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Abstract

Gentrification is the process of physically renovating the housing and retail in a neighborhood in order to increase property values, establish high profile restaurants and shops, and attract an influx of wealthier residents. In this literature review I will explore the benefits and costs of gentrification. Section II explores research emphasizing the positive characteristics of gentrification, while Section III reviews literature discussing the negative effects of gentrifying a neighborhood. The final section summarizes the material and addresses areas for further study.

Gentrification: Deliberate Displacement, or Natural Social Movement?

Jessica Biro

I. Introduction¹

Gentrification is the process of physically renovating the housing and retail in a neighborhood in order to increase property values, establish high profile restaurants and shops, and attract an influx of wealthier residents. Some economists view this course of action as a source of positive economic growth, which raises the status of an area and increases economic activity and land prices. Others see gentrification in another light, claiming that as the wealthy move in, the poor residents can no longer afford to live in the renovated area. These victims of displacement have no option but to leave and find a more affordable neighborhood. In this literature review I will explore the benefits and costs of gentrification. Section II explores research emphasizing the positive characteristics of gentrification, while Section III reviews literature discussing the negative effects of gentrifying a neighborhood. The final section summarizes the material and addresses areas for further study.

II. Gentrification as a Positive Force

Raphael Bostic and Richard Martin (2003), Loretta Lees (2003), Hoang Huu Phe and Patrick Wakely (2000) share the view that the gentrification is not intrinsically designed to displace low income residents. They point out that people with similar interests tend to live in the same area, so when high income residents move in and low income residents move out, it reflects the change of preferences in the neighborhood. Gentrification has many positive effects on an area. The revitalization of

the physical property and amenities in an area increases property values, creates jobs, improves the quality of schools, and lowers crime rates. As a result of gentrification, low income residents in the area have greater opportunities to bridge the income gap while achieving self-improvement and a higher standard of living.

Natural social movement causes people to gather by social classes. Phe and Wakely (2000) develop the Status/Quality theory to explain housing preferences. The traditional housing-cost/travel-cost tradeoff theory claims that people achieve equilibrium by choosing a location that balances the cost of housing and the cost of commuting. Phe and Wakely (2000 p. 10) improve on the traditional theory by recognizing additional externalities that people consider when choosing a housing location: "Housing status is a measure of the desirability attached to housing in a particular locality. It can represent wealth, culture, religion, environmental quality, etc. depending on the current value system of a given society." Housing status varies from household to household depending on what the individuals value most. For example, a household with children would value a neighborhood with good schools, whereas a young couple would place higher value on entertainment and restaurants. People will pay a premium to live in areas that they believe are high status. Phe and Wakely (2000 p. 10) also recognize that people take dwelling quality into consideration when deciding on where to live: "Dwelling quality includes physical, measurable characteristics such as floor area, number of bathrooms, number of stories, etc." When low income houses are renovated they reach a higher quality and therefore are marketable to buyers who can

¹ *Jessica Biro is a junior accounting major and economics minor from Joliet, Illinois. She wrote "Gentrification: Deliberate Displacement, or Natural Social Movement?" for her Urban Economics class.*

afford to pay a premium for homes with better quality characteristics. If higher income people decide to buy these renovated homes, the status of the area increases. Ultimately, under the status/quality theory, people with similar opinions of housing status and dwelling quality will cluster in the neighborhood and create gentrification.

It is easier to understand why the wealthy would move into the city under the status/quality theory than it is under the travel-cost/housing-cost tradeoff theory. High income workers do not necessarily need access to lower transport costs through mass transportation or a shorter commute. Therefore the tradeoff between commuting costs and housing value is not a large enough concern to cause widespread gentrification in cities. Moving to a city does offer other externalities such as entertainment, and shopping, high class status, and high quality housing. Gentrification, then, does not mean that wealthy people intentionally displace lower income residents, but that they cluster according to preferences and pay a premium to maintain their way of life. Both low income and high income housing shift from one area to another.

Results from Bostic and Martin's article (2003) agree with Phe and Wakley's findings (2000) that gentrification leads to social class movement, but not deliberate displacement. Bostic and Martin (2003) study the relationship between race and gentrification. While gentrification is typically believed to force minorities out of an area, their studies show that after gentrification, Black homeownership increased, while low income African-American and Caucasian renters moved out. "Many laws and policies designed to protect minority populations give them equal access to mortgage and housing markets... [these policies] improve prospects for minorities to overcome longstanding prejudices and achieve homeownership and, potentially, spur gentrification," (Bostic and Martin, 2003 p. 2429). When gentrification takes place, minorities who previously rented their home have a chance to

take advantage of these policies and buy a home in their own neighborhood. Improved conditions and higher standard of living in the neighborhood attract higher income residents who expand the tax base. This means that the government can pour more funds into schools and social programs to benefit underprivileged residents.

Lees (2003) also argues that minorities are not necessarily the only group affected by gentrification. She focuses on Brooklyn Heights, New York City to explain the concept of super-gentrification. Here there were three waves of gentrification. With each wave, the neighborhood becomes more exclusive and more expensive. This reflects the shift of preferences discussed in Phe and Wakley's article (2000): as more high income residents flock to Brooklyn Heights to establish their status in newly renovated apartments, upper middle class residents move to areas that fulfill their own preferences for status and housing quality. Despite the influx of well-educated professionals in this area, the demographic makeup of Brooklyn Heights did not change dramatically during the 30 years of gentrification. (Lees, 2003). Even in a super-gentrified neighborhood, the aim is not to make an exclusively Caucasian society. Rather, people with similar tastes gather in a neighborhood regardless of their race.

