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Conference Paper

Winner Picking in Urban Revitalization Policies: Empirical Evidence from Berlin

Beiträge zur Jahrestagung des Vereins für Socialpolitik 2015: Ökonomische Entwicklung - Theorie und Politik - Session: Urban Economics II, No. B15-V3

Provided in Cooperation with:

Verein für Socialpolitik / German Economic Association

Suggested Citation: Richter, Felix Julius (2015) : Winner Picking in Urban Revitalization Policies: Empirical Evidence from Berlin, Beiträge zur Jahrestagung des Vereins für Socialpolitik 2015: Ökonomische Entwicklung - Theorie und Politik - Session: Urban Economics II, No. B15-V3, ZBW - Deutsche Zentralbibliothek für Wirtschaftswissenschaften, Leibniz-Informationszentrum Wirtschaft

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Winner Picking in Urban Revitalization Policies: Empirical Evidence from Berlin

Abstract: This study addresses the question whether policy makers strategically pick winners when selecting the targets for place-based revitalization policies. It evaluates the influence of long-term trends of the unemployment rate and the share of residents of immigrant background on the probability of being selected as a target area, conditional on the current levels of these attributes. The empirical evidence is in line with the expectations: policy makers base their choice to some extent on the future performance expected of the areas. While high current levels of the unemployment rate increase the probability of being designated, increases in the unemployment rate over time decrease the probability of being selected. This effect is interpreted as winner picking: local authorities do not simply choose the most deprived areas, but instead prefer areas which show first signs of a gentrification process.

Keywords: Winner picking, place-based policy, evaluation, urban, revitalization

Version: February 2015

JEL: R11, R23, R58

1 Introduction

Urban revitalization programs are widely used but still understudied locally targeted policy instruments designed to foster economic growth and to prevent urban decline. In recent years, a growing body of literature has been investigating the economic effects of place-based policies in general. Naturally, most of these contributions are concerned with ex-post evaluations of the economic outcome of such policy instruments. This study takes a slightly different angle by evaluating the selection process that led to the designation of an urban revitalization program consisting of several target areas in Berlin, Germany.

In particular, this study addresses the question whether local authorities strategically pick winners when selecting the targets for place-based policies. The study evaluates the influence of long-term trends in the unemployment rate and the share of residents of immigrant background on the probability of being selected as a target area, conditional on the current levels of these attributes. Previewing the results, there is evidence that policy makers indeed seem to base their choices to some extent on the future performance expected of the areas. Policy makers seem to choose the target areas from a pool of areas characterized by high current levels of unemployment. From this pool, however, they prefer areas which have displayed a positive development in the past years. This effect is in-

terpreted as winner picking, as the local authorities do not simply choose the most deprived areas, but favor areas which show first signs of a recovery or gentrification process.

The remainder of this introduction provides some background information and briefly surveys the related literature. Section 2 provides some facts about the data and the empirical strategy, section 3 presents the results. The final section summarizes the findings and provides a conclusion.

1.1 Background

The present study evaluates the selection process of a place based policy consisting of five large target areas designated in early 2010 called *action areas plus* (Aktionsräume Plus), which comprise about 25% of the residents and roughly 10% of the area of Berlin (Senatsverwaltung für Stadtentwicklung Berlin, 2013b).¹ These areas are designed to concentrate the focus of public policy intervention in the areas of urban renewal, neighborhood management, and the support of disadvantaged urban spaces. The objectives of the policy are broadly formulated and include improvements of the overall living quality, improvements of education chances for the residents, and the avoidance – or the attenuation of the consequences – of urban decline (Senatsverwaltung für Stadtentwicklung Berlin, 2013a).²

The official selection process is based on data of the *Monitoring Social City Development* (Monitoring soziale Stadtentwicklung), which is an official data collection comprising socio-demographic attributes for Berlin on various geographic aggregation levels since 1998 (Senatsverwaltung für Stadtentwicklung Berlin, 2011).³ Based on the reports from 2007/2008, local authorities identified five broad areas, which were particularly affected by socio-demographic disadvantages including unemployment, dependence on social benefits, social segregation, and a non-favorable housing stock condition. Moreover, these areas were claimed to exhibit a strongly negative perspective for the future

¹ Throughout the paper, the ‘action areas plus’ will be referred to as target areas.

