FURMAN CENTER
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NEW YORK UNIVERSITY
SCHOOL OF LAW • WAGNER SCHOOL OF PUBLIC SERVICE

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FURMAN CENTER POLICY BRIEF

# The Benefits of Business Improvement Districts: Evidence from New York City

Over the past few decades, New York City and other major cities have fostered the development of business improvement districts (BIDs) to finance supplemental public services in designated commercial areas. BIDs are financed by fees paid by local property owners, and use the funds to provide basic services such as sanitation and security, as well as neighborhood amenities such as unified signage, street lighting, and street plantings. Despite their increasing use as an economic development tool, little work has been done to evaluate the impacts of BIDs on the communities they serve. To fill this gap, the Furman Center has completed an extensive study measuring how BIDs affect the value of commercial and residential properties in their districts.

## What are BIDs?

Described by the *Economist* magazine as potentially "the best hope for getting parts of America's cash-strapped cities working again," Business Improvement Districts (BIDs) have generated a great deal of excitement among city governments and urban policymakers around the world.

BIDs are economic development organizations that deliver public services to specific neighborhoods to supplement the bundle of public services provided by the government.

Unlike other neighborhood economic development organizations, BIDs are authorized by state legislation and are funded by mandatory assessment fees paid by merchants and property owners within the district. The menu of services provided varies across BIDs, but generally includes some combination of sanitation, security, capital improvements, neighborhood promotions, and business attraction.

Between 1970, when the first BID was formed in Toronto, and 2000, an estimated 800 BIDs were formed worldwide.

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# BIDs in NYC

New York City is home to more BIDs than any other city in the United States. The City estimates that its 56 BIDs, all of which have been formed within the past two decades, provide services to more than 70,000 businesses in neighborhoods across the five boroughs. New York City's BIDs reflect the diversity of the City's neighborhoods, spanning from high-density office districts to more suburban-style retail strips. Their annual assessments range from a low of $53,000 for the 180th Street BID in Queens to a high of $11.25 million for the Downtown Alliance in Manhattan.[1]

# Are BIDs Effective? What We Do and Don't Know

Despite the proliferation of BIDs, and the significant investments they make in their communities, very little research has been done to measure their effectiveness. Moreover, no quantitative study has compared the effectiveness of different types of BIDs. The result is that BIDs, which collectively tax New York City property owners to the tune of $83 million a year, have operated with little evaluation or examination.

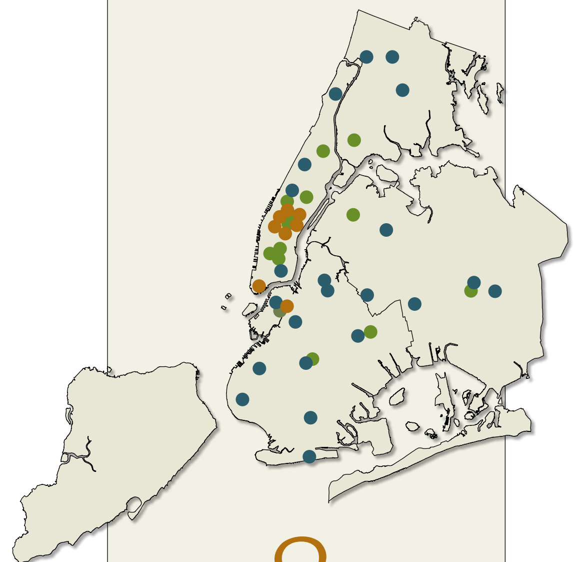
To gain a better understanding of the dynamics of BID performance, the Furman Center undertook an extensive examination of the impact that New York City BIDs have on the value of properties within their boundaries. Prior research has explored the impact of BIDs on crime rates, but reductions in crime are only a partial measure of a BID's success. BIDs embrace broad goals—promoting business development and improving an area's quality of life—that go far beyond reductions in crime. Changes in property values offer a more comprehensive indicator of neighborhood improvement and thus should capture the impact of a broader set of BIDs' investments and services.

[1] These budgets are for fiscal year 2005.

Our research is the first to estimate the impact forming a BID has on the sales price of properties within the BID's boundaries. We do this by comparing the change in sales prices inside the BID after BID formation to the change in sales prices of comparable properties outside of the BID, but still in the same neighborhood. We control for prior price trends inside the BIDs to account for the possibility that BIDs form in areas where prices are rising already. Although our focus is on commercial properties, we also estimate the impact of BIDs on the value of residential properties within the boundaries.

In order to allow enough time to measure impacts after BID formation, we limited our study sample to the pool of 44 BIDs that existed in 2002. For the purposes of our research, we grouped these 44 BIDs into three categories: large-office, mid-size, and small-retail. The characteristics and location of each of these types of BIDs are described in Figure A. Comparing the performance of different types of BIDs can provide some insight into the underlying mechanisms through which BIDs influence property values and help to identify the circumstances in which BIDs are likely to be a useful tool for local economic development.

