Comments on Property Taxes and Rental Housing

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Overview

Reaction:

1. Important, open question

2. Compelling setting and tax data

3. Preliminary

Suggestions:

1. Build conceptual framework

2. Refine research design

3. Clarify how to interpret results and heterogeneity

Conceptual Framework

Approaching problem through a Rosen-Roback lens raises questions:

1. **Timing**: why is annual elasticity the right time period?

2. **Benefits View**: are lower taxes and government benefits offsetting?

3. **Quantities**: population and establishment flows would be informative. Are flows consistent with claims about market power and heterogeneous effects?

4. **Firms**: are firms affected/ property tax as unproductive amenity? Do firm effects complicate interpreting the reduced-form effects we observe?

Research Design: Potential concerns to address

1. **Tax Change Exogeneity:** Why are taxes changing? Are property taxes offsetting current or expected local shocks?

2. **Policy Bundles:** Are other taxes or regulations changing at the same time?

3. **Balanced Budget Constraints**: are concomitant government spending changes biasing results?

4. **Estimate Stability**: $\ln(\tau)$ may not yield stable estimates. Consider using keep share $(1 - \tau)$. Effects tend to be more stable (Saez).

Research Design: Suggestions

Here are some ways to make empirical approach more convincing:

1. **Extend Duration**: Could consider 3 or 5 year changes in rents and taxes? These are likely medium-run processes

2. **Big Tax Changes**: Show rental cost growth for places that had big tax changes only, small changes may attenuate effects

3. **Graphical Evidence with Event Studies**: Show how treated vs untreated rental prices in local areas evolve

4. **Year fixed effects** absorb federal tax portion. Could exploit these shocks since they are magnified by different local loading multipliers

5. **Placebos**: Simulate fake tax changes and run main specification

Interpreting Results

Hard to understand some of the following:

1. Mapping of elasticity to incidence

2. Sample construction: why not keep municipalities constant? Should we expect differences in specifications that don't capture local effects due to compositional changes?

3. Where to expect heterogeneity ex-ante. Currently hard to figure out what heterogeneous effects mean. For instance, it isn't obvious that new apartments should demonstrate bigger effects - I'd expect less new construction (i.e. bigger effects on Q rather than P).

4. If your stories about heterogeneous effects are true, what else should we expect to see in the data in terms of price and quantity changes. Could use supplemental tests to get at mechanisms.