Tax Incidence and Commercial Real Estate Leases

Shaun. A. Bond
Department of Land Economy
University of Cambridge

And

Ben Gardiner
Cambridge Econometrics

Peter Tyler
Department of Land Economy
University of Cambridge

December 2007

(Draft in progress – do not quote or circulate without the permission of the authors)

Abstract

Research on the impact of property taxes on local real estate markets has a long history in the urban economics literature. Well known studies include Hamilton (1976), Rosen and Fullerton (1977), Haurin (1980, 1981), Wheaton (1984) and Yinger et al. (1988). With the exception of Wheaton (1984), very few studies have considered this issue in the context of the commercial real estate market or on data from outside the United States. This is surprising as many local or national governments consider property tax exemptions as part of a package of incentives to aid in the regeneration of areas of economic deprivation. Yet the impact of such incentives of the local real estate market is often unknown. In this study we use data on over 10,000 commercial real estate leases covering both taxed and tax exempt areas during the operation of the enterprise zone designations in the United Kingdom. Unlike other studies, this data set covers a fifteen year period during and after the end of the tax exempt period, allows us to investigate how the dynamics of the tax incidence effect changed leading up to the end of the exemption period and immediately afterwards. It also provides useful insights into the efficiency of the pricing of commercial leases.

Key words: tax incidence, property taxes, commercial real estate leases.

1 Submitting author. Department of Land Economy, University of Cambridge, 19 Silver Street, Cambridge, CB3 9EP, UK. Email: sab36@cam.ac.uk.