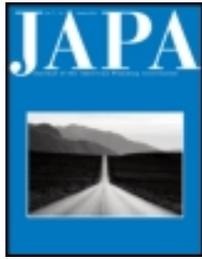


This article was downloaded by: [96.246.70.206]

On: 07 February 2014, At: 21:12

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



## Journal of the American Planning Association

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rjpa20>

### Toward a Theory of Gentrification A Back to the City Movement by Capital, not People

Neil Smith

Published online: 26 Nov 2007.

**To cite this article:** Neil Smith (1979) Toward a Theory of Gentrification A Back to the City Movement by Capital, not People, Journal of the American Planning Association, 45:4, 538-548, DOI: [10.1080/01944367908977002](https://doi.org/10.1080/01944367908977002)

**To link to this article:** <http://dx.doi.org/10.1080/01944367908977002>

PLEASE SCROLL DOWN FOR ARTICLE

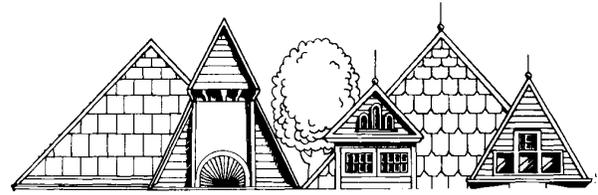
Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at <http://www.tandfonline.com/page/terms-and-conditions>

# Toward a Theory of Gentrification

## A Back to the City Movement by Capital, not People

Neil Smith



Consumer sovereignty hypotheses dominate explanations of gentrification but data on the number of suburbanites returning to the city casts doubt on this hypothesis. In fact, gentrification is an expected product of the relatively unhampered operation of the land and housing markets. The economic depreciation of capital invested in nineteenth century inner-city neighborhoods and the simultaneous rise in potential ground rent levels produces the pos-

sibility of profitable redevelopment. Although the very apparent social characteristics of deteriorated neighborhoods would discourage redevelopment, the hidden economic characteristics may well be favorable. Whether gentrification is a fundamental restructuring of urban space depends not on where new inhabitants come from but on how much productive capital returns to the area from the suburbs.

Following a period of sustained deterioration, many American cities are experiencing the gentrification of select central city neighborhoods. Initial signs of revival during the 1950s intensified in the 1960s, and by the 1970s these had grown into a widespread gentrification movement affecting the majority of the country's older cities.<sup>1</sup> A recent survey by the Urban Land Institute (1976) suggests that close to half the 260 cities with over 50,000 population are experiencing rehabilitation in the inner city areas. Although nationally, gentrification accounts for only a small fraction of new housing starts compared with new construction, the process is very important in (but not restricted to) older northeastern cities.

As the process of gentrification burgeoned so did the literature about it. Most of this literature concerns the contemporary processes or its effects: the socioeconomic and cultural characteristics of immigrants, displacement, the federal role in redevelopment, benefits to the city, and creation and destruction of community. Little attempt has been made to construct historical explanations of the process, to study causes rather than effects. Instead, explanations are very much taken for granted and fall into two categories: cultural and economic.

---

*Neil Smith is a doctoral student in the Department of Geography and Environmental Engineering at The Johns Hopkins University. He is presently doing research under Dr. David Harvey.*

**Cultural.** Popular among revitalization theorists is the notion that young, usually professional, middle-class people have changed their lifestyle. According to Gregory Lipton, these changes have been significant enough to "decrease the relative desirability of single-family, suburban homes" (1977, p. 146). Thus, with a 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. Other researchers emphasize the search for socially distinctive communities as sympathetic environments for individual self-expression (Winters 1978), while still others extend this into a more general argument. In contemporary "post-industrial cities," according to D. Ley, white-collar service occupations supersede blue-collar productive occupations, and 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, p. 11). Inner-city resurgence is an example of this new emphasis on consumption.

