3
LOCAL ARGUMENTS
From “consumer sovereignty” to the rent gap

Following a period of sustained deterioration in the postwar period, many cities began to experience the gentrification of select central and inner-city neighborhoods. Initial signs of revival during the 1950s, most notably in London and New York, intensified in the 1960s, and by the 1970s these had grown into a widespread gentrification movement affecting the majority of the larger and older cities in Europe, North America and Australia. Although gentrification rarely accounts for more than a fraction of new housing starts compared with new construction, the process is very important in those districts and neighborhoods where it occurs. And it has had a very powerful effect on the rethinking of urban cultures and urban futures in the last quarter of the twentieth century.

Gentrification has etched the leading edge of the new urban frontier. If the comprehensive causes and effects of gentrification are rooted in a complex nesting of social, political, economic and cultural shifts, it is my contention here that the complexity of capital mobility in and out of the built environment lies at the core of the process. For all the interpretive cultural optimism that shrouds it, the new urban frontier is also a resolutely economic creation. The causes and effects of gentrification are also complex in terms of scale. While the process is clearly evident at the neighborhood scale it also represents an integral dimension of global restructuring. In this chapter I want to focus on explanations of gentrification at the neighborhood scale; Chapter 4 considers global arguments.

THE LIMITS OF CONSUMER SOVEREIGNTY

As the process of gentrification burgeoned so did the literature about it. The preponderance of this literature concerns the contemporary processes or its effects: the socioeconomic and cultural characteristics, profiles of the new urban immigrants, displacement, the role of the state, benefits to the city, the creation and destruction of community. At least in the beginning, little attempt was made to construct historical explanations of the process, to study causes rather than effects. Instead, explanations were very much taken for granted and have generally fallen into two categories: cultural and economic.

Popular among gentrification theorists is the notion that young, usually professional, middle-class people have changed their lifestyle. According to Gregory Lipton, for example, these changes have been significant enough to “decrease the relative desirability of single-family, suburban homes” (1977:146). Thus, with the trend toward fewer

children, postponed marriages and a fast-rising divorce rate, younger homebuyers and renters are trading in the tarnished dream of their parents for a new dream defined in urban rather than suburban terms. Others have emphasized the search for socially distinctive communities, as in the case of gay gentrification (Winters 1978; Lauria and Knopp 1985), while still others have extended this into a more general argument. In contemporary "post-industrial cities," according to David Ley, where white-collar service occupations supersede blue-collar productive occupations, this brings with it an emphasis on consumption and amenity, not work. Patterns of consumption come to dictate patterns of production; "the values of consumption rather than production guide central city land use decisions" (Ley 1978:11; 1980). Gentrification is explained as a consequence of this new emphasis on consumption. It represents a new urban geography for a new social regime of consumption. Earlier cultural explanations of this sort have been supplemented more recently by the tendency to treat gentrification as an urban expression of postmodernity or (in more extreme cases) postmodernism (Mills 1988; Caulfield 1994).

Over and against these cultural explanations are a series of closely related economic arguments. As the cost of newly constructed housing has risen rapidly in the postwar city and its distance from the city center increased, the rehabilitation of inner- and central-city structures is seen to be more viable economically. Old properties and housing plots can be purchased and rehabilitated for less than the cost of a comparable new house. In addition, many researchers, especially in the 1970s, stressed the high economic cost of commuting—the higher cost of gasoline for private cars and rising fares on public transportation—and the economic benefits of proximity to work.

These conventional hypotheses are by no means mutually exclusive. They are often invoked jointly and share in one vital respect a common perspective: an emphasis on consumer preference and the constraints within which these preferences are implemented. This assumption of consumer sovereignty is shared with the broader rubric of residential land use theory emanating from postwar neoclassical economics (Alonso 1964; Muth 1969; Mills 1972). According to these theories, suburbanization reflects the preference for space and the increased ability to pay for it due to the reduction of transportational and other constraints. Gentrification, then, is explained as the result of an alteration of preferences and/or a change in the constraints determining which preferences will or can be implemented. Thus in the media and the research literature alike, and especially in the US, where suburbanization bore such a heavy cultural symbolization, gentrification came to be viewed as a "back to the city movement."

This assumption applied as much to the earlier gentrification projects, such as Philadelphia's Society Hill (accomplished after 1959 with substantial state assistance—see Chapter 6), as it does to the later more spontaneous and more ubiquitous emergence of gentrification in the private market (albeit often still with public subsidies). All have become symbolic of a supposed middle-and upper-class pilgrimage back from the suburbs. And yet the pervasive assumption that the gentrifiers are disillusioned suburbanites may not be accurate. As early as 1966, Herbert Gans lamented the lack of any "study of how many suburbanites were actually brought back by urban renewal projects" (1968:287), and in subsequent years academic studies began to research the issue.

In the first part of this chapter, then, I present some empirical information from Society Hill in Philadelphia as a means of challenging the traditional consumer

sovereignty assumptions expressed by the "back-to-the-city" nomenclature. The next section examines the importance of capital investment for the shaping and reshaping of the urban environment, and this is followed by an analysis of disinvestment—a vital but widely ignored determinant of urban change. Finally, I try to bring these themes together in the proposal of a "rent gap" hypothesis for the explanation of gentrification.

A RETURN FROM THE SUBURBS?

The location of William Penn's "holy experiment" in the seventeenth century, Society Hill housed Philadelphia's gentry well into the nineteenth century. With industrialization and urban growth, however, its popularity declined, and the gentry, together with the rising middle class, moved west of Rittenhouse Square, and across the Schuylkill River to West Philadelphia, and to the new suburbs in the northwest. Society Hill deteriorated rapidly toward the end of the nineteenth century, being effectively written off as a "slum" neighborhood (Baltzell 1958). In the 1950s, however, a new city administration aligned itself with a patrician ambition for renewal, and in 1959 an urban renewal plan was implemented. Within ten years Society Hill was transformed. Described seventeen years later in Bicentennial advertising as "the most historic square mile in the nation," Society Hill again came to house the city's middle and upper middle classes and even a few members of the upper classes. Noting the enthusiasm with which rehabilitation was done, the novelist Nathanial Burt captured the elite flavor of many of the early US gentrification projects.

