

Real-Estate Investors, House Prices and Rents: Evidence from Capital-Gains Tax Changes

Abstract

We study the dual role of real-estate investors – households who own multiple housing units – in ownership and rental housing markets in Israel. Using a series of capital-gains tax changes and rich administrative data, we show that real-estate investors who were subject to an unexpected temporary capital-gains tax exemption increased their sales of housing units by 50%. On aggregate, this contributed to investors exiting the housing market overall. We explore the impact of investors' exit on house prices and rents using spatial variation in investor activity across local markets. Policies that encourage investors to sell can achieve their stated objective of "pushing investors out", but also have a limited impact on house prices and thus adversely affect renters.