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Commentary

Gentrification and the Rent Gap

In less than a decade scholarly analyses of gentrification, once curious, are now commonplace as many working-class neighborhoods in cities throughout the advanced capitalist world have been transformed into middle-class reserves. Two distinct approaches have tended to dominate the literature on gentrification: first, there has been a highly empirical approach, at times verging on the empiricist, that emphasizes the collection of descriptive information about specific cases of gentrification and occasionally the comparison of results from different studies; second, and partly in response to the empirical approach, there has been a more theoretical approach concerned with explaining underlying causes of gentrification rather than describing its instances. A number of researchers have stressed the need to bridge the gap between empirical and theoretical approaches (Hamnett 1984; Rose 1984; Williams 1984; Smith and Williams 1986), and so we should applaud Ley's (1986) recent attempt to confront a series of theoretical propositions—both his own and those of others—with empirical evidence from the Canadian censuses of 1971 and 1981.

Ley hypothesizes four types of explanation for gentrification: demographic change, housing market dynamics, urban amenities, and changes in the economic base. He subjects each of these hypotheses to simple correlation procedures and principal components analysis that concludes that the "economic hypothesis" has "the strongest relationship with gentrification" (p. 529). He finds empirical evidence for rejecting widely assumed demographic explanations (such as the maturation of the baby boom and decreased household size), and he also rejects housing market dynamics (somehow separated from economic questions) as particularly relevant for explaining gentrification. He affirms the importance of urban amenities and extrapolates from these overall results a restatement of the familiar "postindustrial city" thesis.

On examination, however, Ley's statistical ex-

ercise does more to question his hypotheses than to confirm them. Concerning the larger conclusion, severe limitations to the doctrine of postindustrial cities have already been demonstrated (Walker and Greenberg 1982) although they are unacknowledged here by Ley (but see Ley 1982). The point of this reply however is not to rehearse this larger debate but rather to question a specific section of Ley's analysis. I want to focus on the question of the rent gap, Ley's understanding of it, and its role in gentrification. In Ley's schema, the rent gap is a component of the second hypothesis, namely housing market dynamics; more precisely, the rent gap is defined as the gap between the actual *capitalized* ground rent (land value) of a plot of land given its present use and the *potential* ground rent that might be gleaned under a "higher and better" use. The latter might be brought about through the rehabilitation of existing structures on the land, complete redevelopment, or other transformations of existing uses and structures. Gentrification, briefly defined as the transformation of inner-city working-class and other neighborhoods to middle- and upper-middle-class residential, recreational, and other uses, is clearly one means by which the rent gap can be closed, wholly or partially.

Ley is adamant in dismissing the concept of a rent gap: "Evidence is entirely lacking in Canadian cities for the rent gap thesis" (p. 531). In fact, the problem lies first and foremost not with the rent gap thesis nor with Canadian cities but with Ley's comprehension and operationalization of the concepts of gentrification and rent gap. We shall examine each of these in turn.

First, Ley conceives gentrification as simply a "change in household social status" quite "independent of the housing stock involved" (p. 526). Thus he resorts to a simple index combining changes in occupation and education in inner-city census tracts as the sole indicator of gentrification. This measure is so coarse that it would actually

identify many areas of suburban expansion as instances of gentrification par excellence, were its application not geographically restricted to the inner city. In fact census tracts experiencing increases in education and employment status may do so for a host of reasons quite unconnected with gentrification, and conversely tracts that are experiencing rapid gentrification may not register exceptional increases in these indicators. To give just one concrete example, in recent research on Harlem and the Lower East Side, educational and occupational measures were discarded as indicators of gentrification because there seemed to be an erratic correlation with rehabilitation, redevelopment, and the immigration of "higher-status" groups (Schaffer and Smith 1986).

The crucial point about gentrification is that it involves not only a social change but also, at the neighborhood scale, a physical change in the housing stock and an economic change in the land and housing markets. It is this combination of social, physical, and economic change that distinguishes gentrification as an identifiable process or set of processes. Upper-middle-class immigrants to a run-down neighborhood do not move into slums; they fix them up or they move into buildings already fixed up or newly built, and this inevitably involves substantial capital investment in gentrifying neighborhoods along with social change.

