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GENTRIFICATION AND FINANCIAL POLICY: TAX INCREMENT FINANCING AND THE IMPLICATIONS FOR LOW-INCOME RESIDENTS

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ABSTRACT

This paper serves as a primer on how to understand the complex issue of gentrification through the lens of financial policy. It introduces historic and current definitions of gentrification, showing how the concept has mutated over time. It reviews the relevant theories, fields of thought, findings, and analyses that have developed since the inception of the concept. Next, the paper shows how certain federally-sponsored financial policy decisions of the 1920's through the 1980's affected gentrification in inner-cities. Additionally, the paper identifies how the declining financial support of the federal government in revitalization efforts has increased pressure on local governments to promote revitalization. Through this analysis, I find that local governments face a trade-off between promoting economic development and maintaining affordable housing. Finally, this paper looks specifically at Tax Increment Financing (TIF), a financially based economic development tool, critically examining the effect of TIF on low-income residents.

This study finds that the affordable housing strategies used by most states through TIF have not been effective in protecting against involuntary displacement of low-income residents in the long-term. TIF, therefore, should be required to be used in conjunction with Low Income Housing Tax Credits, a federally funded affordable housing strategy. Additionally, for each affordable housing unit local government takes away, one new unit of affordable housing should replace it to avoid involuntary displacement of low-income residents. Local governments should also consider developing a program to track low-income residents to promote long-term solutions for affordable housing.

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Chapter 1

Introduction

In 2014, almost 80 percent of the United States population lived in cities, producing over 75 percent of the US economic output (NLC, 2014). As cities continue to grow, they are facing critical challenges directly affecting the people who live and work in them, including access to higher education, increased congestion, a decline in the middle class, and a lack of affordable housing (NLC, 2014). As a result, urban redevelopment (urban renewal) has reemerged as a large area of concern in urban studies (Gotham, 2001). As Gotham (2005) notes, "[a trend has emerged] toward specifying the economic, political, and cultural factors responsible for uneven metropolitan development."

Neighborhood change and urban renewal seem to go hand in hand. Poor inner city neighborhoods begin to experience revitalization, and suddenly many of the original working-class residents became displaced to more affordable locations. This shift in demographics has been labeled "gentrification." A topic laden in "urban theory," "race," and "political baggage," gentrification has been a hotly disputed concept since its inception (Goldman, 2013).

Historically speaking, cities are vulnerable places, experiencing gentrification in "periodic waves," stemming from redlining practices of the early to mid-1900's and the "federally sponsored urban renewal efforts" in the mid-1900s to the "back-to-the-city movement" that occurred in the late-1900s (Kennedy, 2001). Before the late-1900s, most data showed the elite classes moving out of the city, and being replaced by less wealthy working class residents. Gentrification theory, therefore, provided a stark counterargument to these traditional urban structure theories (Lees, Slater & Wyly, 2008). Today, gentrification is affecting cities in ways like never before.

In some cities, in an attempt to “revitalize the tax base of their communities, the viability of their neighborhoods and the vibrancy of their downtowns,” local governments have made it a goal to attract new middle and upper-income residents into center cities (Kennedy, 2001). In other cities, policies may be more specific, aimed at transforming the city’s image by not only recruiting middle and upper-income groups but through targeting particular age groups and types of professionals.

Gentrification is a political and policy-relevant issue as it is concerned with regeneration of properties or neighborhoods at the cost of displacing existing residents (Hammnett,1991). The role of federal policy has declined and has declined in funding urban revitalization due to deep budget cuts, local governments have experienced greater pressure to spur revitalization in disinvested center city neighborhoods. Through the use of financial policy schemes, local governments may lure outside investment into disinvested areas, not anticipating the effect these polices may have on gentrifying the previously disinvested area.

Local governments face a challenge of providing opportunities through policy for neighborhood investment without negatively affecting residents who have lived in disinvested neighborhoods for years. When the potential for gentrification is not identified by planners in the early stages of neighborhood revitalization, the risk of gentrification becomes greater as housing prices rise, and the amount of available land decreases. Although many local policy schemes are adopted by cities in an attempt to maintain affordable housing, it is important to recognize the effect that policies intended to promote economic development of a disinvested area can have on gentrification. This paper specifically looks at the implications of financially-based economic development policies, specifically tax-increment financing (TIF), and to consider whether an outcome of this policy mechanism can be seen as a process of gentrification.

TIF is a policy tool used in designated geographical districts within cities to subsidize economic development projects in order to stimulate or retain jobs and businesses in disinvested areas. TIF has gained popularity since its 1970's inception, also gaining heavy criticism for not taking the existing local community into account. I argue in this paper that national and local housing policy, financial policy, in particular, have a heavy influence on gentrification through its ability to positively or negatively affect neighborhood change.

My analysis will be grounded in the research literature on gentrification. First, I will show how the definition of gentrification has mutated over time, and why there is difficulty in using one definition of gentrification. Then, I will lay out the theories and models of gentrification from consumption and production perspectives, showing the differences in opinion of different stakeholders. Next, I will explain the positive and negative effects of gentrification, and how cities are shaped by gentrification. Finally, I will shift the focus to examine how financial policy incentives and financially-based economic development policy schemes may inadvertently promote gentrification.

This paper serves to provide insight into how financial institutions and financial policy can help to mitigate displacement caused by gentrification and/or to encourage such displacement. I keep in mind three central points throughout this paper, noted by Neil Smith (1986): the significance of gentrification, the effects of gentrification, and the causes of gentrification. Additionally, I will use this literature to "…[examine] reinvestment through the lens of questions such as: What kind of investment? For whom? Controlled by whom?" (DeFllipps, 2004).

Chapter 2

Defining Gentrification

The term gentrification is rooted in historical and social significance, which is important for understanding varying definitions that exist. 19th century descriptions of the word gentrification suggest that the term gentrification stems from the English word ‘gentry’ meaning non-aristocratic English rural land-owning classes. Rural English society is described as those who “refer only to members of their own social class as their ‘neighbors’.” Gentrification today follows a similar pattern as 19th century rural England, where upper class “gentrifiers” are often unaware of those they displaced, usually lower income who have fewer resources (Vandergrift, 2008). A “gentrifier” for the purpose of this paper refers to one who chooses to move to a disinvested, or previously disinvested neighborhood, becoming a part of the neighborhood gentrification process, whether intentional or not.

These early definitions of gentrification mirrored Ruth Glass’s definition, labeling gentrification as a phenomenon involving restoration and renewal in urban residential areas. The Oxford American Dictionary defined gentrification as “the movement of middle class families into urban areas causing property values to increase and having the secondary effect of driving out poorer families” (Lees et al., 2008).

Early definitions of gentrification seemed to be grounded through one basic assumption: gentrification was a “single phenomenon” and a “coherent concept” caused by “the same causal process” following distinct stages in each gentrifying neighborhood (Rose, 1984). Gentrification therefore was “the replacement of lower income residents of a neighborhood with inhabitants of a higher income and socioeconomic standing, and different material interests than the incumbent residents, by means of the renovation and 'upgrading' of dwellings. Gentrifying neighborhoods are those undergoing upward social mobility though this process" (Rose, 1984).

Damaris Rose was one of the first gentrification researchers to question how we are conceptualizing gentrification. She argues that gentrification is not a "coherent concept," rather a chaotic concept, resulting in complex interrelationships that cannot be solved through generalization. Rose argues, "We ought not to assume in advance that all gentrifies have the same class positions as each other and that they are 'structurally' polarized from the displaced" (Rose, 1984). The key point is that if all gentrifiers are lumped together, there is no way that we will be able to distinguish the relationship between gentrifiers and those who are being displaced through gentrification. Robert Beauegard (1986) closely mirrored the work of Rose, labeling gentrification as a "chaotic concept connoting many diverse if interrelated events and processes [that] have been aggregated under a single ideological label and have been assumed to require a single causal explanation."

During the same period of time, a highly influential geographer, Neil Smith was also battling with "traditional treatments of gentrification" (Smith, 1984). In the book *Gentrification, Displacement, and Neighborhood Revitalization,* Smith argues that research has been more concerned with "describing the process rather than explaining it…invoking a list of likely factors rather than a theoretically rooted understanding of how urban areas grow and develop, decay and redevelop" (Smith, 1984). Smith goes on to argue that "(gentrification is) a highly dynamic process…not amenable to overly restrictive definitions; rather than risk constraining our understanding of this developing process by imposing definitional order, we should strive to consider the broad range of processes that contribute to this restructuring, and to understand the link between seemingly separate processes" (Smith 1984).

