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Income Inequality and Urban Displacement: The New Gentrification

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Anti-displacement protest, Oakland, California, 2016.

You can’t build housing fast enough to stop my eviction.
In the less affluent areas of U.S. cities, when neighborhoods revitalize, observers have long chalked it up to gentrification. The popular image is of an influx of “gentry”—solidly middle class and especially upper-middle class—which has transformed a poor or working-class area of the central city into a middle-class enclave. The losers of the process are the displaced, while the winners include those who benefit from the new profitability of these areas: some new residents and some existing residents, but most of all those who stand to benefit from the accumulation of capital in entire neighborhoods—large financial institutions and the cities themselves.

How might we characterize this phenomenon in the twenty-first century, when a weakened middle class lacks the wherewithal to spur wholesale transformation, and in any case, the central city no longer has many working-class neighborhoods left to gentrify? In the past, gentrification was clearly related to the dynamic of uneven development—the devaluation of capital and the subsequent shift of accumulation processes into devalued neighborhoods. But now, even this uneven development process seems less pronounced at first glance, as the initial “rent gap” has long since been recaptured.

Thirty years ago, theorists had already pointed out that gentrification is a “chaotic conception” that masks complex multiple processes; gentrifiers are a diverse set, often including households that look quite similar to the displaced. Yet arguably, there is increasing coalescence now around one particular pattern: The only households truly insulated from displacement belong to upper-income groups, particularly the one percent. Where uneven development previously spread profit across residents of different income levels, now the gains accrue mostly to the few who supply luxury housing to a high-income niche.

At the core of this displacement crisis is income inequality driven by declining real wages—in other words, a labor question brought on by the reorganization of work. What is widely viewed as a housing crisis, then, is actually an income crisis. Framing it as a housing crisis leads to building more housing supply in the central city to alleviate market pressures. This approach well suits the financial and development industry, as overbuilding in the suburbs in the 2000s, and the subsequent foreclosure crisis, has made it challenging to realize significant profit in the suburbs. It may not, however, mitigate the displacement pressures on central city neighborhoods. While the dynamic of uneven development pressures policy makers to prioritize new construction, policies focused on labor and income . . . might be more effective.

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and income—including human capital development, wage subsidies, targeted business assistance, and/or preservation of industrial land—might be more effective.

A case in point is that of the San Francisco Bay Area. San Francisco has experienced an extremely tight housing market in recent years due to strong job growth in the tech industry and changing housing preferences, among other factors. The patterns in the San Francisco housing market are generally similar to those in other strong market regions such as New York, Boston, Denver, and Washington, D.C., except that the peaks and troughs of its real estate cycles make it an extreme case.

Revisiting the Debates: Gentrification and Displacement

The long-standing debate over the causes of gentrification offers lessons that are still relevant today. The demand-side school, represented mostly by geographers and sociologists, claimed that gentrification was caused by demographic factors that drove increased demand for urban residences, a changing economic base that created a large number of white-collar jobs in the city center, and the mainstreaming of an urban aesthetic pioneered first by artists and alternative households. The supply-side school, represented largely by Marxist geographers, in contrast, held that gentrification is driven by capitalist interests, especially property owners and the real estate and financial industries, profiting from a cycle of disinvestment and reinvestment in land and property and capitalizing on the rent gap. Facilitated not just by private capital investment, but also by public policy and investment, the return of capital from the suburbs to the city drives gentrification; the change in neighborhoods is the spatial manifestation of the restructuring of capital accumulation, in a process of uneven development. Interestingly, this initial debate generally equated gentrification with displacement, without interrogating the relationship further.

It was not until the twenty-first century that the economists and urban planners began weighing in. For most, the key issue was not so much the causes of gentrification but whether it led to displacement. Most of this research has found that exclusionary displacement is occurring in gentrifying neighborhoods: in-movers are wealthier, whiter, and of higher educational attainment and out-movers are more likely to be renters, poorer, and people of color. This research also consistently shows that rent appreciation and high-rent burden (relative to income) predict displacement, but that gentrification per se does not. Instead, a number of studies have shown that various types of displacement pressures, such as landlord harassment and uncertainty associated with the planning of new public infrastructure, as well as the variety of displaced households, are not captured well by census and housing survey data.

