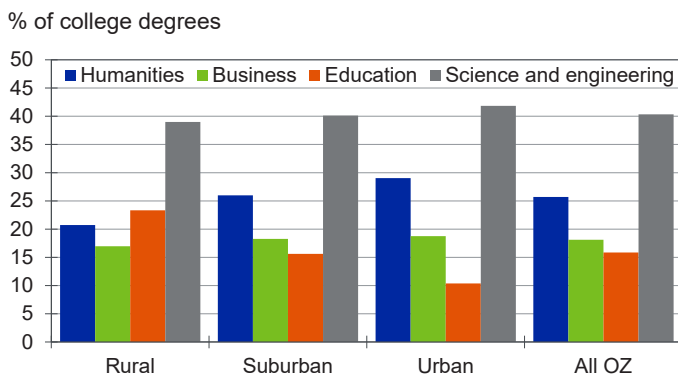
In examining these data, several key characteristics stand out that contrast OZs against non-OZs and each other. For example, OZs, especially urban and suburban ones, skew consistently toward younger populations than the overall U.S. average (see Chart 2). At the same

time, OZs on average have substantially lower educational attainment levels, with only 16.3% of adults holding a bachelor's degree or higher (see Chart 3).

By field, degrees are distributed unevenly across the three OZ categories (see Chart 4). Science and engineering degrees are the most prevalent type of degree regardless of population density, and business degrees are about half as popular in all areas. After science and engineering and business, though, degree holders in urban, suburban and rural OZs favor different fields. A relatively large share of all degrees in rural OZs are in education, whereas degrees in suburban and urban OZs are more concentrated in the humanities.

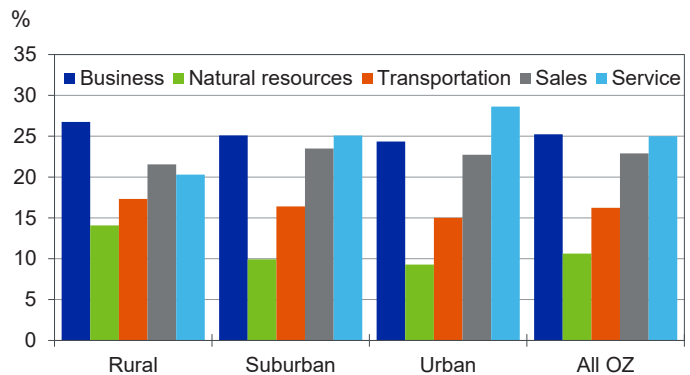
Occupation data show a similar pattern, in line with expectations (see Chart 5). Looking at these types of characteristics more granularly across individual OZs can offer important insights regarding the potential of the workforce in light of different types of investments.

Chart 4: Degrees Differ Across OZs...



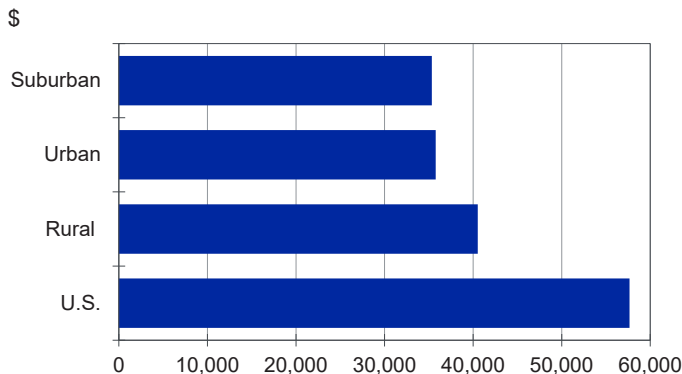
Sources: Census Bureau, IRS, Moody's Analytics

Chart 5: ...As Do Occupations



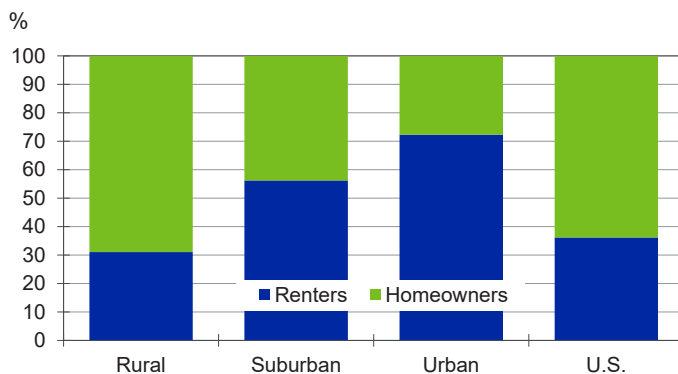
Sources: Census Bureau, IRS, Moody's Analytics

