

# Opportunity Zones and Transformative Transit-Oriented Development in Gateway Cities

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## Introduction

Over the next year, MassINC's Gateway Cities Innovation Institute will publish a number of policy briefs digging deeper into approaches at the state and local level to generate transformative transit-oriented development (TTOD) in the 13 Gateway Cities with current or planned commuter rail service. For the first paper in this series, we look at the potential of the Opportunity Zone Program and discuss strategies for maximizing the power of this new federal tool with complementary state and local policy.

## What are Opportunity Zones?

A feature of the Tax Cuts and Jobs Act of 2017, the federal Opportunity Zone Program is designed to attract private investment to low-income census tracts designated as Qualified Opportunity Zones (OZs). The program seeks to connect private investors with areas of the country that have not benefited from economic growth in recent decades, and thus offers an important prosperity-sharing tool for revitalizing Gateway Cities.

To be considered for qualification, these economically distressed census tracts must have an individual poverty rate of at least 20 percent and an average household income no greater than 80 percent of the area median. State governors nominated 25 percent of their eligible census tracts for OZ designation. The U.S. Department of the Treasury granted approvals in March 2018. Unless there is a major modification, the 138 census tracts in 79 communities that Massachusetts has designated will remain fixed for the life of the program. Half of the Commonwealth's OZs (48 percent) are located in Gateway Cities.<sup>1</sup>

Policymakers are hopeful that Opportunity Zones will improve upon previous community development finance tools, such as the 2000 New Markets Tax Credit program, in several significant ways. First, OZ designation encourages patient equity investment in weaker markets where projects need more time to ripen; investors reap the greatest benefit by remaining in deals for at least 10 years. The program's design is also less administratively cumbersome, lowering transaction costs and making the tool more attractive for smaller deals. Opportunity Funds will provide flexible capital, supporting equity investment in both real estate and businesses. Finally, there is no investment cap on the Opportunity Zone Program. With more than \$6 trillion in capital gains in US stocks and funds on the books—which investors can tap for this program—the Opportunity Zone Program could well be the largest and most effective tool in today's community development toolbox.

## Spreading Prosperity through TOD in Opportunity Zones

Opportunity Zones aim to generate economic growth that is distributed more evenly across the nation. However, the structure of the program incentivizes projects that will earn a real economic return for investors. Many are concerned that this will draw funds primarily to low-income census tracts within stronger regional markets that are already on an upward trajectory. In Massachusetts, focusing on TOD in Gateway Cities offers one viable approach to counterbalancing this problem.

Gateway Cities are not experiencing strong growth in part because they lie in the "agglomeration shadow" of Boston. The competitive advantage companies gain by locating in



our region’s global economic center has been drawing talent and entrepreneurial energy away from other parts of the state for decades. But recent research in economic geography shows that when smaller regions orbiting global economic centers have strong transportation connections, they are able to “borrow size” and increase their productivity.<sup>2</sup>

If Opportunity Zones can fuel investment in areas around Gateway City rail stations, and this investment leads to rail service improvements and a more robust exchange of labor, R&D, and relationships between Gateway Cities and New York and Boston, the policy stands a real chance of stimulating more balanced regional economic growth over time.

### Massachusetts’ Designated Opportunity Zones Fall within Gateway City TOD Districts

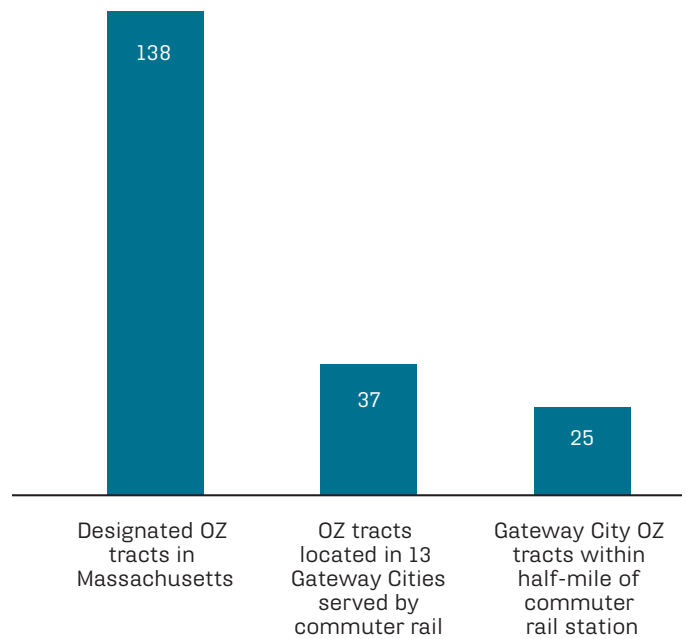
Transit-oriented development produces a dynamic mix of residential and commercial real estate within walking distance of rail stations. Previous MassINC research shows that within a half-mile radius of the 13 Gateway City stations with current or planned commuter rail service there is opportunity for infill TOD accommodating an additional 230,000 residents and 230,000 jobs. Because real estate markets in these areas are relatively weak, this development is unlikely to occur without incentives like those available through the Opportunity Zone Program. However, in order for the new federal program to facilitate investment in Gateway City TOD projects, the designated census tracts must conform with station area geography. In most Gateway Cities, the OZs align nicely with their station areas.

**Figure 1** shows that, of the 138 Massachusetts census tracts designated as OZs, 37 (27 percent) are located in one of the 13 Gateway Cities with current or planned commuter rail service. Of these 37 OZs, 25 (18 percent of the total, 67 percent of OZs in commuter rail Gateway Cities) fall within a half-mile radius of a commuter rail station, as shown in the Appendix table.

All three of Fall River’s designated tracts touch the half-mile radius of the planned station; in Lowell, four out of five OZs are within walking distance. Attleboro is the only city where Opportunity Zones cannot support TOD because the designated tracts are not proximate to their stations.

