

Immigration and the city

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Economists have recently begun studying the effect of immigration on house prices. Empirical analyses have shown that an inflow of immigrants has a positive effect on rental and house prices at the municipal level. However, the average effect at the municipal level may hinder opposing forces within the city boundaries. Immigrant inflows may reduce the price in the neighborhood where they settle by inducing natives to move in other areas of the city. The effect on house price distribution may be relevant. In this paper, we provide both theoretical and empirical findings on the effect of an inflow of immigrants on native flight and house prices within the city. We develop a theoretical model à la Rosen-Roback that shows how a localized immigrant shock to a neighborhood propagates to the rest of the city through changes in local amenities and local prices. On the empirical side, we exploit a very detailed dataset on housing prices and the location of migrants at neighborhood level in 19 Italian cities. To address endogeneity problems, we adopt an IV strategy which uses historical enclaves of immigrants across municipalities to predict current settlements (Card, 2001). We find that migration rises the housing rents at both city and neighborhood levels but, as predicted by the theoretical model, the effect is stronger in the areas less affected by the migration process.