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Comment on Elvin K. Wyly and Daniel J. Hammel's "Islands of Decay in Seas of Renewal: Housing Policy and the Resurgence of Gentrification"—Gentrification Resurgent?

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Abstract

Gentrification is a procyclical process by which certain inner-city neighborhoods are revitalized to meet the demands of professional households. It is confined to cities with substantial central business district office growth and with housing markets characterized by substantial suburb-to-inner city filtering. The process remains limited in scale, and available data do not permit a judgment as to whether changes in mortgage lending have changed the nature of the process.

Keywords: Gentrification; Housing; Mortgages

Despite their eye-catching title, a play on my 1985 essay "Islands of Renewal in Seas of Decay," Wyly and Hammel in fact offer a more limited appraisal of gentrification trends in eight cities. They argue, first, that gentrification has resumed in core-city neighborhoods since the recession of the early 1990s and that in those cities where the process was firmly established, it has spread into adjacent fringe areas. Second, in one or two cases (such as Chicago) they say that so much of the core is gentrified that gentrified neighborhoods now surround "islands of decay," providing an opportunity to reinvent assisted housing policy by tapping into the force of gentrification. Third, they claim that changes in the system of housing finance have changed the nature of the gentrification process itself, encouraging flows of mortgage money into gentrified neighborhoods and oiling the wheels of urban change.

I am not surprised by their first conclusion, find their second argument unexceptional, and have difficulties with their third assertion.

The gentrification process

Why am I not surprised by their depiction of recent gentrification? First, it is necessary to return to the interpretation I offered in

1985. My research spanned the years from 1978 to 1982. I began by noting that amid pervasive depopulation of central cities, some neighborhoods in some cities were beginning to attract private capital and along with it a mainly white middle class committed to renovation and renewal. A term imported from London, "gentrification," was coming into vogue to describe these changes, because it evoked the shifts in class composition involved in the process. The new gentry—predominantly relatively affluent, often childless, two-worker households—was drawn to close-to-downtown neighborhoods offering geographic clusters of housing structures capable, with renovation, of yielding high-quality services; a variety of public amenities within safe walking distance, such as a scenic waterfront, parks, museums or art galleries, universities, distinguished architecture, and historic landmarks or neighborhoods; and a range of high-quality retail facilities and services, including restaurants, theaters, and entertainment.

Why was this occurring? I was faced with a theoretical framework that focused on the effects of rapid increases in both building costs and housing prices in the face of increasing demand. According to the literature, the children of the baby boom had graduated from high school between 1965 and 1982, so the housing market was experiencing the full impact of that cohort. The logical resolution of the conflict between higher suburban building costs and increasing numbers of home seekers should have been to increase the demand for lower-cost older central-city housing or to stimulate the provision of alternatives, such as factory-built (mobile) homes and condominium or cooperative ownership. This force should have been greatest, according to this argument, in the housing markets with the greatest costs and demand pressures. Together, the two supply-side components led to the prediction that gentrification was most likely in housing markets with weak new housing industries faced with rapidly rising construction costs and increased baby-boomer housing demand and that it should peak countercyclically, at low points in the business cycle.

I offered an alternative interpretation. Wyly and Hammel state that "Berry's (1985) synthesis was perhaps the most comprehensive and prominent interpretation of gentrification within the prevailing neoclassical framework for housing market analysis" (718). In fact, I challenged that framework. On the supply side, I discovered that it was in the housing markets in which the new housing industry had created the *largest* surpluses, accelerating the suburb-to-central-city filtering of vacancies that fed the forces of inner-city abandonment, that the most extensive, sustained processes of gentrification were occurring. On the demand side, I pointed to specific pressures. Significant office growth in the central business district (CBD) was required, providing the professional job base necessary

for an increase the size of the market segment occupied by the new gentry. Since both the supply- and demand-side influences were procyclical, according to my logic, gentrification should be as well. I thus concluded that

