

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

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Abstract

Recently, many cities have proposed property tax incentives on new construction to counteract rising rents. However, to date 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, but only starting in 2008. Developers rushed to build and claim incentives before the deadline in response. I instrument the number of new units developed within 150 meters distance from a rental building by the baseline number of vacant parcels available within the same distance. I find that the existing rental building's rent increased by 2.3% in response to an additional tax-exempt unit built within 150m radius. I provide 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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