**Figure A: The distribution of BIDs by type (as of 2002)**



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**LARGE-OFFICE BIDS**
have annual assessment revenues greater than $1.2 million. All of these BIDs are dominated by office space.

# 14

**MID-SIZE BIDS**
have annual assessment revenues between $263,000 and $1,200,000. In about half of these BIDs, the commercial space is predominantly retail, while in the other half, the commercial space is predominantly used for offices.

# 22

**SMALL-RETAIL BIDS**
collect less than $263,000 in assessments each year and are dominated by retail uses.

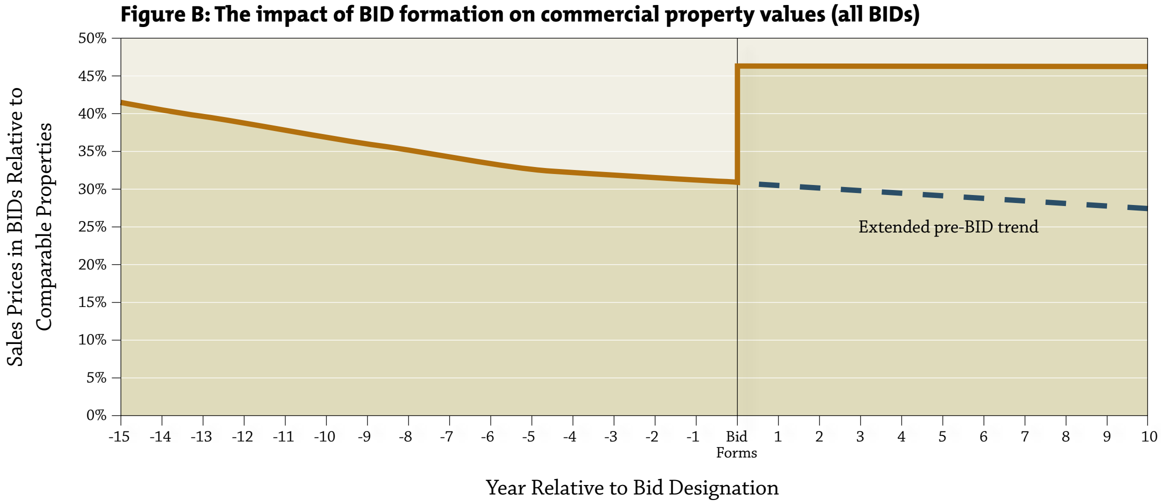
# Big BIDs Have a Big Impact

Our findings indicate that, on average, BIDs have a large, positive impact on the value of commercial property. As shown in Figure B, after BID formation, the value of commercial properties within the BID's boundary increases significantly more rapidly than other, comparable properties in the neighborhood. Our estimates suggest that impacts are as large as 15 percentage points. This substantial price increase is impressive, and consistent with the upbeat performance reviews issued by the BIDs themselves and the Department of Small Business Services (SBS), the City agency responsible for overseeing BID formation and managing their contracts. The significant increase in property values suggests that on average, BIDs are successful in improving the level and quality of local amenities in their neighborhoods.[2]

When we dig a little deeper, however, we find that the story is not that simple—the impact differs greatly across different types of BIDs. Large-office BIDs have large and positive impacts on commercial property values, but smaller BIDs have no discernable impact. It's worth underscoring that we do not find that the formation of small BIDs leads to reductions in commercial property values, despite the fact that BIDs burden owners with an additional tax. Thus, even though we do not see an increase in property values in the smaller BIDs, they may still be delivering some benefits; our results simply suggest that the benefits are no larger (or smaller) than the corresponding costs that property owners have to pay to participate in the BID.

The bottom line is that the sizable impact we see when we study all New York City BIDs—roughly a 15 percentage point increase over other comparable properties in the neighborhood—is being driven almost entirely by the large-office BIDs.

**Figure B: The impact of BID formation on commercial property values (all BIDs)**




*Note: The values in this chart reflect regression estimates that control for building and neighborhood characteristics.*

[2] For a description of the study design, see the complete paper, *The Impact of Business Improvement Districts on Property Values: Evidence from New York City*, which can be found at www.furmancenter.nyu.edu.

Our research also evaluates the impact that BID formation has on the value of residential properties, which constitute 15 percent of all properties in NYC BIDs. A BID might lead to an increase in residential property values if the additional services provided by a BID are valued by residents. Or if the BID results in increased demand for commercial property within its boundaries, properties may convert from residential to commercial use, reducing the supply (and thereby increasing the price) of residential property. On the other hand, if the new services are considered a nuisance by residents—due to increased noise and commercial foot traffic, for example—then prices may drop.

