

## Advancing Our Understanding of Gentrification

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*Forthcoming in Cityscape*

*The opinions expressed in this guest editors' introduction and in the following articles and commentaries are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.*

The term gentrification inevitably generates controversy and disagreement. People disagree about its definition, its causes and above all, its consequences. But all seem to agree that whatever gentrification is, it is becoming more prevalent in U.S. cities. Articles in the popular media now regularly highlight gentrification's increasing reach and pace. As one Boston Globe reporter wrote in 2016, "Transformation has always been part of city living, and part of life. But in neighborhoods like East Boston and South Boston, rents are rising so fast that they're dramatically speeding up the natural order of things."<sup>1</sup>

Despite this sense of accelerating change and anxiety about its consequences, rigorous research on the extent, causes and consequences of gentrification remains rare. There is even less research on the efficacy of potential policy responses. Thus, the Federal Reserve Banks of Philadelphia and Minneapolis, the New York University (NYU) Furman Center, and HUD decided to jointly convene a one-day research conference (*Research Symposium on Gentrification and Neighborhood Change*) on May 25, 2016 to bring together a set of multidisciplinary researchers to explore what we know about gentrification and its effects. Selected papers from that one-day conference are included in this volume.

### Recent Trends

While the papers included in this volume adopt slightly different definitions, they generally view gentrification as increases in household income, education, and/or housing costs in previously low-income, central city neighborhoods. Some also consider increases in percentage white households.

Using variants of this basic definition, Figures 1 through 4 make it clear that gentrification is indeed growing more common in U.S. cities. The figures show the share of initially low-income,

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<sup>1</sup> Teitell, Beth. 2016. "Gentrification in Eastie and Southie Leaves Some Behind." *The Boston Globe*, March 25, 2016.

central city neighborhoods (defined as census tracts with mean household incomes below the 40<sup>th</sup> percentile of the metropolitan area at the start of a decade) that saw large gains in socioeconomic status or percentage white residents relative to the rest of the metropolitan area during the 1980s, 1990s, and 2000s. Large relative gains are defined as increases in the ratio of the census tract value to the metropolitan area average of more than 10 percentage points (e.g., from 60 percent to 75 percent of the average metropolitan income). Figure 1, for example, shows that in metropolitan areas around the country, the fraction of low-income, central city tracts that saw a large increase in the ratio of their mean household income to the mean household income of the metropolitan area rose from about 9 percent during the 1980s to 14 percent during the 1990s and 2000s. By this definition, the prevalence of gentrification looks similar in the 1990s and 2000s.

However, Figures 2-4 show an acceleration since 2000; they suggest that gentrification was far more common during the 2000s than during the 1990s and involved a more dramatic set of economic and demographic changes. The share of initially low-income city tracts that saw large gains relative to the rest of the metropolitan area in their percentage college educated climbed from 25 percent during the 1990s to 35 percent during the 2000s, while the share seeing large increases in percentage white rose from 7 percent to 18 percent. But the biggest difference between neighborhood changes in the 1990s and 2000s concerns rents. The share of initially low-income city tracts that saw large gains in rents relative to their metropolitan area jumped from 10 percent to 24 percent between the two decades, raising the specter of displacement. Regardless of how much direct displacement is taking place, it seems clear that low- and moderate-income households are likely finding it increasingly difficult to afford to remain in or settle in many historically low-income, central-city neighborhoods, raising doubts about whether gentrification can produce neighborhoods that remain economically and racially integrated over the longer-term.

-----INSERT Figures 1 through 4 here.

### **Articles in the Symposium**

The papers included in this volume delve into the causes of this growing gentrification, its consequences, and appropriate policy responses. Specifically, the first paper in the volume is Jackelyn Hwang and Jeffrey Lin's review of what we know about the causes of gentrification. They start by highlighting recent trends in gentrification, showing that a growing number of downtown neighborhoods are experiencing a growth in socioeconomic status. The authors then review evidence about the role that changes in amenities, changes in preferences for amenities, and shifts in labor demand are playing in spurring gentrification. They also point to several additional factors as potential contributors including public policies, new technology, housing finance, and demographic changes. They end by raising a set of questions about whether the recent gentrification trends are self-sustaining.