Chart 6: Median Household Income



Sources: Census Bureau, IRS, Moody's Analytics

Chart 7: Rural Homeowners More Common



Sources: Census Bureau, IRS, Moody's Analytics

Other key differentiators across OZ categories are housing and income characteristics. It comes as no surprise that OZs stack up poorly in terms of overall income and homeownership rates. Median household income is highest in rural OZs, followed by urban and suburban OZs (see Chart 6).

About 40% of OZ households are homeowners, compared with more than 60% nationally. Across the three major types of OZs, homeownership rates vary widely with significant repercussions for potential real estate investments: Rural OZ households are more than twice as likely to own their homes as urban OZ households (see Chart 7). Homes in rural parts of the country, where land is much more plentiful and demand is typically lower thanks to lower population densities, are more affordable than those in urban areas, lowering the barriers to homeownership for even the least affluent households.

Opportunity Zone Index

The final step in our analysis was to distill the insights gained from the data in our OZ Database and leverage some of our existing regional economic research to develop a Moody's Analytics Opportunity Zone Index. The OZI is designed to help rank-order OZs by their potential for future economic growth. The OZI is based on four metrics:

- » Moody's Analytics Quality of Life Index
- » Moody's Analytics Vitality Index
- » Five-year historical growth rate in the prime working-age population
- » Ten-year total population forecast

To construct the OZI, each component was standardized by dividing all observations in the series by the maximum value for that series. This helps more accurately convey the variation among OZs and the magnitude of outliers. The final OZI score was constructed by equally weighting each of the components. The standardization and equal weighting allow for a more intuitive score, where an equal increase in any of the component scores is equivalent to each other and balances past performance, current desirability, and expected future performance (see Chart 8).

The previously constructed U.S. metro area Quality of Life and Vitality indexes have been adapted for use with OZs. These concepts have strong relationships with the potential for future economic growth.⁵ ⁶ Quality of life, its index adapted to individual OZs, has been shown to be a factor in population flows and the pace of new business startups. The Moody's Analytics Vitality Index, adapted to counties, provides a comprehensive view

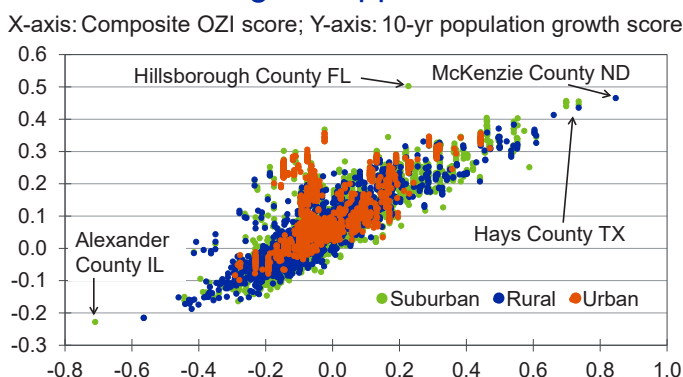
5 Sarah Crane and Colin Seitz, "Life's a Beach: Using Revealed Preferences to Construct a Metro Quality of Life Index," Moody's Analytics Regional Financial Review, January 2019.
 6 Emily Fazio and Chris Lafakis, "U.S. Regional Diversity, Volatility and Vitality—An Update," Moody's Analytics Regional Financial Review, November 2017.

of overall business conditions as well as a forward-looking view of growth based on our regional economic forecasts.

The five-year historical growth rate of an OZ's prime working-age population provides a useful proxy for economic momentum as well as the size and quality of the labor force available to make an OZ investment work. Particularly when combined with the more granular educational attainment and occupational data available in the OZ Database, investors can determine whether an adequate workforce exists to support certain types of investment.

The 10-year population growth forecast for the county in which the OZ exists adds a forward-looking layer to the OZI. Gauging the growth in population both in and around an OZ over the next decade—the period of time for which an OZ investment would need to be held to realize the maximum tax benefits—is especially helpful for those looking to invest in the path of economic growth.