**Maps 1-3 and A1-A12** provide a clearer understanding of how well Opportunity Zones are positioned to spur TOD in each community. In Worcester, for instance (**Map 1**), the two designated tracts shaded in yellow do not span the entire half-mile station area radius, but they do cover all of the most promising parcels in the core downtown west of the I-290 divide. Haverhill is a different picture (**Map 2**): the designated tracts do not touch the station and downtown core. (This area has seen substantial reinvestment in recent years. It is likely the city thoughtfully selected these tracts in order to draw that momentum outward to adjacent neighborhoods). Tables and maps provided in the Appendix provide more information on OZs and their

**Figure 1: Distribution of Opportunity Zone Tracts in Massachusetts by Location**



Source: Authors’ analysis of designated Opportunity Zones.



placement relative to the stations for all 13 Gateway Cities with current or planned commuter rail service.

### The Emerging Market for TOD in Gateway Cities

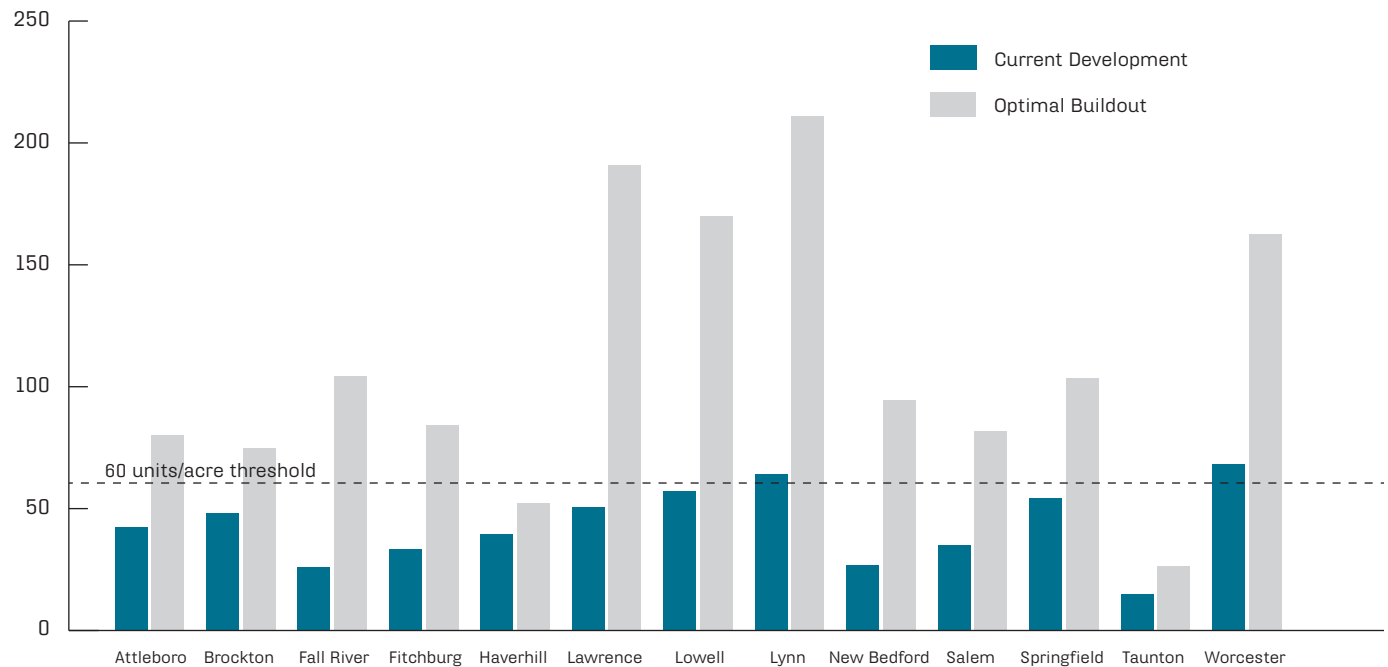
Most experts in community development finance view the tax incentives provided by the Opportunity Zone Program as a shallow subsidy. Developers will either need to find TOD projects in Gateway Cities with strong economic fundamentals or, more likely, they will layer Opportunity Funds with other public subsidies in order to make deals work.

One consideration is population and employment density in the area currently and with future infill development. Transit research suggests approximately 60 urban intensity units per acre (jobs and population per acre) are necessary to support high-frequency transit service and TOD.<sup>3</sup>

Gateway Cities approaching this threshold are likely to see significantly more commuter rail service as the state improves the network to mitigate high housing costs and rising congestion in the region. **Figure 2** shows that Lynn and Worcester are the only two cities with this transit-supporting density today. But most are approaching this threshold and have the infill development potential to easily surpass it with future investment.

It is also important to note that Massachusetts has made investments that prime Gateway City TTOD areas for Opportunity Zone investors. MassDevelopment’s TDI program, which seeks to stimulate private investment in targeted Gateway City districts through planning, technical assistance, and equity investments, operates in most of these Gateway City TTOD areas. In Brockton (**Map 3**), the TDI district sits right in the middle of the TOD area and the designated Opportunity Zone tracts. Fitchburg, Haverhill, Lawrence, Lynn, New Bedford, Springfield, and Worcester

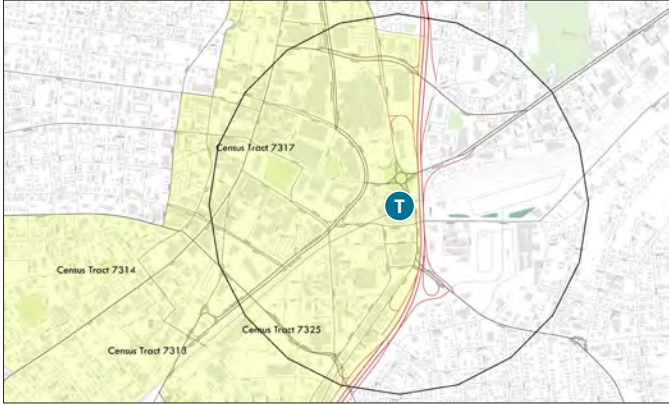
**Figure 2: Jobs and Population per Acre, Current Development and at Optimal Buildout**



Source: Forman and Hodge (2018). Note: Optimal Buildout defined in report as full utilization of infill development capacity.