> Remodeling old houses is, after all, one of Old Philadelphia's favorite indoor sports, and to be able to remodel and consciously serve the cause of civic revival all at once has gone to the heads of the upper classes like champagne."
>
> (Burt 1963:556–557)

As this indoor sport caught on, therefore, it became Philadelphia folklore that "there was an upper class return to center city in Society Hill" (Wold 1975:325). Burt eloqu0ently explains in the still novel but emerging language of civic boosterism:

> The renaissance of Society Hill…is just one piece in a gigantic jigsaw puzzle which has stirred Philadelphia from its hundred-year sleep, and promises to transform the city completely. This movement, of which the return to Society Hill is a significant part, is generally known as the Philadelphia Renaissance.
>
> (Burt 1963:539)

In fact, by June 1962 less than a third of the families purchasing property for rehabilitation were from the suburbs[1] (Greenfield and Co. 1964:192). But since the first people to rehabilitate houses began work in 1960, it was generally expected that the proportion of suburbanites would rise sharply as the area became better publicized and a Society Hill address became a coveted possession. After 1962, however, no data were

officially collected. Table 3.1 presents data sampled from case files held by the Redevelopment Authority of Philadelphia, covering most of the first fifteen years of the project, by which time it was essentially complete. It represents a 17 percent sample of all rehabilitated residences.

It would appear that only a small proportion of gentrifiers—14 percent—did in fact return from the suburbs to Society Hill. By comparison, 72 percent moved from elsewhere within the city boundaries. A statistical breakdown of this latter group suggests that of previous city dwellers, 37 percent came from Society Hill itself, and 19 percent came from the fashionable Rittenhouse Square district alone. The remainder came largely from several middle- and upper-class neighborhoods in the city: Chestnut Hill, Mount Airy, Spruce Hill. Rather than a return from the suburbs, this would seem to suggest that gentrification is bringing about a recentralization and reconsolidation of upper- and middle-class white residences in the city center. A similar pattern of consolidation can be observed in several of the cities surveyed by Lipton (1977). Additional data from Baltimore and Washington, DC, on the percentage of returning suburbanites support the Society Hill data (Table 3.2). In a European context, similarly, Cortie *et al.* (1982) find very little evidence of a "return to the city" in connection with the gentrification of the Jordaan district of Amsterdam (see Chapter 8).

Table 3.1 The origin of rehabilitators in Society Hill, Philadelphia, 1964–1975

Year	*1964*	*1965*	*1966*	*1969*	*1972*	*1975*	*Total*	*Percentage by origin*
Same address	5	3	1	1	1	0	11	11
Elsewhere in the city	9	17	25	9	12	1	73	72
Suburbs	0	7	4	2	1	0	14	14
Outside SMSA	0	0	0	0	2	0	2	2
Unidentified	0	0	2	0	0	0	2	2
Total	14	27	32	12	16	1	102	100

Source: Redevelopment Authority of Philadelphia case files
Note: SMSA=Standard Metropolitan Statistical Area

Table 3.2 The origin of rehabilitators in three cities

City	*Percentage of city dwellers*	*Percentage of suburbanites*
Philadelphia:		
Society Hill	72	14
Baltimore		
Homestead Properties	65.2	27
Washington, DC		
Mount	67	18

Pleasant Capitol Hill	72	15

Sources: Baltimore City Department of Housing and Community Development 1977; Gale 1976, 1977

In Philadelphia and elsewhere an "urban renaissance" of sorts may well have begun in the 1950s and 1960s, but it was not fueled by any significant return of the middle class from the suburbs. Even at the height of 1980s gentrification, suburban expansion proceeded apace. This would seem to cast doubt on the traditional cultural and economic explanations of gentrification as the result of altered consumer choices amid economic constraints. It is not that consumer choice is unimportant; in one scenario, it is possible that some gentrification involves younger people who moved to the city for an education and professional training in the decades after the 1950s but who did not then follow their parents' migration to the suburbs, becoming instead a social reservoir from which the gentrifier demand grew. If a dimension of consumer choice certainly remains, consumer *sovereignty* is more difficult to defend as a definitive explanation for gentrification. The problem is that gentrification is not simply a North American phenomenon but also emerged in the 1950s and 1960s in Europe and Australia (see, for example, Glass 1964; Pitt 1977; Kendig 1979; Williams 1984b, 1986), where the extent and experience of prior middle-class (and indeed working-class) suburbanization and the relation between suburb and inner city are substantially different. Only Ley's (1978) more general societal hypothesis about postindustrial cities is broad enough to account for the process internationally while retaining a consumption-centered approach, but the implications of accepting this view are somewhat drastic. If cultural choice and consumer preference really explain gentrification, this amounts either to the hypothesis that individual preferences change in unison not only nationally but internationally—a bleak view of human nature and cultural individuality—or that the overriding constraints are strong enough to obliterate the individuality implied in consumer preference. If the latter is the case, the concept of consumer preference is at best contradictory: a process first conceived in terms of individual consumption preference has now to be explained as resulting from cultural unidimensionality in the middle class—still rather bleak. At best, then, a focus on consumption can be rescued as theoretically viable only if it is used to refer to collective social preference, not individual preference.

The broader critique of the theory and assumptions underlying traditional urban economic theory is now well known (Ball 1979; Harvey 1973; Roweis and Scott 1981). I want here just to consider one particular aspect of neoclassical theory as it is applied to neighborhood change, leading to gentrification. To explain contemporary changes in the inner-city housing market, Brian Berry among others resorts to a "filtering" model. According to this model, new housing is generally occupied by better-off families who vacate their previous, less spacious housing, leaving it to be taken by poorer occupants, and move out toward the suburban periphery. In this way, decent housing "filters" down and is left behind for lower-income families; the worst housing drops out of the market to abandonment or demolition (Berry 1980:16; Lowry 1960). Leaving aside entirely the question whether this "filtering" in fact guarantees "decent" housing for the working class, the filtering model is clearly based on a historicization of the effects of consumer

sovereignty. People possess a set of consumer preferences, including a preference for more and more residential space, the model assumes, and so the greater one's ability to pay for space, the more space one will purchase. Smaller, less desirable spaces are left behind for those less able to pay. Other factors certainly impinge on demand for housing as well as its supply, but this preference for space together with the necessary income constraints provide the foundation for neoclassical treatments of urban development.

Gentrification contradicts this foundation of assumptions. It involves a so-called filtering in the opposite direction and seems to contradict the notion that preference for space *per se* is what guides the process of residential development. This means either that this assumption should be dropped from the theory or that so-called "external factors" and income constraints were so altered as to render the preference for more space impractical and inoperable. It is in this way that gentrification is rendered an exception—a chance, extra-ordinary event, the accidental outcome of a unique mix of exogenous factors. But in reality gentrification is not so extraordinary; it is extraordinary only to the theory which assumes it impossible from the start. The experience of gentrification illustrates well the limitations of neoclassical urban theory since in order to explain the process, the theory must be abandoned, and a superficial explanation based on *ad hoc* external factors must be adopted. But a list of factors does not make an explanation. The theory claims to explain suburbanization but cannot at all explain the historical continuity from suburbanization to gentrification and inner-city gentrification. Berry implicitly recognizes the need for (but lack of) such historical continuity when he concludes:

> a restructuring of incentives played a critical role in the increase in home ownership and the attendant transformation of urban form after the Second World War. There is no reason to believe that another restructuring could not be designed to lead in other directions, for in a highly mobile market system nothing is as effective in producing change as a shift in relative prices. There is, then, a way. Whether there is a will is another matter, for under conditions of democratic pluralism, interest group politics prevail, and the normal state of such politics is "business as usual." The bold changes that followed the Great Depression and the Second World War were responses to major crises, for it is only in a crisis atmosphere that enlightened leadership can prevail over the normal business of politics in which there is an unerring aim for the lowest common denominator. Nothing less than an equivalent crisis will, I suggest, enable the necessary substantial inner city revitalization to take place.
>
> (Berry 1980:27–28).