² The core policy instrument has an investment volume of about \$16 mill., which is misleading as the designated areas are entitled to further subsidies. For example, the urban renewal policies installed in the action areas plus have an investment volume of about \$200 mill.

³ Data are available for the years 1999, 2000, 2002, 2004, and on a yearly base since 2006. The Section on data provides more details on the data and the geographic aggregation levels.

(Senatsverwaltung für Stadtentwicklung Berlin, 2013a). The data survey also includes a *development index*, which is designed to comprise both past and future perspectives of each statistical area. The explicit construction of this index is explained in a documentation by the Senatsverwaltung für Stadtentwicklung (2011), however, it seems to take only short-term developments (the current year and the year before) into account. Also, as Berlin is a city with a complex structure of subsidies and place-based policies, there are several other programs in Berlin targeting disadvantaged areas, some of them were installed as early as in 1999. However, the *action areas plus* are specifically designed to strategically concentrate the focus of various policy instruments.

While the empirical strategy is explained in detail in section 2, the selection of the attribute assumed to mirror economic performance deserves some background information: the unemployment rate is a straightforward indicator for the economic performance of an area. To understand the significance of the share of residents of immigrant background as a performance indicator, it is important to take the dynamics of migration in Germany and Berlin into account: many migrants came to Germany in the 1950 and 1960s when Germany needed additional workforce mainly for simple industry tasks (Kapphan, 2000). A large part of these migrants located themselves in disadvantaged urban areas. They were, on average, less educated and much poorer than the German average. These dynamics have turned out to be quite persistent. To this day, residents of immigrant background are poorer, less educated, and depend to a greater extent on welfare benefits, which explains why the share of residents of immigrant background can be regarded as a valid proxy for the socio-economic condition of an area (Bundesregierung, 2010; Gesemann, 2006).

1.2 Literature

While there is a growing number of contributions on the economic outcomes of place based policies, there is less literature incorporating the selection process of such policies in the analysis. Noonan and Krupka (2011) emphasize the implications of picking or making winners in their analysis of historic preservation policies in Chicago. They provide a theoretical framework for the analysis of land use regulation and employ an instrumental variables approach to evaluate the effects of the policy. They show that this approach can substantially reduce the potential bias due to policy endogeneity.

Several studies have investigated the general economic effects of urban revitalization policies in recent years. Rossi-Hansberg et al. (2010) analyze a \$14 mill. urban renewal pro-

gram in Richmond, Virginia, consisting of four renewal areas. They compare housing prices in the selected areas to a runner up area that was considered beforehand but ultimately excluded from the program and find evidence for positive housing externalities, which decrease relatively fast with increasing distance. Compared to the control neighborhood, they find that properties in the targeted areas generate a yearly price premium of 2 to 5%.

Ahlfeldt et al. (2013) evaluate a set of urban renewal areas designated in Berlin in the aftermath of the German reunification. Using a quasi-experimental research design they track housing prices in Berlin over 20 years and compare transactions in the renewal areas to various control groups including runner-up areas and transactions similar to those in the renewal areas based on matching techniques. They find that the housing stock condition in the targeted areas improved compared to similar areas, and that transactions in the renewal areas realize a yearly price premium compared to properties not targeted by the policy. They do not find evidence for a causal relation between this price premium and the policy, instead the price increases can be attributed to mostly to centrality and endowment with urban amenities.