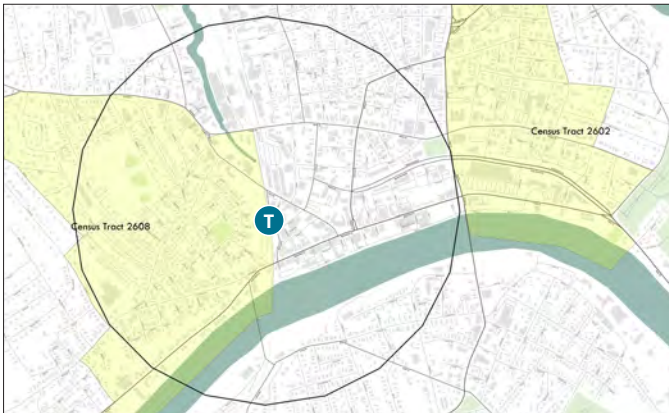
**Map 1: Worcester’s Station Area and OZs**



all have station area TDI districts in various stages of development (the technical assistance is provided for three years, with potential to extend for a fourth).

Data on federal historic tax credit projects—currently the most heavily utilized program to make projects feasible in these weaker markets—show that developers are actively seeking out investments in these markets. The pipeline of recent and pending historic tax credit projects is particularly strong within the TDI districts in Brockton, Springfield, and Worcester.

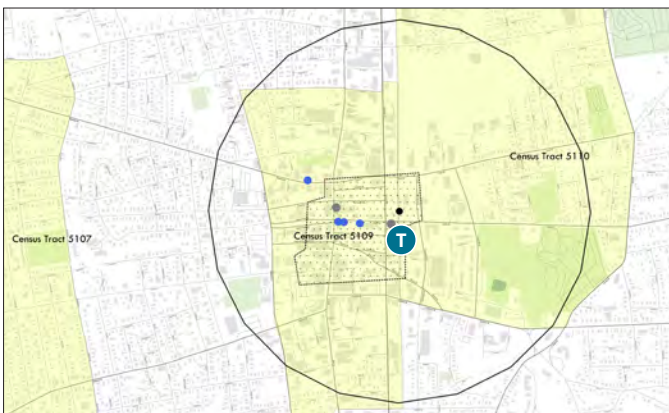
**Map 2: Haverhill’s Station Area and OZs**



### Maximizing the Power of Opportunity Zones with Complementary State and Local Policy

This analysis shows that Massachusetts has designated OZs near commuter rail stations in most Gateway Cities with current or planned service. Given the competition for Opportunity Funds both within Massachusetts and across the nation, state and local leaders must be thoughtful about how they best position these OZs for investment. TDI is an excellent starting point, but other state programs, such as the Housing Development Incentive Program (HDIP) and the Massachusetts Historic Rehabilitation Tax Credit could be deployed creatively to strategically draw investments to Gateway City TOD. At the local level, Chapter 43D expedited permitting and Chapter 40R Smart Growth overlay zoning can significantly lower pre-development expenses and reduce risk for developers.

**Map 3: TOD Activity in Brockton**



The next installments in this series will provide a closer look at the operation of these programs in each of the Gateway Cities with current or planned commuter rail service.

- Proposed Historic Tax Credit project
- Historic Tax Credit project completed in previous two years
- ⊙ TDI District
- OZ census tract

## Appendix

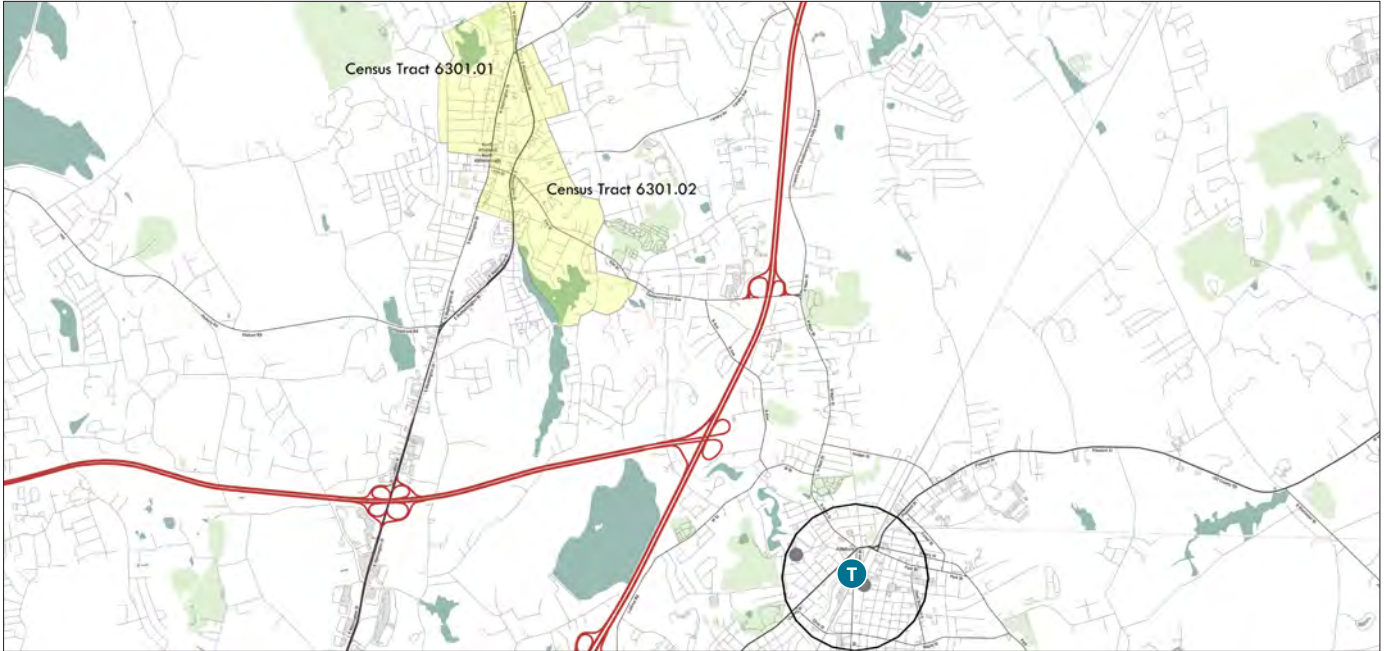
### OZs in Gateway Cities with Current or Planned Commuter Rail Service