In this way Berry shares with optimistic proponents of the process a voluntarist explanation of gentrification.

This critique of the neoclassical assumptions implicit in much gentrification research is partial and far from exhaustive. What it suggests, however, is the need for a broader conceptualization of the process, for the gentrifier as consumer is only one of many actors participating in the process. To explain gentrification according to the gentrifier's preferences alone, while ignoring the role of builders, developers, landlords, mortgage

lenders, government agencies, real estate agents—gentrifiers as producers—is excessively narrow. A broader theory of gentrification must take the role of the producers as well as the consumers into account, and when this is done it appears that the needs of production—in particular the need to earn profit—are a more decisive initiative behind gentrification than consumer preference. This is not to say in some naive way that consumption is the automatic consequence of production, or that consumer preference is a totally passive effect of production. Such would be a producer's sovereignty theory, almost as one-sided as its neoclassical counterpart. Rather, the relationship between production and consumption is symbiotic, but it is a symbiosis in which the movement of capital in search of profit predominates. Consumer preference and demand for gentrified housing can be and is created, most obviously through advertising. Even in such early projects as Society Hill, a Madison Avenue firm was hired to sell the project (Old Philadelphia Development Corporation 1970). Although they are of secondary importance in initiating the actual process, and therefore in explaining why gentrification occurred in the first place, consumer preference and demand are of primary importance in determining the final form and character of revitalized areas—the difference between Society Hill, say, and London's Docklands or Brisbane's Spring Hill.

The so-called "urban renaissance" has been stimulated more by economic than cultural forces. In the decision to rehabilitate an inner-city structure, one consumer preference tends to stand out through the others: the need to make a sound financial investment in purchasing a home. Whether or not gentrifiers articulate this preference, it is fundamental, for few would even consider rehabilitation if a financial loss were expected. A theory of gentrification must therefore explain why some neighborhoods are profitable to redevelop while others are not. What are the conditions of profitability? Consumer sovereignty explanations have taken for granted the availability of areas ripe for gentrification when this was precisely what had to be explained.

Alternative explanations will involve a more detailed understanding of the broader historical and structural context of capital investment in the built environment and its role in urban development.

INVESTMENT IN THE BUILT ENVIRONMENT

In a capitalist economy, land and the improvements built onto it become commodities. As such they boast certain idiosyncrasies of which three are particularly important for this discussion.

First, private property rights confer on the owner near-monopoly control over land and improvements, monopoly control over the uses to which a certain space is put. Certainly zoning, eminent domain and other state regulations put significant limits on the landowner's control of land, but in the capitalist economies of North America, Europe and Australia these limitations are rarely if ever severe enough to displace the market as the basic institution governing the transfer and use of land. From this condition derives the importance of ground rent as a means to organize the geography of economic location.

Second, land and improvements are fixed in space but their value is anything but fixed. Improvements on the land are subject to all the normal influences on their value

but with one vital difference. On the one hand, the value of the built improvements on a piece of land, as well as on surrounding land, influences the ground rent that landlords can demand; on the other hand, since land and buildings on it are inseparable, the price at which buildings change hands also reflects the ground rent level. Meanwhile a piece of land, unlike the improvements built on it, "does not require upkeep in order to continue its potential for use" (Harvey 1973:158–159).

Third, while land is permanent, the improvements built on it are not but generally have a very long turnover period in physical as well as value terms. Physical decay is unlikely to claim the life of most buildings for at least twenty-five years, usually a lot longer, and it may take as long in economic (as opposed to accounting) terms for the building to pay back its value. From this we can derive several things: in a well-developed capitalist economy, large initial outlays will be necessary for investments in the built environment; financial institutions will therefore play an important role in the urban land market (Harvey 1973:159); and patterns of capital depreciation will be an important variable in determining whether and to what extent a building's sale price reflects the ground rent level. These points will be of central importance in understanding patterns of investment and disinvestment.

In the economy, profit is the gauge of success, and competition is the mechanism by which success or failure is translated into growth or collapse. All individual enterprises must strive for higher and higher profits to facilitate the accumulation of greater and greater quantities of capital in profitable pursuits. Otherwise they find themselves unable to afford more advanced production methods and therefore fall behind their competitors. Ultimately, this leads either to bankruptcy or a merger into a larger enterprise. This search for increased profits translates, at the scale of the whole economy, into the necessity of long-run economic growth; stability is synonymous with growth. Particularly when economic growth is hindered elsewhere in the economy, or where profit rates are low, the built environment becomes a target for the switching of much profitable investment. This is particularly apparent with the experience of suburbanization; spatial expansion rather than expansion *in situ* was the response to the continual need for capital accumulation (Walker 1977; Harvey 1978). But suburbanization illustrates well the two-sided nature of investment in the built environment, for as well as being a vehicle for capital accumulation, it can also become a barrier to further accumulation. It becomes so by dint of the characteristics noted above: near-monopoly control of space; the fixity of investments; the long turnover period. Near-monopoly control of space by landowners may prevent the sale of land for new development; the fixity of investments forces new development to take place at other, perhaps less advantageous, locations, and prevents redevelopment from occurring until invested capital has lived out its economic life; the long turnover period of capital invested in the built environment can discourage investment as long as other sectors of the economy with shorter turnover periods remain profitable. The early industrial city presented just such a barrier by the later part of the nineteenth century, eventually prompting suburban development rather than development *in situ*.