Ding et al. (2000) analyse the effects of residential investment policies on surrounding property values in Cleveland, Ohio. They find positive but spillover effects within the distance of one block. Schwartz et al. (2006) find comparable results investigating the external effects of housing investment in New York City, using a combination of a difference in difference design and hedonic pricing. Santiago et al. (2001) evaluate the effects of public housing programs on property prices nearby and find that the effects depend on the initial socio-demographic composition of the observed neighborhoods. Galster (2006) look into a revitalization program in Richmond, Virginia, to investigate which amount of an initial investment into a declining neighborhood might suffice to return the area on a positive trajectory.

A larger body of literature exists on the related topic of historic preservation and conservation policies. Noonan (2007) uses repeat sales data to isolate the effect of a historic preservation policy in Chicago, and finds significant spillover effects of landmark designations on adjacent areas. Coulson & Lahr (2005) evaluate a set of historic designation districts in Memphis, and find evidence for positive spillover effects into adjacent areas. Coulson & Leichenko (2001) find comparable results for Abilene, Texas, and several other Texan cities (Leichenko, Coulson, & Listokin, 2001).

Recently, several contributions have investigated similar policies outside of the U.S. (Ahlfeldt & Maennig, 2010b; Ahlfeldt, Moeller, Waight, & Wendland, 2013; Koster, Van Ommeren, & Rietveld, 2012; Lazrak, Nijkamp, Rietveld, & Rouwendal, 2010). Most of the studies find a positive net impact of the policies, i.e. the positive internal or external effects on property prices outweigh the negative effects including the restricted property rights.

The literature on place based policies in general is more developed. Kline & Moretti (2014) and Glaeser & Gottlieb (2008) provide surveys over the theoretical developments and welfare aspects, while (Neumark & Simpson, 2014) provides an overview over existing applications and findings.

There is a broader strand in the literature analyzing the external effects of consumption amenities in cities, relying on influential work by Brueckner et al. (1999) identifying the crucial role of urban amenities for spatial sorting in cities and based on spatial equilibria dating back to Roback (1982).⁴ As location specific advantages should in theory be completely reflected by property prices, various studies analyze the effects on property prices for example of train connection realignments (Ahlfeldt, 2011; Gibbons & Machin, 2005), the building of new sports stadiums (Ahlfeldt & Kavetsos, 2013; Ahlfeldt & Maennig, 2010a), neighborhood characteristics (Ioannides, 2003), places of worship (Brandt, Maennig, & Richter, in press), and place-based subsidized housing (Schwartz et al., 2006).

2 Empirical Strategy

This section introduces into the empirical strategy. After providing some insights into the data sources and presenting some descriptive evidence in the first subsection the second subsection describes the identification strategy and the empirical specification.

2.1 Data

Berlin is statistically divided into 447 *planning areas* (Planungsräume). These are statistical areas designed to comprise in practice separate urban living centers, taking into account building and social structures evolved over time (Senatsverwaltung für Stadtentwicklung Berlin, 2013a). Each has an average area of about two square kilometers