Our findings generally suggest that the formation of a BID has little impact on the value of residential properties, perhaps because the services provided by BIDs are valued less by residents than by businesses. In the future, the Furman Center plans to further explore the reasons why BIDs appear to have no significant impact on residential properties.

Finally, our study finds no evidence of spillover impacts (either good or bad) on commercial properties located just outside the BID's boundaries. This is an important finding because it undermines the claim that BIDs push crime and other undesirable activities into the surrounding community.

## KEY FINDINGS:

BIDs have a significant positive impact on commercial property values. On average, the value of commercial property within a BID increases by approximately 15 percentage points more than comparable properties in the same neighborhood but outside the BID.

■

Impacts vary dramatically across different BID types.

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Large-office BIDs have large and positive impacts on commercial property values, but smaller BIDs have little discernable impact.

■

BIDs do not appear to have any long-lasting impact on residential property values.

■

BIDs don't seem to have any "spillover" impacts on the neighborhood surrounding their boundaries.

# Why Do Large-office BIDs Drive the Impact?

Why would large-office BIDs have a hefty impact on property values, while smaller BIDs have a negligible impact? While our study does not point to any single answer, we highlight several differences between large-office and smaller BIDs that could be behind these disparate results. Comparing the different types of BIDs helps us identify how BIDs influence property values, and in turn, could be useful for policymakers developing policy on BID formation and oversight, as well as for boards of directors of BIDs and communities considering forming a BID.

### Size

The most straightforward explanation for the disparity of outcomes between large-office and smaller BIDs is that smaller organizations simply do not have the resources to achieve the same impacts on the surrounding community. On average, the small-retail BIDs spend nearly half of their budget on administrative costs, leaving fewer funds to devote directly to neighborhood improvements. Meanwhile, larger organizations are able to achieve economies of scale with their infrastructure, technology, and staffing that make them more efficient, and allow them to devote more resources to services that directly improve the surrounding community.

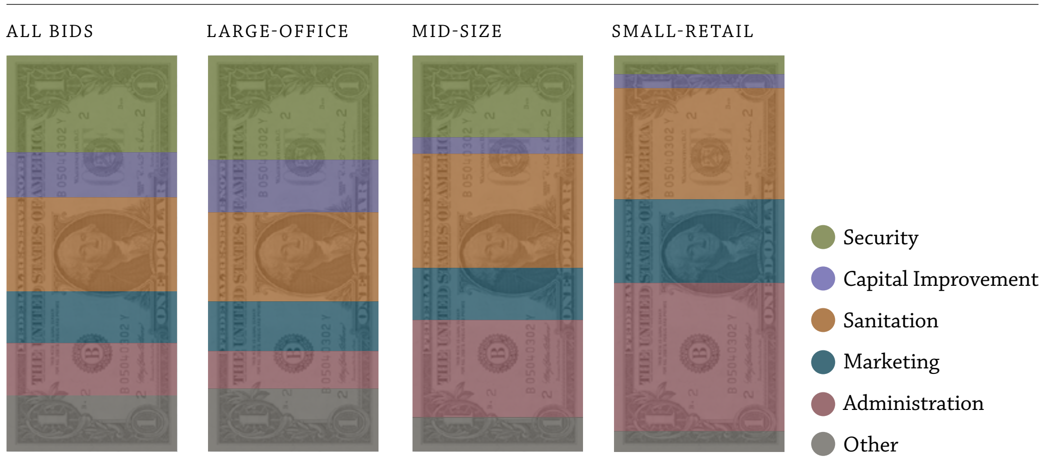
It could also be that a certain minimum investment is necessary to make any observable impact. If that's the case, we may see no impacts from smaller BIDs because the minimum threshold necessary for impact is larger than the budgets of some of these smaller BIDs, many of which collect less than $200,000 per year in assessments.

### Mix of Services

Large-office BIDs provide a different mix of services than smaller BIDs offer. Figure C shows one of the more striking disparities: large-office BIDs spend an average of 39.5% of their budget on security and capital improvements, compared to small-retail BIDs, which contribute only 6.1% of their budget to these services. Smaller BIDs reserve the bulk of their budgets for sanitation and administrative costs.

Certain services may have a more significant impact on the surrounding neighborhood. It may be, for example, that security and capital investments improve a neighborhood's quality more than other services provided by

**Figure C: Budget breakdown by BID type**



BIDs. On the other hand, the differences in services may have little bearing on impacts, and may simply reflect variations across neighborhoods in the demand for services.