> Certain neighborhoods in certain central cities are experiencing a new form of private-market revitalization—gentrification. The process is limited to urban centers of strategic national and regional importance in which the expansion of modern headquarters complexes and related producer services has led to significant new central business district growth, producing the demand-side trigger of young professional and white-collar workers. It also is limited to housing markets in which new construction substantially exceeds household growth, but in which scrappage (perhaps in the form of contagious abandonment) exceeds the excess housing supply. The result is that [as] markets are tightened [on business upswings] older central-city housing becomes an attractive option. (95)

Among the cities where gentrification was proceeding apace were New York, Chicago, Philadelphia, San Francisco, Boston, St. Louis, Atlanta, and Washington, DC. The process was not evident in such older urban regions as Detroit, Cleveland, and Newark, where there was massive abandonment but where the demand-side trigger of CBD job growth was absent. Nor was gentrification occurring in Sunbelt cities, many of which met the demand-side requirement but were not afflicted by contagious abandonment.

In the first part of their study, Wyly and Hammel confirm the central elements of my analysis. They agree in one of their less effusive moments that "gentrification affects only a tiny segment of the housing market of older cities and is dwarfed by suburban expansion" (713), and by documenting the revival of central land markets in the wake of the recession of the early 1990s, they reaffirm that the process is procyclical, not countercyclical, as earlier analysts had argued.

Some cautionary notes are in order, however. Their analysis focuses on eight cases that are not representative of the entire population of U.S. metropolitan areas. Six of their eight were already high on the list of actual or potential gentrifiers in 1980 (Boston, Chicago, Minneapolis–St. Paul, Philadelphia, Seattle, and Washington, DC). The remaining two (Detroit and Milwaukee) met the necessary supply-side conditions but lacked effective demand-side triggers. Wyly and Hammel document a surge of mortgage finance for single-family homes in these cities during the economic boom of the 1990s, concentrated in the core inner-city neighborhoods of less gentrified cities (Milwaukee, Seattle, Washington, DC) but spreading to fringe inner-city neighborhoods in cities where gentrification is more ad-

vanced (Boston, Chicago, Philadelphia). They chose not to relate this surge to the exogenous forces of supply-side filtering and demand-side CBD office growth, however. Rather, they claim that changes in the system of housing finance have changed the nature of the gentrification process itself, making it an independent force in urban change as well as a resource to be drawn on by assisted housing policies directed at residual pockets of decay.

Flawed conclusions

While the article has many parenthetical qualifications, the principal conclusions err on the side of the overeffusive:

> [T]he quickening pace of reinvestment in parts of the inner city is truly staggering. . . . [G]entrification has reshaped significant portions of the urban fabric [and] altered the environment in which policy makers seek to revitalize . . . concentrations of poverty. . . . The resurgence of mortgage investment into gentrified neighborhoods signifies a fundamental restructuring of the process. (761, 763)

These enthusiastic conclusions rest on a classification of census tracts, organization of mortgage lending data by these classes, and case studies of changes in low-income housing assistance plans in light of rapid gentrification. From press reports and fieldwork, they begin with an a priori classification of central-city census tracts into “core,” “fringe,” “inner city,” and “rest,” and then offer two pairwise discriminant analyses—of core versus inner-city tracts and of fringe versus inner-city tracts—to confirm and refine their results. It would have been desirable to have used multiple discriminant analysis, rather than a series of pairwise comparisons, to provide a better feel for the misclassification rates involved, but with the revised classification in hand, data on conventional loans for the purchase of single-family homes, compiled as required by the Home Mortgage Disclosure Act for the 1992–1997 period, are grouped by class of census tract and adjusted for inflation, as are data on home improvement loans, refinancing, and loans on multifamily structures. From these tabulations, Wyly and Hammel conclude that “growth rates have been disproportionately concentrated at the interior of the metropolis” (733).