Tracts within half-mile radius of station

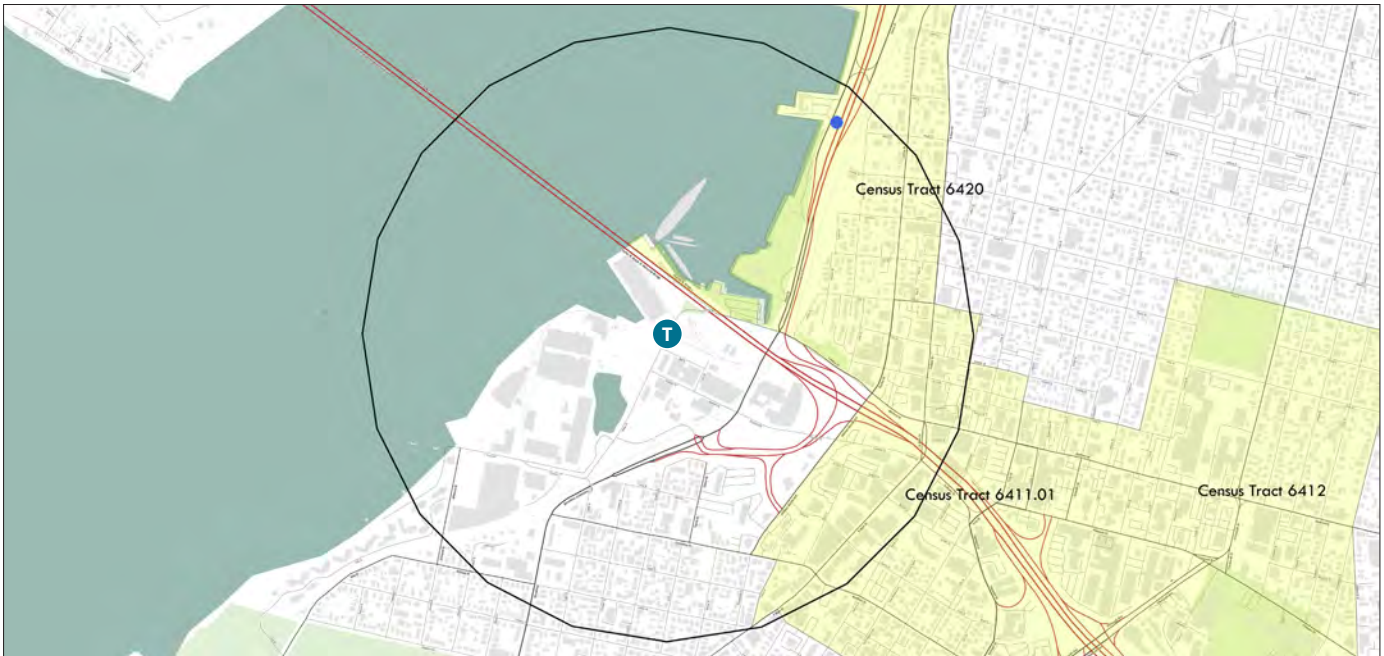
City	OZ Tract	Residents	Housing Units	Jobs	Median Household Income
Brockton	5105.03	4,296	1,762	3,909	\$36,977
	5107.00	5,656	2,147	1,815	\$51,488
	5109.00	2,531	1,089	5,164	\$14,375
	5110.00	3,040	1,089	1,672	\$50,549
Fall River	6411.01	1,712	1,193	4,058	\$16,660
	6412.00	2,803	1,480	4,025	\$29,938
	6420.00	3,274	1,631	1,399	\$23,359
Fitchburg	7106.00	6,594	2,919	1,196	\$53,793
	7107.00	1,580	1,113	3,286	\$17,039
Haverhill	2602.00	3,437	1,717	1,848	\$38,979
	2608.00	4,631	1,976	721	\$41,422
Lawrence	2501.00	2,329	1,425	7,890	\$20,800
	2503.00	2,101	636	2,085	\$38,063
	2508.00	6,932	2,348	3,127	\$47,314
	2516.00	5,977	2,083	5,207	\$39,281
Lowell	3101.00	5,267	2,858	9,633	\$31,550
	3116.00	5,295	1,922	3,129	\$64,122
	3117.00	5,098	1,636	800	\$53,281
	3118.00	3,513	1,058	1,059	\$36,702
	3119.00	2,429	1,169	1,011	\$24,654
Lynn	2061.00	3,844	1,462	932	\$27,929
	2068.00	3,546	1,602	4,640	\$20,778
	2070.00	2,198	1,041	3,463	\$22,460
	2072.00	2,939	1,180	7,082	\$32,654
New Bedford	6512.00	2,068	957	1,526	\$33,875
	6513.00	2,227	1,086	1,781	\$22,500
	6518.00	1,745	1,382	5,409	\$13,337
	6519.00	1,942	932	1,512	\$22,593
Salem	2042.00	4,797	2,492	2,284	\$40,469
	2047.01	5,782	2,664	14,820	\$59,904
Springfield	8006.00	2,620	928	4,343	\$16,107
	8009.00	4,136	1,833	10,101	\$16,215
	8011.01	1,862	1,253	19,741	\$12,628
	8012.00	2,638	1,292	3,165	\$12,907
	8017.00	7,577	2,144	1,363	\$31,712
	8018.00	4,279	1,533	1,722	\$26,507
	8019.02	3,614	1,755	1,853	\$14,176
Taunton	6138.00	4,519	2,464	8,545	\$34,207
Worcester	7305.00	3,535	1,692	9,759	\$46,212
	7313.00	3,841	1,504	890	\$25,945
	7314.00	4,673	1,775	2,966	\$23,036
	7317.00	2,761	1,511	19,845	\$25,036
	7325.00	1,776	821	2,269	\$30,096
	7328.01	4,829	2,369	1,449	\$62,886