Twenty years later, gentrification is revisited through the work of Mathieu Van Criekingen and Jean-Michel Decroly (2002). It is now quite widely understood that gentrification is not a linear process, Criekingen and Decroly note, yet definitions are still following Clay's (1979) classic stage model of gentrification, which labels the gentrifier as an elite group of individuals, causing displacement of the neighborhoods initial population. Some definitions, however, point to gentrification as an "alternative process" where groups are not lumped together based on similar "socioeconomic or socio-demographic profiles" (Van Criekingen & Decroly, 2002).

The movement towards a broader definition of gentrification some see as reflecting the desire for a definition that encompasses the many derivatives of gentrification. Lees et al. (2008) notes: "Gentrification has mutated over time, so that it now includes not just traditional, classical gentrification in the vein of Ruth Glass's (1964) definition but also rural gentrification, new-build gentrification, super-gentrification, and many other derivatives." Briefly, a few of the derivatives of gentrification are (1) "rural gentrification," or the resettlement of rural areas and displacement of low-income groups; (2) "new build gentrification," the notion of building new homes instead of rehabilitating old ones, often disproportionately benefiting developers; (3) "super-gentrification," the further level of gentrification imposed on an already gentrified area; (4) "commercial gentrification," also called "boutiqueification," "Transit Oriented Development," "New Urbanism," and "smart street" planning, which is the gentrification of commercial streets; and (5) "tourism gentrification," or the transformation of a neighborhood into an affluent enclave, where tourism and entertainment has proliferated (Lees et al., 2008).

Finally, in forming a definition of gentrification, the difference between displacement and gentrification must be established. Displacement is defined “as when current residents are forced to move because they cannot afford to live in the gentrifying neighborhood because of an increase in the cost of living, increase in property tax and often because of the loss of the original social community of the neighborhood” (Vandergrift, 2006). More specifically, Levy et al. (2006) express the different types of displacement that may occur through gentrification. “Direct displacement” occurs when a program causes one demographic or ethnic group to succeed another, characteristic of many of the federal urban renewal programs during the 1950s and 1960s. Today, the most prevalent type of displacement has occurred from ‘involuntary’ or ‘secondary displacement,’ where “higher rents, appreciated taxes, tenant harassment or the withholding of services” causes low-income households to relocate, even when they would prefer to stay in the neighborhood (Levy et al., 2006).

The overwhelming historical context of gentrification has led some theorists, such as Liz Bondi, to argue that the word gentrification should “disintegrate under the weight of its many definitions” (Goldman, 2013). Neil Smith argues that the debate over gentrification is due to disagreement over three critical points: “the significance of the process,” “the effects of gentrification,” and “the causes of gentrification” (Smith, 1986). I will continue to visit these questions throughout this paper.

2.1 History and Evolution of Gentrification

In 1964, British sociologist Ruth Glass used the word gentrification to describe the displacement of the working class by the middle and wealthy classes in London. Glass defined gentrification as a "complex urban process involving the displacement of the poor by the wealthy, rehabilitation of housing stock, property price increases, a transformation from renting to owning" (Lees et al., 2001). However, researchers such as Eric Clark pointed out that gentrification as a phenomena began long before it was defined by Ruth Glass. Signs of gentrification can be linked back to cities such as New York, New Orleans, and Washington D.C. thirty years before the term was coined (Lees et al., 2001).

There is a widespread agreement among gentrification researchers that gentrification, as Ruth Glass first coined the term, is quite different from gentrification as it exists today (Smith, 2001). Early cases of gentrification, referred to as classical gentrification, can be seen in cities across the United States and Europe. Loretta Lee et al. (2008) explain the evolution of classical gentrification through Park Slope, New York City.

Park Slope, once a popular wealthy neighborhood on the edge of Brooklyn, experienced severe decline in the 1950's due to suburbanization. Landlords either closed buildings, or let them decline to the point that Park Slope was widely considered a slum. During this time, the federal government sought to combat extreme disinvestment in neighborhoods like Park Slope through loans intended to finance housing and business rehabilitation costs called 'sweat equity' loans.

Sweat equity is equity in a "house, condominium, or cooperative dwelling unit that is created or earned through an investment of time and labor instead of money. Sweat equity programs help families and individuals purchase a home in return for their labor" (Michigan, 1993). This was often a way to make housing more affordable. During the time of its inception, a process called redlining was channeling these loans into the hands of the white, middle- and upper-class. Early gentrifiers, also called ‘pioneer gentrifiers’ began to take advantage of these federal loans, making the risky decision to move to Park Slope.

While these loans began to gain popularity in Park Slope, a process called redlining was making it harder for even the most qualified prospective black homeowners to secure similar types of loans. During the depression era, the federal government created the Home Owners’ Loan Corporation (HOLC) to combat the dramatic increase in the rate of housing foreclosures occurring in the United States (Hillier, 2003). Through a community survey, the HOLC developed a series of residential security maps, where black and poor white neighborhoods were marked in red, denoting “risky” investment areas. Banks, not wanting to loan to risky individuals, denied loans to these black and poor white neighborhoods, making it hard for even the most qualified prospective homeowners able to obtain any type of home loan. Redlining was federally outlawed in 1968 through the Community Reinvestment Act, which outlawed discriminatory lending, encouraging banks to meet the credit needs of the communities in which they operate. Yet, gentrification continued and, in short, Park Slope was gentrifying.

Park Slope was not unlike other cases of gentrification in its time. Funding by the public sector, through federal and even state funds, is a notable characteristic of gentrification during this time. Neil Smith argued that although systematic gentrification only dates back to the 1950's, there was enough information in existence to form three distinct waves of gentrification.

The first wave of gentrification follows classic examples like Park Slope. This wave is characterized by highly concentrated reinvestment sporadically throughout the eastern USA and Western Europe. Heavily funded by the public sector in an attempt to combat economic decline of central city neighborhoods, governments wanted to reduce investment risks in center cities by encouraging gentrification. The first wave is thought to have ended during the economic recession of the 1970's, when the national housing market was also depressed, which caused severe disinvestment in center cities, although the effect on gentrification is unclear.

After the economy began to bounce back from the recession, gentrification came in full force. The federal government adopted a hands-off approach towards gentrification, and state and local governments focused on the private housing market rather than on direct programs to promote gentrification. Gentrification in the second wave began to affect smaller cities, and became more associated and integrated with the cultural and artistic spheres of urban settings. Cultural economic development strategies began to sprout, such as museums and art galleries.

The third wave stemmed from the stock market crash of 1989. After the crash, the housing market boomed, expanding rapidly. Gentrification began to expand not only to the Center City neighborhoods, but began to spread to nearby neighborhoods beyond the center. In response to federal funding cuts, local and state governments became more starved for revenue, therefore becoming more assertive in facilitating gentrification. They began to invest in projects to encourage economic development, both in an attempt to revitalize the city tax base, and to improve the image of previously disinvested areas. During this time, any anti-gentrification movements became less noticeable, and corporate developers became more prevalent.

Neil Smith concludes stating that “in an environment of privatization, the state has become more direct in its encouragement of gentrification” (Smith, 2001). As the role of the federal government has lessened in encouraging revitalization and economic development, the effects of state and local government policies are becoming prominent throughout the country.

Chapter 3
Explanations of Gentrification

3.1 Consumption Explanations

Traditional gentrification literature has expressed gentrification from both consumption and production perspectives. Consumption theorists have described gentrification as a consequence of "changes in the industrial and occupational structure of advanced capitalist cities" (Lees et al, 2008). Specifically, cities have experienced an increase in service employment, coupled with a decrease in manufacturing employment. This shift (according to the consumption theorists) has led to an influx of middle class tenants into cities, who have rejected the idea of suburban living, in favor for center-city living (Lees et al., 2008). Consumption theorists examine questions such as "'Who are the gentrifiers?' 'Where do they come from?' and 'What is the draw of central city neighborhoods?' (Lees et al., 2008).

