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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 Gentrication"

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Abstract

Wyly and Hammel raise a number of important issues regarding the role of low-income housing assistance in the more recent resurgence of inner-city capital investment. However, their methodologies are found to be limited, and their results only weakly support a number of the strong conclusions they draw. Despite these limitations, Wyly and Hammel do present some interesting findings, such as greater loan denial rates for higher-income applicants in the inner cities than in the suburbs, and raise the possibility of a changing income mix of urban gentrifiers. Building on the article's main theme, the comment suggests strategies to improve low-income housing policy outcomes and highlights the gentrification conundrum.

Keywords: Gentrification; Housing; Mortgages

Playing off of Brian Berry's (1985) depiction of urban gentrification as "islands of renewal in seas of decay," Wyly and Hammel offer a systematic, multifaceted analysis to bolster their contention that gentrification in America's major cities is now pervasive and that shifts in low-income housing policies have played a key role. Spatial decomposition of aggregate capital flows within eight major metropolitan areas reveals that lending for conventional home purchases surged after 1992 in gentrified core and adjacent gentrified fringe areas of the central cities, areas identified through field surveys and multivariate discriminant analysis. Wyly and Hammel show that the rate of growth in mortgage lending within these inner-city subareas was more than double the growth rate of lending in the suburbs during this period.

To assess the specific roles housing policies have played in post-1992 urban gentrification, two additional databases are used. The authors analyze HOPE VI applications and conclude that more developed, privatized low-income housing policies have been important contributors to gentrification. Using data made available through the Home Mortgage Disclosure Act (HMDA), the authors also examine lending patterns to individuals, arguing that a funda-

mental transformation is taking place in the demographic nature of gentrification, along with its more recent resurgence.

Wyly's and Hammel's article contains many fertile seeds that should germinate as their 30-city research project, of which this study is part, progresses. Their analyses and findings are highly suggestive. Yet in my view, they are not quite as compelling as the authors would have readers believe. In the following sections, I will take a closer look at their analyses, findings, and conclusions and offer some cautionary qualifications. I will then try to place their findings in the broader context of metropolitan development in general and inner-city gentrification in particular.

Gentrified versus other urban neighborhoods

I will begin with the reasonable assumption that the authors have appropriately distinguished gentrified areas from other urban neighborhoods. Wyly and Hammel contend that to demonstrate a resurgence of gentrification simply requires that aggregate investment grow more rapidly in these gentrified areas than in other parts of the metropolis. They thus focus exclusively on comparing *rates of change* in lending in different parts of the metropolitan areas. Wyly and Hammel compute ratios of the percent change in investment in gentrified core areas, comparing them with the percent change in investment in suburban rings, contending that "the dramatic resurgence of capital investment ushered in with the economic recovery of the 1990s has increasingly focused on the urban core" (735). Such a ratio of two rates of change, however, is heavily influenced by the relatively small initial base of lending at the core and in other inner-city gentrified areas in 1992.

For example, in the authors' table 4, the inner-city gentrified area showing the greatest ratio of lending growth rate to suburban lending growth rate is the inner-city fringe of Philadelphia. Between 1992 and 1997, lending in this gentrified area grew by 106 percent, compared with 15 percent in Philadelphia's suburbs, giving a ratio of growth rate of 7.04. Yet, total lending in Philadelphia's inner-city fringe gentrified areas was under $2.2 million in 1992 and rose to only $4.5 *million* in 1997, while Philadelphia's suburbs experienced over $4 *billion* in lending in 1997. The point is that if the 1992 lending base in an area is small, one can get very high growth rates even if the absolute increase in gentrified area lending is quite modest, as was the case in Philadelphia.

