

Islands of Decay in Seas of Renewal: Housing Policy and the Resurgence of Gentrification

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Abstract

For many observers, the recession of the early 1990s signaled the end of what Berry called islands of renewal in seas of decay. In the past decade, however, shifts in mortgage finance have intersected with developments in assisted housing to alter the links between gentrification and housing policy. In this article, we use field observation, Home Mortgage Disclosure Act data, and HOPE VI plans to analyze the resurgence of gentrification in eight U.S. cities.

Between 1992 and 1997, gentrified neighborhoods attracted conventional home-purchase mortgage capital at a rate that grew at more than 2.3 times the suburban rate. Logit models confirm that mortgage capital favors gentrified neighborhoods even after controlling for applicant and loan characteristics, suggesting a new relationship between mortgage lending and neighborhood change. In some cities, gentrification has surrounded islands of decay and poverty with landscapes of renewal and wealth.

Keywords: Gentrification; Housing; Mortgages

Introduction

The gentrification of Harlem?

In geographic theory and on the urban landscape, gentrification has inspired two decades of spirited debate over the extent, causes, and significance of neighborhood change in the inner city. Near the peak of theoretical debate during the 1980s, the empirical reality of Manhattan's overheated real estate market allowed Schaffer and Smith (1986) to point a lens toward an especially unlikely candidate for gentrification:

There is little disagreement that Harlem represents a difficult target for gentrification; to the extent that it takes place, we should be more inclined to see the general process of gentrification as trenchant and long term. If it were temporary and small in scale, why would developers and incoming residents make

such long-term investments here rather than in neighborhoods perceived as socially and economically less risky? (352)

Schaffer and Smith (1986) proceeded to document the early stages of gentrification with the cold statistics of demography, real estate, and city planning, as well as the words of public officials and developers trying to “circle the wagons around” before attacking the heart of disinvestment in Central Harlem.¹ Nevertheless, the early stage of the process and the scholarly debate over what it meant for urban theory called for a question as a title: “The gentrification of Harlem?” (Schaffer and Smith 1986).

A decade later no question mark is needed. The revival of land markets in such unlikely places no longer seems to evoke surprise or skepticism, and mainstream discussion of the trajectories of inner-city neighborhoods such as Harlem are as likely to find their way into the “House and Home” section (Rozhon 1998) as the front page of the *New York Times* (Foderaro 1998). New York’s especially violent confrontations in the late 1980s tainted the word “gentrification” to such a degree that it has been banished from most mainstream accounts,² but there is little doubt that the city’s recovery has returned the process to Harlem with a vengeance. Brokers report surging house prices, thanks to a growing stream of refugee professionals priced out of the overheated neighborhoods of Chelsea and Tribeca, among them many middle-class African Americans for whom “reading the writers of the Harlem Renaissance created a lot of mythologies” (B5) added to the incentives of Manhattan’s last frontier of reasonably priced spacious brownstones (Foderaro 1998). When they arrive, the entrepreneurial spirit takes hold to fill the retail and entertainment vacuum with plans for new coffeehouses and restaurants, now joined by an effort to expand national franchises with help from the Local Initiatives Support Corporation and Bankers’ Trust. Work is under way on Harlem USA, a \$65 million

¹ The phrase is that of a member of a city task force on the redevelopment of Harlem. See Schaffer and Smith (1986, 360), and Smith (1996, 164).

² Processes that were routinely portrayed in the stark class terms of “gentrification” by the *New York Times* in the 1980s are now more likely to be described in terms of housing market recovery, commercial and retail revitalization, or playful neighborhood acronyms such as Brooklyn’s “Dumbo” (down under the Manhattan Bridge overpass). The contemporary discourse used by the *Times* is a striking contrast to the language required to describe the open conflicts erupting in New York’s Lower East Side in 1988, when protest placards proclaimed “Gentrification is class war” and automated teller machines were spraypainted with exhortations to “Mug a yuppie” (see Jacobs 1998; Smith 1996). When the term does appear, it usually merits a spirited defense. Edward I. Koch, mayor at the time of what some residents call the “Battle of Tompkins Square” in 1988, recently declared that “gentrification has definitely returned to the East Village. And like Martha Stewart says, ‘It’s a good thing’” (Jacobs 1998).

retail and entertainment complex to attract Disney and other high-profile anchors to Harlem with city, state, and federal Empowerment Zone incentives (Pataki 1998). A few blocks away, local and federal grants for low- and moderate-income housing construction are leveraged with capital from private developers alongside plans for luxury condos and co-ops with retail space for the Gap and Starbucks (Rozhon 1998).