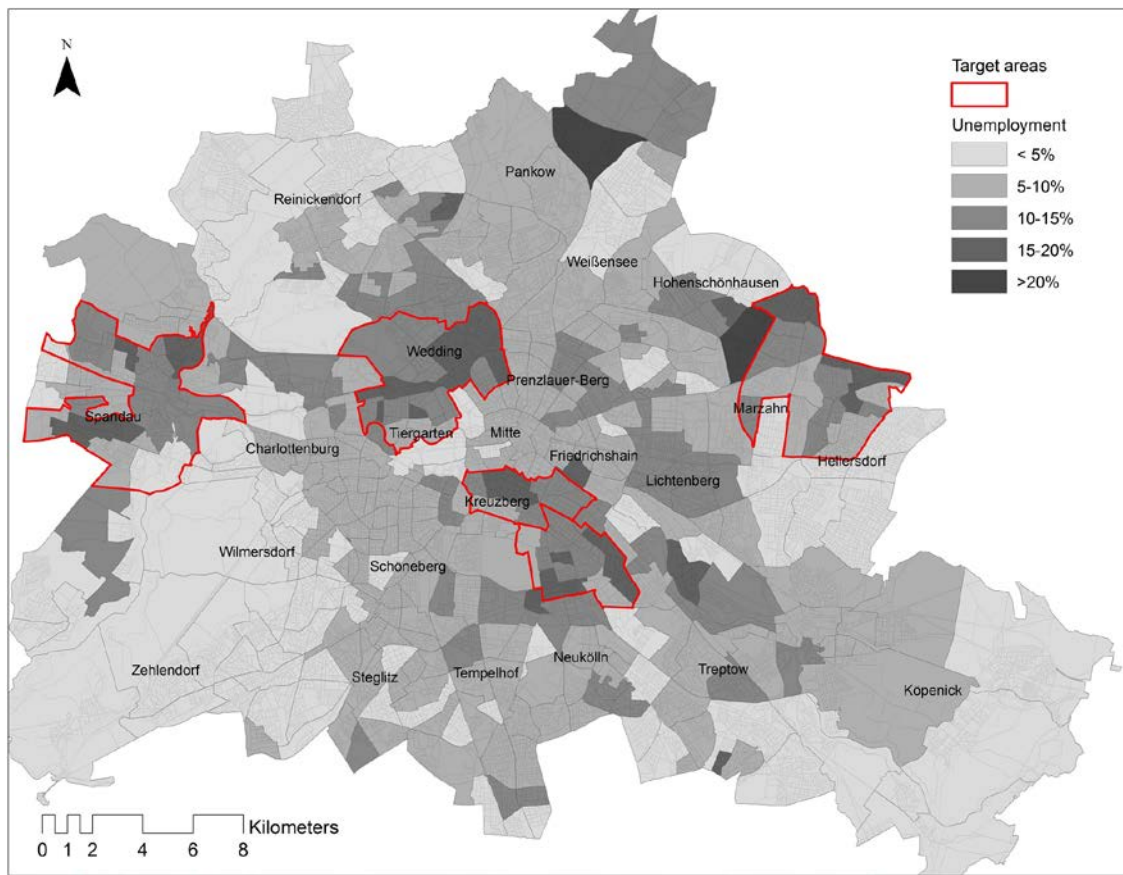
⁴ See Ahlfeldt et al. (2012) or Lucas and Rossi-Hansberg (2002) for current more flexible versions of spatial equilibrium models of cities.

and on average 8250 residents. The *Monitoring Social City Development* (Monitoring soziale Stadtentwicklung) provides continuous data on several socio-demographic indicators for the years 2006-2010. The data include the unemployment rate, the share of people with an immigrant background, the share of foreigner from the European Union (EU 15), the overall migration volume, and the number of residents on planning area level.⁵ Figure 1 provides an overview over Berlin, the unemployment rate on planning area level in 2010, and the geographical location of the target areas.

To construct a reliable long-term trend, the sample includes data on the (available) key attributes (the unemployment rate and the share of residents of immigrant background) lagged six years. The data are obtained from earlier (and not continuously available) periods of the *Monitoring Social City Development*. Since the data were compiled on traffic cell / statistical area level (two former geographic administrative units) they were disaggregated on planning area level. The sample includes average values for the few cases where it was not possible to unambiguously relate the different administrative levels to one another. Moreover, no data were available for the years 2001 and 2003, so these values are calculated as the average between the circumjacent years respectively.

The sample also includes information describing the housing stock: Provided by the *Committee of Valuation Experts Berlin* (Gutachterausschuss), the data comprise information on all property transactions in Berlin for the observed time period. The data include a variety of attributes including plotarea, floorspace, typical area usage, indicators for the location of the building in the block, the condition of the building, and the year constructed. The transaction level data is aggregated yearly on planning area level. Obviously, averaged data of the transacted properties does not necessarily reflect the overall average of the housing stock, but it should provide a reasonable approximation.

⁵ The members of the European Union 15 (EU 15) are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden, and the UK

Fig. 1. Target areas and unemployment rate in Berlin (2010)

Notes: Own illustration based on planning area level unemployment data (2010) and target area locations.