During the nineteenth century, in most cities land values displayed something approximating the classical conical form: a peak at the urban center with a declining gradient on all sides toward the periphery. It is probably fair to say that while this conical rent gradient was certainly evident in Europe (Whitehand 1987:30–70), it is best

exemplified in North America and perhaps Australia, where industrialization took place if not *de novo* then at least in the context of a recently developed urban structure. There too the market was freer from state regulation. This, of course, was the pattern that Homer Hoyt (1933) found in Chicago. With continued urban development the land value gradient is displaced outward and upward; land at the center grows in value while the base of the cone broadens. Land values tend to change in unison with long cycles in the economy; they increase most rapidly during periods of particularly rapid capital accumulation and decline temporarily during slumps. And as Whitehand (1987:50) has demonstrated for Glasgow, these different cycles of outward growth may bring different kinds and sources of built environment construction. Since suburbanization relied on considerable capital investments in land, construction, transportation, etc., it too tended to follow this cyclical trend. Faced with the need to expand the scale of their productive activities, and unable or unwilling for a variety of reasons to expand any further where they were, industries jumped out beyond the city to the base of the land value cone where extensive spatial expansion was most possible and relatively cheap. The alternative—substantial renewal and redevelopment of the already built up area—would have been too costly for private capital to undertake, and so industrial capital increasingly migrated to the new suburbs.

In the US this movement of industrial capital began in force after the severe depression of 1893–1897, somewhat later than in Europe's larger and older urban centers. It was both followed and paralleled by a substantial migration of capital for residential construction. In the already well-established cities, the only significant exception to this geographical refocusing of construction capital lay in the central business district (CBD), where substantial skyscraper office development began by the 1920s. In fact, the inner city was adversely affected by this movement of capital to the suburbs where higher returns were available: a combination of neglect and concerted disinvestment by investors, due to high risk and low rates of return, initiated a long period of deterioration and a lack of new capital investment in the inner city. In the words of a 1933 commentator:

> The simple fact is that while cities have continued to spread in an unprecedented manner, resulting in much financial embarrassment at the present time, their commercial and light-industrial areas [and working-class quarters] at the center have stopped spreading and in some cases show very definite signs of receding from former partially occupied boundaries.
>
> (Wright 1933:417)

As a result, land values in the inner city generally fell relative to the CBD and the suburbs, and so by the late 1920s Hoyt could identify for Chicago a newly formed "valley in the land-value curve between the Loop and outer residential areas" (Figure 3.1). This valley "indicates the location of those sections where the buildings are mostly over forty years old and where the residents rank lowest in rent-paying ability" (Hoyt 1933:356–358). Hoyt noted this oddity—an apparent aberration in the conical rent gradient—and puzzled about it, but moved on. In fact, throughout the decades of most sustained

suburbanization, from the 1940s to the 1960s, this valley in the land value curve deepened and broadened owing to a continued lack of productive capital investment.

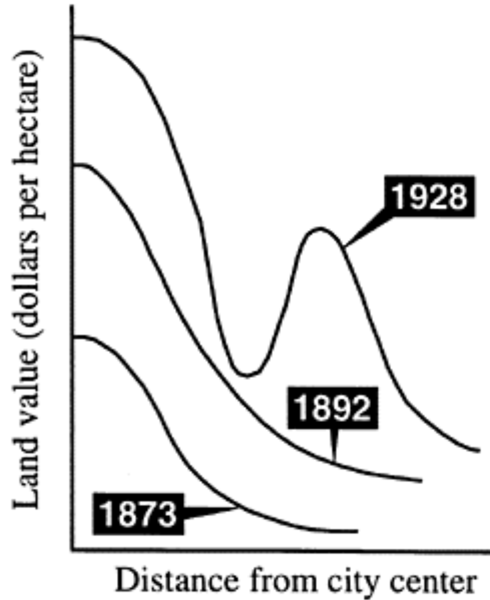

Figure 3.1 The ground rent surface and evolution of the land value valley in Chicago (after Hoyt 1933)

By the late 1960s the valley may have been as much as six miles wide in Chicago (McDonald and Bowman 1979), and a similar size in New York City (Heilbrun 1974:110–111). Evidence from other cities suggests that this capital devalorization and consequent broadening of the land value valley occurred in most older cities in the US (Davis 1965; Edel and Sclar 1975), producing the slums and ghettos that were suddenly discovered as "problems" in the postwar era by the departed suburban middle class.

A theory of gentrification will need to explain the historical process of capital devalorization in the inner city and the precise way in which this devalorization produces the possibility of profitable *re*investment. The crucial nexus here is the relationship between land value and property value. As they stand, however, these concepts are insufficiently refined. Land value for Hoyt was a composite category referring to the price of undeveloped plots and the expected future income from their use; the type of future use was simply assumed. Property value, on the other hand, is generally taken to mean the price at which a building is sold, and thus includes the value of the land. To elaborate the relationship between land value and the value of buildings in fuller detail, then, it will be necessary to disaggregate these two measures of value into four separate but related categories. These four categories (house value, sale price, capitalized ground

rent, potential ground rent) remain fully or partially obscure and indistinguishable under the umbrella concepts land value and property value.

House value

Consistent with its emphasis on consumer preference, neoclassical economic theory explains prices as the result of supply and demand conditions. But if, as suggested above, the search for a high return on productive investments is the primary initiative behind gentrification, then the specific costs of production (not just the quantity of end-product—i.e. supply) will be central in the determination of prices. In opposition to neoclassical theory, therefore, it will be necessary to separate the value of a house from its price. Following the classical political economists (Smith, Ricardo), and after them Marx, I take as axiomatic a labor theory of value: the value of a commodity is measured by the quantity of socially necessary labor power required to produce it. Only in the marketplace is value translated into price. And although the price of a house reflects its value, the two cannot mechanically be equated since price (unlike value) is also directly affected by supply and demand conditions. Thus value considerations (the amount of socially necessary labor power performed in making the commodity) set the level about which the price fluctuates. Now with housing, the situation is further complicated insofar as individual houses return periodically to the market for resale. The house's value will also depend, therefore, on its rate of devalorization through use, versus its rate of revalorization through the addition of more value. The latter occurs when further labor is performed for maintenance, replacement, extensions, etc.

Sale price

A further complication with housing is that the sale price represents not only the value of the house, but an additional component for rent since the land is generally sold along with the structures it accommodates. Here it is preferable to talk of ground rent rather than land value, since the price of land does not reflect a quantity of labor power applied to it, as with the value of commodities proper.

Capitalized ground rent

Ground rent is a claim made by landowners on users of their land; it represents a reduction from the surplus value created over and above cost price by producers on the site. Capitalized ground rent is the actual quantity of ground rent that is appropriated by the landowner, given the present land use. In the case of rental housing where the landlord produces a service on land he or she owns, the production and ownership functions are combined and ground rent becomes even more of an intangible category though nevertheless a real presence; the landlord's capitalized ground rent returns mainly in the form of house rent paid by the tenants. In the case of owner-occupancy, ground rent is capitalized only when the building is sold and therefore appears as part of the sale price. Thus, assuming for the moment an equation between price and value, sale price=house value+capitalized ground rent.