If the boosterish portrayal of the *Times* and other outlets is to be accepted at face value, we are seeing nothing more than a fin-de-siècle Harlem Renaissance that returns a vibrant cultural energy to the northern reaches of Manhattan. Moreover, Harlem is in many respects an exceptional case of inner-city revival, given its historical and cultural symbolism and proximity to New York's enormous concentrations of wealth. Yet the changes here run parallel to those in scores of neighborhoods in other cities. And even after accounting for the hyperbole of many newspaper accounts, there is credible evidence that important developments are unfolding. As Schaffer and Smith (1986) put it, "[T]he fact that the process has begun at all, that gentrification is even on the agenda in Harlem, lends support to the claim that we are witnessing not a curious anomaly but a trenchant restructuring of urban space" (362). More than a decade later, in the wake of spirited debate on the emergence of a "postgentrification" era (Bourne 1993a, 1993b; Lees and Bondi 1995), evidence points to two additional shifts in the gentrification of American cities. This article attempts to document and interpret these trends and their implications for urban theory and policy.

The resurgence of gentrification

The first shift is purely empirical. Gentrification has witnessed a resurgence in the 1990s that has quickly erased any lingering suspicion that the process was only a brief historical aberration. To be sure, gentrification affects only a tiny segment of the housing market of older cities and is dwarfed by suburban expansion. Yet widespread evidence points to a revival of central land markets in the wake of the recession of the early 1990s. In Chicago, conversion or construction is under way on more than 3,500 lofts, condominiums, and luxury apartments in and around the Loop, including a \$120 million gated community designed to create a "garden in the city" in an old industrial district on the banks of the Chicago River (Chanen 1998; Klages 1998). In Boston, "old money" enclaves are being invaded by still wealthier newcomers: With an influx of the new elite of high technology and financial services, recent home sales in parts of Beacon Hill have topped \$4 million, prompting sociologist Alan Wolfe to conclude, "You could call it turbo-gentrification" (Goldberg 1999, A16). A recent survey of 25 downtowns reveals an average

expected growth of 75 percent in downtown population between 1998 and 2010 (Sohmer and Lang 1999).

New York certainly offers the most vivid images of renewed capital investment and intensely localized instances of class and race polarization, although its oft-trumpeted global city/dual city status perhaps makes it unique (Mollenkopf and Castells 1991; Sassen 1994; Storper 1997). The decade began with a dystopian reevaluation of the city's recent adventures:

In some corners of the city, the experts say, gentrification may be remembered, along with junk bonds, stretch limousines, and television evangelism, as just another grand excess of the 1980s. . . . As the dust settles, we can see that the areas that underwent dramatic turnarounds had severe limitations. Rich people are simply not going to live next to public housing. (Lueck 1991, 1)

Indeed, New York's heavy reliance on financial services devastated both commercial and residential real estate in the late 1980s and early 1990s, lending a concrete if temporary reality to the degentrification hypothesis (Lees and Bondi 1995). In 1991, an office market saturated with vacant "see-throughs" led the Downtown Lower Manhattan Association to propose a Lower Manhattan Project to convert office buildings to residential use. As Fitch (1993) observed, the "proposal had a certain karmic logic: if the city could subsidize the creation of the office buildings in the seventies, why not subsidize their liquidation in the nineties?" (30). Initially viewed skeptically as what one developer dubbed "a 'field of dreams' market" (Garbarine 1998), Wall Street eventually gained almost 3,300 apartments from conversion, thanks to city-sponsored tax incentives. By the time the initial wave of leases began expiring in late 1998, the revival of the city's tight rental market allowed annual increases of up to 18 percent in the financial district, approaching \$2,500 a month for a one-bedroom apartment (Garbarine 1998).