Map A1: Attleboro



Map A2: Fall River

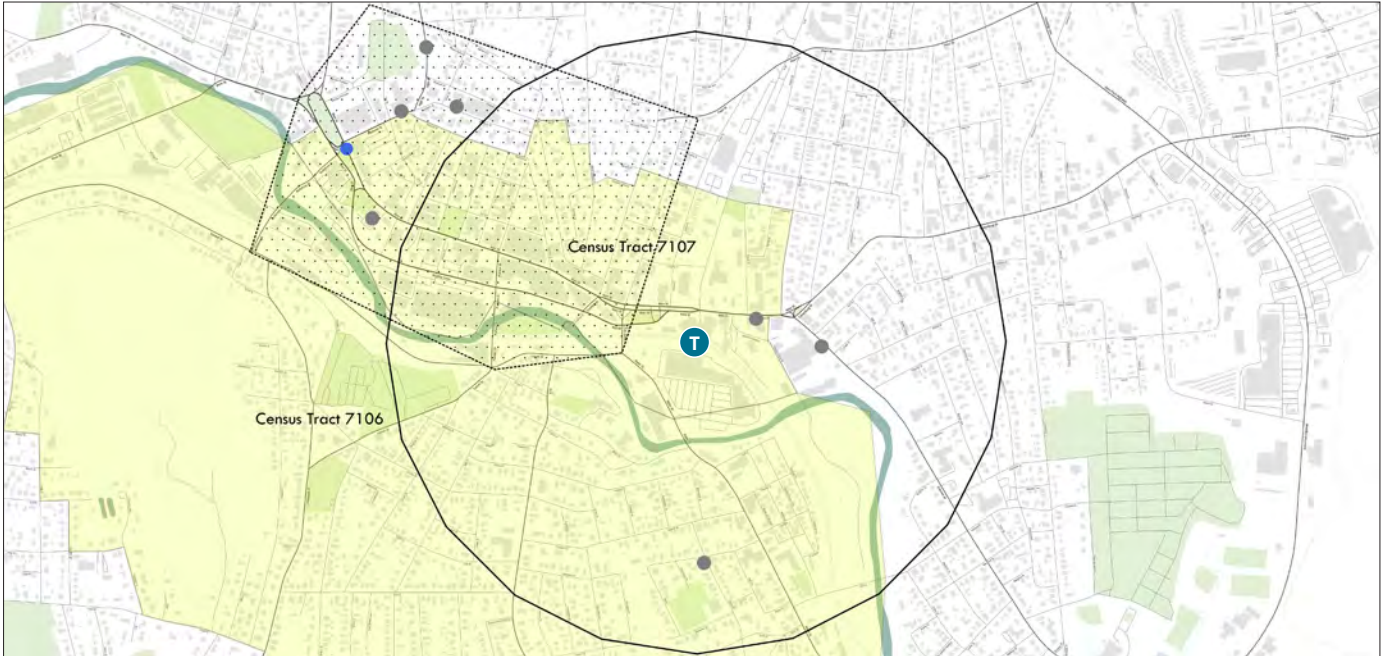


- Proposed Historic Tax Credit project
- Historic Tax Credit project completed in previous two years
- ⊘ TDI District
- OZ census tract

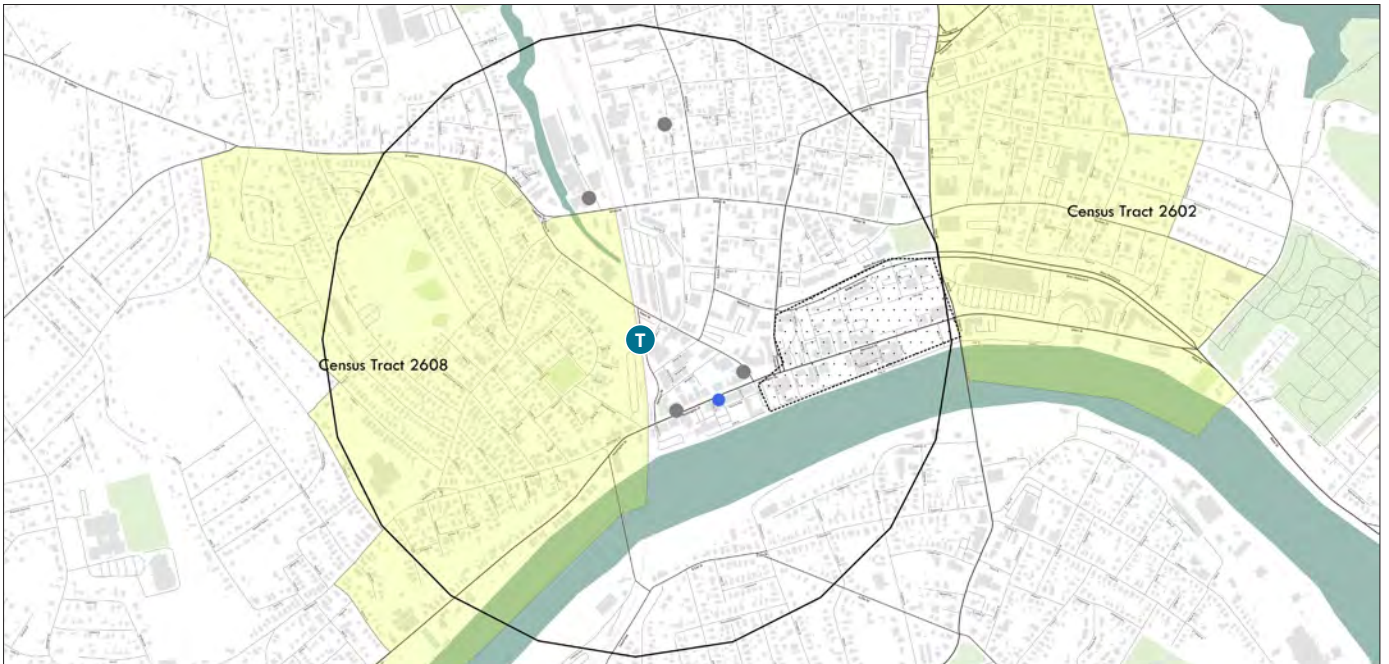
Note: Attleboro has no Opportunity Zones. Tracts 6301.01 and 6301.22 are located in North Attleboro. Map A2 depicts Fall River's Battleship Cove Station planned for South Coast Rail service in 2022.