Potential ground rent

Under its present land use, a site or neighborhood is able to capitalize a certain quantity of ground rent. For reasons of location, usually, such an area may be able to capitalize higher quantities of ground rent under a different land use. Potential ground rent is the amount that could be capitalized under the land's "highest and best use" (in planners' parlance)—or at least under a higher and better use. This concept is particularly important in explaining gentrification.

On the basis of these concepts, the historical process that has made certain neighborhoods ripe for gentrification can be outlined.

CAPITAL DEVALORIZATION IN THE INNER CITY

The physical deterioration and economic devalorization of inner-city neighborhoods is a strictly logical, "rational" outcome of the operation of the land and housing markets. This is not to suggest it is at all natural, however, for the market itself is a social product. Far from being inevitable, neighborhood decline is

> the result of identifiable private and public investment decisions…. While there is no Napoleon who sits in a position of control over the fate of a neighborhood, there is enough control by, and integration of, the investment and development actors in the real estate industry that their decisions go beyond a response and actually shape the market.
>
> (Bradford and Rubinowitz 1975:79)

What follows is a rather schematic attempt to explain the historical decline of inner-city neighborhoods in terms of the institutions, actors and economic forces involved. We might think of this explanation as a production-side corrective to traditional "filtering" theory. It requires the identification of a few salient processes that characterize the different stages of decline, but it is not meant as a definitive description of what every neighborhood experiences. The day-to-day dynamics of decline are complex and, as regards the relationship between landlords and tenants in particular, have been examined in considerable detail elsewhere (Stegman 1972). This schema is, however, meant to provide a general explanatory framework within which each neighborhood's concrete experience can be understood. It is assumed from the start that the neighborhoods concerned are relatively homogeneous as regards the age and quality of housing, and, indeed, this tends to be the case with areas experiencing redevelopment.

New construction and the first cycle of use

When a neighborhood is newly built the price of housing reflects the value of the structure and improvements put in place plus the enhanced ground rent captured by the landowner. During the first cycle of use, the ground rent is likely to increase as urban development continues outward, and the house value will only very slowly begin to decline if at all. The sale price therefore rises. But eventually sustained devalorization of neighborhood housing can take hold, and this has three sources: advances in the

productiveness of labor; style obsolescence; and physical wear and tear. Advances in the productiveness of labor are chiefly due to technological innovation and changes in the organization of the work process. These advances allow a similar structure to be produced at a lower value than was previously possible. Truss frame construction and the factory fabrication of parts in general, rather than on-site construction, are only two recent examples of such advances. Style obsolescence is secondary as a stimulus for sustained depreciation in the housing market and may even occasionally induce an appreciation in house prices insofar as older styles are more sought after than the new. Physical wear and tear also affects the value of housing, but it is necessary here to distinguish between minor repairs which must be performed regularly if a house is to retain its value (for example, painting doors and window frames, interior decorating) and major repairs which are performed less regularly but require greater outlays (for example, replacing the plumbing or electrical systems), and structural repairs without which the structure becomes unsound (for example, replacing a roof, or replacing floorboards that have dry rot). Devalorization of a property after one cycle of use reflects the imminent need not only for regular, minor repairs but also for a succession of more

Plate 3.1 Disinvestment in the urban housing stock: an abandoned building and community-based rehabilitation *(The Shadow)*

major repairs involving a substantial investment. Devalorization will induce a price decrease relative to new housing but the extent of this overall decrease will depend on how much the ground rent has also changed in the meantime.

Landlordi and homeownership

Clearly, property owners in many neighborhoods succeed in making major repairs and maintaining or even enhancing the value of an area's housing. These areas remain stable. Equally clearly, there are areas of owner-occupied housing which experience the first stage of devalorization. Homeowners, aware of imminent decline unless repairs are made, may sell out and seek newer homes where their investment will be safer. At this point, after a first or subsequent cycle of use, there is a tendency for the neighborhood to convert toward a higher level of rental tenancy unless repairs are made. And since landlords use buildings for different purposes than owner-occupiers, a different pattern of maintenance will ensue. Owner-occupiers in the housing market are simultaneously both consumers and investors; as investors, their primary return comes as the increment of sale price over purchase price. The landlord, on the other hand, receives his or her return mainly in the form of house rent, and under certain conditions may have a lesser incentive for carrying out repairs so long as he or she can still command rent. This is not to say that landlords typically undermaintain properties they possess; newer apartment complexes and even older accommodations for which demand is high may be very well maintained. But as Ira Lowry has indicated, "under-maintenance is an eminently reasonable response of a landlord to a declining market" (1960:367), and since the transition from owner-occupancy to tenancy is generally associated with a declining market, some degree of undermaintenance could be expected.

Undermaintenance frees up capital that can be invested elsewhere. It may be invested in other city properties, it may follow developers' capital out to the suburbs, or it may be invested in some other sector of the economy entirely. With sustained undermaintenance in a neighborhood, however, it may become difficult for landlords to sell their properties, particularly since the larger financial institutions will now be less forthcoming with mortgage funds; sales become fewer and more expensive to the landlord. Thus, there is even less incentive to invest in the area beyond what is necessary to retain the present revenue flow. This pattern of decline is likely to be reversed only if a shortage of higher-quality accommodations occurs, allowing rents to be raised and making improved maintenance worthwhile. Otherwise, the area is likely to experience a net outflow of capital, which will be small at first since landlords still have substantial investments to protect. Under these conditions it becomes very difficult for the individual landlord or owner to struggle against the economic decline which they have helped to induce. House values are falling and the levels of capitalized ground rent for the area are dropping below the potential ground rent (see Figure 3.2). The individual who did not undermaintain his property would be forced to charge higher than average rent for the area with little hope of attracting tenants earning higher than average income which would capitalize the full ground rent. This is the celebrated "neighborhood effect" which operates through the ground rent structure.