Despite the stock market's vacillations in the wake of global financial crises in 1998, the city's commercial and residential real estate markets point to a rebound that mirrors and sometimes exceeds the boom of the 1980s. Downtown vacancy rates in large commercial buildings fell from a staggering peak of 22.8 percent in late 1993 to 8.2 percent in the third quarter of 1998, a low not seen since 1984; midtown vacancy rates have reached 4.1 percent from a 1991 peak of 15.5 percent (Holusha 1998).³ Residential brokers now describe

³ New York's experience mirrors a national recovery in commercial real estate. Nationwide, downtown office vacancy rates have declined consistently since 1994, reaching 9.7 percent in the second quarter of 1998 (CB Richard Ellis 1998).

the market for new co-ops as “helium-filled,” in part due to the revision of the city’s rent control regulations in 1997 (Hevesi 1998). Average loft prices in Manhattan are approaching \$700,000, pushing a wave of loft conversions outward to the old industrial neighborhoods of Williamsburg and Greenpoint (Brooklyn), Long Island City and Astoria (Queens), and even old parts of the South Bronx (Hevesi 1999). A wave of new development projects, including a total of 2,000 apartments and two large hotels, is under way at Battery Park City (Dunlap 1999). And true to form, Donald Trump is busy constructing what he bills as the world’s tallest residential tower, a 72-story skyscraper towering over the United Nations Secretariat building (Goldberger 1999).

Housing policy and the reinvention of gentrification

A second shift in gentrification during the 1990s has been more subtle, and—at least until recently—much more difficult to see in the urban landscape. Transformations in the national system of housing finance and housing policy have become closely intertwined with the market-driven revival of certain inner-city neighborhoods. While the boundary between unfettered market forces and public policy has been a blurry and contested frontier for more than half a century, we believe that recent trends have altered the context for gentrification in important ways. Equally important, three decades of gentrification have altered the context for certain facets of housing policy. As a consequence, gentrification has become mutually constituted with a nascent regime under a devolved, privatized, and “reinvented” policy framework, such that the current surge of investment into city neighborhoods carries dramatic implications for accelerated class polarization. When viewed at the level of the inner city, Berry’s (1985) islands of renewal in seas of decay have been transformed into islands of decay in seas of renewal.

We elaborate this argument by drawing on a diverse set of literature as well as empirical evidence from an ongoing research project on the gentrification of large U.S. cities during the 1990s. We present our analysis in six parts. In the next two sections, we advance a working definition of gentrification and present our argument that urban policy has transformed islands of renewal in seas of decay into islands of decay within seas of renewal. We then turn to a brief discussion of our evidence, which is drawn from three complementary sources of quantitative and qualitative data. Next, we present our empirical analysis in three sections: (a) a baseline snapshot of the resurgence of mortgage capital into gentrified neighborhoods in eight cities between 1992 and 1997, (b) a review of local public housing redevelopment plans in relation to gentrification activity, and (c) a multivariate analysis of mortgage market dynamics

in gentrified areas. The analysis reveals a striking resurgence of capital investment in the wake of the recession of the early 1990s and a strong connection between housing policy and gentrification. In the final section, we offer a few concluding remarks on the implications of our findings.

Islands of renewal in seas of decay

Research on gentrification expanded dramatically during the 1980s, spurring widespread debate on the magnitude, significance, and implications of a seemingly new process that was variously dubbed “revival,” “revitalization,” or “renaissance.” In part, these different labels reflected more fundamental disagreement in how the process was defined by scholars and policy makers. A wide spectrum of alternatives emerged, many of them implicit. For some, it meant the immigration of middle-class suburbanites back to the city, and the displacement of poor or working-class residents was said to be inherent in the process. For others, it was simply the visible neighborhood expression of broader societal forces—new cultural practices and consumption preferences of the professional middle class as exemplified by “yuppies,”⁴ or new conditions of the circulation of capital at the urban and regional level.

