

# Anticipated Property Tax Increases on New Construction Spur Gentrification: Evidence from New York City

Divya Singh <sup>\*†</sup>

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## JOB MARKET PAPER

### Abstract

Some cities have proposed tax benefits on new investment as a measure to relieve tenants from rising rents. In this paper, I use a property tax reform in New York City to estimate whether such incentives work locally. The tax reform removed property tax benefits for new residential investment. However, the delay between announcement and implementation of the policy change led to the concentration of investment within a short period. Using bunching of units at the expiration deadline, I find that a 1% increase in the future property tax increased current residential investment by 0.4%. Yet, this new investment did not lower the rents paid by the tenants in the neighborhoods where new investment arrived. On the contrary, using the baseline land availability within a small radius around an incumbent unit as an instrument, I find that an additional new tax-exempt unit during the bunching period *increased* the incumbent unit 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 accelerated new investment spurred gentrification.

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

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