Insightful as this research is, by focusing only on gentrification, it offers a narrow lens that misses the bigger displacement crisis. Only by shifting the focus from certain neighborhoods to the nature of advanced capitalism itself does the full crisis of displacement come into view. As urban studies professor Damaris Rose highlighted some thirty years ago: “The social and spatial restructuring of labour processes are shaping and changing the ways that people and labour power are reproduced in cities.” She identified a transformation that was characterized by the loss of manufacturing jobs, decline of labor unions, and reduced job security, and that continues today with stagnant or declining wages in both the private and public sectors and declining upward mobility. At the same time, this transformation is producing different kinds of gentrifiers. A new division of labor produces high-end workers with new demand for urban housing, while the rise of low-wage and informal work, self-employment, contingent work, and unconventional career ladders helps foster the rise of alternative households and non-nuclear families.

Many of these service economy workers find themselves excluded from traditional middle-class housing markets. Householders with multiple jobs or employed women with children looking for a central location end up becoming displacers themselves, either because they are priced out of their previous urban neighborhoods
or because work-life complications make conventional suburban life impossible. In other words, rather than resulting from lifestyle choices, or even housing market dynamics, gentrification serves as a coping strategy for the social problems incumbent in advanced capitalism: the challenges of making daily schedules and budgets work despite poor job quality and city transportation systems designed for a commute by a sole breadwinner head of household.

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Gentrification, then, is just one symptom of a much larger crisis. From the onset of the gentrification studies, researchers failed to examine a wide array of causes—of both gentrification and displacement—and looked only at short time frames that could not capture the entirety of change. That story is told elsewhere; here, it will suffice to point out that how the crisis is framed—narrowly or broadly, short or long term—matters because it leads to different policy implications.12

If the issue is that there is not enough central city housing to accommodate demand, then the solution is to build more housing in those neighborhoods. But if it is that low- and moderate-income households are not able to find and stay in housing anywhere, then it is an income crisis, necessitating intervention in the labor market. On one hand, this means ensuring that workers are earning a “housing wage,” enough to cover rent without spending more than 30 percent of their income on housing costs.13 On the other hand, it means safeguarding the middle-wage, low-skill jobs left in the city—those paying a living wage for workers without a college degree—whether through strengthening unionization, providing targeted business assistance, or protecting industrial land.

For the typical worker, wages in real terms are now below what they were in the late 1970s, when many of these studies were taking place. Arguably, the working class of today includes the middle class, putting further pressure on the need for affordable housing. Yet, even as the need grows, the amount decreases, as high-income households occupy the older housing stock that used to trickle down. And the income inequality of today—made worse by the economic “recovery” from the Great Recession—is reshaping the map of displacement, as the case of the San Francisco Bay Area illustrates.

Twenty-First Century Displacement in the San Francisco Bay Area

The San Francisco Bay Area illustrates the breadth of the displacement crisis, the role of increasing income inequality, and the push for new housing supply as the solution. The Urban Displacement Project provides a typology analysis that characterizes Bay Area neighborhoods (census tracts) according to their experience of gentrification and risk of displacement.14 This is based upon a gentrification index (defined as a vulnerable neighborhood with disproportionate growth in above-median-income, college-educated households, as well as disproportionate investment in the form of housing price appreciation, and/or market-rate construction). However, it looks at not just gentrification but also displacement, which is measured by three different proxies: the loss of low-income households, the loss of naturally occurring affordable housing, and/or the declining in-migration of low-income residents.15 The Urban Displacement Project divides the Bay Area region into low-income and moderate-high income census tracts to capture the displacement pressures not just in gentrifying neighborhoods, but also in non-gentrifying neighborhoods that are also losing or excluding low-income households. The analysis shows that displacement risk is not just in low-income neighborhoods, but also in non-gentrifying neighborhoods that are also losing or excluding low-income households. The analysis shows that displacement risk is not just in low-income neighborhoods, but also in moderate- to high-income neighborhoods as well (Figure 1).

Overall, just over 10 percent of Bay Area households (a total of more than 265,000) live in neighborhoods that are undergoing gentrification or have gentrified already. From 2000 to 2013, the nine-county region has lost almost 105,900 naturally occurring affordable housing units—but just 12 percent of these were located in gentrifying neighborhoods, such as those
near downtown San Francisco and Oakland. Overall, the region lost 49,000 low-income households, but just 13 percent were displaced from gentrified neighborhoods. In fact, though 53 percent of low-income households lived in neighborhoods at risk of or already experiencing displacement pressures, more than half of those neighborhoods are moderate-to-high income areas. In other words, due to price increases either low-income households can no longer afford to live in these areas, or they are excluded from moving in when units formerly inhabited by low-income households become available. This phenomenon is occurring particularly among communities of color, especially Latinos.

