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

Divya Singh *†

October 13, 2019

JOB MARKET PAPER

Abstract

Cities have proposed tax incentives on new construction as a way to relieve tenants from rising rents, but there is little empirical evidence on their local effects. This paper uses a natural experiment in New York City to estimate the local effects of new tax-exempt residential construction. In 2006, the 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. I identify the number of new units developed within 150 meters distance from a rental building by the instrument, baseline number of vacant parcels available within the same distance. I find that an additional new tax-exempt unit added to the rental stock within 150 meters from a rental building increased its 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.

*Department of Economics, Columbia University in the City of New York. Email: divya.singh@columbia.edu

†I am indebted to my advisers Wojciech Kopczuk, Michael Best, Brendan O'Flaherty, Don Davis, Bernard Salanié. I would also like to thank Reka Juhasz, Sebastian Siegloch, George Sweeting, Yaw Owusu-Ansah, Andrew Haughwout, Francesco Brindisi, Francois Gerard, Iain Bamford, Pooya Ghorbani, Becka Brolinson for comments and discussion. I thank the Department of Finance, New York City for providing sales tax filers data. I am indebted to the participants at the Urban Economics Association Meetings Philadelphia; Fiscal Policy Breakfast at Federal Reserve Board, New York; Mayor's Office of Management and Budget; ZEW Advances in Empirical Public Economics; Young Economists Symposium; New York City Independent Budget Office for their very helpful comments and clarifications. All views expressed are my own.