



Debunking Opportunity Zone Myths: What You Need to Know Before States Redesignate in 2026

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Since their creation in 2017, Opportunity Zones (or OZs) have channeled billions of dollars into over 8,700 designated census tracts nationwide, making the OZ program one of the most ambitious community development initiatives in recent U.S. history. Some forward-thinking community development professionals have done great work educating stakeholders about the program's potential, but widespread misconceptions persist. The program took time to gain traction, partly because regulatory uncertainty during the "1.0" phase left many potential participants on the sidelines. But now it's time to set the record straight.

Here's why Opportunity Zones matter now: States will be determining where the next generation of Opportunity Zones will be designated in 2026. With this renewal phase approaching, we can't afford to let myths limit understanding of what this program can accomplish. States have a chance to refine their designations [based on lessons learned and evolving community needs](#). To do that effectively, investors, community leaders, and policymakers need accurate information about how the program works and who can benefit.

The Lock-In Problem

There's another reason Opportunity Zones matter: trillions of dollars in American assets are stuck in what economists call the "lock-in effect." Homeowners with 4% mortgages won't sell when current rates are above 6%—they'd lose money on the deal. Long-time homeowners sitting on appreciation that exceeds capital gains tax exclusions (\$250,000 for singles, \$500,000 for couples) won't sell because the tax hit is too steep. Homeowners over age 65 alone hold approximately \$1.8 trillion in unrealized gains that could trigger taxes if they sold.

It's not just housing. The total unrealized capital gains in the U.S. economy are around \$7 trillion. These are appreciated stocks, securities, and other assets where the owner would face capital gains taxes upon sale. So, they don't sell. The capital sits there, locked up, doing nothing productive for the economy.

Opportunity Zones offer a solution. They provide a mechanism to unlock this capital and redirect it toward productive community investment—without the immediate tax penalty – with the potential for reduced taxes from basis step up – and with the potential of exclusion of gain from continued appreciation of the OZ investment. That's billions of dollars that could flow into underserved communities, create jobs, improve infrastructure, and build wealth. But that can only happen if we get past the OZ myths that are keeping people on the sidelines.

Let's tackle the four biggest Opportunity Zone myths head-on.

Myth #1: Opportunity Zones Benefit Investors, Not Communities

That's wrong on both counts.

Yes, you'll find multi-million-dollar mixed-use developments and major commercial projects, but the OZ program equally supports smaller ventures—e.g., a \$500,000 renovation of a historic building, a \$250,000 expansion of a local manufacturing facility, or an investment in a modest Main Street retail redevelopment. This isn't just for institutional players. The Qualified Opportunity Fund (QOF) structure can be established by anyone: individual investors, small partnerships, you name it.

As for community impact? Look at the results. OZ investments have:

- Created thousands of jobs in underserved communities.
- Revitalized blighted properties that sat vacant for decades.
- Funded affordable housing in areas with severe shortages.
- Supported small business growth in neighborhoods that struggled to attract capital.

- Improved infrastructure and amenities that benefit all residents.

The key? OZ incentives align investor returns and tax benefits with community needs. Communities that actively engage with potential OZ investors to articulate development priorities see the most meaningful results. It's a powerful mechanism for deploying patient capital where it's needed most.

Myth #2: Capital Gains Are Rare

Capital gains aren't the exclusive domain of the wealthy. They're a normal part of many Americans' financial lives.

Think about these common scenarios:

- **Selling a second home, vacation property, inherited property or rental property:** Selling real estate or other assets received through inheritance or bought as rental property as a prior investment.
- **Business or Farm sale:** Small business or farm owners who sell their company or farm after years of building equity.
- **Stock options:** Many middle-income employees receive company stock as part of their compensation.
- **Portfolio rebalancing:** Anyone with a brokerage account who sells appreciated stocks or mutual funds.
- **Divorce settlements:** Dividing assets often triggers capital gains recognition.
- **Inherited property:** Selling real estate or other assets received through inheritance.
- **Cryptocurrency:** The rapidly growing number of crypto investors who've seen appreciation.

The median household with a capital gain is far from ultra-wealthy. Strategically triggering a capital gain during a lower-income year—between jobs or in early retirement—and rolling it into a Qualified Opportunity Fund ("QOF") can be savvy tax planning for middle-class investors. It allows you to defer and reduce taxes, exclude taxes from future gains, diversify your portfolio, and

support community development. Thus a win-win-win. Significantly, both short-term and long-term capital gains can be deferred and possibly reduced by making an OZ investment.