**Economic.** As the cost of newly constructed housing continues to rise and its distance from the city center to increase, the rehabilitation of inner- and central-city structures is seen to be more viable economically. Old but structurally sound properties can be purchased and rehabilitated for less than the cost of a

comparable new house. In addition, many researchers stress 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 they share with the broader body of neoclassical residential land use theory (Alonso 1964; Muth 1969; Mills 1972). According to the neoclassical theory, suburbanization reflects the preference for space and the increased ability to pay for it due to the reduction of transportation and other constraints. Similarly, gentrification 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, the process is viewed as a “back to the city movement.” This applies as much to the earlier gentrification projects, such as Philadelphia’s Society Hill (accomplished with substantial state assistance under urban renewal legislation), as it does to the later schemes, such as Baltimore’s Federal Hill or Washington’s Capitol Hill (mainly private market phenomena of the 1970s). All have become symbolic of a supposed middle- and upper-class pilgrimage back from the suburbs.<sup>2</sup> But as yet it remains an untested if pervasive assumption that the gentrifiers are disillusioned suburbanites. As early as 1966, Herbert Gans declared: “I have seen no study of how many suburbanites were actually brought back by urban-renewal projects” (1968, p. 287). Though this statement was made in evidence before the Ribicoff Committee on the Crisis of the Cities, Gans’s challenge seems to have fallen on deaf ears. Only in the late 1970s have such studies begun to be carried out. This paper presents data from Society Hill and other revitalized neighborhoods, examines the significance of these results in terms of the consumer sovereignty theory, and attempts to deepen our theoretical understanding of the causes of gentrification.

## A return from the suburbs?

Once the location of William Penn’s “holy experiment,” 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 to Rittenhouse Square and to the new suburbs in the northwest and across the Schuylkill River. Society Hill deteriorated rapidly, remaining in slum condition until 1959. In that year, an urban renewal plan was implemented.

Within ten years Society Hill was transformed and—“the most historic square mile in the nation” according to Bicentennial advertising—it again housed the city’s middle and upper classes. Few authentically restored houses now change hands for less than \$125,000. Noting the enthusiasm with which rehabilitation was done, the novelist Nathaniel Burt observed that “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” (1963, pp. 556–57). As this indoor sport caught on, therefore, it became Philadelphia folklore that “there was an upper class return to center city in Society Hill” (Wolf 1975, p. 325). As Burt eloquently explains:

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 (1963, p. 539).

By June 1962 less than a third of the families purchasing property for rehabilitation were from the suburbs<sup>3</sup> (Greenfield & Co. 1964, p. 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

**Table 1. The origin of rehabilitators in Society Hill, 1964–1975**

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

officially collected. The following table presents data sampled from case files held by The Redevelopment Authority of Philadelphia; the data is for the period up to 1975 (by which time the project was essentially complete) and represents a 17 percent sample of all rehabilitated residences. (Table 1.)

It would appear from these results that only a small proportion of gentrifiers did in fact return from the suburbs; 14 percent in the case of Society Hill, compared with 72 percent who 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 Rittenhouse Square district. The remainder came from several middle- and upper-class suburbs annexed by the city in the last century—Chestnut Hill, Mt. Airy, Spruce Hill. This suggests a consolidation of upper- and middle-class white residences in the city, not a return from the present day suburbs.<sup>4</sup> Additional data from Baltimore and Washington D.C. on the percentage of returning suburbanites support the Society Hill data (Table 2).

In Philadelphia and elsewhere an urban renaissance may well be taking place but it is not a significant return from the suburbs as such. This does not disprove the consumer sovereignty hypothesis but suggests some limitations and refinements. Clearly, it is possible—even likely—that younger people who moved to the city for an education and professional training have decided against moving back to the suburbs. There is a problem, however, if this is to be taken as a definitive explanation, for gentrification is not simply a North American phenomenon but is also happening in numerous cities throughout Europe (see, for example, Pitt 1977) where the extent of prior middle-class suburbanization is much less and the relation between suburb and inner city is substantially different.<sup>5</sup> Only Ley's (1978) more general societal hypothesis about post-industrial cities is broad enough to account for the process internationally, 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 uni-dimensionality. The concept can be rescued as theoretically viable only if it is used to refer to collective social preference, not individual preference.

This refutation of the neoclassical approach to

**Table 2. The origin of rehabilitators in three cities**

City	Percent city dwellers	Percent suburbanites
Philadelphia		
Society Hill	72	14
Baltimore		
Homestead Properties	65.2	27
Washington D.C.		
Mount Pleasant	67	18
Capitol Hill	72	15

Source: Baltimore City Department of Housing and Community Development (1977), Gale (1976, 1977).

gentrification is only a summary critique and far from exhaustive. What it suggests, however, is 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 actions alone, while ignoring the role of builders, developers, landlords, mortgage lenders, government agencies, real estate agents, and tenants, is excessively narrow. A broader theory of gentrification must take the role of producers as well as 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 caused by 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 production dominates. Consumer preference and demand for gentrified housing can be created after all, and this is precisely what happened in Society Hill.<sup>6</sup> Although it is 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 New York's SoHo.

