

OPPORTUNITY ZONES

NMHC/NAA Viewpoint

To promote the rehabilitation and preservation of multifamily housing in all Opportunity Zones nationwide, Congress should reduce the basis increase necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes to no higher than 50 percent.

Tax incentives available to Opportunity Zone investments have the potential to unleash significant production of multifamily housing and workforce housing in particular. They are a critical tool in helping boost housing supply and addressing the nation's housing affordability crisis.

Permanently reauthorized in 2025 tax legislation, Opportunity Zones are designed to provide tax incentives for investments in distressed communities. Under the program, Governors will designate a second round of qualified low-income census tracts nationwide as Opportunity Zones that will take effect in 2027 (first-round Opportunity Zone designations remain in effect through 2028). Real estate developers and others may establish Opportunity Funds to construct and rehabilitate multifamily property in second-round Opportunity Zones that will be eligible for two tax incentives:

First, taxpayers may defer taxes on capital gains that are reinvested in Opportunity Funds to the earlier of the date an investment in an Opportunity Fund is disposed of or five years. Notably, gains deferred for five years in traditional Opportunity Funds are eligible for a 10-percent basis step up. Gains deferred for five years in Rural Opportunity funds are eligible for a 30-percent basis step up.

Second, post-acquisition capital gains on investments held in Opportunity Funds for at least 10 years may be permanently excluded from income.

Notably, at this point, different rules apply to first-round Opportunity Zones. While taxpayers may continue to invest capital gains through June 28, 2027, it is already too late to meet requirements for a step up in basis attributable to newly deferred capital gains. All deferred capital gains invested in first-round Opportunity Zones will also have to be recognized no later than December 31, 2026.

Opportunity Zones can be a helpful tool to incentivize housing production and, thereby, assist in addressing the nation's housing affordability crisis. However, to fully maximize the potential of Opportunity Zones, Congress should modify tax rules regarding the rehabilitation of existing properties.

To qualify for Opportunity Zone benefits for renovations, the basis of an existing asset must generally be doubled excluding land. However, for Opportunity Zones in rural areas, the basis increase necessary is 50 percent, effective July 4, 2025. Although property that is added to and improves an asset can count toward this threshold, doubling the basis can still be a high hurdle.

To promote the rehabilitation and preservation of multifamily housing in all Opportunity Zones nationwide, Congress should reduce the basis increase necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes to no higher than 50 percent. This step would maximize the ability of Opportunity Zones to address the nation's housing supply shortage.