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Opportunity Zones: Developers Cheer While Residents Brace For Change

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From the window of the small Italian café called Coffee Break on Main Street in Hackensack, New Jersey, Dominic Daniele has had a front-row seat to the changing fortunes, not all for the better, of his New Jersey hometown. At the same time, cranes and construction cones are visible from the café, signs that yet another transition is afoot.

"There were two movie theaters, Italian boutiques, a huge Italian coffee shop. You could buy all Italian imports – pasta, tomato, oil, cheese," the Hackensack resident of 49 years recalls wistfully. But then three giant shopping malls came to surrounding towns, and business dried up.

Hackensack today is no longer the Italian-Irish enclave of decades back. A single stretch of Main Street boasts an Ecuadorian money transfer shop, a bankruptcy office with Korean speaking staff, a Mexican restaurant and a hair braiding shop.

It's quiet, especially after the county courthouse looming over Main Street closes for the day. The riverfront a few blocks away is lined with car dealerships. The sidewalks around the New Jersey Transit bus depot are littered with trash.

City officials have pushed for years to redevelop Hackensack, mainly to attract millennial New Yorkers from across the Hudson River. It seems that now those efforts are beginning to pay off, thanks in part to a controversial tax break championed by President Trump.

Fresh investment is reaching Hackensack following President Trump's 2017 federal tax overhaul that gives people a way to defer capital gains taxes if they invest "opportunity zones," lower-income communities that struggle to draw investment. Some estimates say the incentive will draw $1 trillion into development projects across the country over the next 10 years.

"Opportunity zones provide an additional incentive to invest in communities that have suffered from decades of disinvestment," Tammori Petty, a spokeswoman for the New Jersey Department of Community Affairs, told Karma. She said they have "the potential to make riskier projects more secure."

Hackensack, with four of the state's 169 designated opportunity zones, is drawing attention from wealthy individuals such as former New Jersey Governor Chris Christie, who is funding a luxury multi-use development on long vacant riverfront property that used to house the Bergen Record newspaper. The 20-acre site is slated to include 650 apartments, 18,000 square feet of retail, a pool, fitness center, rooftop deck, private event space and a work-from-home center.

Opportunity zones were designed to help draw investment to projects in low-income areas that might be deemed too risky for private developers. But the New York Times recently cast doubt on the effectiveness of the opportunity zones. The Times noted how wealthy real estate investors are using them as tax havens to fund luxury apartments, pet spas and other projects whose benefit to impoverished areas is questionable.

But Kevin Matz, a partner at Stroock & Stroock & Lavan LLP whose practice focuses on advising high net-worth individuals in wealth transfer planning, said that the incentive is also directing funds towards projects that would otherwise struggle to get funded and is creating jobs in local communities.

"This is not just some deferred tax scheme," he told Karma. "This was something that was carefully studied: How can we use the tax code as a mechanism to attract investment to areas that otherwise would not be attractive."

The provision allows individuals with capital gains to defer taxes on money invested for up to seven years. After 10 years, the investor can cash out and not owe any tax on the profits, an incentive designed to make high-risk projects such as those in low-income areas more attractive.

Mixed Feelings

Hackensack residents have mixed feelings about what sort of change the investments in their town will bring, and some wonder if they'll be able to remain once luxury developments drive prices up.

Earlier this month, Daniele said, a printed letter was slipped under the café door overnight. "Your business may soon be shut down and your employees may soon be out of work because of The City of Hackensack," it reads.

The culprit? Food trucks — a trendy treat for millennials and a threat to local business owners.

The tensions in the town are emblematic of the larger challenges communities face as they lure opportunity zone bucks to their underserved communities: How can they ensure that development projects designed to generate returns for investors also benefit the local community, rather than displacing it?

Recognizing that challenge, the Rockefeller Foundation announced a partnership last week with the nonprofit community advocacy group Smart Growth America to launch a National Opportunity Zones Academy that will help city officials attract and manage opportunity zone funding.

"Local governments have a lot of power in ensuring that opportunity fund investment actually achieves equitable ends," Christopher Coes, vice president of land use and development at Smart Growth America, told Karma. He said cities need to create a shared vision for opportunity zone communities that includes voices from the community and lays the groundwork for what is allowed there.

"As investment comes in very rapidly, you need all the strategies in place to ride that wave, or else you will definitely be a poster child for unmanaged gentrification," he said.

With a $400,000 grant from Rockefeller, Smart Growth America plans to work with cities to establish community-led approaches to sustainable growth. Its hope is that with such stakeholders involved in these projects, communities are more likely to see developments that benefit them.

Impact investors such as Nicole Chavas, who co-founded Green Print Partners to help cities use green infrastructure to address stormwater runoff, say having reporting standards and a framework for investment are key to ensuring that the program is successful in lifting communities.

“Opportunity zones are exciting because they are simpler to take advantage of, but that also means the guardrails are more open about the kinds of projects that apply,” she told Karma. “I’m hopeful that some standards will rise to the top. It’s almost too soon to tell how things will shake out at this point.”

No Guarantee

Matz said that even with the tax incentive, there is no guarantee that investors will want to put money in opportunity zones. He said investors have to do their due diligence before directing funds in high-risk development projects.

“It’s not just a place to put money in and exit. You’re talking about tying your money up for a very long period of time,” Matz told Karma. “If the investment does not succeed, it may not ultimately have been a worthwhile strategy.”

For communities in Hackensack, it’s too early to tell whether the riverfront development’s success will benefit them. Dima Elabboud, a Syrian immigrant who recently opened a restaurant called Platters Corner with her husband a block from the construction site, said she hopes the new residents will turn into customers.

“We put all our money in this business,” Elabboud said. “I see all around us a lot of businesses going down. That makes me very nervous, but I trust everything is going to be good.”