In this article, we analyze gentrification as a process that is fundamentally rooted in class and inherently geographic in its manifestation. It is the class transformation of those parts of the city that suffered from systematic outmigration, disinvestment, or neglect in the midst of rapid economic growth and suburbanization—generally accepted in the United States as the period from World War II to the early 1970s. Class transformation is rooted in long-term changes in the distribution of wealth, income, and educational opportunity, as well as a more complex division of labor, but it is the intersection of these trends in the creation of new geographies that makes gentrification significant for theory and policy. The importance of the process is magnified by its concentration in those parts of the city

⁴ The “yuppie” neologism was coined to explain the unexpected success of Gary Hart in the 1984 Democratic primaries. After *Newsweek* famously crowned 1984 as “the year of the yuppie” (1984), the “young, upwardly mobile urban professional” was used to explain all sorts of political, economic, and cultural trends. Ehrenreich (1989) provides an excellent history of popular debate on this hybrid category that was “a mixture of age, address, and class” (196). The label rapidly evolved from status symbol to an epithet for greed, but it spawned many other neologisms—some explicitly linked to gentrification. The most recent coinages, in the summer of 1999, apply to rural gentrification of the style observed in Long Island’s Hamptons several generations ago: “Hamptification” or “Hamptonization” represents the invasion of historic vacation spots such as Nantucket by “newly rich dot.com moguls roaring around in Range Rovers, bulldozing landmark properties and braying into cell phones at the farmer’s market” (Cooke 1999, A19).

where public policy is often required to ameliorate systemic housing market failures.

Changes in the built environment often provide a valuable guide to describe the process, but actually are incidental to the place-based class transformation itself. Gentrification may involve “lofting” or condominium conversion in a warehouse district; it may entail a slow turnover in a neighborhood of attractive Victorian houses; or it may take the form of new luxury condominium towers on an abandoned waterfront site. The consequences of this class shift, therefore, can also take different forms: When it involves “invasion-succession” displacement, the process sometimes leads to open conflicts among old and new residents. New construction or “gray-field” redevelopment avoids these conflicts but is also usually bound up with comprehensive schemes to privatize public space and exclude the city’s poor from areas now reserved for affluent residents, white-collar workers, and patrons of upscale retail and entertainment facilities.

Definitions vary in the literature on gentrification, but there is even wider disagreement on the prospects for a general urban revival. In the shadow of established urban theory inherited from the Chicago School, the apparent reversal of ecological invasion and succession processes certainly carried enormous implications for our understanding of the amorphous construct of the “inner city” and its future. At one end of the continuum, a secular restructuring of the relationship between production and consumption signaled the emergence of new class structures in the postindustrial metropolis:

If present trends accelerate, the social geography of the nineteenth century industrial city may appear to urban scholars as a temporary interlude to a more historically persistent pattern of higher status segregation adjacent to the downtown core. (Ley 1981, 145)

At the other extreme, skeptics viewed gentrification as a temporary interlude, an aberration induced by the unlikely intersection of demographic and macroeconomic forces. In the most prominent and comprehensive elaboration of this view, Berry (1985) explained the emergence of islands of renewal as the outcome of metropolitan housing construction and filtering processes that produced vast seas of decay at the urban core. The necessary conditions for islands of renewal are established when removals from the inner-city housing stock outpace the creation of excess housing supply such that “the markets are tightened and older central-city housing becomes an attractive option” (Berry 1985, 95). The sufficient condition depends on the expansion of downtown office and professional employment growth associated with the concentration of advanced service func-

tions in the nation's key command and control centers. In this framework, the continued expansion of islands of renewal is contingent on a rare constellation of urbanization trends, reflecting the "apparent contradictions but logical links between suburban overbuilding, contagious inner-city abandonment, decreasing vacancies and tightening markets, and gentrification" (Berry 1985, 96).