Chart 8: Looking for Opportunities



Sources: Census Bureau, IRS, Moody's Analytics

The Quality of Life and Vitality indexes proved friendly to the South and West, regions that generally rank highest in terms of quality of life. These regions have also consistently outpaced the rest of the country in job growth over the past several years. Combining these two metrics with data on labor force and population trends helps to further differentiate certain areas within the South and West, as well as bring to the fore other areas of the country with ripe opportunities for growth.

Rural OZs that are currently located on the fringes of metro areas, or suburbs on the fringes of urban areas, may see their market characteristics change considerably as nearby population centers expand into them and create new demand and opportunities for growth. The inclusion of working-age and overall population growth makes our rankings particularly reliant on demographics. As a result, those areas with more dynamic demographic outlooks generally rank higher per the OZI.

Overall results

Comparing the OZI across the full universe of OZs reveals echoes of the broader regional pattern of recent economic performance (see Table 2). OZs in the South and West largely boast an advantage over those in the lagging Midwest and Northeast (see Chart 9). Job and population growth in the South and West have consistently outpaced growth in the other regions over the past several years. A generally high quality of life in these regions attracts more in-migration, which in turn drives labor force and eventually job growth. Especially in areas with low costs, this can become a self-reinforcing cycle as job openings attract even more new residents.

OZI scores are highest for areas in the Sun Belt, with a very high concentration of top scores in Florida and Texas. Florida contains six of the top 10 OZs overall, including the highest-ranked OZ in Tampa and five in Orlando. Of the remaining top spots, three are in Austin TX and one is in North Dakota's oil patch. Florida and Texas boast remarkably strong growth in jobs, income and population, and both states are poised to retain that edge throughout the forecast. Furthermore, large swaths of the South remain relatively affordable, attractive to the growing retiree cohort, and home to the types of

dynamic opportunities and good weather that draw working-age residents.

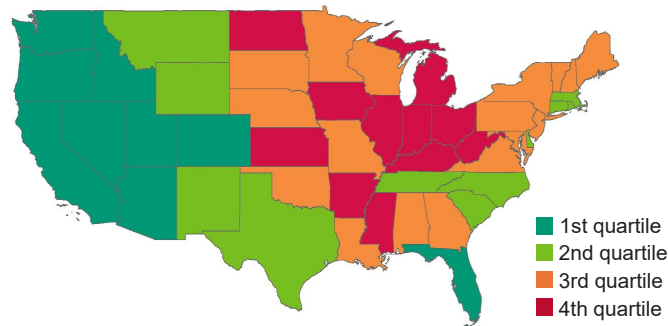
The South edges out parts of the West in terms of overall rankings primarily because it has been able to keep costs of living and doing business relatively low. This will allow it to sustain a stronger pace of population growth over the next decade. A number of OZs in California, for example, scored very high in the Quality of Life and Vitality indexes but saw their overall OZI score drop as a result of weaker population growth forecasts over the next 10 years. This reflects recent trends in the West where population growth has been markedly faster in relatively lower-cost Mountain West areas than in more expensive and developed areas along the coast.

One outlier in the top 10 is the OZ in McKenzie County ND, which stands out for being the largest oil-producing county in the second largest oil-producing state. Seismic shifts over the last decade in its working-age population and bulging incomes in the county as a whole were enough to offset a low Quality of Life Index score.

Although the South boasts more top 10 OZs than any other region of the country, it is also home to some of the lowest scores. The region dominates the low end of OZI rankings, with Mississippi and Arkansas each taking four of the bottom 10 spots. Low OZI scores are widespread in the Midwest as well. Michigan and Illinois OZs are disproportionately clustered at the back of the pack. Further, all but one of the lowest-ranked OZs are located outside metro areas. This owes predominantly to the sleepy demographics in these areas, especially those far from major population centers, and also

Chart 9: South and West Shine

Avg state OZI score



Source: Moody's Analytics

to the secular decline in manufacturing that has hit the Midwest economy particularly hard. Weaker factory job prospects combined with the relatively harsh climate have discouraged residents from moving to, or staying in, the region, dimming its workforce and population growth prospects. Many of the OZs in the Northeast also score particularly poorly because of their sluggish demographic profiles.