Finally, the sample includes some time invariant location control variables including an east / west indicator, the distance to the nearest main street, school, playground, river or lake, and to the nearest public transport rail station, and a proxy for the level of consumption amenities on planning area level. This proxy consists of a kernel density surface based on the 2012 location of bars, pubs, nightclubs, hotels, and restaurants. The author employs a kernel radius of 2000m and a quadratic kernel function (Silverman, 1986), and the resulting kernel density surface is aggregated on planning area level and normalized between 0 and 1.⁶ All observations included in the analysis and the locations of the target areas have been geocoded within a GIS framework.

⁶ The data for the kernel density is from the open street map project (www.openstreetmap.org), and consists of user generated content. While there might be deviations from the actual distribution of consumption amenities, there is no need to fear that these deviations are structural.

Tab. 1. Descriptive statistics on planning area level

| | Target areas | | Rest of Berlin | |
|------------------------------|--------------|----------|----------------|----------|
| Unemployment % | 12.61 | (3.449) | 8.171 | (3.846) |
| Immigration % | 63.59 | (21.03) | 38.87 | (21.38) |
| EU residents % | 3.219 | (2.078) | 2.450 | (2.054) |
| Migration volume % | 33.34 | (8.124) | 26.76 | (9.158) |
| Residents | 9995.3 | (5631.8) | 8546.2 | (4950.8) |
| Plotarea (m2) | 1520.4 | (1853.9) | 1373.5 | (1972.9) |
| Floorspace (m2) | 2312.2 | (2049.2) | 1691.6 | (2301.4) |
| Residential area % | 90.80 | (20.37) | 90.82 | (21.88) |
| Building facing the street % | 0.775 | (0.231) | 0.715 | (0.232) |
| Year constructed | 1929.1 | (29.92) | 1942.3 | (27.87) |
| Bad condition % | 0.106 | (0.172) | 0.104 | (0.185) |

Notes: The displayed data are from 2010. Standard deviations in parentheses.

Table 1 provides some descriptive evidence for the balanced sample of the 274 planning areas which were observed for all years between 2007-2010.⁷ The subsamples exhibit the expected properties: Attributes which are generally associated with disadvantaged areas as the unemployment rate, the share of people with immigration background, and the overall migration volume are higher in the target areas. Plot area and floor space are on average larger in the target areas, and the buildings in these areas are older and in a slightly worse condition.

2.2 Empirical Specification

This subsection discusses policy makers' incentives and the identification strategy before illustrating the empirical specification. This study considers broadly speaking two different arguments which might influence the policy makers' selection decision: first, they might actually aim at choosing the most deprived areas to attenuate the negative perspective of the disadvantaged areas. Second, they might favor areas which they expect to perform over proportionally well, or where the impact of the subsidy relative to the investment is maximized.

The identification strategy rests on the construction of reliable long-term trends for two key attributes, the unemployment rate and the share of residents of immigrant back-

⁷ The sample comprises 59 of the 99 planning areas that were selected into one of the five target areas, and includes observations for all of these five areas. The excluded areas comprise all areas, which had less than 100 residents at some point in time (not reported by local authorities due to data protection) but also areas with missing observations for some of the years.

ground. Long-term changes in these two attributes are expected to mirror the overall performance of an area: a gentrification process is assumed to be mirrored by a decline of the unemployment rate and the share of residents of immigrant background over time. Along the same lines, an increase in the two key attributes might indicate a further downturn of the respective area. This setup enables us to test two competing hypotheses: Do policy makers target areas in decline, which actually need subsidies, or do they target potential winners, which are already gentrifying.