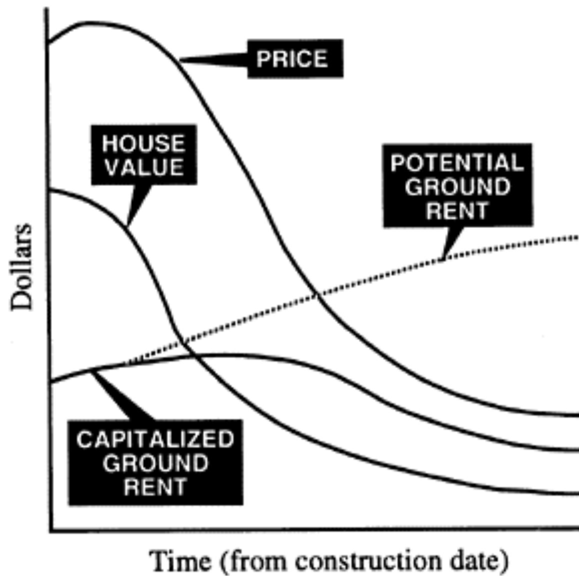

Figure 3.2 The devalorization cycle and the evolution of the rent gap

Blockbusting and blowout

Some neighborhoods may not transfer to rental tenancy and they will experience relative stability or a gentler continuation of decline. If the latter occurs, the owner-occupants may undermaintain, though usually out of financial constraints rather than market strategy. With blockbusting, this decline is intensified. Real estate agents exploit racist sentiments in white neighborhoods that are experiencing declining sale prices; they buy houses relatively cheaply, and then resell at a considerable markup to African-American, Latino or other "minority" families, many of whom may be struggling to own their first home. As Laurenti's research suggests, property values are usually declining before blockbusting takes place and do not begin declining simply as a result of racial changes in ownership (Laurenti 1960). Once blockbusting has taken place, however, further decline in house values is likely, not just because of the racism of the housing market but also because of the inflated prices at which houses were sold and the consequent lack of resources for maintenance and mortgage payments suffered by incoming families. Blowout, a similar process, operates without the helping hand of real estate agents. Describing the process as it operated in the Baltimore housing market during the 1960s, Harvey *et al.* (1972; see also Harvey 1973:173) point to the outward spread of slums from the inner city (the broadening of the land value valley) and the consequent squeezing of still healthy outer neighborhoods against secure upper-middle-class residential enclaves lying further out. Thus squeezed, owner-occupants in an entire neighborhood are likely to sell out, often to landlords, and move to the suburbs.

Redlining

Undermaintenance gives way to more active disinvestment as capital depreciates further and the landlord's stake diminishes; house value and capitalized ground rent fall, producing further decreases in sale price. Disinvestment by landlords is accompanied by an equally "rational" disinvestment by financial institutions, which cease supplying mortgage money to the area. Larger institutions offering low-downpayment, low-interest-rate loans find they can make higher returns in the suburbs with a lower chance of foreclosure and less risk of declining property values. Their role in the inner city is taken over initially by smaller, often local organizations specializing in higher-risk financing. Redlined by larger institutions, the area may also receive loans insured by the Federal Housing Administration (FHA), although these too were virtually confined to the outer city. Though meant to prevent decline, FHA loans have even contributed to decline in places (Bradford and Rubinowitz 1975:82). In addition to mortgage redlining, there is also redlining on the part of homeowner insurance companies (Squires *et al.* 1991), which further induces economic disinvestment. What loans do occur at this stage allow properties to change hands but do little to encourage reinvestment in maintenance so the process of decline can simply be lubricated. Ultimately, medium and small-scale investors also refuse to work the area, as do mortgage insurers.

Vandalism further accelerates devalorization and becomes a problem especially when properties are temporarily vacant between tenants (Stegman 1972:60). Even when a building is occupied, however, vandalism may contribute to devalorization, especially if it is being undermaintained or systematically "milked". Vandalism is actually a landlord strategy at this stage, whether in New York (Salins 1981) or, less commonly, in London (Counsell 1992). Subdivision of structures to yield more rental units is common at this stage. By subdividing, the landlord hopes to intensify the building's use (and profitability) in its last few years. But eventually landlords will disinvest totally, refusing to make repairs and paying only the necessary costs—and then often only sporadically—for the building to yield rent.

Abandonment

When landlords can no longer collect enough house rent to cover the necessary costs (utilities and taxes), buildings are abandoned. This is a neighborhood-scale phenomenon; the abandonment of isolated properties in otherwise stable areas is rare. Much abandoned housing is structurally sound, which seems paradoxical. But then buildings are abandoned not because they are unusable, but because they cannot be used *profitably*. At this stage of decline, there is a certain incentive for landlords to destroy their own property through arson and collect the substantial insurance payment.

GENTRIFICATION—THE RENT GAP

The previous section presented a summary sketch of the process which was commonly but misleadingly referred to in the 1960s and 1970s as "filtering." It is a common process in the housing market and affects many neighborhoods; if it is most accomplished and most clearly evident in the cities of the US, it is not exclusively a US phenomenon, as

Friedrichs' (1993) comparative research on Germany and the US makes clear. But by the same token, this cycle of devalorization is by no means universal, nor does it take place in precisely the same manner in every neighborhood. It is included here precisely because gentrification is generally preceded by such a cycle, although the process need not occur fully for gentrification to ensue. Nor should this decline be thought of as inevitable. As Lowry quite correctly insists, "filtering" is due not simply "to the relentless passage of time" but to "human agency" (1960:370). The previous section has suggested who some of these agents are, and the market forces they both react to and help create. It also suggests that the objective mechanism underlying filtering is the depreciation and devalorization of capital invested in residential inner-city neighborhoods. This devalorization produces the objective economic conditions that make capital *revaluation* (gentrification) a rational market response. Of fundamental importance here is what I call the rent gap.

The rent gap is the disparity between the potential ground rent level and the actual ground rent capitalized under the present land use (Figure 3.2). The rent gap is produced primarily by capital devalorization (which diminishes the proportion of the ground rent able to be capitalized) and also by continued urban development and expansion (which has historically raised the potential ground rent level in the inner city). The valley which Hoyt detected in his 1928 observation of land values (Figure 3.1) can now be understood in large part as the result of a developing rent gap. Only when this gap emerges can reinvestment be expected since if the present use succeeded in capitalizing all or most of the ground rent, little economic benefit could be derived from redevelopment. As filtering and neighborhood decline proceed, the rent gap widens. Gentrification occurs when the gap is sufficiently wide that developers can purchase structures cheaply, can pay the builder's costs and profit for rehabilitation, can pay interest on mortgage and construction loans, and can then sell the end product for a sale price that leaves a satisfactory return to the developer. The entire ground rent, or a large portion of it, is now capitalized; the neighborhood is thereby "recycled" and begins a new cycle of use.

We have focused here on the widespread situation in which a cycle of capital devalorization, brought about by disinvestment, accounts for the emergence of a rent gap. But it is also possible to conceive of a situation in which, rather than the capitalized ground rent being pushed down through devalorization, the potential ground rent is suddenly pushed higher, opening up a rent gap in a different manner. This might be the case, for example, when there is rapid and sustained inflation, or where strict regulation of a land market keeps potential ground rent low, but is then repealed. This contribution to the formation of a rent gap might be significant in explaining gentrification in Amsterdam and Budapest (see Chapter 8).