Although the OZI rankings are generally unflattering to the Midwest and Northeast, both regions do hold pockets of strength that should not be overlooked. The most obvious example is Boston MA, whose vibrant job market and world-class universities keep workers, entrepreneurs and expanding firms arriving in droves. Aside from McKenzie County ND, the best bets in the Midwest are suburban census tracts peppered throughout the Great Plains and situated in metro areas like Des Moines IA and Rapid City SD, whose low costs and skilled workforces position them well for future growth.

These results might seem intuitive given the regional economic landscape, particularly the demographic outlook. However, looking at OZI rankings within each of the three OZ categories reveals a more nuanced picture, particularly in urban areas (Table 3).

Table 3: OZ Scores by Classification

OZ classification	Median Score	Minimum score	Maximum score	Range
Rural	0.033	-0.216	0.466	0.681
Suburban	0.071	-0.228	0.503	0.731
Urban	0.084	-0.098	0.357	0.455
All OZs	0.069	-0.228	0.503	0.731

Sources: Census Bureau, Moody's Analytics

Table 2: OZ Index Rankings

Highest scoring - all OZs		Lowest scoring - all OZs	
OZ name	Index score	OZ name	Index score
Hillsborough County 0040.00 (Suburban Florida)	0.503	Sunflower County 9506.00 (Rural Mississippi)	-0.165
McKenzie County 9401.00 (Rural North Dakota)	0.466	Sunflower County 9504.02 (Suburban Mississippi)	-0.167
Osceola County 0411.00 (Suburban Florida)	0.457	Sunflower County 9505.00 (Rural Mississippi)	-0.170
Hays County 0107.01 (Suburban Texas)	0.455	Sunflower County 9503.00 (Rural Mississippi)	-0.171
Osceola County 0429.00 (Suburban Florida)	0.453	Ontonagon County 9702.00 (Rural Michigan)	-0.172
Osceola County 0427.01 (Suburban Florida)	0.452	Dallas County 9703.00 (Rural Arkansas)	-0.174
Osceola County 0435.00 (Suburban Florida)	0.451	Desha County 9501.00 (Rural Arkansas)	-0.187
Hays County 0103.03 (Suburban Texas)	0.446	Phillips County 4806.00 (Rural Arkansas)	-0.215
Osceola County 0423.00 (Suburban Florida)	0.441	Phillips County 4804.00 (Rural Arkansas)	-0.216
Hays County 0107.02 (Rural Texas)	0.436	Alexander County 9579.00 (Suburban Illinois)	-0.228

Highest scoring - urban		Lowest scoring - urban	
OZ name	Index score	OZ name	Index score
San Francisco County 0612.00 (Urban California)	0.357	Kankakee County 0123.00 (Urban Illinois)	-0.066
San Francisco County 0264.04 (Urban California)	0.357	Wayne County 5770.00 (Urban Michigan)	-0.067
Clark County 0013.00 (Urban Nevada)	0.356	Wayne County 5523.00 (Urban Michigan)	-0.068
Clark County 0005.10 (Urban Nevada)	0.355	Wayne County 5389.00 (Urban Michigan)	-0.069
San Francisco County 0605.02 (Urban California)	0.351	Wayne County 5234.00 (Urban Michigan)	-0.070
Clark County 0004.03 (Urban Nevada)	0.350	Wayne County 5688.00 (Urban Michigan)	-0.070
Clark County 0025.06 (Urban Nevada)	0.348	Venango County 2009.00 (Urban Pennsylvania)	-0.077
Washoe County 0010.09 (Urban Nevada)	0.347	Wayne County 5169.00 (Urban Michigan)	-0.078
Clark County 0030.06 (Urban Nevada)	0.346	Rock Island County 0235.00 (Urban Illinois)	-0.083
San Francisco County 0263.01 (Urban California)	0.345	Macon County 0005.00 (Urban Illinois)	-0.098