The empirical strategy aims at estimating the effects of these long-term changes in key attributes, while holding the current levels of these attributes constant. The rationale is that policy makers would ex ante only consider areas, which have relatively high levels in the unemployment rate and the share of residents of immigrant background. From this pool, they might however favor areas that have undergone a positive development or some kind of gentrification process in the past years.⁸ The change over six years in the unemployment rate ($UNEMP$) and the share of residents with immigration background (IMM) are computed as $UNEMP_{it} - UNEMP_{it-6} = \Delta UNEMP_{it}$ and $IMM_{it} - IMM_{it-6} = \Delta IMM_{it}$ respectively. The full specification of a linear probability model can be written as

$$T_{it} = \alpha_1 UNEMP_{it} + \alpha_2 IMM_{it} + \beta_1 \Delta UNEMP_{it} + \beta_2 \Delta IMM_{it} + \vartheta_1 SOCIO_{it} + \vartheta_2 HOUSING_{it} + \sum_t \varphi_t + \sum_i \mu_i + \varepsilon_{it}, \quad (1)$$

where T_{it} is an indicator variable measuring the selection of the planning area i into a target area. It takes the value $T = 1$ if area i is a designated target area at time i and $T = 0$ else. $SOCIO$ is a vector containing the socio-demographic attributes described in the data section and $HOUSING$ contains the building stock specific attributes. The specification also includes a set of year fixed effects φ_t and a set of area specific fixed effects μ_i defined for the planning areas. The standard errors ε_{it} are clustered on the planning area level as well.

⁸ An alternative (but rather implausible) explanation would be that policy makers unintentionally choose the wrong areas, because they base their decision on a short time horizon only. Actually, the development indicator mentioned in the introduction seems to only take into account the past and the current year.

Following Conley (1999), the study also provides an alternative way to account for potential spatial autocorrelation in the error terms by calculating a spatial version of the non-parametric heteroscedasticity–autocorrelation consistent (HAC) standard errors adapted for panel data as in Hsiang (2010). The covariance matrix estimator calculates weighted averages of spatial autocovariances. The employed weights are calculated using Bartlett kernels decreasing linearly in the two geographical dimensions and are set to zero once a predefined cutoff point has been reached (Conley, 1999; Deschênes & Greenstone, 2007).

Second, the study assesses the impact of the long-term trends on change in designation status (in 2010) of the planning areas in 2009 using a logit approach. The specification can be summarized as

$$\ln\left(\frac{P}{(1-P)}\right) = \alpha_1 UNEMP_{it} + \alpha_2 IMMI_{it} + \beta_1 \Delta UNEMP_{it} + \beta_2 \Delta IMMI_{it} + \vartheta_1 SOCIO_{it} + \vartheta_2 HOUSING_{it} + \vartheta_3 LOC_{it} + \varepsilon_{it}, \quad (2)$$

where P is the probability that area i is designated as a target area in 2010 conditional on the covariates. Additional to the covariates described in specification (1), the vector LOC contains the (time invariant) distance controls described in the data section. For this specification the sample is restricted to the year 2009 and the year effects and the area fixed effects are omitted from the model.

3 Empirical Results

This section summarizes the empirical results presented in Table 2. Columns (1-4) display the effects of the linear probability model with the point estimates in column (1), clustered standard errors in column (2), and the spatially corrected standard errors in columns (3-4). Columns (5-6) display the marginal effects and the robust standard errors from the logit estimation.

The coefficients of the covariates generally display the expected effects, although most of them do not significantly influence the probability of being selected as a target area: a larger share of buildings in bad condition and a larger share of buildings in residential areas increase the probability of being selected as a target area, as do a larger share of EU (15) residents and a higher migration volume. A modern housing stock and larger average floor space decreases the probability of being selected.