Islands of decay in seas of renewal

Causes and consequences

Berry's (1985) synthesis was perhaps the most comprehensive and prominent interpretation of gentrification within the prevailing neoclassical framework for housing market analysis. Not surprisingly, this framework meshed well with the axioms and principles of the nation's skeletal urban policy infrastructure. Yet this perspective was only one of several alternatives (Berry 1985; Ley 1980, 1981, 1996; Smith 1996; Smith and Williams 1986). And despite attempts to forge a new synthesis (Lees 1994; Rose 1984), much of the contemporary literature remains balkanized along lines of debate established a generation ago. Gentrification has been used as a vehicle to investigate broader dichotomies in urban studies—production/consumption, economy/culture, agency/structure—and has become a battleground for wide-ranging disagreement over alternative causal explanations for neighborhood change. In light of this long history of spirited debate, it is hard to see how the current renaissance of research inspired by renewed gentrification activity will generate a consensus this time around.

The debate over the causes of gentrification, however, does not exhaust the range of important and relevant questions. A focus on the root causes of gentrification risks imposing a narrow, constraining view on a process that has become a durable feature of the neighborhood ecology of western cities in general and U.S. cities in particular. In this context, we concur with van Weesep (1994) who proposes a more careful scrutiny of "the effects of gentrification rather than its causes" in order to "put the gentrification debate into a policy perspective" (74).

Regardless of its underlying causes, gentrification has become an important element of contemporary urbanization processes. It has also been subsumed under broader portrayals of urban fortunes—in the popular press and in policy circles—in ways that echo the discourse of "renewal" in the 1950s and "renaissance" in the 1970s. Yet in the wake of perceived and real transformations in the economy and in the scale of regulation from the national to the local, current discourse departs from earlier discussions in important ways (Beau-

regard 1993). What passes for urban policy in the United States now takes place in the unvarnished language of privatization, devolution, and the “reinvention” of housing policy. Gentrification has been incorporated into this discussion in a number of ways: directly and indirectly, conceptually and empirically. Thus, understanding gentrification in the late 1990s may be less a matter of evaluating alternative causal explanations and more a task of decoding the logic, rhetoric, and ideology of public policy and its relationship to underlying urbanization processes. In this regard, we must consider the role of public policy in mediating processes of social segregation in urban housing markets.

Housing markets, public policy, and urban social segregation

The role of housing market dynamics in race- and class-based segregation is well known, and a voluminous interdisciplinary literature has documented the long-term rigidity of entrenched patterns and processes (Boger and Wegner 1996; Jackson 1985; Massey and Denton 1993). In the past decade, however, an unlikely intersection of forces has finally begun to dismantle the institutional framework responsible for the spatial concentration and isolation of low-income households. The outlines of a more complex, dynamic landscape are gradually becoming clear. To begin with, landmark legal precedents established since the late 1960s, most prominently Chicago’s *Gautreaux* and New Jersey’s *Mount Laurel* decisions, have laid the foundation for stepped-up efforts to “open up the suburbs” (Downs 1973) in a small trickle after withstanding decades of litigation and fierce suburban opposition. A simultaneous and countervailing policy thrust has continued the long-standing tradition of attempting to attract private market activity back to the inner city through spatially targeted mechanisms that might best be called “e-zones,” depending on the nomenclature in vogue: economic development, enterprise, or empowerment.

Meanwhile, short-term responses to the well-documented spatial mismatch in urban housing and labor markets (Ihlanfeldt and Sjoquist 1998; Kain 1992) have spawned scores of reverse commuting programs, many subsidized by partnerships between private employers and public or quasi-public transportation agencies (Hughes 1995). By the early 1990s, urban policy was fragmented among three alternative strategies for dealing with concentrated poverty: *dispersing* low-income residents to the suburbs, *redeveloping* inner-city neighborhoods to provide jobs and housing, and fostering *mobility* between urban neighborhoods and scattered suburban job sites (Hughes 1995).

This structural fragmentation, particularly the tension between dispersal and redevelopment, proved decisive in the context of two major transformations in the national housing policy framework—one a long-term shift in housing finance, the other a sudden restructuring of low-income housing assistance. Both have altered the historically complex relationship between public policy and gentrification.