First published in 1973, Daniel Bell's book *Coming of a Post Industrial Society* has been repeatedly referenced by consumption theorists. The post-industrial society, Bell argues is a result of four features. First, he argues that a shift has occurred from a manufacturing to a service-based economy. Second, the "centrality of new science-based industries with specialized knowledge" has led to the replacement of manufacturing jobs. Thirdly, the rapid rise of managerial, processional, and technical occupations has contributed to the post-industrial society. Lastly, the "artistic avant-gardes lead consumer culture, rather than media, corporations, or government" (Bell, 1973).

Drawing on Bell's work, David Ley (1980) focuses on "three key propositions focusing respectively on economics, politics, and culture" (Hamnett, 1991, p. 176). Economically, the labor force has experienced a distinct shift from primarily manufacturing jobs to service jobs, spurred by an increase in white collar workers employed in the service-sector, and a decline in blue collar manufacturing workers. As the use of technology in manufacturing increased, the need for labor lessened, and shifting employment needs towards the service sector.

Second, in a post-industrial society, the role of government has shifted dramatically from a passive-role towards an "active role of government" where local governments are much more involved in local redevelopment decisions. And third, culturally, there has been a growth in the "role of individuality and a growth of a more sensuous and aesthetic philosophy among the growing numbers of the…service class" (Hamnett, 1991, p. 176). The combination of these large economic, political, and cultural shifts, consumption theorists would argue has promoted gentrification.

Chris Hamnett (1984) expanded on the work of David Ley by developing his Professionalization Thesis. Hamnett's thesis identifies six factors that he believes causes gentrification:

1. a trade-off of accessibility against space, related to the disadvantages of commuting;
2. demographic changes, such as the baby boom and new household composition patterns, sharply increase the number of households requiring accommodation, the demand for which cannot be met through new suburban building; constraint rather than a preference for city life then accounts for the revitalization of the inner cities;
3. a matter of consumer preference, of life-style, and of consumer choice;
4. occupational changes resulting in the emergence of a new social class for which gentrification is a material and cultural expression;

5. the logic of the housing market, restrictions of supply and price, initially make cheaper inner-city areas accessible points at which to join the housing ladder; and
6. the logic of the 'rent gap', where financial considerations of ground rent and accumulation from property determine that the real-estate development in certain areas of cities becomes a profitable use of capital" (Wade, 1990).

Hamnett argues that consumption preferences have explained gentrification. As commuting time and costs rise, the desire for city life heightens, occupational changes have caused a new social class to emerge, and the center-city becomes more attractive for newcomers, promoting gentrification.

3.2 Production Explanations

Building on one-another, Daniel Bell, David Ley, and Chris Hamnett have defined gentrification as a consumption related "consequence" of the changes in occupation and in advanced cities. Although, this is not the end of the story. As Hamnett (1990) argues, "Ley's approach to the explanation of gentrification stressed the production of gentrifiers and their cultural and consumption requirements as its key element." Neil Smith argued for the integration of producers into the heavy consumer emphasis, leading to the producer-side explanation of gentrification. Smith (1989) adds that "the relationship between production and consumption is a symbiosis in which production dominates."

Smith (1986) insisted that gentrification should be traced to the motivations of "aggressive developers, flamboyant real estate brokers, savvy buyers in the market for million-dollar condos, and budget conscious government officials." Therefore, production theorists are more concerned with the “role of capital and its institutional agents (public and private) in creating gentrifiable space” (Slater, 2010). Specifically, production theorists view gentrification as a consequence due to the uneven investment of capital, disinvestment and opportunity for “profitable reinvestment created by these capital flows” (Slater, 2010).

Production explanations are grounded by Neil Smith’s rent-gap theory. Lees et al. (2008) reflect on the words of Ball (1985), arguing that land itself has no intrinsic value: the attractiveness of a piece of land is socially-constructed based on its location, accessibility, and the labor and technology devoted to improving that site. When an owner invests in a piece of land, the capital put into the investment will only decrease over time. For example, when a new building goes up on a particular piece of land, the physical structure will only deteriorate, subject to the circumstances of the area around it. Assuming that the piece of land is privately owned, the rent captured by the current building is referred to as ground rent. Ground rent is the rent that the owner will actually obtain from the current land use.

Alternatively, as time passes, the land the structure is built on is gaining value, given that the area around it is revitalizing as well. When the structure was built on that specific parcel of land, it was most likely at its best use – whether that be residential or commercial. But, as the building decays and becomes outdated, the difference between how much rent could be generated by that land parcel (potential rent) and the actual rent obtained from that land use (capitalized rent) normally increases.

When the rent gap is large enough, gentrification may be initiated by actors on the production side. As Smith (1979, p. 90) states:

> “[Under normal circumstances] Capital will flow to where the rate of return is highest, and the movement of capital to the suburbs, along with the continual disinvestment of

> inner-city capital, eventually produces the rent gap. When this gap grows sufficiently large, rehabilitation (or, for that matter, redevelopment) can begin to challenge the rates of return available elsewhere, and capital flows back in. Gentrification is a back-to-the-city movement all right, but a back-to-the-city movement by capital rather than people."

The rent gap theory has prompted several similar theories such as the Value Gap theory, which illustrates the pressure to convert rental housing to owner occupancy housing. Other notable theories are the Atlantic Gap theory, a theory noting the differences in gentrification across countries and the Functional Gap theory, reflecting the "short-term adjustment and occupancy of existing structures," rather than long term rent-gap adjustments (Lees et al, 2008). As Lees et al (2008) state, quoting Redfern (1997): "Normally, rejection of Smith's rent-gap model would appear implicitly or explicitly to mean endorsement of the consumption-oriented accounts…(but) should not distract from the 'wider conceptual framework' for production explanations."

More broadly, production explanations give way to "three important shifts in the nature and implications of gentrification for worsened inequality":

1. Local rent dynamics have become much more tightly intertwined with transnational processes. International developers have become more interested in investing in cities, playing a key role in the production of gentrification landscapes.
2. Reinvestment is moving beyond the small enclaves of gentrification, deeper into other parts of the underinvested urban environment. In other words, reinvestment is moving to disinvested areas beyond the confines of the central business district.
3. The politics of urban property markets have altered the terrain for opposition and resistance. Gentrification now receives more explicit governmental support, through

financial incentives, causing low-income homeowners to face the decision of whether they can afford to live there anymore. (Lees et al., 2008).

We are now a nation "in which people make a living selling someone else's houses and pay for it with money borrowed from China," Lees remarks (Lees et al, 2008). The increasing scale of gentrification is pushing disinvestment out of the urban core, causing low-income residents to make hard decisions of whether they can afford to live in an area or not anymore. Lastly, gentrification is driven by the politics of property rights – who gets enriched by ground rights (Lees et al., 2008).

3.3 Criticism of Production and Consumption Explanations

Both production and consumption explanations have received heavy criticism. Criticisms of production explanations emphasize problems with the "measurement and verification" of the rent gap theory, the lack of identification of those individuals who do not exhibit economic rationality (not exhibiting the norm), and for vilainizing those who gentrify. Consumption explanations on the other hand are primarily critiqued for diverting attention from those who are being unfairly displaced by gentrification. Despite two differing points of view, Smith and Williams (1986) point out that gentrification is rarely a one-sided argument. In other words, gentrification is a function of both consumption and production sided arguments.

Chapter 4

Views of Gentrification

4.1 Dimensions of Gentrification

Regardless of the definition, gentrification is a process that involves changing the physical, economic, and cultural/social landscape of a neighborhood. Whether gentrification is a positive or negative phenomenon is still a highly debated subject among researchers. Gentrification must be understood through asking questions like: 'What kind of investment?' 'For whom?' 'Controlled by whom?' Ruth Glass (1964) defined gentrification as an "economic, cultural, political, social, and institutional phenomenon." How have different actors been affected by or affected gentrification in these dimensions? I begin by discussing the influence of federal, state, and local financial policy and financial institutions on gentrification, followed by the economic dimension, and finally, the social/cultural dimensions.