Tab. 2. Empirical Results

| Model | (1) | (2) | (3) | (4) | (5) | (6) |
|-------------------------------|-----------|---------------------------|-------------|-------------|-----------|--------------|
| | OLS | | | LOGIT | | |
| Standard errors | | Clustered on PLR level | Spatial HAC | Spatial HAC | | robust |
| Distance cutoff | | - | 2km | 5km | | - |
| Unemployment | 0.0707 | (0.0241)*** | (0.0315)** | (0.0468) | 0.0411 | (0.00579)*** |
| Immigration | -0.0108 | (0.0123) | (0.0102) | (0.00990) | 0.00522 | (0.00457) |
| Δ Unemployment | -0.0552 | (0.0139)*** | (0.0162)*** | (0.0156)*** | -0.0332 | (0.00743)*** |
| Δ Immigration | -0.00753 | (0.0117) | (0.00884) | (0.00749) | -0.00899 | (0.00449)** |
| EU residents | 0.0469 | (0.0332) | (0.0357) | (0.0290) | 0.0111 | (0.0137) |
| Migration | 0.00728 | (0.00473) | (0.00349)** | (0.00393)* | 0.0000636 | (0.00381) |
| Volume | | | | | | |
| Residents | -0.0323 | (0.0178)* | (0.0152)** | (0.0177)* | 0.00240 | (0.00255) |
| Plotarea | 0.00908 | (0.0655) | (0.0500) | (0.0591) | 0.188 | (0.109)* |
| Floorspace | -0.0225 | (0.0779) | (0.0595) | (0.0607) | -0.00710 | (0.139) |
| Residential area | 0.0266 | (0.0740) | (0.0539) | (0.0426) | 0.0332 | (0.0796) |
| Building facing the street | 0.0341 | (0.0396) | (0.0257) | (0.0222) | 0.162 | (0.0679)** |
| Year construct. | -0.000555 | (0.000612) | (0.000420) | (0.000345) | -0.00103 | (0.000831) |
| Bad condition | 0.0427 | (0.0595) | (0.0477) | (0.0620) | 0.0575 | (0.0641) |
| Socio. controls | | YES | YES | YES | | YES |
| Housing controls | | YES | YES | YES | | YES |
| Location controls | | NO | NO | NO | | YES |
| Area fixed effects | | YES | YES | YES | | NO |
| Year effects | | YES | YES | YES | | NO |
| R ² | 0.417 | | | | - | |
| AIC | -710.5 | | | | 148.6 | |
| Observations | 1096 | | | | 274 | |

Notes: Standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. The results for the logit estimates (column 5) are marginal effects reported at means. To eliminate some left hand zeros, residents are measured in units of 1000, and plot area and floor space are measured in ha. Year effects are yearly fixed effects. Housing and distance controls consist of covariates controlling for property and location characteristics described in greater detail in the data section. Area effects consist of a set of the observed planning area level fixed effects.

The main results are displayed in the first four rows: as expected, high levels of the unemployment rate increase the probability of selection into a target area significantly. A 10% increase in the unemployment rate increases the probability of selection by about 0.7 percentage points. However, the long-term trends reveal a different story: A 10% increase in the six year change of the unemployment rate, i.e. a negative development, actually decreases the probability of being designated significantly by about 0.55 percentage points. The level and trend effects of the share of residents of immigrant background cannot be estimated precisely and do not seem to have an impact on the selection probability. The effects seem small at a first glance, but they neglect the small average selection probability. In relation to the average selection probability in 2010, a 10% increase in the six year change of the unemployment rate decreases the designation probability by about 2.5%.

These results are robust to the inclusion of standard errors accounting for spatial autocorrelation and serial correlation in an alternative way: the presented SHAC standard errors (columns (3) and (4)) are estimated with a distance cutoff of two and five kilometers respectively, which tends to increase the standard errors of the level estimates but not of the trends estimates. Comparable results are also displayed by the logit estimates (columns (5) and (6)). A 10% increase in the unemployment rate increases the selection probability by about 0.4 percentage points, while an increase in the 6 year change in unemployment decreases the probability of selection by about 0.33 percentage points.

As a sensitivity analysis, the study replicates the main results, including either only the unemployment rate, or only the share of residents of immigrant background (and the lagged values respectively). The results are displayed in Table 3: the effect seems to be largely drive by the unemployment rate. While the parameters in columns (1) and (2) are similar to the effects in Table 2, including only the share of residents of immigrant background yields only inconsistent and very small effects.