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Not only is displacement occurring in all types of neighborhoods, but it occurs disproportionately to moderate-income households. Overall, the region gained in both high- and low-income households from 2000 to 2013; though gentrified neighborhoods gained both income groups, a disproportionate share of high-income households moved in (Figure 2). However, the entire region experienced a net loss of moderate-income households (a total of 36,000). At the same time, rent burden increased, not only for low-income households but households in general, especially in gentrified neighborhoods (Figure 3). Meanwhile, much of the region saw middle-class households replaced by lower- and upper-class households (Figure 4). Taken together, these patterns suggest the breadth of displacement processes and the impact of the loss of the middle class.

Particularly in the Bay Area then, one would expect the policy response to the displacement crisis to be multipronged, with interventions to improve incomes, preserve housing affordability, and build new supply. Instead, there has been a steady drumbeat of demands to increase housing supply, encapsulated ably in the title of a 2016 New York Times article: “In Cramped and Costly Bay Area, Cries to Build, Baby, Build.” The arguments come not just from pro-growth groups like the San Francisco Bay Area Renter’s Federation and San Francisco Planning and Urban Research, but also reach up to the state, where the Legislative Analyst’s Office has released several reports advocating dramatic increases in housing supply to ease price pressures, and the governor has suggested allowing more housing development by right, that is, without requiring approval for individual households.
Blocking more development are a well-established set of barriers: NIMBYism, the environmental review process, restrictive zoning regulations, and slow permitting processes. The pro-development point of view dominates the national conversation as well. A quick search of the top twenty-two urban blogs in the United States and United Kingdom yields thirty-eight articles focused exclusively on the housing affordability crisis; of these, twenty-nine mention housing production as the solution, while twenty-two focus on preservation (sixteen mention both). Even the White House’s recent Housing Development Toolkit calls for eliminating the barriers to housing production—without providing any evidence of a shortage in supply.

Yet, we might ask whether there is actually a widespread shortage of housing. In fact, in the aggregate, housing construction nationwide is well aligned with household growth, due in part to slow household formation in recent years. Just under ten years ago, when the housing market collapsed, there was actually a glut of vacant homes: both rental and homeowner...

Figure 2. Change in households, gentrified versus all neighborhoods, 2000 to 2013—San Francisco Bay Area. Source. Calculations by the author.

Figure 3. All rent-burdened and low-income rent-burdened households, gentrified versus all neighborhoods, 2000 and 2013—San Francisco Bay Area. Source. Calculations by the author.
vacancy rates hit historic highs. In the decade of the 2000s in the Bay Area, developers built almost twice as many units than were needed for new households (Figure 5)—albeit mostly in the wrong places, outlying suburbs. In the future, surpluses may return, as aging baby boomers leave their single-family homes for more efficient living arrangements.\textsuperscript{23} In the long run, do we really need market-rate housing produced at a faster rate? Perhaps, instead, we need to revisit the rules of the game, once again, to ensure that the core areas where we need housing most remain affordable in the face of rising income inequality.

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There is little question that major cities such as San Francisco, New York, and London have not built enough housing to meet demand for central city living. But this does not necessarily mean that these cities can build their way out of the problem today.\textsuperscript{24} The cost—of a minimum of $500,000 for an eight hundred square foot unit in a city like San Francisco, with land costs accounting for just one-fourth of the total—means that in the absence of subsidy, it is only profitable for developers to build for the high end of the market, which is why we currently have a glut of ultra-luxury apartments.\textsuperscript{25} This new construction will take generations to filter down to those in need of affordable housing, and in any case, massive amounts of construction would be needed to have any leveling effect on housing prices.\textsuperscript{26}

It is precisely because of the high land costs in the urban core that developers increasingly are pressuring cities to rezone industrial land for residential use. Ironically, in many cities, this land houses the most significant concentrations of middle-wage jobs. A study of industrial land in the Bay Area I conducted for the Association of Bay Area Governments found that in 2011, middle-wage jobs (paying $18 to $30 per hour, and employing workers without a college degree) counted for a near majority (44 percent of jobs on industrial land, compared with just 27 percent of
all jobs in the region; Figure 6). Projections to 2040 suggest that this regional concentration will remain stable—unless the land is converted to residential. Ironically, the pressure to build more housing may actually result in the conversion of the land with the greatest concentrations of jobs paying a “housing wage.”

Viewing the crisis through the lens of uneven development helps explain the continued push to build. Changes in how the country’s major financial institutions underwrote mortgages facilitated capital accumulation in the suburbs, leading to overbuilding. With diminishing returns, developers returned to the city, where they found profitability in the market for luxury apartments. If current patterns—land costs, construction costs, and so on—do not change significantly, building central city housing for the working and middle class will never be profitable. Thus, relying exclusively, or even mostly, on a supply strategy is neither viable nor necessary.

