Discussion of French, Gandhi, and Gilbert (2025)

"Quantifying the Welfare Effects of Gentrification on Incumbent Low-Income Renters "

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Summary of Paper I

- **Research Question**: How does gentrification affect the *welfare of incumbent low-income renters*?
- **Data:**
  - $>$ 1 million low-income renter households (2000–2019)
  - Linked administrative data: MAF-ARF, LEHD, ACS, CoreLogic
  - 50 large metro areas; tract-level neighborhood definition
- **Empirical Approach:**
  - *Reduced-form*: out-migration, earnings, and neighborhood change outcomes
  - *Structural*: dynamic model of neighborhood/workplace choice w/ forward-looking agents
- **Identification:**
  - Shift-share IVs based on skill-specific labor demand shocks
  - Spatial proximity to high-college-share tracts interacted with metro-level Bartik shocks

Summary of Paper II

- **Key Findings**
  - Moving costs are *moderate* (e.g., $3,578 for Black renters; $1,692 for non-Black).
  - Black renters place stronger value on neighborhood amenities (10pp college share $\rightarrow$ $1,224/year).
  - Welfare: With modest moving costs, initial neighborhood location plays a limited role in long-run welfare of low-income renters in gentrifying tracts

- **Contributions**
  - Structural quantification of gentrification's welfare effects driven by rent vs. amenity changes
  - Amenity gains offset rent increases, contrary to the common assumption that low-income incumbents are worse off from gentrification

Point I. What Does the Model Measure as Welfare Impact

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- **Primary Goal**: Calculate ΔW for low-income renters who were incumbents in gentrifying neighborhoods, and compare it with those in non-gentrifying areas.

- **Approach**:

$$\Delta W \approx W\left(\left\{\underbrace{\text{Amenity}_t}_{\textit{proxied by College Share}}, \text{Rent}_t\right\}_{t=2000}^{2019}\right) - W\left(\text{Amenity}_{2000}, \text{Rent}_{2000}\right)$$

- **Concerns (i) & (ii): Imperfect Amenity Proxy**
  - (i) **Nonlinearity**: A 10pp increase in college share:
    - E.g., 0%→10% may increase perceived amenity, but 90%→100% could reduce diversity
  - (ii) **Confounding Improvements**: Changes in college share results in other improvements
    - E.g., school quality

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- **Concern (iii): Over-Attributing Rent Changes**

  (iii) The model assumes that all observed rent changes are responses to Δ*College Share*, but rent also rise by other factors

  - E.g., local credit condition unrelated to gentrification

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- **Concern (iv): Omitted Job Market Channel**

  (iv) Gentrification may alter local job opportunities and wage structures, but job opportunities are assumed to be fixed at 2000 level

  - Rosen–Roback: wages, rents, and amenities adjust jointly in spatial equilibrium
  - Gentrification $\rightarrow$ job opportunity: Lester & Hartley (2014), Meltzer & Ghorbani (2017), ...

Point I. What Does the Model Measure as Welfare Impact?

- **Summary of Concerns**:
  - (i) Mis-specification of *Observed Amenity* = *College Share*, given nonlinearity
  - (ii) Omission of Δ*Unobserved Amenity*
  - (iii) Inclusion of Δ*Rent* components irrelevant to gentrification
  - (iv) Omission of Δ*Job Market* driven by gentrification

$\Rightarrow$ Not so sure if the core finding, i.e., $\Delta W \approx 0$ still holds after considering them

Point I. What Does the Model Measure as Welfare Impact?