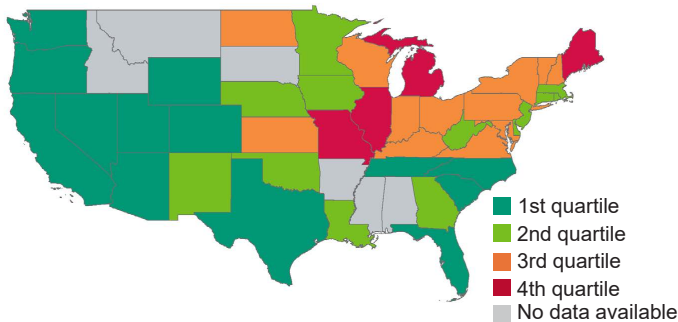
Highest scoring - suburban		Lowest scoring - suburban	
OZ name	Index score	OZ name	Index score
Hillsborough County 0040.00 (Suburban Florida)	0.503	Mingo County 9574.00 (Suburban West Virginia)	-0.139
Osceola County 0411.00 (Suburban Florida)	0.457	Iroquois County 9504.00 (Suburban Illinois)	-0.139
Hays County 0107.01 (Suburban Texas)	0.455	Koochiching County 7901.00 (Suburban Minnesota)	-0.142
Osceola County 0429.00 (Suburban Florida)	0.453	Crawford County 8804.00 (Suburban Illinois)	-0.146
Osceola County 0427.01 (Suburban Florida)	0.452	Washington County 0006.00 (Suburban Mississippi)	-0.150
Osceola County 0435.00 (Suburban Florida)	0.451	Wells County 9598.00 (Suburban North Dakota)	-0.152
Hays County 0103.03 (Suburban Texas)	0.446	Washington County 0003.00 (Suburban Mississippi)	-0.161
Osceola County 0423.00 (Suburban Florida)	0.441	Walsh County 9580.00 (Suburban North Dakota)	-0.164
Deschutes County 0016.00 (Suburban Oregon)	0.405	Sunflower County 9504.02 (Suburban Mississippi)	-0.167
St. Johns County 0210.03 (Suburban Florida)	0.403	Alexander County 9579.00 (Suburban Illinois)	-0.228

Highest scoring - rural		Lowest scoring - rural	
OZ name	Index score	OZ name	Index score
McKenzie County 9401.00 (Rural North Dakota)	0.466	Emmons County 9665.00 (Rural North Dakota)	-0.160
Hays County 0107.02 (Rural Texas)	0.436	Desha County 9502.00 (Rural Arkansas)	-0.161
Comal County 3106.08 (Rural Texas)	0.413	Sunflower County 9506.00 (Rural Mississippi)	-0.165
Collier County 0114.00 (Rural Florida)	0.383	Sunflower County 9505.00 (Rural Mississippi)	-0.170
Pinal County 0021.03 (Rural Arizona)	0.371	Sunflower County 9503.00 (Rural Mississippi)	-0.171
Williamson County 0213.00 (Rural Texas)	0.368	Ontonagon County 9702.00 (Rural Michigan)	-0.172
Williamson County 0202.01 (Rural Texas)	0.362	Dallas County 9703.00 (Rural Arkansas)	-0.174
Lee County 0202.01 (Rural Florida)	0.359	Desha County 9501.00 (Rural Arkansas)	-0.187
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Williamson County 0208.08 (Rural Texas)	0.356	Phillips County 4804.00 (Rural Arkansas)	-0.216

Sources: Moody's Analytics

Chart 10: Urban OZs Rise to the Top

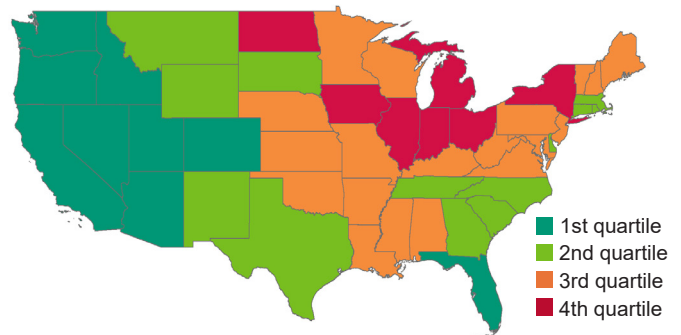
Avg state urban OZI score vs. overall OZI scores



