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Unlocking Opportunity: What the New 50% Substantial Improvement Rule Means for Real Estate Investors in Rural Opportunity Zones

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The IRS's recent guidance (Notice 2025-50) and the One Big Beautiful Bill Act (OBBBA) have introduced a significant change for real estate investors and advisors focused on Qualified Opportunity Zones (QOZs) in rural areas. For the first time, the threshold for "substantial improvement" of property in these zones has been cut in half—from 100% to 50% of the property's adjusted basis. This change, effective for property in QOZs comprised entirely of rural areas as of July 4, 2025, opens new doors for real estate development, acquisition, and investment strategies.

Below, we provide a high-level breakdown of what this means for investors, how to leverage the new rule, and what to watch out for when planning the next move.

What's Changed?

Old Rule: To qualify for Opportunity Zone tax benefits, a property had to be "substantially improved"—meaning, within any 30-month period after acquisition, the investor had to invest at least as much as the property's original basis (100%) in improvements.

New Rule for Rural QOZs: For properties in QOZs that are entirely rural, the required investment is now only 50% of the original basis within the same 30-month window. For example, if acquiring a building for $1 million, only

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$500,000 in improvement investments are needed—instead of $1 million—to meet the substantial improvement test. [1]

What Counts as a "Rural Area"?

Definition: A rural area is any location that is not a city or town with more than 50,000 people, and not an urbanized area adjacent to such a city or town.

How Determined: The IRS now uses the 2020 Census data, aligning with the Department of Agriculture's approach. This means the list of qualifying rural QOZs is up to date and reflects current population trends. [2]

Where to Find Eligible Zones: The IRS has published a list of 3,309 QOZs that qualify as entirely rural under these new rules. [3]

Practical Implications for Real Estate Investors

1. **Lower Capital Outlay, Higher Flexibility**

Reduced Improvement Requirement: Investors can now qualify for QOZ tax benefits with a smaller investment in property upgrades, freeing up capital for additional projects or for use elsewhere in their portfolio.

Broader Project Viability: Properties that previously didn't pencil out under the 100% rule may now be attractive, especially in markets where property values are lower and improvement costs are a bigger hurdle.

2. **Expanded Investment Opportunities**

Rural Focus: The new rule is designed to drive investment into rural communities, which have historically seen less capital flow. This is especially relevant for sectors such as industrial, logistics, and data centers, where rural locations offer cost and operational advantages.

Data Centers and Industrial Uses: As demand for data infrastructure grows, rural QOZs may become prime locations for adaptive reuse or ground-up development, with the added benefit of easier qualification for QOZ incentives.

3. **Strategic Planning for Timing and Compliance**

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30-Month Window: The substantial improvement must occur within any 30-month period after acquisition. While the consensus is that this period starts immediately after purchase, there is some ambiguity, so careful documentation and project management are essential. [4]

Transition Rules: The current list of rural QOZs is fixed for now, but new designations will occur every 10 years. Investors should be aware of the timing of their investments relative to these cycles to ensure continued eligibility for QOZ benefits.

4. **Compliance Considerations**

Documentation: Maintain clear records of acquisition dates, basis calculations, and improvement expenditures to substantiate compliance with the 50% rule.

Zone Verification: Before acquisition, confirm that the property is in a QOZ that qualifies as entirely rural under the latest IRS list.

Future Guidance: The IRS has indicated that more guidance is forthcoming, especially regarding new QOZ designations and transition rules. To ensure you stay informed about developments that may affect your investment strategy, sign up for alerts from us.

Actionable Insights for Real Estate Professionals

Reevaluate Pipeline Projects: Properties in rural QOZs that were previously marginal may now be viable. Investors should reassess their deal pipeline with the new 50% threshold in mind.

Target Adaptive Reuse: Existing buildings in rural QOZs can be repositioned with less capital, making adaptive reuse more attractive.

Partner with Local Stakeholders: Rural communities may be more receptive to investment, and local partnerships can help navigate permitting and community engagement.

Monitor Zone Redesignations: With decennial reviews, keep an eye on which zones will remain eligible and plan investments accordingly to avoid losing QOZ status mid-project.

Conclusion

The OBBBA's 50% substantial improvement rule for rural Opportunity Zones is a game changer for real estate investors and developers. It lowers the barrier to entry, broadens the range of viable projects, and encourages capital to flow into underserved rural markets. By understanding the new

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rules, verifying zone eligibility, and planning improvements strategically, real estate professionals can unlock significant tax benefits while contributing to rural economic development.

For more details, consult the IRS's Notice 2025-50 and the official list of qualifying rural QOZs, and stay tuned for further guidance as the Opportunity Zone program continues to evolve. If you have any questions regarding QOZ investments, please contact Doug Jones, Rey Rodriguez, or your Husch Blackwell attorney.

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[1] Notice 2025-50, 2025-43 I.R.B. 542 (Sept. 30, 2025).

[2] *Id.*

[3] IR-2025-96 (Sept. 30, 2025).

[4] Notice 2025-50, 2025-43 I.R.B. 542 (Sept. 30, 2025).

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