The actions of governing bodies and the policies that fuel gentrification reflect the political dimensions of gentrification. In the early 1930's through the 1950's, heavy housing subsidies encouraged movement of predominantly white middle to upper class families from the center city to the suburbs. Until the passing of the Community Reinvestment Act, housing loans predominately favored white middle and upper-class citizens, making it quite difficult for middle class black families to obtain loans. Through the Community Reinvestment Act of 1968, financial discrimination against middle class black families lessened. Yet, the so called 'white flight' out of the center cities caused extreme disinvestment and poverty concentration in inner-city neighborhoods.

Using the work of London and Palen (1984), Ebenezer O. Aka, Jr. (2010) argues under the political agenda of the Reagan Administration, funding decreases to municipalities greatly affected gentrification and displacement. Specifically, the Reagan administration reduced the amount of federal money given to "sponsor redistributive activities such as affordable housing" (Aka, 2010). The lack of funding caused cities to face the decision whether to promote economic development or whether to redistribute resources to provide adequate housing programs for those who are in need of it. Often, funding is given to economic development initiatives, overlooking affordable housing initiatives. According to Balso (2000), policymakers will shift attention towards economic development programs, rather than the redistributive-type programs due to a demand for favorable service-to-tax ratios. If policymakers do not focus on economic development programs, the risk that residents will move to 'more favorable' areas increases, therefore incentivizing local policies to benefit the average income-citizen.

Kennedy and Leonard (2001, p. 25) argue that a political analysis of gentrification centers around four key points:

1. gentrification means different things to different people;
2. stakeholders have varied, conflicting and often unexpected positions on the issue;
3. the economic growth that frequently undergirds gentrification enables deals, new public and social investments, and solutions that might otherwise not be possible; and
4. the quickly changing nature of forces driving gentrification conflicts with the methodical pace of bureaucracies and the long timeframes required by many of the financing- and construction-based strategies needed to address it.

The way that gentrification is perceived will alter the way that gentrification is addressed in a community. Kennedy et. al (2001) notes that "the process of gentrification can be an integral part of a successful revitalization effort, or the clearest sign of a changing neighborhood that original residents feel they no longer can call their own." Residents may resonate with the latter perception, while policymakers may view gentrification as a key to successful revitalization. In particular cases, residents and neighborhood activist groups have advocated for more affordable housing by showing the effects of gentrification on local community members (Kennedy et al., 2001).

Yet, as Kennedy et al. (2001) notes "gentrification creates costs and financial resources that can offset them." When policymakers engage in revitalization efforts in poor neighborhoods, the potential tax revenue increase could spur investment strategies and services to enhance the neighborhood quality. In Chapter 5, I will expand upon the role of revitalization, financial policy and the resulting gentrification.

Economic and political dimensions are highly interconnected and affect each other. Aka (2010) argues, "There is a strong emphasis placed on the intentional neglect of inner-city neighborhoods... 'powerful interest groups follow a policy of neglect of inner-city neighborhoods until such time that they become aware that policy change could yield tremendous profits'." Returning to Smith's (1973) rent gap theory, the difference between capitalized and potential rent profits increases until the point where current property owners realize the need for investment, or choose to move to capitalize on the potential rent by selling the property.

Uneven development through the movement of capital, Smith argues, creates a "locational seesaw," where capital [often] moves to where it is most profitable. When capital flowed from the inner-city to the suburbs, the return on investment was higher, whereas now, capital flows are moving back into the inner-city, reflecting better returns. Producers of gentrification (reflecting production theory) stimulate investment via policy that supports unstable flows of capital. Producers in this example may be government, real estate agents, developers, landlords, or mortgage lenders (Shaw, 2002).

Individual preferences have a large impact on the economic landscape of a city. As the number of inner-city jobs increase, the demand for housing near the inner city increases. Aka (2010) argues that a simple supply and demand model shows that when demand for housing increases, housing prices also increase. In the early stages of gentrification, housing costs may be lower in the inner-city, as well as close to amenities.

In the previous example, young professionals begin to move to be closer to their workplace, restaurants, and cultural amenities. But, what types of people compose the middle class? And how is culture affected by gentrification? Early research identified the gentrifier as one who is most likely childless, college educated, who is also a professional (Gale, 1979). First coined in 1983, these “young, upwardly mobile professionals” were referred to as “yuppies,” distinguished by a lifestyle defined by consumption, upward mobility, and gentrification. The “yuppie” or “urban pioneer” were thought to be by some, the new middle class (Smith, 1979).

The social motives drawing middle and upper-income groups into the center city has been heavily studied. Specifically, the link between gender, sexual orientation, ethnicity, and the gentrification aesthetic have been key areas of study in examining the social motives driving gentrification. Gender, explicitly women, has historically been shown to drive gentrification. As more women single-middle-class women have entered the workforce, they have been attracted to the center city due to affordability. Likewise, Damaris Rose (1984), saw the importance of the central urban location to dual couple earners because the central location is often more efficient – it minimizes commuting costs and amenities are closer in proximity. For single individuals, center city living often increases the concentration of areas where they can meet other singles.

Individuals attracted to the center city for efficiency and proximity have been called ‘marginal gentrifiers.’

Also notably characteristic of gentrified areas is the presence of the lesbian and gay population. Castells (1983), argued three points relating the influx of the gay population and gentrification: 1) rich gay people buy nice properties and hire skilled renovators to transform the home, 2) gay relators [developers and citizens] buy ‘bad’ properties and use artistic abilities to rejuvenate an area and make a profit and 3) less affluent gays form cooperatives to fix up homes themselves. Bostic and Martin (2003) argue that the gentrifier is not always a white middle class young professional, and that there have been many instances where black people have gentrified predominantly black areas. In conclusion, Bondi (1999) argues that 1) gentrification is not about a particular strand of the professional middle class, 2) local context is [important], and 3) the perception of future life courses is critical to take into account.

Despite the individualistic motives that drive gentrification, many gentrifiers’ “… choice of neighborhood does not imply their social integration with existing neighborhood residents of a different race, ethnicity, and socio-economic status” (Zukin, 1987). In fact, most gentrifiers want to live among like-minded people, often wary of existing residents of differing socioeconomic class. Alternatively, London and Palen (1984) found that the quest for individualism has led some urban pioneers to immerse themselves in the existing neighborhood social-cultural environment. London et al. also argued that children who grow up in a gentrifying neighborhood possess greater cultural acceptance of those cultures that are not their own.

4.2 Gentrification: Good or Bad?

Gentrification has been seen as both a positive and negative neighborhood development process through the lens of different actors. Gentrification discourse has presented gentrification through two opposing constructs: the revanchist city discourse, and the emancipatory city discourse. The revanchist (revenge) city discourse, developed by Neil Smith, states that "gentrification is an attempt to retake the city from the working class," while the emancipatory city discourse views gentrification as a positive reaction to the constrained suburban life middle and upper-class individuals lead.

4.2.1 Gentrification as a Positive Process

Bryne (2003) believed gentrification may not be such a bad thing, arguing the following:

> "The very word "gentrification" implies distaste. Advocates for the poor and ethnic minorities see affluent whites bidding up the prices for urban housing to levels that force poor families out, depriving them of affordable housing, perhaps rendering them homeless, and changing the character of a neighborhood from one that reflects distinct ethnic and class needs and cultural traditions into a bland emporium for expensive consumer goods…a result of these perceptions is that the legal literature on gentrification, in general, and historic preservation both reflect a distinctly negative strain."

Bryne (2003) argues that we should be re-evaluating how we are looking at gentrification. Upon a closer look into the causes of displacement, Bryne concluded that although displacement does in fact occur, direct displacement from gentrified neighborhoods is less likely than from non-gentrifying neighborhoods, and furthermore, the increases in rent from gentrification did not raise the likelihood of low-income residents moving. Bryne concluded that gentrification may also create gains for low-income people. Via his essay *Two Cheers for Gentrification,* Bryne writes “Increases in urban populations will enhance demand for municipal services and thus the need for municipal employment. They will also increase municipal tax receipts making possible increases in public employment” (2003). Additionally, gentrified neighborhoods are more likely to experience reductions in crime rates, better educational systems, and a political environment where the poor and the rich must come together to deal with each other’s priorities (Bryne, 2003).

Even public policy has incorporated gentrification into its agenda. Policymakers have recognized that public policy must be made to address the needs of all stakeholders, making the city a place where different groups can live harmoniously, blending culture, race, incomes, and lifestyles (Lees et al., 2008).