An alternate way of assessing whether there is a significant reconcentration or refocusing of lending to inner-city gentrified areas

would be to compare trends in the percent distribution of lending across the authors' metropolitan subunits during the study period. These computations are presented in table 1. With this method, it may be observed that between 1992 and 1997, the suburbs have continued to attract around 87 to 88 percent of all metropolitan area mortgage capital flows, whereas the city core gentrified areas remained under 2 percent and the inner-city fringe gentrified areas under 1 percent. This ratio approach gives a far less impressive picture of inner-city lending redirection or refocusing than the authors' ratio of growth rates approach.

Table 1. **Percent Distribution of Aggregate Capital Reinvestment Across Subareas of Selected Metropolitan Statistical Areas: Total Value of Conventional Originations for One- to Four-Family Home Purchase Loans, 1992 to 1997**

Area	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)
Core	1.14	1.19	1.35	1.46	1.52	1.61
Fringe	0.56	0.57	0.57	0.61	0.72	0.81
Inner city	1.46	1.48	1.46	1.58	1.78	2.01
Rest of city	8.80	8.16	8.15	8.55	8.35	8.58
Remainder, metro	88.05	88.60	88.47	87.79	87.64	86.99
Grand total	100.00	100.00	100.00	100.00	100.00	100.00

Note: Values are given as a percentage of the grand total. Not all columns sum to 100 because of rounding.

This is not to imply that absolute increases since 1992 in inner-city mortgage lending have not been substantial, only that the spatial distribution of metropolitan lending patterns has not significantly shifted in the post-1992 economic boom period.

The authors' data also refer to mortgage capital inflows (reinvestment), and no measures of central city outflows (disinvestment) are provided. My own analysis of the household income levels of those who moved into and out of central cities during most of this period shows that there are indeed large absolute movements of middle- and upper-income households to the central cities (Kasarda et al. 1997). A good percentage of these movers were no doubt concentrated in inner-city revitalizing or gentrified areas. Yet the same Current Population Survey data show that for every middle- and upper-income household moving into the central cities from the suburbs, approximately two such households moved from the central cities to the suburbs during the mid-1990s. This is about the same as in the 1980s. The overall sorting process of middle- and upper-income metropolitan movers continues to be heavily tilted toward the suburbs.

The role of housing policy

Nevertheless, given the accumulating evidence from numerous sources that central city housing markets are attracting considerable new investment, the critical issue is what role did changes in housing policy play? Few would deny that they have played at least some role. My view is that the impact of low-income housing policies may be far more limited than the authors suggest. Their analysis of HOPE VI applications is a less-than-adequate empirical basis for assessing the effects of low-income housing policy and gentrification-policy interactions. For one thing, what gets built and what is in the application do not always match, and for another, subsidized housing developments that include some market-rate housing only make economic sense where latent market demand is strong. Rarely is it possible for low-income subsidized housing to make a market. Beyond this, the authors' analysis itself shows at best mixed results. Finally, though highly visible, HOPE VI is only a $500 million program nationwide. It seems unlikely that such a small program can have demonstrable low-income housing policy effects on metropolitan dispersal or adequately document gentrification-housing policy interactions.

The HMDA database is far more comprehensive and amenable to analyzing housing policy outcomes along with applicant characteristics. Although HMDA had been around since 1975, it was not until 1989 that Congress mandated that lenders report the race, gender, and income of every applicant, along with the census tract of the proposed home purchase and whether the application was approved or denied.

Wyly and Hammel apply this database to assess the effects of low-income lending policies on capital flows to gentrified urban areas. Again, their empirical results, based on multivariate statistical analyses of loan denial probabilities, are mixed, though they eventually conclude otherwise. Indeed, I find it a bit of a stretch to conclude that shifts in housing policy are responsible for the resurgence of gentrification from the models they use, even if such is the case.

What Wyly and Hammel do show (and what is particularly interesting) is that high-income applicants have higher relative loan denial rates for home purchases in urban gentrified areas than in the suburbs. The authors provide a number of likely reasons for this, and they make good sense. However, whether one can infer from these denial rates that a transformation (rather than a resurgence) of gentrification is occurring seems questionable.