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 above the others—the preference for profit, or, more accurately, a sound financial investment. Whether or not gentrifiers articulate this preference, it is fundamental, for few would even consider rehabilitation if a financial loss were to be 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 took for granted the availability of areas ripe for gentrification when this was precisely what had to be explained.

Before proceeding to a more detailed explanation of the process, it will be useful to step back and examine gentrification in the broader historical and structural context of capital investment and urban development. In particular, the general characteristics of investment in the built environment must be examined.

### Investment in the built environment

In a capitalist economy, land and the improvements built onto it become commodities. As such they boast certain idiosyncracies 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.<sup>7</sup> From this condition we can derive the function of ground rent. 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 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 reflects the ground rent level. Meanwhile land, unlike the improvements built on it, “does not require upkeep in order to continue its potential for use” (Harvey 1973, pp. 158–59) and thereby retains its potential value. 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 a building for at least twenty-five years, usually a lot longer, and it may take as long in economic (as opposed to accounting) terms for it 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 built environment investments; financial institutions will therefore play an important role in the urban land market (Harvey 1973, p. 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 the next section.

In a capitalist 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 long-run economic growth; general economic stability is therefore synonymous with overall economic growth. Particularly when economic growth is hindered elsewhere in the industrial sector, the built environment becomes a target for much profitable investment, as is particularly apparent with this century’s suburbanization experience. In this case, spatial expansion rather than expansion *in situ* was the response to the continual need for capital accumulation. 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 development; the fixity of investments forces new development to take place at other, often 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*.

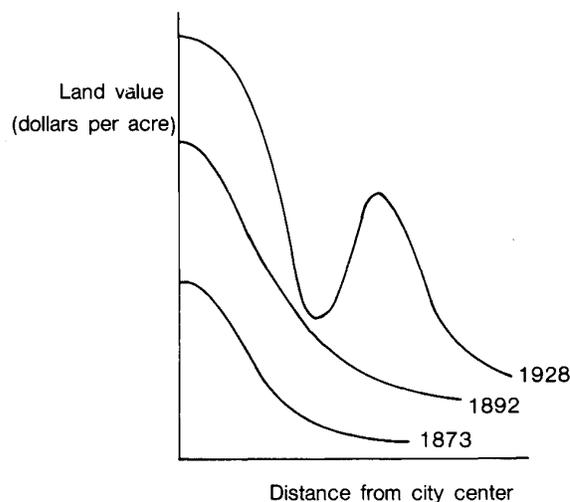
During the nineteenth century in most eastern cities, land values displayed the classical conical form—a peak at the urban center, with a declining gradient on all sides toward the periphery. This was the pattern Hoyt (1933) found in Chicago. With continued urban development the land value gradient is 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. 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 both 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 was increasingly sent to the suburbs. This movement of industrial capital began in force after the severe depression of 1893–97, and was followed by a substantial migration of capital for residential construction. In the already well-established cities, the only significant exception to this migration of construction capital was in the central business district (CBD) where substantial skyscraper office development occurred in the 1920s. As will be shown, 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.

Land values in the inner city fell relative to the CBD and the suburbs, and 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” (see Figure 1). This valley “indicates the location of these sections where the buildings are mostly over forty years old and where the residents rank lowest in rent-paying ability” (Hoyt 1933, pp. 356–8). Throughout the decades of most sustained suburbanization, from the 1940s to the 1960s, this valley in the land value curve deepened and broadened due to a continued lack of productive capital investment. By the late 1960s the valley may have been as much as six miles wide in Chicago (McDonald and Bowman 1979). Evidence from other cities suggests that this capital depreciation and consequent broadening of the land value valley occurred throughout the country’s older cities (Davis 1965; Edell and Sclar 1975), producing the slums and ghettos that were suddenly discovered as “problems” in the 1960s by the long gone suburban middle class.

A theory of gentrification will need to explain the detailed historical mechanisms of capital depreciation in the inner city and the precise way in which this depreciation produces the possibility of profitable reinvestment. 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, including 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

**Figure 1. The evolution of land values in Chicago (after Hoyt 1933).**



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—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, this paper takes 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 market place is value translated into price. And although the price of a house reflects its value, the two cannot mechanically be equated since price is also affected by supply and demand conditions. Thus, value considerations (the amount of socially necessary labor power) set the level about which the price fluctuates. With housing, the situation is more complex because individual houses return periodically to the market for resale. The house’s value will also depend, therefore, on its rate of depreciation through use, versus its rate of appreciation 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 struc-

tures 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.

