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Stock Market Rally Spurs Investment in New Tax-Saving Funds.

- Bridge has raised almost $2 billion for U.S. opportunity zones Tax breaks are controversial, but enjoy bipartisan support
- The stock market's strong rebound last year after pandemic lockdowns was a boon for a new type of fund that taps Trump-era tax breaks.

Bridge Investment Group said its strategy of developing real estate in designated "opportunity zones" hauled in almost $2 billion from investors by the end of last year. That's roughly double the amount the Salt Lake City-based firm had raised through 2019.

"We actually turned away capital," said Bridge Executive Chairman Robert Morse, adding that he expects to bring in about $1 billion to invest in the zones this year.

Bridge has emerged as one of the money managers deploying the most capital in the nation's roughly 8,800 opportunity zones. Created as a part of the 2017 Republican tax overhaul signed into law by President Donald Trump, the program is aimed at encouraging investment in poor communities. Investors are eligible for a suite of generous tax breaks for starting businesses and developing real estate in the zones.

Under the policy, capital gains earned elsewhere — say, by selling stocks — get parlayed into an opportunity zone fund. Taxes owed on the initial gain are deferred through 2026, but a sweeter benefit comes later: Returns on projects in the zones are exempt from capital-gains taxes if they're held for at least a decade.

While the incentives enjoy broad bipartisan support, some early efforts claiming the breaks have stoked controversy. Plans have been announced for luxury projects from Florida to Oregon. And a proposal in Norfolk, Virginia, involves razing public housing to make way for new mixed-income development.

'Spirit of the Law'

Bridge has been using the program largely to develop multifamily housing in cities such as Sacramento, California; Austin, Texas; and Phoenix, where population growth is driving demand. Overall, the company said it manages more than $25 billion in real estate assets, including multifamily, senior housing and suburban office properties.

"As a company, we're embarrassed by the abuses that others have committed" in opportunity zones, Morse said. "We spend a lot of time making sure we are observing both the letter and the spirit of the law."

As financial markets swooned earlier this year amid a worsening pandemic, some backers of opportunity zones worried that interest in the program would wane. But money continued to pour into funds targeting the zones, reaching more than $12 billion by the end of August, the most recent

data from tax adviser Novogradac shows.

President-elect Joe Biden has signaled that he supports the opportunity zone incentives, but favors changes so investments create social benefits. The new administration and Democrat-controlled Congress may also look to increase the country's capital-gains tax rate.

Were that to happen, "the appeal of an opportunity zone investment, somewhat counterintuitively," goes up because of the tax breaks available for investments in the zones after 10 years, said Morse. "We've done a lot of relatively sophisticated math about that."

Bloomberg Markets

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January 15, 2021, 9:00 AM MST Updated on January 15, 2021, 9:47 AM MST

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