Once the rent gap is wide enough, gentrification may be initiated in a given neighborhood by any of several different actors in the land and housing market. And here we come back to the relationship between production and consumption, for the empirical evidence suggests that as often as not, the process is initiated not by the exercise of those individual consumer preferences much beloved of neoclassical economists, but by some form of *collective social action* at the neighborhood level. The state, for example, initiated much of the early gentrification in the US as a continuation of urban renewal projects, and though it plays a lesser role today, state subsidies and sponsorship of gentrification remain important. More commonly today, with private-market

gentrification, one or more financial institutions will reverse a long-standing redlining policy and actively target a neighborhood as a potential market for construction loans and mortgages. All the consumer preference in the world will amount to naught unless this long-absent source of funding reappears; mortgage capital, in some form or other, is a prerequisite. Of course, this mortgage capital must be borrowed by willing consumers exercising some preference or another. But these preferences can be and are to a significant degree socially created. Along with financial institutions, professional developers have generally acted as the collective initiative behind gentrification. Typically, a developer will purchase not one but a significant proportion of devalorized properties in a neighborhood for rehabilitation and sale. A significant exception to this predominance of collective capital in the initiation of gentrification occurs in neighborhoods adjacent to already gentrified areas. There, indeed, it is common to find that individual gentrifiers may be very important in initiating rehabilitation. Their decision to rehabilitate followed the results from the previous neighborhood, however, which implies that sound financial investment was uppermost in their minds. And they still require mortgage capital from willing institutions.

Three kinds of developers typically operate in recycling neighborhoods: (a) professional developers who purchase property, redevelop it, and resell for profit; (b) occupier developers who buy and redevelop property and inhabit it after completion; and (c) landlord developers who rent to tenants after rehabilitation.[2] The developer's return on investment comes as part of the completed property's sale price; for the landlord developer it also comes in the form of house rent. Two separate gains comprise the return achieved through sale: capitalization of enhanced ground rent, and profit (quite distinct from builder's profit) on the investment of productive capital. Professional and land-lord developers are important—contrary to the public image, they were by far the majority in Society Hill—but occupier developers are more active in rehabilitation than they are in any other sector of housing construction. Since the land has already been developed and an intricate pattern of property rights laid down, it is not always easy for the professional developer to assemble sufficient land and properties to make involvement worthwhile. Even landlord developers tend to be rehabilitating several properties simultaneously or in sequence. The fragmented structure of property ownership has made the occupier developer, who is generally an inefficient operator in the construction industry, into a plausible vehicle for remaking devalorized neighborhoods.

Viewed in this way, gentrification is not a chance occurrence or an inexplic able reversal of some inevitable filtering process. On the contrary, it is to be expected. The devalorization of capital in nineteenth-century inner-city neighborhoods, together with continued urban growth during the first half of the twentieth century, have combined to produce conditions in which profitable reinvestment is possible. If this rent gap theory of gentrification is correct, it might be expected that rehabilitation began where the gap was greatest and the highest returns available, that is, in neighborhoods particularly close to the city center and in neighborhoods where the sequence of declining values had pretty much run its course. But too much could be made of this expectation. Empirically, gentrification has indeed tended to hug the city center, at least in the early stages, but too much goes into the immediate causes of gentrification in a particular neighborhood for it to be possible to correlate level of decline with propensity to gentrify. The theory would also suggest that as these first areas are recycled, other areas offering lower but still

substantial returns—or areas presenting fewer obstacles to reinvestment—would be sought out by developers. This would involve areas farther from the city center and areas where decline was less advanced. Thus in Philadelphia, South Street, Fairmount and Queen Village became the new "hot spots" following Society Hill (Cybriwsky 1978; Levy 1978), and the city's triage policy for allocating block grant funds made other parts of near North and West Philadelphia likely candidates for future reinvestment in some form or another.

The state's role in earlier rehabilitation schemes is worth noting. By assembling properties at a "fair market value" and returning them to developers at the lower assessed price, the state accomplished and bore the costs of the last stages of capital devalorization, thereby ensuring that developers could reap the high returns without which rehabilitation or redevelopment would not occur. With the state now less involved in this writing down of property values, developers are clearly able to absorb the costs of devaluing capital that has not yet fully devalorized. That is, they can pay a relatively high price for properties to be rehabilitated, and still make a reasonable return. It seems, then, that whatever social and political failures accompanied urban renewal—and they were of course many—the state has actually been successful in economic terms insofar as it has provided the broad conditions that would stimulate private market revitalization.

CONCLUSION: A BACK-TO-THE-CITY MOVEMEN BY CAPITAL

Gentrification is a structural product of the land and housing markets. Capital flows where the rate of return is highest, and the movement of capital to the suburbs, along with the continual devalorization of inner-city capital, eventually produces the rent gap. When this gap grows sufficiently large, rehabilitation (or, for that matter, redevelopment) can begin to challenge the rates of return available elsewhere, and capital flows back in. Gentrification is a back-to-the-city movement all right, but a back-to-the-city movement by capital rather than people.

The advent of gentrification in the latter part of the twentieth century has demonstrated that contrary to the conventional neoclassical wisdom, middle-and upper middle-class housing can be intensively developed in the inner city. Gentrification itself has now significantly altered the urban ground rent gradient. The land value valley may be being displaced outward and in part upward as gentrification revalues central city land (Figure 3.3), and as disinvestment is displaced outward to the closer, older suburbs leading in turn to a new flurry of complaints that middle-class suburbs now face "city problems" (Caris 1996; Schemo 1994).

Plate 3.2 Dr. Dan explains gentrification (Doonesbury © 1980 G.B.Trudeau. Reprinted with permission of Universal Press Syndicate. All rights reserved)

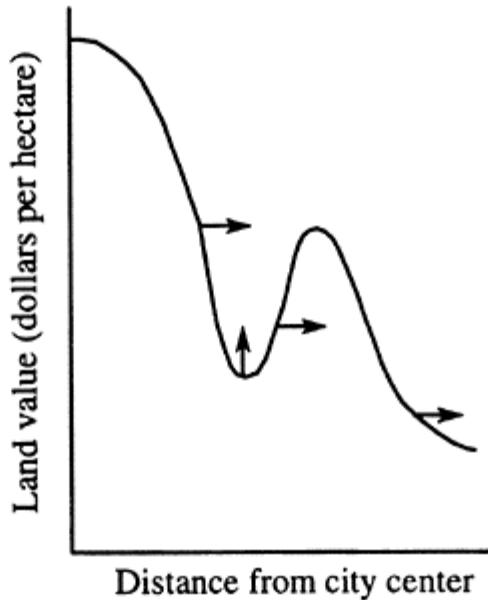

Figure 3.3 Evolution of the ground rent surface and land value valley following gentrification

Gentrification has been the leading residential and recreational edge (but in no way the cause) of a larger restructuring of space. At one level, restructuring is accomplished according to the needs of capital, accompanied by a restructuring of middle-class culture. But in a second scenario, the needs of capital might be systematically dismantled, and a

more social, economic and cultural agenda addressing the direct needs of people might be substituted as a guiding vision of urban restructuring.