Instead of an either/or situation, it seems more plausible that transformation and resurgence move together. As greater numbers of lower-income people have access to inner-city mortgage capital, it has reinforced capital flows to gentrified areas, accelerating the resurgence. In fairness to the authors, this is one of their themes.

To demonstrate a transformation would again require longitudinal spatial analysis of the composition of residents and movers to the gentrified areas. For example, what was the income mix of residents and movers in 1997 versus 1992? As the authors point out, mortgage disclosure records miss high-income buyers who purchase units outright, borrowers who obtain some seller financing, and renters who move into luxury apartments. As to the latter, high-income, low-asset persons (who are more likely to be denied loans than those with similar income but greater assets) tend to be young professionals who rent in gentrified areas. The fact that many "yuppies" do not own homes in these areas does not mean that they do not constitute significant portions of the residential base.

Trends in dispersal and investment

Now let me make a few remarks on trends of dispersal versus redevelopment and the broader context of the more recent surge in investment in inner-city areas. As data from many sources show, major cities are definitely attracting new capital flows. Despite these encouraging signs, several factors may work against their becoming seas of renewal (with large capital inflows pervasive across the entire city). The powerful forces that led to massive urban dispersal during the 1970s and 1980s have not weakened. Chief among them, the suburbs and exurbs continue to far outstrip the central cities as employment growth nodes, gaining considerable numbers of jobs across the blue-collar, pink-collar, white-collar, and high-tech spectrum. Second, residential preference surveys continue to show that major cities are least desired and the suburbs and small towns are most desired for all but a few demographic subgroups that gravitate to the central cities (young professionals in their twenties). The 1997 Fannie Mae National Housing Survey found, for example, that given the choice, fewer than 1 in 10 Americans would want to live in a major city (Fischer 1997). In addition, as the suburbs have become urbanized, offering everything from jobs to upscale shopping and ethnic cuisine to cultural facilities and the full range of specialized services, the city has become superfluous for many.

As Michael Porter (1995) has articulated, cities do have fundamental strengths and America's retailers and consumer service providers are rapidly discovering highly profitable, underserved, "emerg-

ing" inner-city markets (Hickins 1999). These strengths and newly discovered markets will be increasingly tapped, adding vitality to many parts of the city, but they will likely be relatively small compared with annual investment in the suburbs. That low-income housing policies can mediate dispersal does not seem likely: When one compares the total investment associated with these policies and total market-driven investment, the latter is simply overwhelming. For instance, in 1998, there was $1.43 trillion in new mortgage originations alone, the vast majority in the suburbs.

What Wyly and Hammel most convincingly argue is that the difference today is that many inner-city areas of previous disinvestment are experiencing a resurgence of investment. Even here, how much of this is due to low-income housing policy instead of market forces and other factors is difficult to determine. That a substantial portion resulted from increased loans to lower-income persons previously precluded from such opportunities is undeniable. Data show, for example, that between 1993 and 1997, the number of home purchase mortgage loans to African Americans and Hispanics rose nationwide by 60 percent, compared with 16 percent for whites, with the greatest increase for low-income African-American households (Benston 1997; Squires 1999). Community Reinvestment Act activity also increased apace during this period, spurred in part by deals cut with the federal government as part of the savings and loan bailouts.

Yet it is also undeniable that market forces following the 1990–92 recessionary period greatly stimulated inner-city investment and set the conditions for low-income housing programs to work. Primary among these is the superheated economy combined with low interest rates. Unemployment in cities such as Detroit is down more than 40 percent since the early 1990s, making many more lower-income residents (now employed) eligible for loans and buyers rather than renters. Urban incomes, including those of African Americans, are up.