The next two papers examine on the consequences of gentrification, focusing on the relatively under-studied impacts of gentrification on residents' financial outcomes and on local business

activity. Lei Ding and Jackelyn Hwang examine the relationship between gentrification and the financial health of residents, using unique data on credit scores. The paper highlights the uneven consequences of gentrification: Less advantaged residents who are able to stay in gentrifying neighborhoods enjoy an improvement in their financial outcomes, while those who leave are more likely to suffer financially. The paper also shows that more advantaged residents see a larger gain in financial well-being than less well-off residents as neighborhoods gentrify. Rachel Meltzer's paper then turns to gentrification's impact on local businesses. She addresses an interesting, policy-relevant question: does neighborhood income upgrading pose an opportunity or a threat to local businesses? She finds existing small businesses in New York are generally no more likely to be displaced in gentrifying neighborhoods than in nongentrifying neighborhoods, although shifting consumer demand may attract outside investment, such as retail chains. These two studies represent some of the novel research to evaluate the economic consequences of gentrification.

The three remaining papers explore the potential of federal and local strategies to address neighborhood revitalization and prevent displacement. First, Samuel Dastrup and Ingrid Gould Ellen explore the role of public housing in buffering gentrification and displacement. Focusing on New York City, they show that in the wake of recent neighborhood changes, a majority of the city's public housing buildings are now surrounded by neighborhoods with household incomes *above* the citywide median. Further, they find that public housing residents living in developments surrounded by higher income neighborhoods are significantly more likely to be employed and enjoy higher earnings than other public housing residents. These results suggest that public housing can help low-income households remain in areas as they gentrify and allow them to benefit from the opportunities these communities offer. The authors acknowledge that the benefits are not unqualified, and call for additional research to learn if results are generalizable beyond New York City.

Second, Karen Chapple and Miriam Zuk turn to the potential of early warning systems to predict gentrification. They survey the existence, characteristics, and use of demographic data systems that present information on gentrification and/or displacement. While local governments and practitioners have strong interests in these early warning systems, as the authors point out in the paper, the policies and tools have generally not been readily available to help policymakers prepare for and respond to gentrification. For example, the systems are generally not yet reliable enough to use to design for specific policies and the existing models suffer from high rate of false positives. Of course these systems could be more useful predictors, with the improvements in new technology and newly available data in the future.

Third, Jeff Lubell's paper reviews the range of policy tools that local governments might adopt to address neighborhood change and rapidly rising rents. He divides policies designed to increase access to affordable housing in gentrifying areas into six categories and urges local governments to develop an overarching strategy to respond to gentrification, which would involve not just one, but a range of policies that fall into these categories. He stresses that communities should act as early as possible and strive for long-term affordability. He also argues that effective and comprehensive strategies will inevitably involve reducing barriers to

development and increasing density, but that that working with community groups and long-time residents to address their concerns about this growing density is essential.

Finally, the symposium includes three thoughtful commentaries about the key insights and contributions offered by the papers, written by researchers who have written extensively about gentrification. Katherine O'Regan provides a national perspective on policy tools to address the affordability crisis and to boost the supply of affordable housing. She discusses several important policies and regulations with the potential to encourage more equitable development and mitigate the side effects from gentrification, such as the reduction of Federal Housing Administration (FHA) insurance premiums for affordable housing financing, the Rental Assistance Demonstration program for preserving and improving existing public housing properties, and the Affirmatively Furthering Fair Housing rule. The last two commentaries by Lance Freeman and Derek Hyra highlight the contributions of the symposium papers, as well as related literature on gentrification, and suggest lessons for policy.

## **Conclusion**

These papers collectively shed new light on the causes and consequences of gentrification and offer useful insights about potential policy responses. The authors provide original research to help people better understand this complicated issue. Readers hoping to get a clear-cut answer about whether gentrification is good or bad or to obtain a simple rulebook for policy makers may be disappointed. The papers suggest that gentrification is a complex phenomenon with no easy answers. But the richer understanding of gentrification they provide can help governments and communities craft policies that capture the potential benefits from neighborhood improvement while mitigating its potential costs.