Map A3: Fitchburg

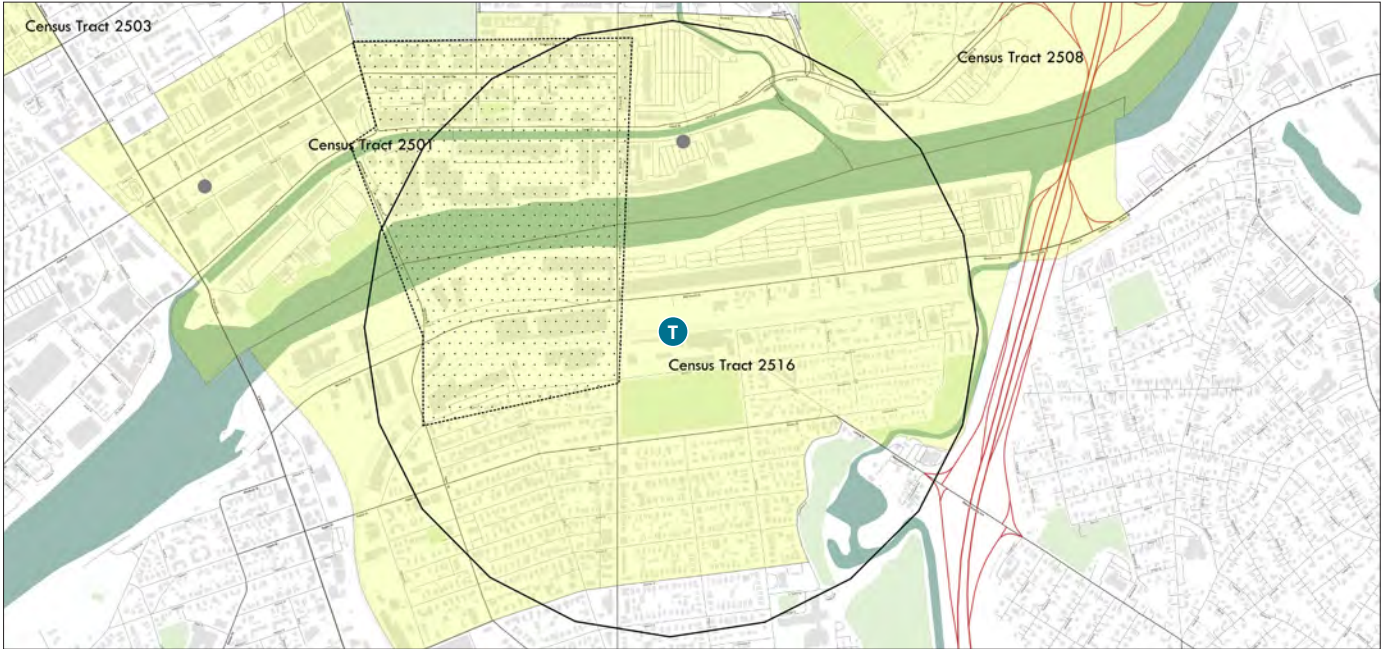


Map A4: Haverhill

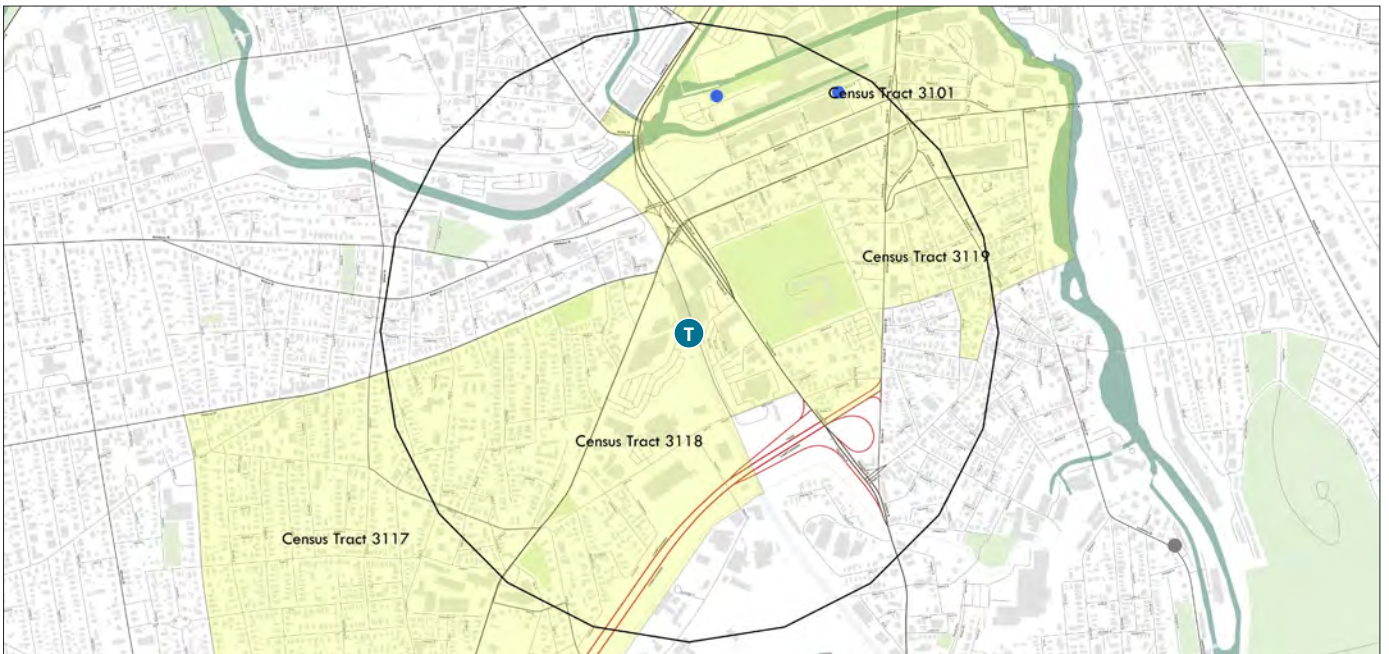




Map A5: Lawrence



Map A6: Lowell



- Proposed Historic Tax Credit project
- Historic Tax Credit project completed in previous two years
- ⊞ TDI District
- OZ census tract