Core-area growth rates of single-family loans are indeed higher than elsewhere. But as loans for single-family homes increased, those in the other three categories declined between 1993 and 1997, and when all four categories of loan are combined, the flow of capital into core areas actually *declined* by $226 million! (see table 3). No explanation is offered. How does this square with the notion of a

staggering pace of reinvestment in the inner city? Do the countervailing trends of the two investment types signify a reorientation of gentrifying neighborhoods toward single-family residence, or are the opposing trends simply a reflection of pro- and countercyclical components of inner-city housing finance? More work is needed.

The authors' enthusiasm also forces them into the trap of the *growth rate illusion*. To be sure, home purchase loans increased in core areas by 763/358, a factor of 2.13 or a growth rate of 22.6 percent annually, compared with 41,223/27,721, a factor of 1.49 and an annual growth rate of 9.7 percent in the suburbs, but the absolute changes were $763 – $358 = $405 million as opposed to $41,223 – $27,721 = $13,502 million. Put in terms of actual mortgages, the increase in numbers was from 2,655 mortgages in 1992 to 5,530 in 1999 in the core tracts, and from 220,000 to 324,590 in the suburbs. The differences between the increases are immense, 2,875 versus 104,590, a ratio of more than 36. Core tracts may be running faster, but they continue to fall behind the magnitude of changes in the suburbs—that is the growth rate illusion.

Wyly and Hammel next highlight cases where low-income housing assistance programs have been able to take advantage of gentrification. It would be surprising if this were not the case, but a few cases hardly constitute an adequate test of their second hypothesis. They then proceed to a logit analysis of the probabilities of rejection of mortgage loan applications, in an attempt to determine whether changes in the system of mortgage finance have produced a "transformation as much as a resurgence of gentrification."

Interesting insights are indeed provided by the logit analysis. For example, high-income applicants are more likely to have loan applications rejected in the core than elsewhere in the metropolitan region. But what exactly does this tell us? Does the higher rate simply reflect the difference between asset-poor "yuppies" and more established families, in which case the finding emerges from missing variable bias? Or does it reflect the greater risk of moving into neighborhoods that have yet to fully turn around? Or, belying the transformation thesis, does it tell us that lending institutions are still hesitant to make loans in the inner city? Controlling for this difference, the authors find that rejection rates are lower in the core than elsewhere for other classes of home purchasers and seize on this as evidence in support of the transformation argument. If so, it would signal a tilt among lenders toward the downscaling of gentrifying areas. But I doubt that their core areas are homogeneous. Certainly, what I know about the core and fringe neighborhoods in Chicago shown in figure 2 indicates otherwise. The lower rate for other home purchases may simply reflect the lower risk of lending to established families wanting to purchase less expensive homes in

the stable, older, inner-city areas that remain alongside the pockets of gentrification that are the focus of yuppie demand. If this is so, the case for transformation is much weaker.

The evidence presented simply does not warrant the authors' enthusiastic conclusions in support of their third hypothesis. The time series of appropriate indicators is not long enough, nor do we have the properly selected random sample of urban regions required to tell whether there has been, as Wyly and Hammel claim, a combination of acceleration and transformation of gentrification, or whether what we see is merely the normal accompaniment of an upswing in the business cycle. Nor do we know whether yuppies or other home seekers in gentrifying neighborhoods are being treated any differently by lending institutions today than they were two decades ago. Alas, the eight cities studied are no random sample and the time series is too short.

What seems to be happening is that gentrification is continuing and is spreading in the six cities where it was evident in 1980 and that the mix of investment has tilted toward single-family homes. Two cities that met necessary but not sufficient conditions in 1980 now appear to have met the conditions needed to spark activity, although the emergence of the triggering conditions is not addressed. What may be more to the point is that most metropolitan regions are now adding gentrified niches to their array of neighborhood alternatives to meet specific housing demands, that the scale of these neighborhood niches is a function of the magnitude of yuppie demand for inner-city living, and that the future of gentrification will depend on the viability of central city locations for well-paying white collar occupations.

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