Myth #3: Opportunity Zones Don't Work for Existing Property Owners

This is simply not true. Existing property owners have multiple pathways to participate in the OZ program—they just need proper structuring.

The confusion stems from this: land acquired before January 1, 2018, is generally a “bad asset” for OZ purposes. But that doesn’t shut existing landowners out. Here are your options:

- **Sell to the QOF/QOZB.** Landowners can sell their property to a QOF or a Qualified Opportunity Zone Business (QOZB). Watch your ownership percentage, though. Stay at 20% or less to avoid related party issues. If you go above 20%, you can still invest your gain—just into an unrelated QOF.
- **Use substantial improvement.** Even when land starts as a “bad asset,” improvements can fix that. If improvements exceed the land’s value by approximately 2.5X, you’ve diluted bad assets below required thresholds. Since building costs often run three to five times the land value, many construction projects naturally clear this hurdle. Parcels with a structure may not hit this hurdle easily depending on the existing substantial value.
- **Try a ground lease.** This is perhaps the most elegant solution. The landowner keeps ownership and leases the land to the QOZB (not the QOF) for development. You get ongoing income through lease payments, the fund gets a qualified asset (the net present value, or NPV, of the lease), and there’s potential for the QOZB (not the QOF) to purchase the land later (albeit at least two years later at FMV for related party leases) when it represents less than 30% of fund balance. That offers flexibility for everyone.

Bottom line: with proper planning and professionals who know OZ regulations—tax advisors and attorneys who’ve done this before—existing property owners can absolutely structure their participation to benefit from Opportunity Zone incentives.

Myth #4: Opportunity Zone Capital Is Only for Real Estate

Real estate has grabbed the headlines, especially multifamily developments addressing affordable housing needs. But the OZ program’s scope goes way beyond property development.

Opportunity Zones were explicitly designed to support operating businesses, as long as they are not among the specifically listed “sin” businesses (e.g. golf course, massage salon, package alcohol stores, etc.) A QOZB can be:

- A manufacturing company establishing or expanding operations
- A technology startup building its headquarters
- A healthcare facility serving the local community
- A grocery store in a food desert
- An agricultural operation
- Professional services firms
- Renewable energy projects

The requirements are straightforward: at least 50% of the business’s gross income must come from active trade or business within the OZ, and at least 70% of its tangible property must be OZ business property and the majority of its IP must support the OZ business. That’s it. This creates opportunities for investors to support operating businesses that create jobs while getting the same tax advantages as real estate investments.

The OZ program’s flexibility is one of its greatest strengths. Developing affordable housing? Check. Funding a manufacturing expansion? Check. Supporting a local entrepreneur? Check. Some combination of all three? Also check. The structure can be tailored to the specific needs of each project, from entity structure to

investment timeline.

The 2026 Opportunity: Time to Get It Right

As we approach the 2026 OZ redesignation process, accurate information matters more than ever. States have a chance to [refine their zone selections](#) based on real data from the first generation of the program. They can redirect investment to areas with the greatest need and strongest potential for community impact. With OZ 2.0, investments in rural OZs can realize supersized tax benefits for OZ investors.

But we can't let myths limit participation.

Opportunity Zones are a powerful tool for channeling private capital toward community development. These incentives aren't reserved for a select few—they're available to anyone with capital gains who wants to invest in America's underserved communities while achieving favorable tax treatment.

Are you an existing property owner exploring options? A middle-class investor with stock gains? A business owner looking to expand? A developer focused on real estate? If so, the Opportunity Zone program likely has a structure that fits your situation. The key is working with qualified professionals—tax advisors, attorneys, and community development experts—who can navigate the regulations and design a strategy that benefits both investors and communities.

What Opportunity Zone projects are most likely to be successful? They're the ones where investors and communities work together. That requires clear communication about development priorities, thoughtful project selection, and structures that create lasting value for all stakeholders. As states prepare for the next chapter of this program, understanding these realities—not the myths—will be essential to maximizing the positive impact Opportunity Zones can have on communities across America.

For more information or assistance with the OZ 2.0 application process, please contact the authors or any attorney in FBT Gibbons' [Public Finance](#) or [Lobbying & Public Policy](#) practice

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