Changes in housing finance

The first shift has involved an ongoing evolution in housing finance in the United States, bound up with broader economic and policy questions on household consumption, inequality, and the costs and benefits of homeownership. Through the early 1980s, most of these debates were framed against a backdrop of a housing finance system established during the 1930s and periodically revised in times of crisis. It is universally recognized that the central parameters of this regime—manifest in the endless array of legal precedents, social norms, institutional practices, and explicit business criteria for access to mortgage capital—perpetuated the sociospatial processes of redlining, white flight, and suburbanization that confronted urban geography in the 1960s and 1970s. Gentrification attracted attention for its potential to reverse this outcome of the housing finance system.

A generation later, housing finance no longer stands in opposition to gentrification, and in some circumstances it is instrumental in lubricating the process. Macroeconomic trends have certainly helped. An extremely vibrant economic expansion (in its eighth full year as of this writing), combined with low inflation and low interest rates, has reduced borrowing costs and increased competition and consolidation in the financial services sector, as total outstanding mortgage debt mushroomed from less than \$1.5 trillion in 1985 to \$3.6 trillion a decade later (Simmons 1998). The dramatic expansion of the secondary mortgage market, driven as a matter of policy to direct more capital to housing generally and homeownership in particular (Stegman et al. 1991), has enabled and required broader standardization of underwriting. Given the extremely low risk of residential lending in boom times and the lure of mortgage-backed securities as a hedge against other financial instruments, standardization has effectively meant liberalization across the board. Thus while conventional 30-year loans in an earlier generation required a down payment of at least 10 percent, the current benchmark demands only 5 percent, along with permissible household debt burdens that are far higher than in previous years (Listokin et al. 1998).

Meanwhile, in an era of federal retrenchment, community activism and regulatory intervention, as well as political and fiscal conservatism, have intersected in the use of homeownership as a solution to individual and neighborhood-level poverty. Mortgage lending has increasingly been seen as a domain in which the goals of public policy are readily adapted to the imperatives of profitability in a competitive industry. As part of the savings and loan bailout, Congress required the two dominant secondary-market purchasers (Fannie Mae and Freddie Mac) to increase their acquisitions of primary-market loans to minority and low-income borrowers and neighborhoods (Federal Housing Enterprises Financial Safety and Soundness Act 1992). Parallel shifts have followed at the state and local levels and in the private sector, where the language of “fair lending” has been replaced with widespread discussion of how to reach “untapped” or “underserved” markets (Carliner 1998; Fannie Mae Foundation 1997; Listokin et al. 1998; Stegman et al. 1991). The result has been a proliferation of means-tested mortgage products, some tied to borrower income and some tied to property location in a private echo of the federal urban homesteading programs of the 1970s.

All of these changes have broadened access to homeownership and strengthened certain factions of the community development movement. But these trends have also transformed the environment in which gentrification, quite literally, takes place. Lending institutions now see significant profit potential in formerly redlined areas. Indeed, as lending to minorities and low-income borrowers ballooned in the 1990s, some analysts argued that access to credit is no longer a serious impediment to homeownership; rather, the crucial question is whether borrowers are able to obtain conventional credit on favorable terms—or find themselves slotted into the subprime and Federal Housing Administration (FHA) markets (for the latest salvo in this debate, see Bradford 1998).

Changes in low-income housing policy

A second shift is tied explicitly to low-income housing policy. Always embattled by fiscal shortfalls and a narrow, powerless constituency, assisted housing was already in the midst of a gradual transition after the mid-term elections of 1994 when conservative interests in Congress coalesced around the agenda of privatization and devolution of federal policy. While this agenda altered the landscape in all domains of economic and social policy, trends moved especially rapidly in assisted housing, where the Clinton administration co-opted much of the Republican agenda under the rubric of Gore’s reinvention initiative. The result was an accelerated movement from the spatial isolation of publicly owned and operated housing develop-

ments to semiprivatized and integrated redevelopment plans, along with the dispersal of vouchers and certificates.