- **Suggestions**:
  - (i) Mis-specification of *Observed Amenity* = *College Share*, given nonlinearity
    - Limit the sample to neighborhoods with *College Share* below 30%, 20%, or 10%
    - Since the analysis already focuses on low-income tracts, most neighborhoods will survice after this additional filter
  - (ii) Omission of Δ*Unobserved Amenity* driven by gentrification
  - (iii) Inclusion of Δ*Rent* components irrelevant to gentrification
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    - Show that observed amenity measures in other papers, e.g., the PCA-based amenity in Diamond (2016) or the Quality-of-Life index in Gyourko et al. (2013), are largely explained by *College Share*
    - E.g.,, if *Amenity Index* $= \beta$ *College Share* $+$ FE yields $R^2 > 0.8$, that would provide compelling evidence (doesn't even need to be tract-level for this exercise!)
  - (iii) Inclusion of Δ*Rent* components irrelevant to gentrification
  - (iv) Omission of Δ*Job Market* driven by gentrification

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- **Suggestions**:
  - (i) Mis-specification of *Observed Amenity* = *College Share*, given nonlinearity
  - (ii) Omission of Δ*Unobserved Amenity* driven by gentrification
  - (iii) Inclusion of Δ*Rent* components irrelevant to gentrification
    - Use IV-predicted rent changes in welfare simulations to capture relevant component
    - Imperfect, but a clear improvement over using observed rent
  - (iv) Omission of Δ*Job Market* driven by gentrification

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$\Rightarrow$ If the core findings still hold, that would make the results far more compelling.

Point II. Reduced Form: Timing of Gentrification Matters

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- Gentrification has null effect on incumbents' earnings or commuting distance $\rightarrow$ justification for "(iv) omission of ΔJob Market driven by gentrification"

- **Empirical Framework**:
  - **X Variable**: $\text{Gent}_{n(i),2010\rightarrow2019} \equiv \frac{\text{College}_{n(i),2019} - \text{College}_{n(i),2010}}{\text{Adult Population}_{n(i),2010}}$
  - **Y Variable**: $\Delta \textit{Earning}_{i,2010\rightarrow2019}$ or $\Delta \textit{Commuting Distance}_{i,2010\rightarrow2019}$

- **Issue:** identical dose for very different paths
  - e.g., (i) gradual increase over 2010–2019, (ii) single big jump in 2010–2011. (iii) single big jump in 2018–2019

- **Why this can bias the hazard estimate down:**
  - If the gentrification effect persists for several years, the following scenario is possible:

$$\begin{cases} \text{Modest jump in 2010-11} & \rightarrow \text{larger } \Delta y_{i,2010\rightarrow2019} \\ \text{Big jump in 2018-19} & \rightarrow \text{smaller } \Delta y_{i,2010\rightarrow2019} \end{cases} \quad \rightsquigarrow \widehat{\beta} < 0 \text{ or } \approx 0$$

Point II. Reduced Form: Timing of Gentrification Matters

Suggestion:

- Run regression with time-varying *Gent* annually

$$\Delta y_{i,t,t+1} = \beta_{NC}^{LP} \cdot \text{Gent}_{n(i),t-1,t} + X_i' \gamma + \cdots \text{, where}$$

$$\text{Gent}_{n(i),t-1,t} \equiv \frac{\text{College}_{n(i),t} - \text{College}_{n(i),t-1}}{\text{Adult Population}_{n(i),t-1}}$$

$\Rightarrow$ If $\widehat{\beta}$ is still economically insignificant, "(iv) omission of ΔJob Market driven by gentrification" can confidently be justified!

Point III. Model Assumptions Driving Lower Moving Cost

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- **Paper (p.4):** "*Modest estimated moving costs underlie a core insight of welfare analysis*"
  - Moving costs apply **only if** $n_t \neq n_{t-1}$
- **Concern:**
  - Frictionless within-tract downsizing may absorb rent shocks $\rightarrow$ lower $\widehat{MC}^k$ with the observed moving rate
  - If downsizing within a tract is costly, then the reason for not moving will be attributed more to higher $\widehat{MC}^k$
  - The same logic may apply to the frictionless job change assumption
- **Suggestion:**
  - Impose a model assumption $H^k_{n,t} = 1$ for all k, n, t and see if the welfare impact is not significantly affected

Final Thoughts

- **Amazing dataset and impressive model structure**
  - Rich administrative panel covering location, earnings, and demographics
  - Dynamic model of neighborhood and job choice addressing welfare trade off rent ↑ & amenity ↑ by gentrification
- As a JM candidate this year, I learned a lot about what makes a ***successful*** JMP.
- Wishing this paper even more ***success*** going forward!