**Ground rent and 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 when the building is sold and therefore appears as part of the sale price. Thus, 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." This concept is particularly important in explaining gentrification.

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

### Capital depreciation in the inner city

The physical deterioration and economic depreciation of inner-city neighborhoods is a strictly logical, "rational" outcome of the operation of the land and housing market. 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 of the real estate industry that their decisions go beyond a response and actually shape the market (Bradford and Rubinowitz 1975, p. 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. It requires the identification of a few salient processes that characterize the different stages of decline, but 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.

**1. 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 previous 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 depreciation of the house value occurs 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 would otherwise have been possible. Truss frame construction and the factory fabrication of parts in general, rather than on-site construction, are only the most recent examples of such advances. Style obsolescence is secondary as a stimulus for sustained depreciation in the housing market and may occasionally induce an appreciation of value, many old styles being 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 (e.g., painting doors and window frames, interior decorating), major repairs which are performed less regularly but require greater outlays (e.g., replacing the plumbing or electrical systems), and structural repairs without which the structure becomes unsound (e.g., replacing a roof, replacing floor boards that have dry rot). Depreciation of a property's value after one cycle of use reflects the imminent need not only for regular, minor repairs but also for a succession of more major repairs involving a substantial investment. Depreciation will induce a price decrease relative to new housing but the extent of this decrease will depend on how much the ground rent has also changed in the meantime.

**2. Landlordism and homeownership.** Clearly the inhabitants in many neighborhoods succeed in making major repairs and maintaining or even enhancing the value of the area's housing. These areas remain stable.

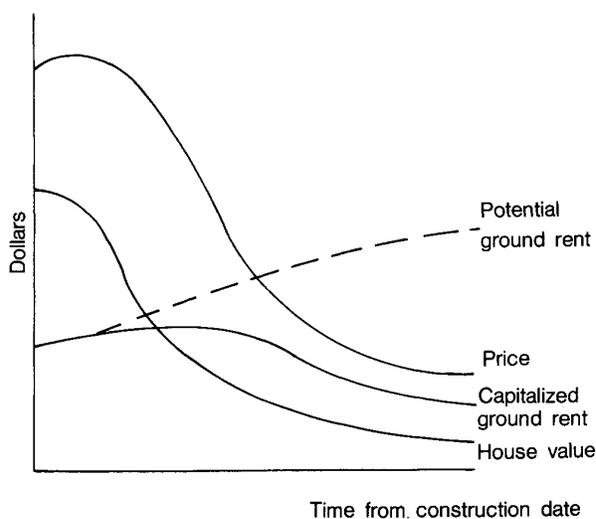
Equally clearly, there are areas of owner-occupied housing which experience initial depreciation. Homeowners, aware of imminent decline unless repairs are made, are likely to sell out and seek newer homes where their investment will be safer. At this point, after a first or subsequent cycle of use, there is a tendency for the neighborhood to convert to 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 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 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, "undermaintenance is an eminently reasonable response of a landlord to a declining market" (1960, p. 367), and since the transition from owner occupancy to tenancy is generally associated with a declining market, some degree of undermaintenance can be expected.

Undermaintenance will yield surplus capital to 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. 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 this decline. House values are falling and the levels of capitalized ground rent for the area are dropping below the potential ground rent (see Figure 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" and operates through the rent structure.

**3. Blockbusting and blow out.** Some neighborhoods may not transfer to rental tenancy and they will experience relative stability or a gentler continuation of decline. If the latter occurs, it is the owner occupants who 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 black families, many of whom are desperate 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 due to the inflated prices at which houses were sold and the consequent lack of resources for maintenance and mortgage payments suffered by incoming families. Blow out, 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, p. 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 flee to the suburbs.

**4. 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 de-

**Figure 2. The depreciation cycle of innercity neighborhoods.**



creases 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 FHA. Though meant to prevent decline, FHA loans have often been ineffectual and have even contributed to decline in places (Bradford and Rubinowitz 1975, p. 82). The loans allow properties to change hands but do little to encourage reinvestment in maintenance so the process of decline is simply lubricated. Ultimately, medium and small-scale investors also refuse to work the area, as do mortgage insurers.