4.2.2 Gentrification as a Corrosive Process

Other researchers claim that Bryne is only defending gentrification, masking its true identity (Lees et al., 2008). Those who oppose gentrification believe that gentrification is a corrosive process, one that causes [forced] displacement, and that purifies and sanitizes the central city” (Lees et al., 2008).

Gentrification, according to Betancur (2002) has destructed the notions of class, race, and ethnicity, destroying the right to community, and destroying the “elaborate and complex community fabric that is crucial for low-income, immigrant, and minority communities – without compensation" (p. 87). Gentrification through the eyes of those who oppose it, is a process that does not consider the abuse to minority and ethnic populations, forcing extreme displacement on those who have formed an identity through their location. A study by Burler and Robson (2001) found that white middle and upper-class gentrifiers did not engage with the local low-income groups, but instead focus on forming a culture among other middle-income residents. According to those who oppose gentrification policymakers commonly promote policies that will further induce gentrification, ignoring the negative effects.

Chapter 5

Federal Government and Financial Policy

Financial institutions and the federal government were key players in promoting policies that would ultimately create waves of reinvestment and disinvestment in inner cities. From redlining practices of the mid-1900s, to the urban renewal efforts that followed, financial policy had a heavy influence on both promoting and discouraging gentrification.

Mortgage loan terms available in the 1920's required a down payment of between one-third and one-half of the total purchase price, and the duration of the loan rarely exceeded seven years. These mortgages are far different from those seen today. Only families with large amounts of capital had the means to obtain mortgages during the 1920's but the housing market continued to rapidly expand (Jackson, 1985). This did not last long, as the Great Depression caused the expansion of the housing market in the 1920's to crash and the majority of families could not obtain the capital necessary for new homes and home mortgages. Between 1928 and 1933, new housing construction fell by 9 percent, and existing housing lost value (Jackson, 1985). Prior to the Great Depression, the federal government had a very hands-off approach to housing, but unstable economic conditions brought forth a need for intervention.

After the Great Depression, a number of new programs were created to promote new housing construction, and to help sustain housing values. Through the President's National Conference on Home Building and Home Ownership (1931), four federal housing policy recommendations were created: 1) long-term mortgages, 2) lower interest rates, 3) government aid to low-income families, and 4) the reduction of home construction costs. In addition, the

Emergency Relief and Construction Act of 1932 allowed the Reconstruction Finance Commission, a government entity which provided financial support to state and local governments through allocating loans, to make loans to corporations if they provided housing to low-income families or reconstructed slum areas, which are regulated by state or municipal law.

Soon after, through President Franklin D. Roosevelt's collection of New Deal programs, the Home Owners Loan Corporation (HOLC) was established, followed by the Federal Housing Administration (FHA) in 1933 and 1934, respectively. The HOLC aided in protecting homeowners from foreclosure and high interest and down payments in urban areas, and the Federal Housing Administration was intended "to encourage improvement in housing standards and conditions, to facilitate sound home financing on reasonable terms, and to exert a stabilizing influence on the mortgage market, as well as to alleviate unemployment" (Jackson, 1985). Although both organizations intended to create opportunities for the housing market, they actually promoted loan discrimination through the creation of a neighborhood ranking system (Jackson, 1985).

Members of the HOLC evaluated occupation, income, and ethnicity of inhabitants, and age, type of construction, price range, sales demand, and general state of repair of the housing stock of neighborhoods throughout the United States using a questionnaire designed to define discriminatory lending practices. Using the questionnaire, the HOLC created Residential Security Maps, which used the information collected through the questionnaire to rate and undervalue neighborhoods. Neighborhoods were given a rating of A (green), B (blue), C (yellow), or D (red). "A" neighborhoods were new, racially homogenous neighborhoods, receiving a "desirable" ranking from the HOLC. Neighborhoods given a "B" ranking were those that had passed their peak values, but would remain stable for a number of years. Neighborhoods given an “A” or “B” ranking could easily obtain loans. “C” neighborhoods were often denied loans, indicating Jewish areas, or areas located in close proximity to African American communities. Lastly, “D” neighborhoods were almost always denied loans, indicating African American neighborhoods and poor white neighborhoods (Jackson, 1985). Figure 1 captures redlining practices through a Residential Security Map of Chicago, Illinois’ north side.

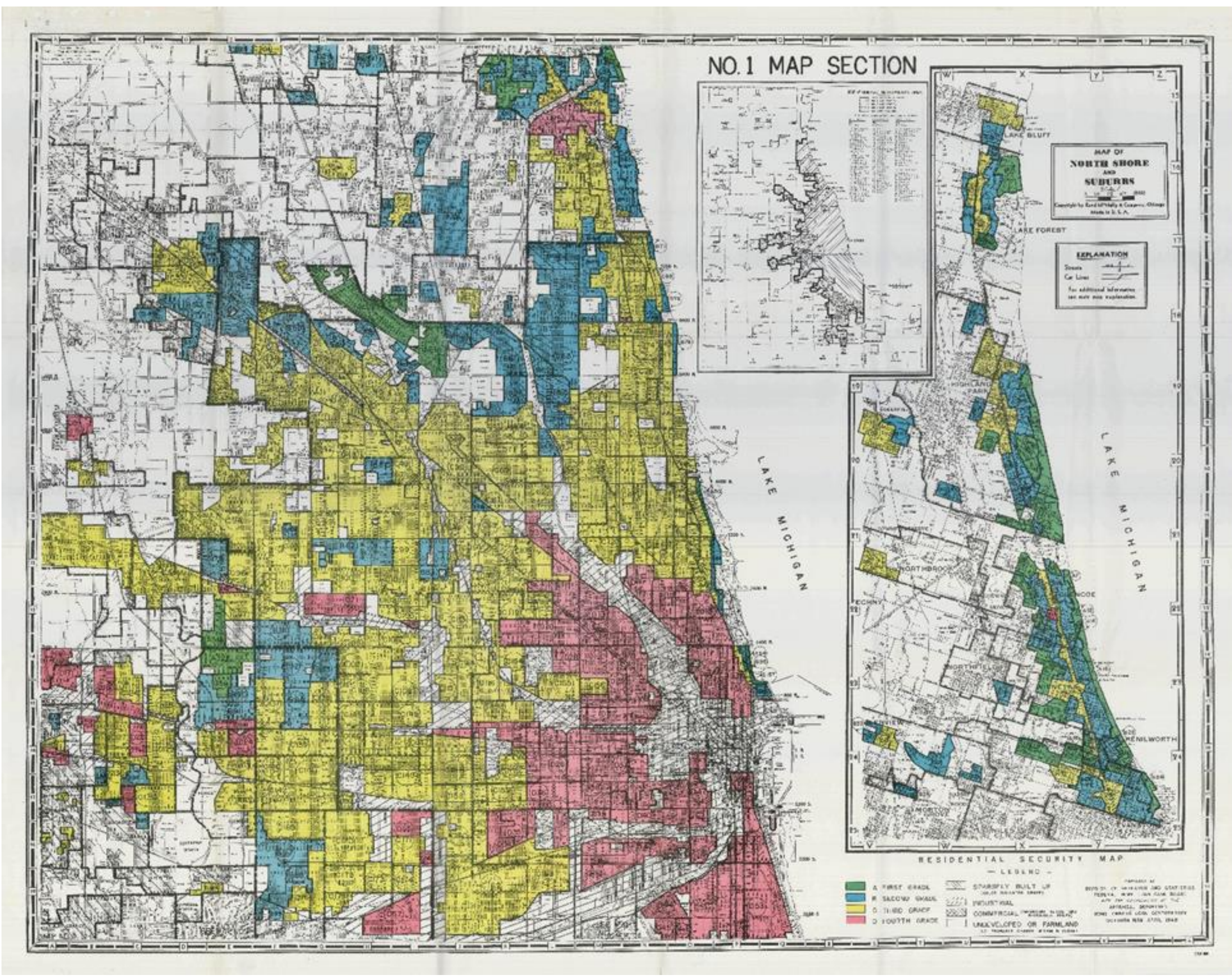

Figure 1 (Lehrer, 2014) captures redlining practices through a Residential Security Map of Chicago, Illinois' North Side

While the Residential Security maps did not necessarily promote discriminatory lending practices, these maps “reinforced and bureaucratized (underlying racism) and bureaucratized that racism and gave it the prestige of federal policy" (Rheinhold, Fitzpatrick, and Hofeld, 2001). The HOLC indicated that race is a central factor in determining the stability of a neighborhood and produced strategies for avoiding infiltration of black and poor-white neighborhoods into affluent white neighborhoods. As banks began to follow the HOLC's discriminatory lending practices, only racially "stable" neighborhoods were granted mortgages. "Stable" in most cases referred to white middle to upper-class neighborhoods. Stable neighborhoods were given extended payment periods of 25-30 years, and lower down payments, in an attempt to boost the housing market. As residents in "C" and "D" neighborhoods struggled to obtain loans, neighborhoods began to falter. A Sacramento case study showed the detrimental effects of redlining in areas of the city. Property values declined as a result of disinvestment, creating slum-like conditions, and segregation in one of the city's most densely populated area. Soon, the amount of attention needed in that area surpassed the property-tax revenues (Hillier, 2003).