Many centrally located areas that were all but abandoned in the 1970s and 1980s hit bottom, then were cleared and reassembled for new investment by commercial real estate developers. Vacated industrial and warehouse areas became targets for major upscale housing projects, such as those in trendy Tribeca in New York City and the Near South Side of Chicago. City governments became far more adept at working with the private sector by removing bureaucratic barriers and providing incentives for redevelopment. Mayors across the country, from Rudy Giuliani in New York to Dennis Archer in Detroit to Jerry Brown in Oakland, put out "business is welcome" signs while cracking down on crime and addressing dysfunctional city schools. Many who would have left the central city,

or never even considered moving there, have found the improving urban environment attractive. Changing demographics, including new waves of immigrants, increasingly longer downtown commutes, and a vibrant stock market helped accelerate inner-city residential investment. Once critical mass is reached, growth begets growth with additional residential and commercial investment drawn to the gentrifying area. This is a major reason why cities that attracted the most intense investment activity during previous reinvestment rounds are the most prominent targets in the boom of the late 1990s. Thus, while low-income housing policies, interacting with strengthening urban economies, have certainly contributed to capital resurgence in our inner cities, the authors tend to go beyond their data and overstate their case.

Nevertheless, even giants are born small, and Wyly and Hammel are to be commended for work that will no doubt stimulate considerable thought and debate on the importance of low-income housing policy for contemporary urban revival. Building on their position, I would like to offer a few thoughts on strategies and mechanisms to increase the favorable impact of housing policies in the decade ahead.

Points to consider

Maintaining a strong economy with low interest rates is, of course, essential to sustain the urban reinvestment momentum and provide the broad context for housing policies to be more effective. Related to this are jobs and incomes of urban residents. As urban employment rates and incomes rise, not only are far more residents eligible for home purchase loans, but the likelihood of default also drops considerably. If the economy turns sour, the reinvestment surge will cease and many lower-income borrowers will be in trouble since their jobs are often the first to be affected in a downturn.

On the subject of improving policy results, a number of issues related to the application process and loan qualification should be addressed. Those cities that have the lowest loan denial rates among lower-income minorities, such as Boston, also have extensive counseling and education programs helping applicants through the entire process. This includes bilingual support where necessary and correcting and removing bad credit reports, the single most important reason for loan denial. As more loans are applied for and processed online via the Internet, special technical assistance may also become imperative.

One qualification barrier that needs special attention is continuing discrimination in property insurance. As the Seventh Court of Ap-

peals concluded in its decision in the 1992 *NAACP v. American Family Mutual Insurance Co.* case, "no insurance, no loan, no loan, no house" (Squires 1999, 70). In this enlightening article, Squires discusses ways to eliminate discriminatory underwriting guidelines, such as requiring public disclosure of the disposition of applications and geographic locations of insured properties (similar to HMDA requirements) and relaxing stringent maximum age and minimum value of property limits.

Let me conclude by returning to Wyly and Hammel's opening remarks on the trajectory of gentrification and its mixed outcomes. It would be hard to argue that, in the net, gentrification has not benefited the cities and in some cities has even reversed decades of residential decline. Yet it remains a conundrum. For every positive point, there seems to be a counterpoint. Gentrification has brought about neighborhood stability through greater ownership, but removed rental units important to those not in a position to purchase. It has raised inner-city property values and allowed many to notch up their living standard but priced out others. It has attracted national chains such as Starbucks, Crate and Barrel, Gap, Barnes and Noble, and TGI Friday's, which have slowly replaced sometimes shabby local coffee houses, thrift and vintage clothing stores, used book shops, and mom and pop bars. While the national chains offer these neighborhoods products and services appropriate to their new, more upscale residents, such commercial homogenization may be wiping out the very character that made many inner-city neighborhoods so appealing. All of this is really subjective, though, in that what is viewed as good or bad, positive or negative, will be determined not by hard data on reinvestment or types of goods and services establishments, but largely by people's ideology, values, and beliefs of what urban neighborhoods should be.

The gentrification process and its outcomes are thus multifaceted, complex, and often subjectively interpreted. Wyly and Hammel, by articulating the role of low-income housing policy in the gentrification process, have highlighted one more significant factor that cannot be excluded from future discussions.

Author

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