Source: Moody's Analytics

Chart 11: Suburban Opportunities

Avg state suburban OZI score vs. overall OZI scores



Source: Moody's Analytics

Urban results

Although the urban OZ group has the highest median score, that measure can be a bit misleading in this instance given a clear delineation in the ranking between different areas of the country (Chart 10). Ranking much higher among urban areas are generally those in the West and South, while a majority of those in the Midwest and Northeast rank substantially lower. The West, in particular, shines in the urban category. The top 10 urban OZs are all located in the West, concentrated primarily in San Francisco and Las Vegas. Tesla's Gigafactory, the largest battery cell factory in the world, and its impact on job and population growth in Northern Nevada helped put an OZ in Reno NV on the list as well. Common themes among these top-ranking areas are stellar population gains and high-tech growth. Nevada is adding residents more quickly than any other state, and San Francisco scores especially well in terms of quality of life.

On the other end of the spectrum, decay in such cities as Detroit and Cleveland has held many census tracts behind their peers. Detroit is home to six of the 10 lowest-scoring OZs. Oil City PA and various parts of Illinois complete the list. Even parts of Chicago, which boasts a vibrant downtown and solid job growth, are held back by quality of life comparisons and less favorable demographics than in the West and South.

Suburban

Suburban OZs dominate the top tier of the OZI rankings but, as the largest overall

group, are well represented throughout. The Florida OZs that place in the top 10 overall are all suburban census tracts. Jacksonville joins Orlando and Tampa in the suburban top 10. Booming Austin TX and Bend OR rank highly as well thanks to their surging populations, impressive quality of life, and flourishing tech industries. Suburban tracts within metro areas benefit from their connections to central urban economies and often stand directly in the path of high-paced growth.

Prospects are dimmer for suburban OZs in struggling metro areas and those that lie outside metro areas (see Chart 11). The lowest-ranking suburban OZs lack strong connections to large population centers or transportation connections. Illinois and Mississippi both have several OZs that fall into the bottom 10 for this category.

Rural

The worst-ranking OZs are disproportionately rural, owing to their relatively isolated geographies, small labor forces, and more sluggish demographics. This was not surprising given the OZI's emphasis on demographics and the pace of recent growth. There is still plenty of opportunity to be found in rural areas, however, particularly among

those with a closer proximity to a vibrant population center.

For instance, rural OZs in and around Austin TX often rank on par with nearby suburban OZs (Chart 12). Like many of the suburban OZs discussed previously, these areas often find themselves smack in the path of growth from larger population centers. Oil-producing McKenzie County ND is the obvious outlier thanks to its recent exceptional gains in energy.

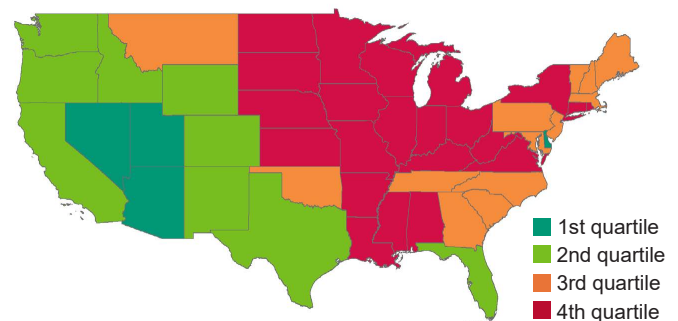
In contrast, none of the bottom 10 rural OZs are located in metro areas. Half of the lowest-scoring rural OZs are in Arkansas, while the rest are in far-flung parts of Mississippi, Michigan and North Dakota.

Land of opportunity

While it is too early to judge the efficacy of the OZ program against any objective criteria, it so far does show promise in achieving the policy objectives set out for it

Chart 12: Rural Weakness Is Widespread

Avg state rural OZI score vs. overall OZI scores



Source: Moody's Analytics

from the onset. For policymakers, monitoring the success of the program will be a difficult task without thoroughly tracking how much investment is being made and where.

For investors, filtering through the thousands of OZs vying for new investment will be especially challenging, but

tools like the Moody's Analytics OZ Database and OZ Index, can make the task much more achievable. The OZ suggests investors will find the most fertile ground in OZs most connected to large population centers that have low costs and a high quality of life. Data show that these oppor-

tunities are most common in suburban and urban OZs in the South and West.

The results of the program as a whole are likely to be uneven, but if nothing else this analysis demonstrates that opportunity can be found in OZs all across the country and in all manner of circumstances.

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