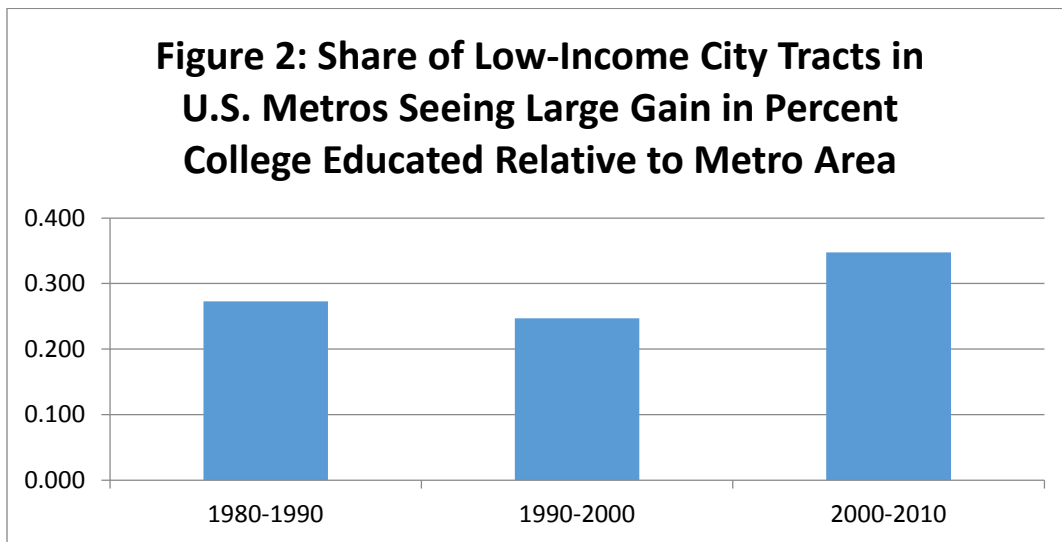
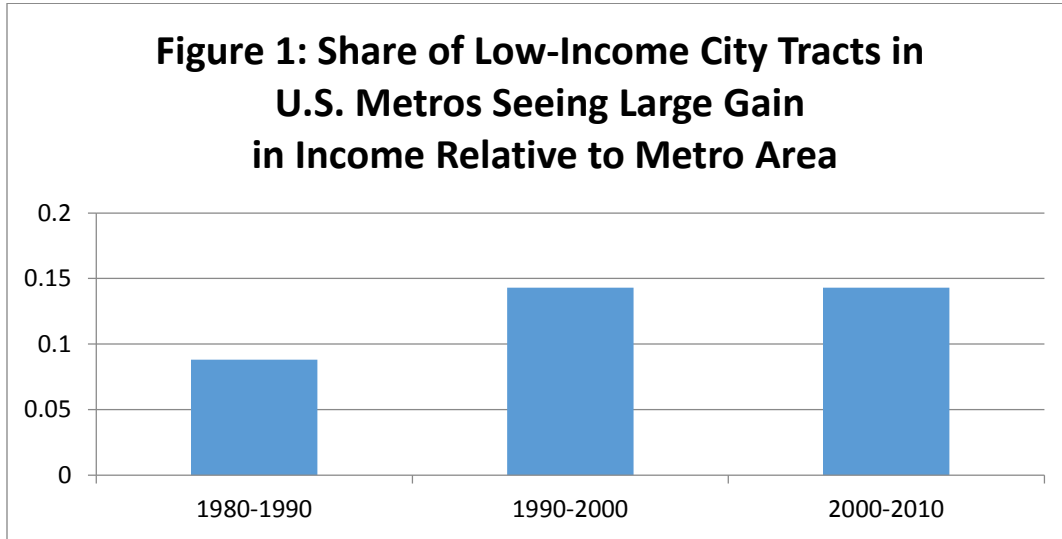
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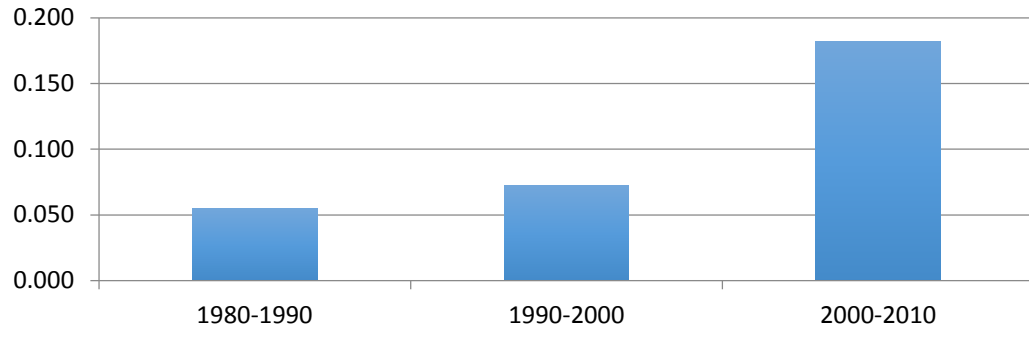
## **Guest Editors**

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**Figure 3: Share of Low-Income City Tracts in U.S. Metros Seeing Large Gain in Percent White Relative to Metro Area**



**Figure 4: Share of Low-Income City Tracts in U.S. Metros Seeing Large Gain in Rents Relative to Metro Area**