The most obvious result of the conceptual reductionism in Ley's analysis is that it encourages a self-fulfilling hypothesis. With economic and physical changes in the housing stock defined away, the poor correlation of these variables with gentrification is hardly surprising. Ley may only be interested in the social aspects of gentrification, but unless the full extent and breadth of the process is conceded at least in the beginning, it is difficult to retain confidence in the meaningfulness of the results.

By definition, indicators are always only approximations to the meaning of a concept, but in the case of gentrification we can get more accurate approximations. Ley is correct that there are theoretical problems attendant on using income, especially if income is seen as a surrogate for class, but these are hardly less severe than occupation and education level. In their comprehensive review of the gentrification literature, LeGates and Hartman (1981) have consistently found marked income differentials between gentrifiers and the displaced. To capture changes in the housing market, some measure of house prices and/or rental levels is also important (Marcuse 1986). The com-

ination of income and rent indicators is a much more satisfactory one in fact. Census tracts with significant increases in both measures are clearly targets of gentrification (Schaffer and Smith 1986). Use of both measures enables us to screen out speculation since the economic rise in the housing market is paralleled by exceptional social changes indicated by higher-than-average income increases. Similarly, with parallel changes in the housing market, significant income increases are unlikely to result simply from the in situ enrichment of the existing population.

The second major problem lies in Ley's conceptualization of the rent gap. The problem here is similar but more drastic. In its original formulation, to which Ley refers, the rent gap was defined as "the disparity between the potential ground rent level and the actual ground rent capitalized under the present land use" (Smith 1979, 545). If we leave aside the crucial distinction between value and price, two aspects of this definition are particularly important. First, it refers to the value of *land* separate from any structures or improvements built on it. The value of land is appropriated in economic transactions as ground rent; hence the notion of the "rent" gap. House value is conceptually separate from land value, even if the actual selling price of a structure usually incorporates the value of the building and the land in a single dollar figure. The second important feature of the definition is that the rent gap refers to an economic gap between actual and potential land values in a given location; it is also a historical gap in that it results from a complex pattern of investment and disinvestment in the built environment and can be closed through gentrification (among other processes).

Ley's conceptual definition of the rent gap is severely distorted from the start. He redefines it as a feature of "housing market dynamics" with no direct reference to the land market, and he divorces it from the broader economic processes (investment and disinvestment in specific places and sectors of the built environment) in which the rent gap is embedded and out of which it develops. As a result, the indicator Ley actually attempts to correlate with his gentrification index has at best an accidental conceptual and empirical resemblance to the rent gap. Thus he defines two ratios, purportedly a price gap and a rent gap respectively: (1) the ratio of inner-city to metropolitan-wide house values in 1971, and (2) the ratio of inner-city to metropolitan-wide rental costs in 1971. The clumsiness of this translation from concept to operational variable is astonishing:

nothing remains of the concept. First, these ratios refer not to land values at all, but to house/apartment rents and sale prices. Second, instead of a gap between actual and potential ground rent, these ratios measure the gap between inner-city and metropolitan housing costs, a geographical gap of some interest, to be sure, but no proxy for the rent gap at given locations. The metropolitan gradient is emphatically not the rent gap. In short, this indicator does not refer to rent, nor does it even postulate an economic gap in the central city. Both ingredients are missing in a two-ingredient recipe. Ley is untroubled by the emptiness of his bowl, however, merely assuring us that the postulated ratios do represent "one valid measure of the rent gap" (p. 533) and that the "definition of the rent gap adopted does seem consistent" with the original formulation (p. 527).

The whole point of the rent gap theory is not that gentrification occurs in some deterministic fashion where housing costs are lowest, as Ley is proposing, but that it is most likely to occur in areas experiencing a sufficiently large gap between actual and potential land values. This is a fundamental distinction. Areas such as the central and inner city where the rent gap may be greatest may also experience very high land values and housing costs despite disinvestment from the built environment and the consequent rent gap. Thus instead of testing whether a rent gap was a condition for gentrification, Ley has tested the hypothesis that a relative increase in educational and occupational status is geographically correlated with inner cities where housing costs are higher than average. He is strangely surprised to find that in fact higher-status residents are clustering in areas with relatively higher housing costs.

