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Abstract

The paper examines t ustrial properties in Chicago. Because TIF designation may be self-selected, a two stage procedure is used to estimate the influence of TIF. The authors find that the value of industrial parcels located in mixed-use TIF districts (i.e. those that also contain commercial or residential properties) is higher than that of similar parcels that are not located in a TIF district. However, the value of industrial parcels that are located in homogeneous industrial use TIF districts is no higher and in some specifications is lower than that of similar parcels not located in a TIF district. These divergent results may be best explained by industrial parcel owners' desire to convert their properties to non industrial uses.

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1.

1. Scholars have investigated the efficiency of the real estate market—i.e. whether the high transaction costs and imperfect information associated with this market prevent prices from fully reflecting demand (see, for example, Keogh and D'Arcy, 1999). It is possible, for example, that TIF policies are poorly advertised and the benefits so poorly understood that the potentially higher returns are not capitalised into prices.

2.

2. Dye and Merriman (forthcoming) report a similar finding.

3.
3. The authors thank an anonymous reviewer for suggesting this approach and Dan McMillen for patiently explaining some of the technical details. Reviewers also suggested an alternative econometric procedure that treats mixed-use and industrial TIF districts separately. Results from that estimation are not reported here since it yields similar qualitative conclusions.
4.
4. The data-set was created by extracting all industrially zoned parcels with improvements from Experian. Those parcels for which data fields were incomplete were eliminated, as well as those parcels that may have been sold as part of a larger property. In the case of the latter, Experian did not consistently record whether the sales price was for the individual parcel or for the entire property. Parcels with matching streets, sale prices, sale dates and located within the same vicinity (defined as having street numbers within 20 of each other) were eliminated. Finally, those parcels that could not be geocoded were also eliminated.
5.
5. Of course, both data-sets are restricted to industrial properties that actually sold. To the extent that sale properties are not representative of industrial properties in general, the results will be misleading. This is a general problem in most real estate studies, and it is not believed that this sample selection criterion (sales status) introduces a bias with respect to the present paper's primary interest (impact of TIF status on value).
6.
6. The majority of TIF designations in Chicago occurred in the mid to late 1990s. Because Experian parcels were sold at any time between 1976 and 2001, a larger percentage of parcels in this data-set have a sales date that precedes the TIF district designation date and so are considered to be outside TIF districts.
7.
7. A separate regression that was performed using *%African American* in each census tract in place of *%White* revealed a significant negative relationship between share of African American residents and parcel sales prices, as expected.
8.
8. A quarter-section is a one-half mile by one-half mile area often used for planning and geographical analysis of the Chicago metropolitan area. Real estate conditions are measured prior to the sale recorded in the vacant parcels data. Because some sales of improved parcels took place prior to the measures of real estate conditions, these variables are excluded in the analysis of improved parcels (see section 6 for explanation).
9.
9. Chicago is home to 77 'community areas', each of which is an aggregation of several contiguous census tracts.
10.
10. See Table 1. Ninety-five per cent of the vacant sample is located less than 1.7 miles from an expressway interchange. Since it would take only a few minutes to travel this distance, variation in distance to expressway interchanges is probably not a significant source of variation in travel cost across the sample.
11.
11. The p-value for the coefficient on Mixed TIF is 0.121.
12.
12. In regressions not reported here, the real estate condition variables were included as independent variables and similar qualitative results were obtained. Details available from the authors upon request.
13.

13. Demand for industrial conversion contributed to the implementation of yet one more policy overlay in Chicago, the Planned Manufacturing District (PMD). In an effort to retain industrial tenants and employees in areas close to the CBD and limit the ability of individual alderman to approve parcel-by-parcel rezoning on an *ad hoc* basis (i.e. 'spot zoning'), the City created four zones where residential uses are severely restricted-more so even than in the industrial TIF districts or industrial corridors.

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