This movement was justified on the basis of an eclectic mixture of theories, ranging from blatant architectural determinism to more sophisticated (but still largely untested) theories of income mixing (Newman 1972, 1980; Schwartz and Tajbakhsh 1997; Varady 1994). In late 1994, the Clinton administration proposed eliminating nearly all project-based housing, and in the ensuing legislative struggle over the future of the Department of Housing and Urban Development (HUD), a solution was found in a small demonstration program born of a commission's study of severely distressed public housing projects in the early 1990s (Epp 1998; National Commission on Severely Distressed Public Housing 1992; Nenzo 1998). Known as HOPE VI for its lineage tracing to Jack Kemp's "Homeownership Opportunities for People Everywhere" initiatives, the program seeks to revitalize HUD's role in assisted housing by demolishing troubled projects, redeveloping sites where feasible and in ways that reduce concentrations of low-income families, and offering tenant-based vouchers and certificates for use in the private market (Epp 1998). The program offers sizable grants to public housing authorities (PHAs) contingent on (1) innovative and creative strategies to leverage federal funds through partnerships with local governments and private developers and (2) integration of redevelopment with support services that emphasize principles of work, self-sufficiency, and personal responsibility (Epp 1998; see also HUD 1999, 17).⁵

This juncture alters the balance between dispersal and redevelopment (Hughes 1995) in a way that unhinges federal, categorical restrictions from the relationship between gentrification and low-income housing assistance at the local level. To be sure, HOPE VI is only the latest incarnation of a federal bureaucracy's interpretation of social science research in the context of a free-market ideology

⁵ Given the focus of our analysis, this discussion greatly simplifies the emergence and evolution of HOPE VI. Epp (1998), Nenzo (1998), and Salama (1999) provide valuable reviews and analyses of the program, and the U.S. General Accounting Office (GAO) (1998) provides an assessment of the progress of several developments. The program has been revised several times, and each Notice of Funding Availability issued by HUD to PHAs has emphasized slightly different priorities. The cumulative effect of these changes has strengthened the link between public housing revitalization and surrounding private market activity. Key points in the evolution of HOPE VI include eliminating the limit of 500 public housing units slated for demolition or revitalization (September 1994), suspending the one-for-one housing replacement requirement (July 1995), expanding program eligibility to all PHAs with troubled housing (April 1996), and requiring that PHAs demolish at least one obsolete building, along with strong encouragement to establish self-sufficiency programs, strict occupancy and eviction rules, and mixed-income sites (July 1996) (see U.S. GAO 1998, 18).

(Marcuse 1998). For decades, HUD has assembled a portfolio of acronyms and programs—a redevelopment effort here, a dispersal scheme there. But HOPE VI appears to be the first program to encapsulate both of these principles in a single, coordinated initiative, with an explicit emphasis on local flexibility, partnerships, and market discipline (Marcuse 1998; Quercia and Galster 1997). By the mid-1990s, local public housing authorities confronted a near-universal vilification of public housing and were suddenly presented with sweeping mandates to make radical, innovative changes to local housing assistance strategies. In many cities, however, local housing officials faced an urban land market that contrasted with earlier generations in important ways. The gentrification of the 1970s and 1980s laid the foundation for the spatial integration of subsidized and market-rate housing, but only in the boom of the late 1990s has this possibility become a reality. The new context of the inner city created by postrecession gentrification has presented local officials with redevelopment options that were not previously possible.