Attempts to operationalize the rent gap theory have to be taken seriously. They will require extensive and complex data collection and manipulation rather than simple statistical exercises and the rigorous conceptual distinction between land values and house values. This is the central problem and a forboding one, namely to acquire or create a historical series of data that traces changes in the value of land parcels separate from the structures on them. Assessed values for tax purposes are much too rough and arbitrary to be useful. Thus it is no accident that part of the original formulation of the rent gap thesis derived from the empirical work of the late Homer Hoyt (1933), who compiled a remarkable data set on land values in Chicago. Testing the rent gap thesis today will

require an equally historical approach and a comparable sensitivity to the constitution of place. Not all neighborhoods experiencing the rent gap may experience gentrification or redevelopment; some economic opportunities remain unexploited and specific local conditions may discourage the process. Areas with the deepest rent gap may not be the first to experience the process; despite the perception of large rent gaps in some black neighborhoods, for example, the process has often been relatively slow because of a mixture of fear and racism among both individual whites and the institutions of the land and housing markets.

In testing the rent gap theory, data will be more readily available in some localities and nations than in others. And it is by no means clear in advance how the theory will fare. But only after this work will we be able to test whether there is or has been evidence of the rent gap in Canada. Ley's conceptualization of the rent gap is too clumsy for the question of differential national experiences even to be asked. In fact, it would not be surprising if the rent gap were less extreme in many Canadian cities than in the U.S. where the state is less involved in the land and housing markets and where racial and ethnic differences would seem to be more deeply rooted and more pervasive as markers of social territory. Without the data this is speculative, but Australia may represent the other extreme. There it has been suggested that though it certainly existed, the rent gap was never too deep and may now largely have been filled in through gentrification and the related restructuring of the cities (Horvarth and Engels 1985).

Whatever the shortcomings of the analysis, Ley is surely correct about one thing: there is "no single dominant explanation" of gentrification in Canada or elsewhere (p. 527). If the early literature tended narrowly to emphasize either consumption-side or production-side explanations (such as the rent gap), it should now be evident that the relationship between consumption and production is crucial to explaining gentrification. The restructuring of the city, of which gentrification is only a part, involves a social and economic, spatial and political transformation. Our understanding of these changes will be served best by trying to forge the links between the different aspects of change. The multifaceted changes in women's roles in society and the growing recognition of the role of women in gentrification may provide a fulcrum over which these contrasting aspects of change can be balanced (Rose 1984; Stimpson et al. 1981).

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Reply: The Rent Gap Revisited

Professor Smith has one substantial argument in his commentary, a defense of his rent gap thesis of gentrification. Before I discuss this, however, it is necessary to deal briefly with several assertions, which indicate a none-too-careful reading of my article.

(1) The commentary objects to the use of education and occupation as indicators of gentrification, instead of income and rent levels. Occupation and education are challenged because they might equally show status increases in the suburbs. It is not clear what a study of inner-city gentrification would be looking for in the suburbs, but the important point here of course is that income or rent data share precisely the same weakness (or strength?). Moreover, all three measures of social status are highly correlated anyway. As reported in my paper, validity tests across 462 inner-city tracts show a high correlation of 0.77 between monthly rents and a social status index derived from occupation and education, and a correlation of 0.63 between income and the index (Ley 1986, Note 10). No theoretical justification is given in

the commentary for discarding education and occupation and favoring income and rent. This is an arbitrary fiat, representing a minority voice in a larger literature that uses any and all of the three indicators of social status.

My own use of education and occupation rather than income or rent was predicated on three grounds. First, there is some empirical data in Canada indicating that income differentials are not as sensitive as education and occupational distinctions in separating out social classes in the city (Ley and Mercer 1980); for example, empty nesters who may have a relatively low income (but considerable equity) are a major group buying into condominiums in gentrifying districts. Second, in a gentrifying neighborhood use of rents alone may be tracing a residual population and missing recent arrivals who are home owners or apartment owners. Third, there is an important theoretical argument around the role of education as the cultural capital of the “new class” of professional and administrative workers (Gouldner 1979). The paper’s interest in social class change targeted edu-