Tab. 3. Sensitivity: Drivers of the effects

| | Unemployment | | Immigrant background | |
|-----------------------|------------------------|-------------------------|-----------------------|------------------------|
| | (1) OLS FE | (2) LOGIT | (3) OLS FE | (4) LOGIT |
| Unemployment | 0.0558** (0.0256) | 0.0383*** (0.00596) | - | - |
| Δ Unemployment | -0.0467*** (0.0158) | -0.0360*** (0.00636) | - | - |
| Immigration | - | - | -0.0170* (0.00902) | 0.0157*** (0.00450) |
| Δ Immigration | - | - | 0.00177 (0.00768) | -0.0126** (0.00503) |
| Socio-dem. Controls | YES | YES | YES | YES |
| Housing controls | YES | YES | YES | YES |
| Location controls | NO | YES | NO | YES |
| Area fixed effects | YES | NO | YES | NO |
| Year effects | YES | NO | YES | NO |
| R ² | 0.402 | - | 0.399 | - |
| AIC | -686.3 | 149.8 | -680.1 | 188.7 |
| Observations | 1096 | 274 | 1096 | 274 |

Notes: Standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. The results for the logit estimates (columns 2 and 4) are marginal effects reported at means. The effects of the covariates are largely similar to the results of Table 1 and are not reported. Year effects are yearly fixed effects. Housing and distance controls consist of covariates controlling for property and location characteristics described in greater detail in the data section. Area effects consist of a set of the observed planning area level fixed effects.

4 Conclusion

This study evaluates the selection process of a place-based policy leading to the designation of several urban revitalization areas, specifically addressing the question whether urban planners strategically prefer areas they expect to over perform. The empirical results support this hypothesis: while high levels of unemployment increase the probability of being selected as a target area, increases in the unemployment rate over time, i.e. a negative development, decrease the probability of being selected. Neither the levels nor the long-term changes in the share of residents of immigrant background have a significant effect on the selection process. The results are stable across different specifications.

These effects can be interpreted as winner picking: high levels of unemployment increase the selection probability. This indicates that well-functioning areas are generally not selected (selecting these areas for a revitalization policy would be implausible). However, the negative effects of the six year change in the unemployment rate indicate that areas which exhibit negative perspectives, i.e. an increase in the long-term trend of the unemployment rate, have a decreasing chance of being subsidized. Instead, urban planners seem to prefer areas which demonstrated a positive development or a gentrification process.

Potential explanations for this effect include, among others, considerations of the efficiency of spatial targeting in the context of place-based policies and general welfare aspects of such policies. There is a literature concerned with the effectiveness of spatial targeting of area-based initiatives. An established argument is that local planners face some kind of tradeoff between efficiency of the spatial targeting (i.e. to target only areas which are deemed eligible targets) and completeness (i.e. to target as many of the areas deemed eligible as possible) (Batey & Brown, 2007; Tunstall & Lupton, 2003). In the case of Berlin, size and location of the target areas displayed in Figure 1 hint that local planners seem to have opted for large interconnected target areas instead of various small target areas, which could explain parts of the results.

Another argument involves the efficiency of the policy itself. Gottlieb & Glaeser (2008) argue that urban planners should not necessarily select the most deprived areas, but rather the areas where the policy is expected to generate maximum impact. These might

exactly be areas which are currently in bad condition, but on a positive trajectory, which can be reinforced with little effort.

One conclusion is that we do not yet know enough about the effects and dynamics of place based policies to decisively inform policy makers about best practices and efficient ways to choose suitable target areas. However, this contribution adds to the existing evidence on two grounds: First, it provides an example of a policy where local planners do not choose the most deprived areas, but prefer areas with a positive perspective. Second, if policy makers strategically prefer target areas already on positive trajectories, it is especially important for the policy evaluation literature to carefully select suitable counterfactuals to separate potential policy effects from dynamics which might have occurred also in absence of the policy.

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