In the meantime, however, it is difficult to speculate much further about the immediate prospects for gentrification and the city, solely from the local perspective adopted in this chapter. The process, after all, is tightly bound up with the patterns and rhythms of capital investment in the built environment and of capital accumulation and crisis more generally.

POSTSCRIPT

Since the rent gap theory was originally proposed in 1979, it has become the subject of considerable debate and research in the urban literature. Predictably, perhaps, it has been attacked for displacing consumer preference and individual choice from its explanatory pedestal and replacing individual consumption with the movement of capital (Ley 1986; Mills 1988; Caulfield 1989, 1994; Hamnett 1991; response by Clark 1992). Some have suggested an ambivalent connection between rent gap theory and Marshallian economics (Clark 1987) while others have tried to gentrify the theory itself back into safe if confused neoclassical terms (Bourassa 1993, and response by Clark 1995; Boyle 1995; N.Smith 1995b). More directly, some have simply denied the existence of anything approximating a rent gap (Ley 1986, and for a response, N.Smith 1987; Bourassa 1990, and responses by Badcock 1990). More reasonably, a number of critics have pointed to the limits of the theory. Beauregard (1990) argues that the rent gap theory cannot predict precisely which neighborhoods will gentrify and which will not, and Badcock (1989) points out that gentrification (in the narrower sense of residential rehabilitation) was actually a third choice for filling in the rent gap in Adelaide. The theory also omits the clear connections to social change that come with gentrification, and in particular it does not explain the emergence of the agents of gentrification (D.Rose 1984, 1987; Beauregard 1986, 1990).

The latter criticisms have some merit and I think they serve to establish some limits to the applicability of the rent gap theory, which was, after all, deliberately intended to view gentrification through the lenses of the local housing market. It is also a difficult concept to render operational (Ley 1986; N.Smith 1987). Nonetheless, since the initial proposal of the theory, rent gaps have been identified in a number of cities undergoing gentrification. Identification of the rent gap depends on finding appropriate measures for capitalized and potential ground rent, and in different national contexts different sources have been used for this purpose.

Clark's (1987) landmark study painstakingly identified the rent gap in several sampled blocks in central Malmö in Sweden. A significant rent gap began to emerge toward the end of the nineteenth century in Malmö but began to close with gentrification activity and redevelopment in the late 1960s and early 1970s (see also Clark 1988). More recently Clark and Gullberg (1991) have examined the interaction between rent gaps, long swings in urban building and different forms of building in Stockholm. An equally meticulous study by Engels (1989) was able to measure the evolution of a rent gap in Glebe, a suburb of Sydney, beginning in the earlier years of this century. Here too there is evidence of a considerable closing of the gap in the early 1970s with the onset of gentrification. Both

studies suggest that speculation ahead of physical reconstruction can also significantly diminish the rent gap.

While questioning other aspects of gentrification, Badcock (1989) was able to identify the rent gap in Adelaide while pointing out that a number of different strategies of revaluing a devalorized landscape might well be adopted

Plate 3.3 Dr. Dan explains the rent gap (Doonesbury © 1980 G.B.Trudeau. Reprinted with permission of Universal Press Syndicate. All rights reserved)

depending on local conditions and government initiatives (see also Badcock 1992a, 1992b). Allison identified the "valley in land values" in Brisbane's Spring Hill but found it difficult to quantify precisely (Allison 1995:165). Kary (1988) has charted a land value valley around Toronto in the 1960s and early 1970s but notes that the depth of the valley is far from uniform around the city. He goes on to identify the rent gap in his case study of the Cabbagetown/Donvale district and he too traces the evidence of infilling following gentrification in the late 1970s and 1980s. Cortie and van de Ven (1981) and van Weesep and Wiegersma (1991) mark the presence of rent gaps in Amsterdam.

In the context of the London property market, Hamnett and Randolph (1984, 1986) identify what they call a "value gap" between the "vacant possession value" of a property and its "tenanted investment value." Where the "value gap" becomes sufficiently large, the property owner is encouraged to transfer the building from rental residential to other tenure forms. A couple of points about this argument are relevant here. In the first place, if we are to be consistent with the distinction between price and value, the value gap would more properly be referred to as a "price gap." Given its broad currency, however, it is probably not useful to insist on this pedantic nomenclature. Second, there is clearly a relationship between the "value" gap and the rent gap. As Clark (1991a) points out, the rent gap theory does not directly address the question of tenure conversion in the process of gentrification, and so the value gap can be seen as a complementary refinement of the rent gap argument. As Clark concludes, "a property will not have a value gap without also having a rent gap" (Clark 1991b:24).

Finally a historical note. Clark (1987) is surely correct to argue that although the rent gap theory sounds very novel its antecedents lie in both Friedrich Engels *and* Alfred

Marshall. And others surely also anticipated the idea. A 1933 account envisions the rent gap explanation of gentrification and redevelopment to an astonishing degree.[3] It may be a "startling claim," begins regional planner Henry Wright, but "the greatest impediment to slum clearance, the high cost of land near the city center is already well on the way to dissolution." He goes on to identify "actual and potential land values" and draws a chart of their divergence:

> Thus we find actual use values for the slum area…subject to reduction by a double pull, outward to the new suburbs…and the new and scarcely recognized pull inward toward the skyscraper center of reducing capacity requirements. The slum is left an "orphaned" district…. But these usually astute [real estate] interests have as yet failed to acknowledge the full losses in a shrinkage to a final "real value" for the only purpose for which there remains a probable use: their reconstruction for residential purposes and this to be of a kind capable of absorbing relatively large areas of land.
>
> (Wright 1933:417–418)

In other words, they have not yet perceived the "potential land value," in Wright's words, that could come from renovation and redevelopment.

Having identified the problem, Wright is equally direct about the solution. These "nearer areas," he says "should be properly made over on the basis of land costs"

> I do not hesitate to say at once that the idea that the slums should be rebuilt primarily with the vision of rehousing the present tenants is no longer valid in respect to any large-scale handling of the problem…. why should we not take advantage of the situation to readjust our ideas about desirable dwelling ideas and recreate the present slum districts for the convenient and enjoyable occupancy of those whose business relations are largely in the central area?
>
> (Wright 1933:417, 419)

If it had to endure the failed agenda of urban renewal—indeed ironically, was enhanced by it—this agenda for a "make over on the basis of land costs" (Wright 1933:417), dating back to the 1930s, surely found perfect expression in the gentrification of recent decades.