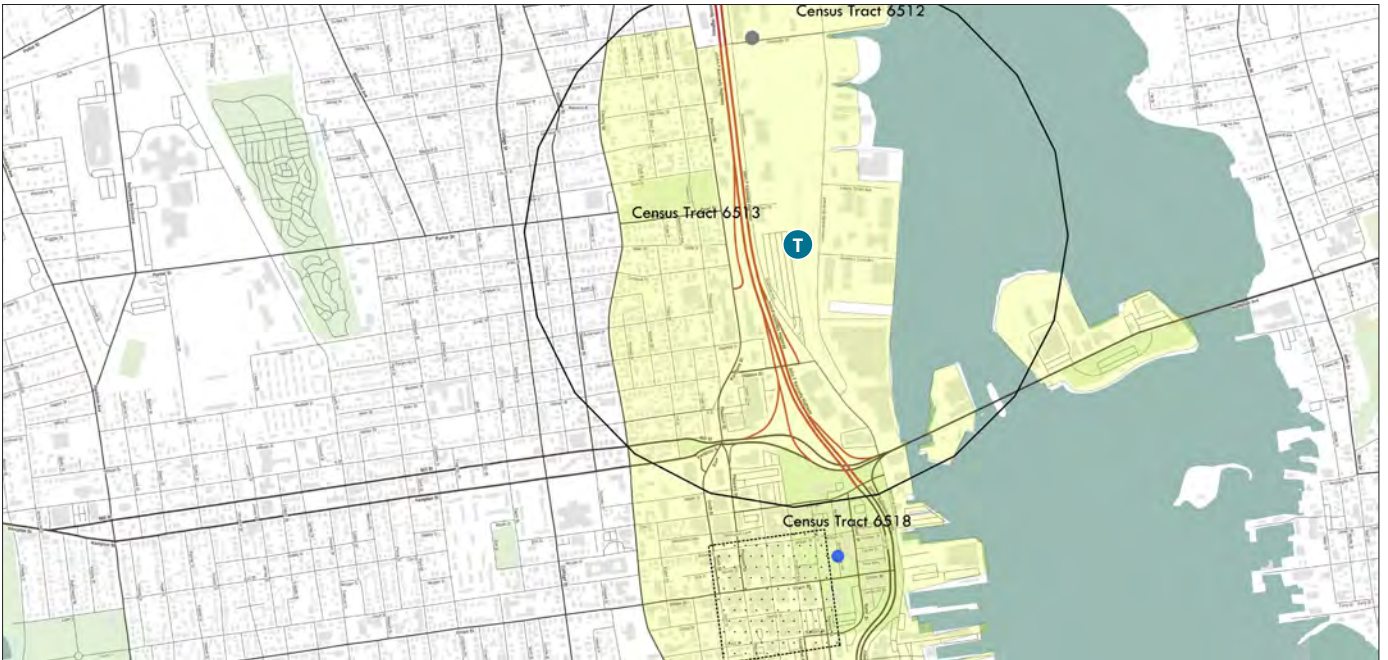




Map A7: Lynn



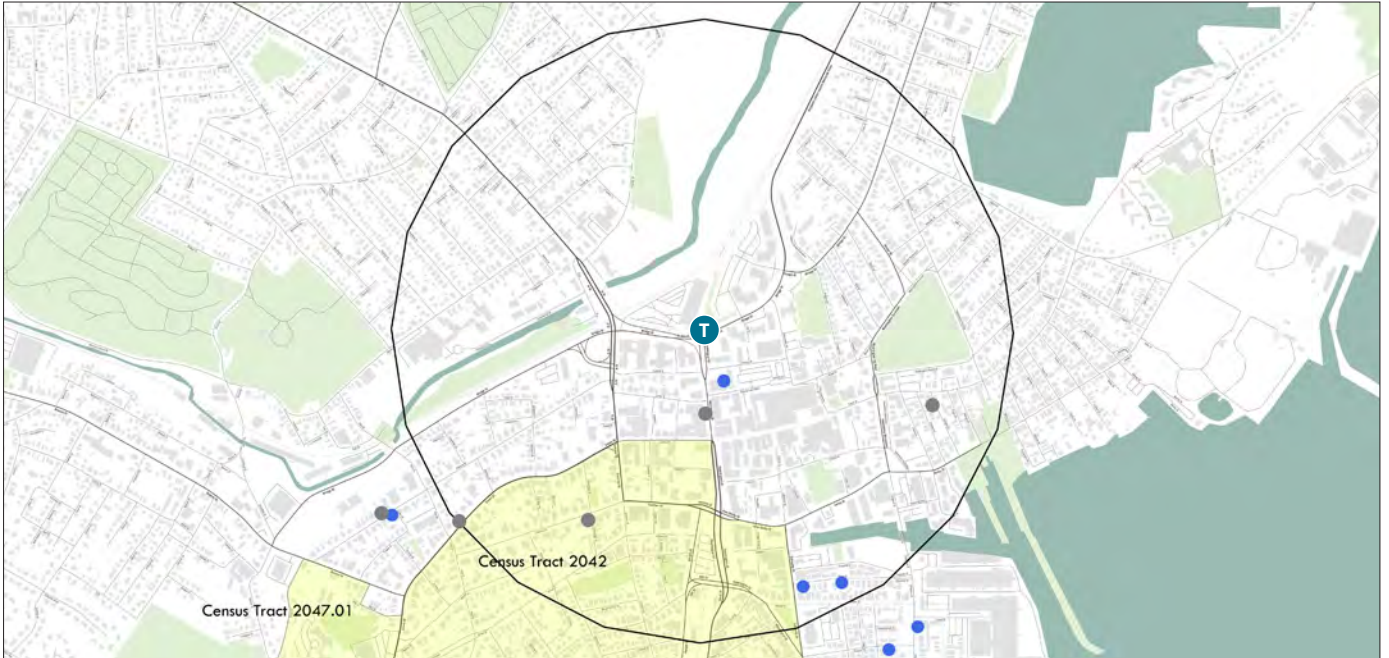
Map A8: New Bedford



Note: Map A8 depicts New Bedford's Whale's Tooth Station planned for Phase 1 South Coast Rail service in 2022.