Housing prices have risen much faster than incomes, particularly in strong market regions such as New York, and in regions with high-income inequality, low-income households find housing less affordable. Had incomes kept up, the crisis would have been significantly (though not fully) mitigated. Yet this perspective is largely absent from the debate on the housing crisis. Of the above-mentioned thirty-eight national blogs focused on the housing crisis, just thirteen framed it as an income crisis, and only one mentioned intervening in the labor market (e.g., to improve wages) as a solution. Of those that mentioned income, most highlighted the plight of low-income households and millennials trying to enter the housing market; there was little mention of the challenges faced by the middle class.

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It is time to start thinking more creatively about policy. The hottest neighborhoods are losing naturally affordable housing units—and their low- and moderate-income occupants—much faster than they can build replacement housing. Many creative approaches to housing preservation are emerging, and offer potential to house more households at lower cost than new housing production. But why not consider how to preserve residents’ incomes at the same time? It makes little sense to dedicate resources to saving housing without also ensuring the buying power of workers.

It is not hard also to envision how the $500,000 that builds a new housing unit might be more fruitfully employed in strategies that enhance resident income: full college scholarships for five students, wage subsidies to bring thirty minimum wage workers up to living wage for a year, wages and benefits for five elementary school teachers, finance capital for five minority-owned start-ups, or industrial space for a handful of expanding businesses. Only when we start to think more holistically about our housing crises will we be able to protect our communities from the inequality that is displacing us.
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**Notes**

3. The rent gap is defined as the difference between the potential ground rent of a piece of property and the actual rent. See Neil Smith, “Toward a Theory of Gentrification: A Back to the City Movement by Capital, Not People,” *Journal of the American Planning Association* 45, no. 4 (1979): 538-48.
5. Ibid, 66.
9. Zuk et al., *Gentrification, Displacement and the Role of Public Investment*.
10. Instead, primary data collection such as interviews and ethnography provide a much more illuminating picture of housing pressures and insecurity, as shown so effectively in Matthew Desmond’s, *Evicted* (New York, Penguin Random House, 2016).
12. Zuk et al., *Gentrification, Displacement and the Role of Public Investment*.
14. This project was a side product of a larger study funded by the Metropolitan Transportation Commission (via the U.S. Department of Housing and Urban Development’s Sustainable Communities Initiative) that involved extensive qualitative and quantitative regional analysis to better understand the nature of neighborhood change and displacement in the Bay Area and its relationship to transit.
15. Naturally occurring affordable housing units are affordable to those at 80 percent of area median income or less, paying 30 percent or less of their income for rent. On using the loss of low-income households between 2000 and 2013: as a proxy for displacement, on average, Bay Area census tracts’ low-income population grew by fifty-nine households between 2000 and 2013. Therefore, we assume that a tract that lost low-income households during this period underwent some process of displacement when combined with other indicators such as a loss of market-rate affordable units or a decline of the in-migration of low-income population into that tract beyond the regional median. Although the change in low-income households could be due to income mobility (e.g., low-income households moving into middle- or upper-income categories, or vice versa), from our analysis of data from the Panel Study on Income Dynamics, we estimate that there would have been a net increase in low-income households in most
places likely due to the Great Recession; therefore, our estimates of displacement are likely an underestimate, if anything.


20. Sources included urban research think tanks such as the Urban Institute, blogs on urban issues such as City Lab and Next City, blogs on planning such as Planetizen, environmental blogs such as National Resource Defense Council (NRDC) Switchboard, transportation blogs such as The Overheard Wire, Wonkblog from the Washington Post, and New York Times. The search included articles from January 2014 to the present.


25. In 2014, Mark Hogan estimated development cost at $469,800 for an eight hundred square foot unit, a minimum that does not include construction financing expenses, contingencies, developer’s profit, and other costs; costs today may be significantly higher. See http://www.spur.org/publications/urbanist-article/2014-02-11/real-costs-building-housing. Re ultra-luxury apartments, see http://www.nytimes.com/2016/07/12/realestate/luxury/slow-times-on-billionaires-row-as-the-8-digit-boom-fizzes.html?ref=realestate’.

26. Zuk and Chapple, Housing Production, Filtering and Displacement. Moreover, the literature on filtering does not examine luxury apartments; conceivably, filtering may not even occur in this market segment.


Author Biography

Karen Chapple, PhD, is a professor of city and regional planning at the University of California, Berkeley. In fall 2015, she launched the Urban Displacement Project, a research portal examining patterns of residential, commercial, and industrial displacement, as well as policy and planning solutions. Her most recent book is titled Planning Sustainable Cities and Regions: Towards More Equitable Development (Routledge, 2015).