Recognizing the extreme disinvestment occurring in many cities, federal and state legislators used finance policy to incentivize people to move to disinvested areas. These early gentrifiers were lured into rehabilitating property through 'sweat equity' loans, which provided financial assistance to individuals and families moving into disinvested areas. By providing mortgages and other loans, the government persuaded banks to cooperate in the restoration of disinvested inner-city neighborhoods. These loans were typically given to white middle and upper-class residents, due to the overwhelming presence of redlining at the time, and was called 'greenlining' (Lees et al., 2008).

Due to the Community Reinvestment Act of 1977, banks were required to adopt equal treatment practices in the loan process, opening lending to those they once discriminated against, receiving penalties for noncompliance. This act, in turn promoted rehabilitation in inner-cities.

“Trumpeted as a major achievement for the cause of racial equality, the Community Reinvestment Act (CRA) of 1977 encourages federally regulated banking institutions to meet the credit needs of those low- and moderate-income communities from which they draw deposits” (Fitzgerald and Vitello, 2013). After the introduction of the CRA, several federal programs heavily promoted neighborhood restoration; yet deep federal budget cuts would eventually put more pressure on local governments to engage in neighborhood restoration. Though redlining was now criminalized, rehabilitation of older properties pushed costs of living up, involuntarily displacing low-income households.

Chapter 6

Local Financial Policy Incentives and Gentrification

6.1 Local Government and Economic Development Schemes

Cities are vulnerable places, experiencing gentrification in “periodic waves,” from the “federally sponsored urban renewal efforts” in the mid-1900’s to the “back-to-the-city” movement of the middle and upper class in the late 1900’s (Kennedy, 2001). Today, gentrification is affecting more cities than ever before. Preferences for city amenities, longer commute times, traffic congestion, and job growth are all contributing to the influx of investment and people into inner-cities. Though urban revitalization was historically implemented through federal financial policies and programs, deep budget cuts have put more pressure on local governments to encourage revitalization through economic development policies. Policies intended to revitalize distressed inner-city neighborhoods often yield gentrification, whether intentional or not, over a short-term or long-term horizon (Kennedy and Leonard, 2001).

Gentrification poses a tradeoff for local governments between encouraging economic development and maintaining affordable housing. As Harvey et al. (1999) argues, “Local governments are understandably starved for revenue, especially discretionary income because property taxes come to them from the state with mandates how the money must be spent….it often costs more for local governments to provide public services to new developments than the increase in revenue that more housing brings.” Many local governments, therefore, make decisions based on budgetary considerations (Harvey et al., 1999).

As Kennedy et al. (2001) argue, "While economic forces seem to drive gentrification, government policies of the past or present can either facilitate or impede gentrification." Policy levers with the intention of revitalizing a neighborhood may facilitate gentrification years after their implementation. With the intention of bringing higher-income residents, different age groups, or different demographic groups, households may be lured into cities through public policies, and local economic development tools.

In an attempt to drive economic development, cities have constructed transit facilities, convention centers, and other public investments that are designed to spark economic activity. In turn, these strategies have contributed to gentrification by making areas more attractive for these new groups. Financial incentives to lure new people into distressed areas include tax credits for historical preservation, tax credits for new homebuyers, selling houses below the market value, and the use of tax abatements. In Washington D.C., the use of the HOPE VI program, a federally sponsored program designed to combine rental assistance, and supportive services to "low-income, and elderly persons," revitalized dense public housing on Capitol Hill to introduce less dense, income diverse housing. Because public housing was previously deterring new neighborhood investments, the introduction of new housing has led to gentrification of Capitol Hill, showing similar patterns elsewhere. Additionally, after discriminatory lending was outlawed under the Community Reinvestment Act, pressure to direct capital into underserved, and underinvested neighborhoods many believe has contributed to gentrification pressures in cities (Kennedy et al., 2001).

Although gentrification can provide financial gains to the city, it can burden existing residents and small businesses who cannot afford the higher prices of living and doing business, higher taxes, and higher rent associated with the revitalization. Gentrification has been referred to as a ‘double-edged sword’ as one of the biggest challenges facing gentrified or gentrifying areas is "whether it is possible to manage neighborhood investment so that positive neighborhood change can occur without displacing lower-income residents" (Levy et al., 2006). Gentrification is occurring at different rates and at different magnitudes throughout the country. The unpredictable nature of gentrification has caused it to be a hot topic among policymakers (Kennedy et al, 2001). As Kennedy et al. (2001) argues “if the outcomes of these investments are to benefit more than those moving into the city, decision makers in the public and private sectors must anticipate these potentially harmful effects and take effective and timely steps to mitigate them now, and into the future.” Instead of trying to prevent gentrification from happening, policy strategies should focus on managing the negative consequences of gentrification.

The number of tools available to decision makers is quite large, and gentrification is so case-specific that different neighborhoods within the exact same city may experience its effects differently, and require a different response. Kennedy et al. (2001) summarize the most common issues that are important to address gentrification at either the regional, city, or neighborhood levels:

1. Resident Participation: How can residents of revitalizing and gentrifying neighborhoods participate in an informed and powerful way in the future development of their regions, cities, and communities?
2. Rental Housing: Where does rental housing fit in? Volume? Quality? Market and/or below-market rents? Location? Plan for new development?
3. Homeownership: Where does homeownership fit in? Market and/or below-market financing?

4. Economic Development: What kinds of economic development projects are needed? What types of commercial and retail services should be preserved or attracted?
5. Social Services: To enhance their ability and to increase incomes and remain in their neighborhoods, what social services and support do original residents need? How can these be most effectively provided?
6. Community Amenities: What are a neighborhood's needs, priorities and plans for public safety, education, recreation space and facilities, community services, traffic, groceries and other basic commercial needs, arts, elements of community character, density of development?
7. Commercial District Amenities: How do location, street character, and marketing fit together and work for local businesses?
8. Transition Strategy: How can original residents and businesses have the ability to remain in place and capture benefits of development? If some must leave, are there viable, affordable options within the region?
9. Uniting New and Old Residents: How can original residents join with new residents in knitting themselves together in new, unified neighborhoods with a common vision of the future?

The particular policy approaches used on the regional, city, and neighborhood levels should address these types of questions, and most importantly, these questions should be used when evaluating economic development strategies and housing policies and programs. Understanding how these policies fit into the bigger picture of a city can contribute to a strong economy that both mitigates the negative effects of gentrification and promotes economic growth. When the potential for gentrification is not identified by planners in the early stages of neighborhood revitalization, in the context of their community, neighborhoods may lose affordable housing opportunities and community social fabric.

More generally speaking, “redevelopment efforts may be guided and regulated by local government planners to ensure that entire communities benefit from investment dollars and are not disproportionately affected by gentrification or displacement” (Mertz, 2008). Although there are many different methods, financial, and non-financial, to mitigate the negative consequences of gentrification, the focus of most financially-based strategies is to build and maintain affordable housing options in gentrifying neighborhoods. Just as financial policy has been used to spur economic growth, and reinvestment in disinvested areas, financial policy incentives can be used in a way that fosters economic development that is equitable to the entire community and prevents low-income residents from being involuntarily displaced when their neighborhood begins to change.