Vandalism further accelerates depreciation and becomes a problem especially when properties are temporarily vacant between tenants (Stegman 1972, p. 60). Even when occupied, however, it may be a problem, especially if a building is being undermaintained or systematically “milked.” 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.

**5. 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 phenomenon, not something that strikes isolated properties in otherwise stable areas. Much abandoned housing is structurally sound and this seems paradoxical. But then buildings are abandoned not because they are unuseable, but because they cannot be used *profitably*. The final act of abandonment may be triggered (but not caused) by a variety of events, including the strict enforcement of the building code by the city housing department. Also 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 explanation of the process commonly but misleadingly referred to as filtering. It is a common process in the housing market and affects many neighborhoods but is by no means universal. It is included here precisely because gentrification is almost always preceded by filtering, 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 not due simply “to the relentless passage of time” but to “human agency” (1960, p. 370). The previous section has suggested who some of these agents are, and the market forces they both react to and help create. That section also suggests that the objective mechanism underlying filtering is the depreciation and devaluation of capital invested in residential inner-city neighborhoods. This depreciation 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 (see Figure 2). In the case of filtering, the rent gap is produced primarily by capital depreciation (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 can now be understood in large part as the rent gap. Only when this gap emerges can redevelopment 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 wide enough that developers can purchase shells cheaply, can pay the builders’ 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 has been “recycled” and begins a new cycle of use.

Once the rent gap is wide enough, gentrification may be initiated in a given neighborhood by 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 strongly that 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<sup>8</sup> at the neighborhood level. The state, for example, initiated most if not all of the early schemes, and though it plays a lesser role today, is still 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 nought unless this long absent source of funding reappears; mortgage capital is a prerequisite.

Of course, this mortgage capital must be borrowed by willing consumers exercising some preference or another. But these preferences are not prerequisites since they can be socially created, as was seen above. Along with financial institutions, professional developers have acted as the collective initiative behind gentrification. A developer will purchase a substantial proportion of the properties in a neighborhood, rehabilitate them, then sell them for profit. The only significant exception to this predominance of collective action occurs in neighborhoods adjacent to already gentrified areas. There indeed, individual gentrifiers may be very important in initiating rehabilitation. Their decision to rehabilitate followed the results from the previous neighborhood, however, which implies that a 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; (c) landlord developers who rent it to tenants after rehabilitation.<sup>9</sup> 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 (see Smith 1979). Professional and landlord 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. Perhaps the main reason for this can be traced to the very nature of gentrification and the characteristics of investment in the built environment discussed above. Urban renewal, like rehabilitation, occurs where a rent gap has been opened up, but in the case of renewal either the dilapidated stock is unsound structurally, or the remaining structures are unsuitable for new uses. While the technical and spatial requirements for industrial and commercial buildings have altered substantially in the last hundred years, those for residences have not, and structurally sound town houses are quite useable given the right economic conditions. But since the land has already been developed and an intricate pattern of property rights laid down, it is difficult for the professional developer to assemble sufficient land and properties to make involvement worthwhile. Even landlord developers tended 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 an appropriate vehicle for recycling devalued neighborhoods.

Viewed in this way, gentrification is not a chance occurrence or an inexplicable reversal of some inevitable filtering process. On the contrary, it is to be expected. The depreciation 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 would be expected that rehabilitation began where the gap was greatest and the highest returns available, i.e., in neighborhoods particularly close to the city center and in neighborhoods where the sequence of declining values had pretty much run its course. Empirically, this seems to have been the case. The theory also suggests that as these first areas are recycled, other areas offering lower but still substantial returns would be sought out by developers. This would involve areas further from the city center and areas where decline was less advanced. Thus in Philadelphia, Fairmount and Queen Village are the new “hot spots” (Cybriwsky 1978; Levy 1978), and the city's triage policy for allocating block grant funds makes part of North Philadelphia a likely candidate for future redevelopment.

The state's role in earlier rehabilitation schemes is worthy of note. By assembling properties at 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 devaluation, thereby ensuring that developers could reap the high returns without which redevelopment would not occur. Today, with the state less involved in this process, developers are clearly able to absorb the costs of devaluing capital that has not yet fully depreciated. That is, they can pay a relatively high price for properties to be rehabilitated, and still make a reasonable return. It seems, then, that the state has been successful in providing the conditions that would stimulate private market revitalization.

