

Real Estate Investors Weigh Up Opportunity Zones

Half of investors are considering investing in opportunity zone funds (OZFs) in 2019

A less widely publicized part of the 2017 Tax Cuts and Jobs Act in the US was the creation of 8,700 “opportunity zones” – distressed areas in which capital gains tax on regeneration projects can be deferred. Although raising real estate funds to focus on these zones is a nascent sector, it is attracting a lot of interest from investors. A Preqin survey* found that 51% were considering investing in OZFs in 2019, while a further 12% are interested in the longer term. OZFs are seen as a way to generate high returns – investors are primarily targeting diversified value added and opportunistic funds rather than lower-risk core vehicles. Fund managers are moving into the space to serve this appetite, and there are now 62 OZFs in market seeking a total of \$16bn from investors.

For more information and analysis, see the full *Opportunity Zone Funds* factsheet here:

<http://docs.preqin.com/reports/Real-Estate-Opportunity-Zones-Funds-Investors-Waiting-in-the-Wings-Mar-19.pdf>

Tom Carr, Head of Real Estate:

“Opportunity zone funds are an emerging trend in US real estate at the moment, promising significant tax advantages for regeneration projects. The benefits are clear – investors can expect to reduce their tax burden on any distributions they receive, boosting returns. However, investors should beware a rush into this nascent industry: for tax incentives to be worthwhile, the underlying investments still need to perform well. OZFs by their nature are focusing on assets in distressed areas, giving them a relatively high risk/return profile. If we do see a flood of capital into OZFs, they may face the same or even worse pressures of high valuations and competition for assets.”

Key Opportunity Zone Fund Facts:

- **Only 8% of investors surveyed by Preqin currently invest in opportunity zone funds as of the end of 2018.**
- However, **51% are considering investing in opportunity zone funds in 2019**, while a further 12% are considering investing in 2020 and beyond.
- **Investors are primarily targeting value added and opportunistic OZFs**, which were each cited by 78% of respondents. By contrast, only 49% are looking into core strategies.
- At least four out of five **investors are looking at OZFs in all regions of the US**, but the largest proportions are targeting the West and Southwest (94% each).
- Similarly, the largest proportion of **investors (81%) are looking for diversified property portfolios**, with majorities also targeting residential, industrial and office assets.
- **Sixty-two opportunity zone funds are currently in market**, seeking a combined \$16bn from investors. Of these, 70% are being managed by emerging fund managers raising their first or second funds.
- The largest proportion of these **funds (41%) are targeting investments nationally**, while significant proportions are focusing on the West, Northeast and Southeast regions.

**Results are based on a survey of 51 US-based institutional investors in real estate conducted in January 2019.*

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