In the beginning stages of neighborhood gentrification, the amount of land available is usually high, and prices are relatively low making it easy to produce affordable housing. Yet, as the neighborhood begins to gentrify, there is less land available, and what is available comes at a high price, making it harder to establish affordable housing (Levy et al., 2006). In their publication *Keeping the Neighborhood Affordable*, Levy, Comey, and Padilla (2006) described financial policies and programs to address these affordable housing challenges.

Governments may use financial policy to build and maintain affordable housing options. Several methods to build affordable housing include using housing trust funds, where resources are funneled to states and local entities through taxes, and they are in turn, able to choose what to do with the money. One of the most heavily used financial policy tools in the United States has been low-income tax credits. Low-income tax credits are federally administered, aimed at distributing credits to private investors in exchange for providing affordable tax credits. Another policy tool called split-rate taxes. This strategy funnels property taxes into two separate categories: a lower tax for the building and a higher tax for the land in order to encourage the renovation of land. Lastly, tax increment financing may be used to subsidize economic development projects or retain jobs and businesses. Though financial-based economic development policies are not designed explicitly to provide affordable housing, many states require a certain percentage of affordable housing when using these mechanisms.

Once affordable housing has been established in an area, policymakers are concerned with how to retain it in a gentrifying area. Providing rent stabilization is a way to protect residents from displacement due to large rent increases. Ensuring that the rent is increased in small increments is a good way to mitigate displacement. Tax relief may also help to retain affordable housing, or help low-income homeowners stay in a neighborhood by allowing elderly and low-income residents who have lived in their homes for a number of years to obtain grants, for maintenance, or to defer paying property tax increases until they sell their home.

Not only can financial policy be important to provide and maintain affordable housing options in gentrifying areas, it can also be used to "assist low-income individuals accumulate wealth through programs that help increase savings, purchase a home, or start a business" (Levy et al.,2006). The first program is individual development accounts, which are matched savings accounts. These programs will provide training to participants on money management and budgeting. Second, location efficient mortgage programs enable potential homebuyers to pay a lower down payment on housing, so that they may borrow more money to live in high-density areas. Lastly, the Section 8 Homeownership Program allowed for the use of housing vouchers to pay for expenses related with homeownership.

Chapter 7

Tax Increment Financing: A Critical Stance

7.1 Introduction to Tax Increment Financing

As economic development has become a primary focus of many cities across the country, local governments are using financially-based policy tools to spur revitalization. With the mission to revitalize disinvested areas, a large portion of the focus often falls under “improving economic conditions, with little time, money or resources focused on developing the residential community in correlation with the business community” (Santivasci, 2005). Tax Increment Financing (TIF) is revitalization tool used by cities in underinvested areas. “For many, TIF is now “the only game in town,” as Chicago’s mayor Daley has expressed on several occasions” (Santivasci, 2005). Despite being heavily used in some cities, TIF often is implemented with only one part of the community in mind, leaving behind those who have spent years living in the depressed area.

In essence, TIF subsidizes economic development projects to stimulate or retain jobs and businesses. TIF uses the “designation of a geographical area in which the taxable value of real estate is frozen at pre-development levels, so that increases in property taxes that follow the development are dedicated to financing development in the TIF district” (Immergluck, 2008). Dating back to 1952, TIF was originally used to allow California legislators to match funds from the federal government for redevelopment. By 1984, 28 states had granted the use of TIF districts, by 1992 that number had grown to 44 states, and by 2015, 49 states and the District of Columbia had approved the use of TIF (Immergluck, 2008).

Although the intent of TIFs are to revitalize or redevelop a geographical area, the “actual practice of location has seen some scrutiny” (Hicks et al, 2015). In the context of gentrification, some of these consequences rise above the rest. First, when TIF is implemented in an area, “community development [is often replaced] with economic development, with a blatant disregard for the negative effects upon individual members of the community” (Santivasci, 2005). The lack of transparency in the TIF process to community members, paired with the motives of local government may cause negative consequences on those with less political power, often minority and low-income residents. Second, if adequate affordable housing and social services are not maintained in a TIF district, low-income residents may be involuntarily displaced.

7.2 Tax Increment Financing in Detail

The use of TIF varies from state to state and has been implemented on both small and large scales, as well as in almost every kind of community, including 'urban industrial neighborhoods, small towns, suburbs, and even farmland to spur development' (Briffault. 2010). In most states, the TIF district designation can only occur in areas that are officially designated as being ‘blighted’ or undesirable areas due to a lack of development, deterioration, or other “factors that prevent the normal use or development or property.” Although the term ‘blighted’ in the context of TIF has become quite controversial and may vary from state to state, Illinois’ considerations for a blighted area are quite comprehensive:

> “If the property under consideration is improved [using TIF funds], a combination of five or more of the following factors would qualify the area as a

> blighted area: age; deleterious land use or layout; depreciation of physical maintenance; dilapidation; deterioration; excessive land coverage; illegal use of individual structures; excessive vacancies; inadequate utilities; lack of community planning; lack of ventilation, light or sanitary facilities; obsolescence; overcrowding of structures and community facilities; and presence of structures below minimum code standards" (Santivasci, 2008).

In some states, an area may become a TIF if it serves legislative goals, such as job creation, and in others, it must be a project purely for the public good. Additionally, most states require that in order for the TIF designation to occur, the area must be one that would not have attracted investment and redevelopment otherwise. Requirements for the actual boundaries must also occur in order for the TIF to be assigned.

When a TIF district designation occurs, the assessed value of real estate is broken down into two different components: the base and the increment. The increment is 'the increase in assessed value subsequent to TIF designation, while the base is the assessed value of the parcels at the time of TIF designation, taxed at a rate equal to the sum of the tax rates of all overlying governments' (Merriman, 2002). The TIF district will be enacted for a number of years; most states specify how many years – often this is 20 plus years. The revenue derived from the increment creates the TIF district, and may only be used for funding development initiatives. These economic development projects can be anything from cosmetic improvements to commercial developments. Although the TIFs are used to fund economic development projects, localities may also require that a certain percentage of the revenue is dedicated to building affordable housing for low-income individuals, or to build new infrastructure.

The revenue from the base is allocated to the governments in proportion to their tax rates. When the TIF is completed, it will eventually ‘dissolve and the TIF increment reverts to the tax base of overlying governments’ (Merriman, 2002). For larger TIF districts, bonds may be issued that are backed up by the anticipated revenue increases, and the proceeds are used towards funding major public investments. When the TIF district program expires, the bond is paid off and the valuation of the district is assessed, and the base value and increment becomes subject to taxation (Briffault, 2010). The tax rate will remain constant during the lifetime of the tax increment financing period.

The theory behind tax increment financing is that 'the revenue growth generated within a territorially defined district is earmarked, for a period of years, to pay for the physical infrastructure and other expenditures designed to spur economic growth within that district' (Briffault, 2010). TIF is therefore a ‘means of smoothing cash flows in a development project’ and is a commitment to expected future revenues. Often, TIF is preferred to other economic development strategies because it is a ‘self financing form of subsidy and therefore less of a drain on public resources’ (White, 2013).

Once the TIF is designated, in theory, the municipality will decide how to allocate the increment capital to. Referring back to Neil Smith’s rent gap theory, the “difference between the value of the underdeveloped property and the value of the same property after it has been redeveloped is, [conceptually speaking] the basis for the operation of this mechanism” (White et al., 2003). Additionally, argues White (2003), “property owners and developers seeking increments must demonstrate that their investments will equal or exceed the sum of discounted future increases in property tax revenues from the project”. The city must decide which projects can be justified under the premise that the investment will be worthwhile in the long run, and will increase property values, even in areas that have lower than average land values.

Additionally, some states may attach other requirements to the TIF legislation. For example, some states or localities may "require a certain percentage of TIF revenue to be dedicated to building affordable housing for low- and moderate-income individuals, building new infrastructure, or providing social services" and "depending on the jurisdiction, the affordable housing or services can be provided in the TIF designated area or outside of it" (Levy et al., 2006).