To summarise the theory, 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 depreciation of inner-city capital, eventually produces the rent gap. When this gap grows sufficiently large, rehabilitation (or for that matter, renewal) can begin to challenge the rates of return available elsewhere, and capital flows back.

## Conclusion

Gentrification has demonstrated that contrary to the conventional wisdom, middle- and upper-class housing is capable of intensive land use. Just how intensive is not clear, however. There is significant evidence that the once steep rent gradient (see Figure 1) is flattening out (Yeates 1965, Edel and Sclar 1975);

and if this is the case, potential ground rent in inner-city neighborhoods may actually have decreased, presumably due to efficient transportation links to the suburbs and excessive crowding downtown. What this might mean for gentrification or for the commercial and recreational redevelopment that is also happening in some cities ought to be a topic for further research. Another topic for empirical investigation is the extent to which capital depreciation must occur in an area before gentrification can occur. This all assumes the filtering process to be the fundamental source of the rent gap, and while this is certainly so in the U.S. it may not be elsewhere. Although capital depreciation and filtering prepared the way for gentrification in Islington (Pitt 1977), in general, one would not expect it to be so prevalent in the U.K. housing market where much working class housing is produced by local government action, not the private market. In this case, rising ground rent levels due to urban expansion and development may be more important in accounting for the rent gap.

Gentrification is a back to the city movement all right, but of capital rather than people. The people taking advantage of this returning capital are still, as yet, from the city. If the city continues to attract productive capital (whether for residential or other construction) we may witness a fundamental restructuring of urban space comparable with suburbanization. Then, indeed, it would become a back to the city movement by people too—middle- and upper-class people, that is—while the working class and the poor would inherit the old declining suburbs in a cruelly ironic continuation of the filtering process. They would then be trapped in the suburbs, not the inner city. As was emphasized in the discussion of suburbanization, investment in the built environment is a major vehicle for capital accumulation. This process is cyclical and, because of the long life and fixity of such investments, new cycles of investment are often associated with crises and switches of the location of accumulation (Harvey 1978). Seen in this context, gentrification and other kinds of urban renaissance could be the leading edge (but in no way the cause) of a larger restructuring of space. According to one scenario this restructuring would be accomplished according to the needs of capital; a restructuring of middle-class culture may well accompany and influence it, but would be secondary. According to a second scenario, the needs of capital would be systematically dismantled, to be displaced by the social, economic, and cultural needs of people as the principle according to which the restructuring of space occurs.

### Author's note

An earlier version of this paper was presented at the Annual Conference of the Association of American Geographers in Philadelphia, April 25th, 1979. Special thanks are due to Michele LeFavre for her critical reading of the paper.

OCTOBER 1979

### Notes

1. Gentrification is the process of converting working class areas into middle-class neighborhoods through the rehabilitation of the neighborhood's housing stock.
2. That the earlier projects required substantial state initiative and subsidy did not exclude them from being explained in terms of consumer preference. In Philadelphia, for example, the Greater Philadelphia Movement (GPM) was responsible for getting the state to implement Society Hill's renewal plan, and it consistently claimed that the demand to revitalize was ever-present but the cost constraints and risk were too great for private capital and individuals. It was the responsibility of the state, they argued, to use the available federal legislation to subsidize the project, thereby removing the constraints and serving a broader civic cause. On GPM's role in Society Hill, see Adde (1969, pp. 33–6). For the purposes of this paper, I am distinguishing between gentrification and urban renewal not according to whether the process is privately or publicly funded, but according to whether it is a rehabilitation process or purely new construction. As should become clear from the main argument of the paper, the distinction between public and private funding simply represents (in this context) two different mechanisms for carrying out the one essential process.
3. By suburbs I mean here the area outside the present city boundary but inside the SMSA. The older suburbs that now appear inside the city due to consequent annexations are therefore counted as sections of the city. This definition is justified here since one of the main selling points of gentrification is that it will bring additional tax revenues to the city. Clearly, annexed suburbs already pay their taxes to the city.
4. This kind of consolidation may be experienced by other cities. Several of the cities examined by Lipton (1977) display a similar consolidation.
5. For further discussion of the cross-Atlantic comparison, see Smith (1979).
6. Advertising is a primary means of creating demand. In Society Hill, the Old Philadelphia Development Corporation employed a Madison Avenue professional to sell the project (Old Philadelphia Development Corporation 1970).
7. Certainly zoning, eminent domain, and other state regulations put significant limits on the landowner's control of land, but in North America and Western Europe, these limitations are little more than cosmetic. Within these limitations, the property market continues to operate quite freely.
8. By "collective social action" I mean simply activity that is carried on jointly and simultaneously by people, not by individuals acting alone.
9. I omit speculators here for the obvious reason that they invest no productive capital. They simply buy property in the hope of selling it at a higher price to developers. Speculators do not produce any transformation in the urban structure.

