

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

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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.

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