

# Do Property Tax Incentives for New Construction Spur Gentrification? Evidence from New York City

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## JOB MARKET PAPER

### Abstract

This paper uses a natural experiment to estimate the local effects of tax-exempt new construction. In 2006, the New York City government decided to make property tax incentives on new construction less generous, starting in 2008. Developers responded by rushing to apply for these benefits and began building before the deadline. The magnitude of excess housing starts at the deadline suggests that a 1% increase in the future property tax increased current residential investment by 0.4%. A naive demand-supply model indicates that these new units brought to the market in a neighborhood by the reform should lower rents. On the contrary, using the baseline land availability within a small radius around an incumbent landlord as an instrument, I find that an additional new tax-exempt unit *increased* his rent by 2.3%. I find evidence consistent with the hypothesis that new residential investment made neighborhoods more desirable by attracting affluent households, facilitating the entry of businesses and consumption amenities. Overall, the results indicate that *new* construction spurred gentrification.

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