### References

- Adde, L. 1969. *Nine cities: anatomy of downtown renewal*. Washington D.C.: Urban Land Institute.
- Alonso, W. 1964. *Location and land use*. Cambridge: Harvard University Press.
- Baltimore City Department of Housing and Community Development. 1977. *Homesteading—the third year, 1976*. Baltimore: the Department.
- Bradford, C. P., and Rubinowitz, L. S. 1975. The urban-suburban investment-disinvestment process: consequences for older neighborhoods. *Annals of the American Academy of Political and Social Science* 422, November: 77–86.
- Burt, N. 1963. *The perennial Philadelphians*. London: Dent & Son.

- Cybrivsky, R. A. 1978. Social aspects of neighborhood change. *Annals of the Association of American Geographers* 68, March: 17–33.
- Davis, J. T. 1965. Middle class housing in the central city. *Economic Geography* 41, July: 238–51.
- Edel, M., and Sclar, E. 1975. The distribution of real estate value changes: metropolitan Boston, 1870–1970. *Journal of Urban Economics* 2: 366–87.
- Gale, D. E. 1976. The back-to-the-city movement . . . or is it? Occasional Paper, Department of Urban and Regional Planning, The George Washington University.
- Gale, D. E. 1977. The back-to-the-city movement revisited. Occasional Paper, Department of Urban and Regional Planning, The George Washington University.
- Gans, H. 1968. *People and plans*. New York: Basic Books.
- Greenfield, A. M. & Co. 1964. New town houses for Washington Square East: a technical report on neighborhood conservation. Prepared for the Redevelopment Authority of Philadelphia.
- Harvey, D. 1973. *Social justice and the city*. Baltimore: Johns Hopkins Press.
- Harvey, D. 1978. The urban process under capitalism: a framework for analysis. *International Journal of Urban and Regional Research* 2: 101–131.
- Harvey, D. et al. 1972. *The housing market and code enforcement in Baltimore*. Baltimore: City Planning Department.
- Hoyt, H. 1933. *One hundred years of land values in Chicago*. Chicago: University of Chicago Press.
- Laurenti, L. 1960. *Property values and race*. Berkeley: University of California Press.
- Levy, P. 1978. *Queen Village: the eclipse of community*. Philadelphia: Institute for the Study of Civic Values.
- Ley, D. 1978. Inner city resurgence and its societal context. Paper presented to the Association of American Geographers Annual Conference, New Orleans.
- Lipton, S. G. 1977. Evidence of central city revival. *Journal of the American Institute of Planners* 43, April: 136–47.
- Lowry, I. S. 1960. Filtering and housing costs: a conceptual analysis. *Land Economics* 36: 362–70.
- McDonald, J. F., and Bowman, H. W. 1979. Land value functions: a reevaluation. *Journal of Urban Economics* 6: 25–41.
- Mills, E. S. 1972. *Studies in the structure of the urban economy*. Baltimore: Johns Hopkins University Press.
- Muth, R. 1969. *Cities and housing*. Chicago: University of Chicago Press.
- Old Philadelphia Development Corporation. 1975. Statistics on Society Hill. Unpublished report.
- Pitt, J. 1977. *Gentrification in Islington*. London: Barnsbury Peoples Forum.
- Smith, N. 1979 (forthcoming). Gentrification and capital: theory, practice and ideology in Society Hill. *Antipode* 11.
- Stegman, M. A. 1972. *Housing investment in the inner city: the dynamics of decline*. Cambridge: MIT Press.
- Urban Land Institute. 1976. *New opportunities for residential development in central cities*. Report No. 25. Washington D.C.: The Institute.
- Winters, C. 1978. Rejuvenation with character. Paper presented to the Association of American Geographers Annual Conference, New Orleans.
- Wolf, E. 1975. *Philadelphia: portrait of an American city*. Harrisburg: Stackpole Books.
- Yeates, M. H. 1965. Some factors affecting the spatial distribution of Chicago land values, 1910–1960. *Economic Geography* 41, 1: 57–70.