III. Costs of Gentrification

Economists Elvin Wyly and Daniel Hammel (2004), Rowland Atkinson (2003, 2004), and P.A. Redfern (2003) agree that the positive effects of gentrification come at the expense of displaced citizens. Displacement occurs when households have to move involuntarily from an area. Several discussions point out reasons why gentrification does not simply lead to natural social movement, but forces residents out of their homes. Redfern (2003 p. 2364) points out that gentrifiers create anxiety "specifically because, in realizing their goals, they deny those they displace the opportunity of realizing theirs." When a group of gentrifiers moves in, those less

fortunate are forced to move out and are unable to achieve their goal of improving their quality of life.

Wyly and Hammel (2004) recognize these lost opportunities and unrealized goals in gentrified areas. They discuss how gentrification encourages realtors and banks to maintain segregation through discriminatory practices, thus contributing to displacement in gentrified areas. Realtor steering occurs when realtors encourage upscale buyers to locate in one area by showing property in specific neighborhoods. Meanwhile, they show low income clients options in less prosperous areas. Realtors can play a part in displacement by encouraging high income buyers to locate in a gentrifying area. Banks also play a role in segregation because they are more reluctant to lend to buyers or developers in neglected areas. "Banks remain hesitant to lend in gentrifying areas until they see the results achieved," (Wyly and Hammel, 2004 p. 1224). Once gentrification has established a given amount of wealth in an area, banks widen the income gap by lending to more affluent borrowers. Discrimination from banks and realtors puts the underprivileged at a greater disadvantage and intensifies the negative effects of gentrification.

Unfortunately, banks and realtors are not the only institutions that contribute to displacement. Wyly and Hammel (2004) also show how insurance companies use insurance discrimination to extinguish poverty and contribute to the growth of affluence in a gentrified area. Just as banks with several loans in a specific area want the area to prosper to avoid default, property insurance companies fulfill their self-interests by maintaining class exclusivity in an area. Neighborhoods with low income whites and minorities increase the risk of theft, fire, and other crime-related losses, so insurance companies are more willing to insure the high income residents moving into a gentrified area. Insurance companies, banks, and realtors contribute to displacement in gentrified

areas and make it more difficult for low income residents to take advantages of the positive opportunities provided by gentrification.

Atkinson (2003, 2004), like Wyly and Hammel (2004), discusses the forces behind displacement. Landlords often use harassment and eviction to displace lower income tenants. The intensity of price increases in many neighborhoods encourages landlords to remove tenants through illegal means so that they can sell the property or acquire higher paying tenants. This cruel treatment of tenants puts low income residents at a major disadvantage. Low income residents are forced to find a more affordable location, and therefore must move away from their jobs and incur higher commuting costs. These tenants have no chance to enjoy the revitalized area or embrace the opportunities for self-improvement when their landlords work so hard to force them out of their homes. Unless policies are enforced to prevent this behavior, the positive effects of gentrification are useless to the poor.

Maureen Kennedy and Paul Leonard (2001) agree that the benefits of gentrification are jeopardized when certain institutions work to displace poor residents. They focus on the city government's role in displacement by explaining its incentives to attract residents with higher incomes. Improving public schools, cleaning up public parks, and providing other public amenities is a costly project for the government. In order to fund gentrification projects, they must widen the tax base. When gentrification occurs, the population often decreases because apartments are built with fewer and larger units, and homes are built on larger lots. With a smaller population, the city attracts higher income residents as a way to enhance their tax revenues. This leads to an increase in property taxes and overall tax revenue. A mixed or higher income community also means that cities pay less for welfare, public housing, and other services offered to the poor because fewer people require these services. Those in favor of

gentrification argue that well-educated neighbors with stable jobs and families are good role models for the children of single-parent families living in poverty who are likely to drop out of school or commit crimes. However, if these underprivileged families cannot afford the taxes, property values, or rent in a gentrified area, they will be forced to move, will resent their “role models,” and will never reap the benefits of the public improvements provided by the new residents’ tax dollars.

IV. Conclusion

A clear understanding of the positive and negative effects is important in order to justify or condemn gentrification. “Gentrification is a double-edged sword. It is often a productive byproduct of revitalizing city neighborhoods, but it can impose great costs on certain individual families and businesses, often those least able to afford them” (Kennedy and Leonard, 2001 p. 14). Maureen Kennedy and Paul Leonard do not take a side in their essay, but they do try to reframe the issue to address the positive effects while sympathizing with the less fortunate citizens. It is very difficult to accurately measure the effects of gentrification, because most data are collected after gentrification is well underway. Even the economists who argue against gentrification admit that displacement is hard to measure. Unless the research is done before, during, and after the gentrification process, the evidence may be skewed or the comparisons may be inaccurate.

Is it wise to sacrifice economic growth to prevent gentrification? This is the major tradeoff in question. Who really suffers as a result of gentrification, and is their displacement a direct result of gentrification or are more complex issues to blame? As Atkinson (2003 p. 2347) points out, “The racial dimension of gentrification has often been acknowledged but has been generally underresearched in the literature.” Race and gender issues related to gentrification are one area of further study. Additional research topics also include

government policies and political platforms regarding gentrification, landlord and rent reactions to gentrification, and educational and job opportunities created through gentrification. It is important that the causes and effects of gentrification are studied in different cities throughout the country. Since laws and government policies vary among states and cities, the effects are always slightly different.

While some government policies embrace gentrification as a way to create opportunities and improve the quality of life for impoverished residents, certain institutions and intrinsic policies prevent the positive effects intended by the revitalization of a neighborhood. While crime rates drop and job opportunities rise, landlords force tenants out of their homes, and banks, realtors, and insurance companies entice an influx of wealthier residents. Existing and further studies on gentrification will help the government design policies to prevent corrupt practices and enable low income residents to achieve the expected benefits associated with gentrification.

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