Map A9: Salem



Map A10: Springfield



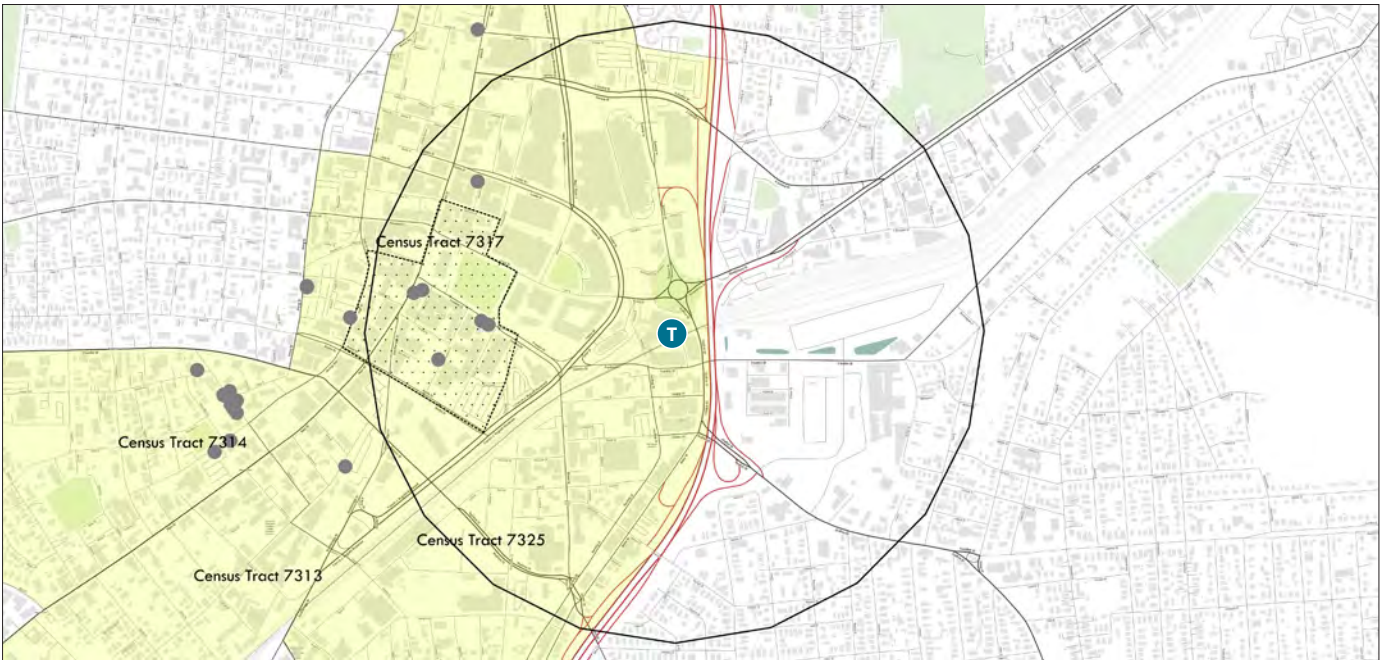
- Proposed Historic Tax Credit project
- Historic Tax Credit project completed in previous two years
- ⊞ TDI District
- OZ census tract



Map A11: Taunton



Map A12: Worcester



Note: Map A11 depicts the East Taunton Station planned for Phase 1 South Coast Rail service in 2022.



## Endnotes

- 1 For a useful summary of Opportunity Fund tax benefits and their terms, see <https://eig.org/wp-content/uploads/2018/01/Tax-Benefits-of-Investing-in-Opportunity-Zones.pdf>
- 2 For a summary of this research, see Ben Forman and Daniel Hodge. *The Promise and Potential of Transformative Transit-Oriented Development in Gateway Cities* (Boston: MassINC, 2018), Chapter 2.
- 3 Peter Newman and Jeffrey Kenworthy. "Urban Design to Reduce Automobile Dependence" *Opolis* 2:1 (2006).



### **ABOUT MASSINC**

The Massachusetts Institute for a New Commonwealth (MassINC) is a rigorously non-partisan think tank and civic organization. We focus on putting the American Dream within the reach of everyone in Massachusetts using three distinct tools—research, journalism, and civic engagement. Our work is characterized by accurate data, careful analysis, and unbiased conclusions.

### **ABOUT THE GATEWAY CITIES INNOVATION INSTITUTE**

The Gateway Cities Innovation Institute works to unlock the economic potential of small to mid-size regional cities. Leveraging MassINC’s research, polling, and policy team, the Institute strengthens connections across communities and helps Gateway City leaders develop and advance a shared policy agenda.

### **ABOUT THE TRANSFORMATIVE TRANSIT-ORIENTED DEVELOPMENT (TTOD) INITIATIVE**

In an age when many residents prefer to live and work in transit-accessible locations, cities across the US are building rail and bus rapid transit lines to spur growth through transit-oriented development. Most of our Gateway Cities already have commuter rail service, providing valuable transit connectivity. While there are some signs of life near this transit infrastructure, it is largely underutilized and development that does occur in station areas is often less than optimal.

The TTOD Initiative is an intensive multi-year research effort led by MassINC’s Gateway Cities Innovation Institute. The initiative kicked off in April 2018 with the release of a major study quantifying the potential opportunity and impact of TOD in 13 Gateway Cities with current or planned commuter rail service. Over the next three years, we will expand upon this foundational research with a series of reports and policy briefs testing a range of strategies to leverage existing transit assets to stimulate inclusive economic growth in these key regional cities.



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