### Manhattan/High Density Location

Another significant difference between large-office BIDs and smaller BIDs is the density of the neighborhoods they serve. The City's large-office BIDs are concentrated in very dense areas of Manhattan (only one of the large-office BIDs is located outside of Manhattan) where they enjoy considerable pedestrian traffic. The Downtown Alliance and Grand Central Partnership, for example, serve two of New York City's largest and most frequently visited neighborhoods. If such BIDs can improve the quality of the neighborhood by making it safer and offering more amenities, pedestrians will spend more time in local stores and office workers will be happier working in the area. The neighborhood will then be a more successful place for business and a better bet for investors. Small-retail BIDs, on the other hand, are mostly located along commercial strips in the outer boroughs, further from mass transit and in lower density neighborhoods, with fewer pedestrians to attract. Figure D shows the distribution of different property types within each BID category and reveals that large-office BIDs include a much larger share of commercial office property than the small-retail BIDs.

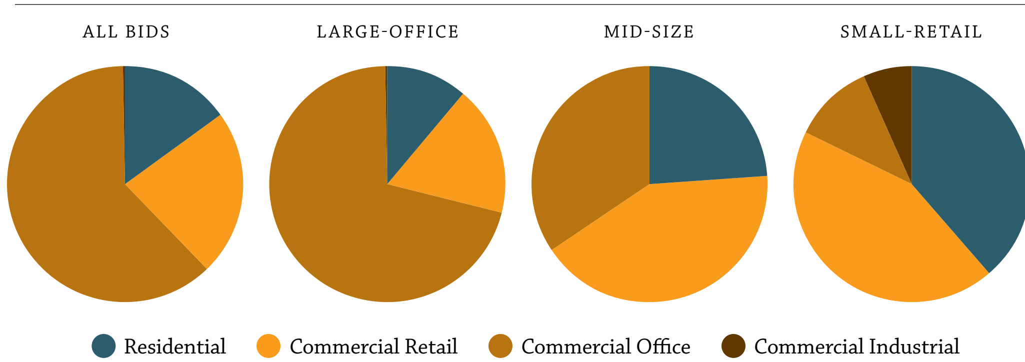
There may just be more of an up-side to increasing the attractiveness of neighborhoods where large-office BIDs are located. Because of the density of these neighborhoods and the large daytime populations of office districts, local improvements can generate a higher return than they can in less heavily-trafficked neighborhoods.

### Political Leverage

The boards of directors of the large-office BIDs are quite different from the boards of the smaller BIDs. Large-office BIDs tend to have large and professional boards, dominated by lawyers, CEOs of national companies, and financial experts, while the boards of small-retail BIDs are almost exclusively made up of local business owners.

BIDs with a higher-profile board of directors, who enjoy more political clout and access to resources, may have more success in influencing the distribution of municipal resources than smaller, less-connected and less-resourced boards. In addition, these large BIDs may be better able to leverage funds from private sources outside of the BID to support large-scale projects.

**Figure D: Distribution of residential and commercial properties by BID type**



# What Does This Mean for the City's BID Policy?

Our findings suggest that, on the whole, BIDs are achieving what they set out to do—they are increasing the vitality and attractiveness of their communities, as reflected in a substantial boon to commercial property values. However, our findings also indicate that the effects of BIDs vary significantly depending on their size, location and mix of properties.

The difference in BID impacts suggests that the City should be skeptical of the claim that simply forming another BID is always a positive outcome. Rather, the City should direct its efforts to forming BIDs in larger, denser environments. The City also should develop policies that maximize the potential of smaller BIDs by addressing some of the underlying issues preventing them from generating a larger impact. For example, in order to allow small-retail BIDs to spend more of their budget on direct services and less on administration, the City could encourage some smaller BIDs to merge into a single management entity or work together in selected areas to take advantage of economies of scale. It is worth noting that the City has already begun such steps—for example, it supported the formation of the Downtown Brooklyn Partnership which serves as an umbrella organization for the three BIDs in Downtown Brooklyn. Alternatively, SBS could provide some centralized administrative support to the smaller BIDs. If relieved of some of their administrative burdens, these small groups may be able to augment and perhaps diversify the services they offer their communities.

New York City provides an ideal environment to study the effects of BIDs because of the robust and diverse mix of BIDs in the City and the many different kinds of neighborhoods they serve. Our study confirms that BIDs can provide substantial benefits, but it also points to the need to develop flexible solutions to help BIDs maximize their potential to improve neighborhood quality and meet the needs of the City's diverse communities.

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**The Furman Center for Real Estate and Urban Policy** is a joint research center of the New York University School of Law and the Robert F. Wagner Graduate School of Public Service at NYU. Since its founding in 1994, the Furman Center has become the leading academic research center in New York City dedicated to providing objective academic and empirical research on the legal and public policy issues involving land use, real estate, housing and urban affairs in the United States, with a particular focus on New York City. More information about the Furman Center can be found at www.furmancenter.nyu.edu.