7.3 Tax Increment Financing and Gentrification

Local economic redevelopment strategies are important for neighborhood revitalization, especially in areas that may not have developed without the use of finance, but the effects of TIF on neighborhoods and cities are not as straightforward as they may seem. The economic redevelopment in TIF districts poses a tradeoff to policymakers between equity and efficiency. Through the use of TIF, local governments may lure outside investment into disinvested areas, not anticipating the effect these polices may have on gentrifying the previously disinvested area. Depending on how policymakers address TIF, it can either positively or negatively effect gentrification.

In a case study of the Atlanta Beltline project, a TIF-funded 23-mile trail connecting over 2000 acres of new parkland, Immergluck (2008) found the impacts of TIF on gentrification to be large, particularly in low income neighborhoods. Even before the TIF-funded project was announced, property values within a quarter of a mile from the Beltline were substantially higher than similar properties in Atlanta. Immergluck found that in Atlanta, the risk of displacement from the use of TIFs is high, and that low-income households are particularly vulnerable throughout all stages of TIF implementation. Additionally, Immergluck found that to maintain affordable housing and mitigate displacement for low-income residents, "planning and policy attention is warranted early in the process" (Immergluck, 2008).

The effect of TIF funded development on low-income households has been seen in other cities. In a case study of Chicago, houses in TIF districts rapidly appreciated, undeniably caused by the development spurred by TIF projects (Weber et al., 2007). In particular, housing values located in mixed-use TIF districts, as opposed to commercial, and industrial TIF districts appreciated the fastest. This suggests that mixed-use TIF districts are most vulnerable to the effects of investment, and there may be "justification for policies that protect low-income tenants from higher rents and low-income home owners unable to bear the additional tax burden" (Weber et al., 2007). Additionally, appreciation was greater in areas that were located closer to public amenities such as public transit stations, hinting that buyers may pay a premium to be located closer to public transit (Weber et al., 2007).

Because TIF is a strategy based on expected increases in tax revenue in the reinvested area from property value increases, research has suggested that development stimulated by TIF may spillover onto residential property values. When residential parcels appreciate in value to reflect the TIF investments, the fear of displacement has caused fear among residents that they will essentially be priced out of the neighborhood. Studies have found a positive relationship between 'infrastructure, local business growth, and housing prices' (Erikson, 2011). If blight is eliminated within an area, nearby residential areas may become more attractive from the new investments, the convenience of having nearby shopping available, the aesthetic appearance of the neighborhood and the increased security. Yet, on the other hand, the chance exists that negative externalities associated with development, such as traffic congestion, incompatible land uses, pollution, and noise may suppress the value of nearby residential properties.

Erikson (2011) argues that as long as TIF redevelopment provides adequate affordable housing, and that low-income households are not displaced, TIF may be beneficial to communities and the impoverished people who currently live there. The influx of higher-income households into the TIF district may help to improve the tax-base, providing better public and private services through increased demand. Higher-income residents also may be more vocal in local government, resulting in better schools, jobs, and more political power for lower income residents in general. Yet, this equilibrium point will only occur if adequate affordable housing is provided, and services such as social services are available to lower income residents.

TIF district redevelopment, however, rarely occurs in this idealistic way. Studies have suggested that TIF may only shift underdeveloped areas, moving low-income neighborhoods to other nearby areas. Kerth (2011) argues a focus on job creation may deter public officials from considering the effect of TIF on the broader public benefit. In adopting TIF regions, the focus on attracting businesses has overshadowed the mission to overcome blight.

Although several states have more extensive protections for low-income residents, most do not (Erikson, 2011). Protections for the poor through TIF fall into the following categories, "relocation assistance, (re)building of affordable housing, citizen participation, or provision of funding for schools." Low-income residents in states that do not protect against the harmful effects of economic development may experience a number of problems commonly associated with gentrification such as involuntary displacement. Additionally, when TIF districts do not protect against loss of affordable housing, low-income residents may end up either paying increased rent for the same housing, or may be displaced to areas that have not been revitalized.

Even in states that have protected against the problematic consequences for low-income individuals, the potential consequences are high from gentrification. The limited amount of tax revenue available during the TIF financing period, paired with the increase in the number of people attracted in the area may limit funds available to provide important public infrastructure projects. Second, as seen in the Atlanta Beltline case study, TIF legislation may cause housing price increases to rise before the actual TIF projects have even taken place. Therefore, the presence of affordable housing alone in a TIF district cannot guarantee that the consequences of gentrification are mitigated.

Chapter 8

8.1 Discussion

Over 50 years after the inception of the concept gentrification, there is still no mutual agreement on how to define it, what causes it, or how to properly mitigate it. As the role of the federal government has lessened, the pressure on local government to make redevelopment, and reinvestment decisions has become greater. Financial policy decisions may promote or mitigate the consequences of gentrification, and if not properly addressed, can have serious implications for low-income residents. If they have not already, discussions about gentrification must happen at the local level when considering redevelopment and reinvestment decisions.

As Freeman (2006: 186) argues: "[If] gentrification is becoming a widespread trend that represents the future of many cities, we should be thinking about how to manage the process to help us achieve a more equitable and just society." In order to maintain a stable and just society, I would recommend that local governments define what gentrification means in the context of their city, and use that definition to guide policy decisions. By becoming more educated on gentrification in the context of their city, policymakers can make more educated decisions on revitalization policies.

Tax increment financing, overall, has been a good tool to redevelop low-income communities, allowing local governments to stimulate the economy, without having to borrow money. However, tax increment financing has often been used irresponsibly, ignoring the mission of overcoming blight, and instead focusing too much on attracting new investments to the poor area without regard to the consequences for preexisting low-income residents. As a consequence of the ignorance of local government, involuntary displacement of low-income households has occurred. The provision of affordable housing alone is not an adequate solution to mitigate the consequences caused through gentrification. Low-income residents should not be ignored in the face of gentrification, and instead, should be given adequate support throughout the process.

In order to protect against involuntary displacement in TIF districts, states should require the use of TIF in conjunction the Low-income Housing Tax Credit (LIHTC) program. The appealing part of using LIHTC to fund affordable housing is that it is mandated by the federal government. The use of LIHTC would help to increase the amount of affordable housing without financially burdening local governments, allowing local governments to focus on providing the social services and public infrastructure needed to foster an equitable environment. Additionally, because local governments must now obey more extensive provisions when implementing a TIF district, it may deter the misuse of TIF for more than revitalization.

City governments may want to evaluate the number of affordable housing options that they require TIF districts to provide based on the number of affordable housing options that are currently available. When housing projects and other types of dense affordable housing are foregone either for less-dense affordable housing options, or for middle- to higher-income living options, it may cause shortages in the affordable housing options open to preexisting residents. This could be accounted for through a one for one deal, where for each affordable housing option the locality takes away, another affordable housing option must take place in some form to avoid involuntary displacement.

Involuntary displacement has time and time again been an issue in the gentrification discussion. City governments may want to consider developing a system to track low-income residents, which would allow for a better understanding of the effects of displacement. This system may be implemented by local community development organizations to take some of the pressure off local government. By only looking at how tax increment financing affects revitalization, local governments are ignoring part of the story: how tax increment financing effects the poor in blighted areas requiring tax increment financing. If local governments tracked low-income residents, it may give them a better picture about how effective their affordable housing strategies are, and how they could improve in the future to protect low-income households.

8.2 Recommendations for Future Research

Very few studies have explicitly shown the link between Tax Increment Financing and gentrification, although a clear connection exists. The implications for gentrification on TIF districts need to be more carefully defined through studies moving forward. Additionally, much of the research on TIF has focused on how residential property values have increased through TIF funded economic development but these studies have not looked at whether the use of TIF alone caused displacement of low-income residents. In order to evaluate the success of many TIF programs to promote equitable development, involuntary displacement of low-income residents before, during, and after TIF implementation should be further examined.

8.3 Conclusion

Gentrification is a double edged sword – challenging local governments with providing opportunities through policy for neighborhood investment without displacing low-income residents who have lived in these disinvested neighborhoods for years. Policies intended to promote economic development of a disinvested area can positively or negatively effect gentrification. Tax Increment Financing has been a good method for providing a method for revitalization, without requiring large amounts of funding. However, when local governments using tax increment financing are ignorant of the preexisting low-income population, the consequences for gentrification are large. If gentrification continues to be a trend in cities, local governments must work to provide adequate affordable housing and support services to low-income households.

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