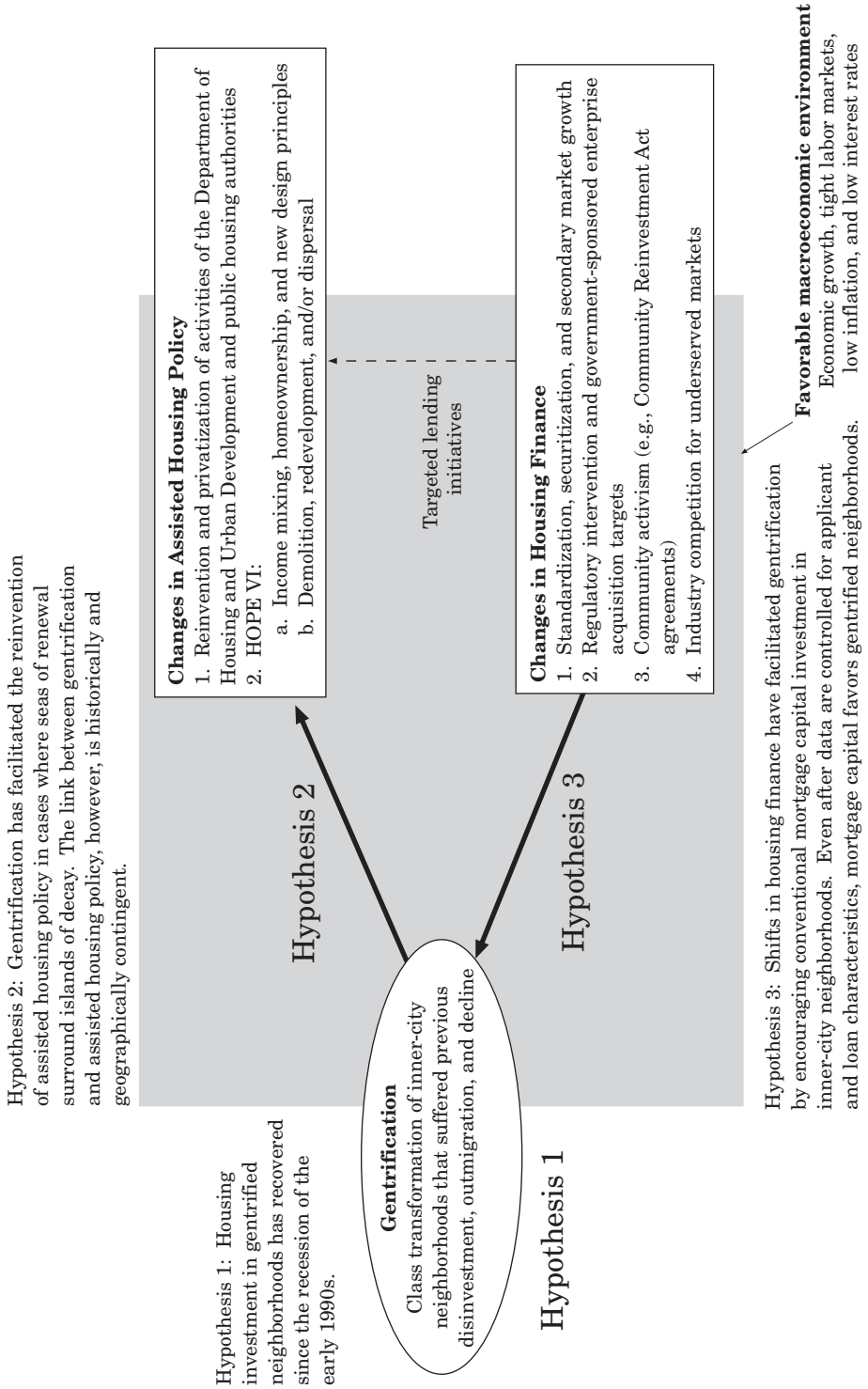
Hypotheses

The 1990s have brought two major transformations in the national urban policy framework: a new regime of housing finance and an emergent consensus on low-income housing assistance. Our purpose in this article is to explore how these shifts have reflected and reinforced a resurgence of private-market gentrification in American cities since the recession of the early 1990s. Figure 1 depicts the interrelations among these trends and suggests three central research hypotheses essential to judging the extent and implications of post-recession gentrification.

First, the vibrant economic recovery of the 1990s merits a reevaluation of the degentrification hypothesis put forward by Bourne (1993a, 1993b) and others. We believe that there is ample evidence of a resurgence of gentrification in many different cities, but to provide a rigorous test of this hypothesis, we use a crucial indicator of market activity: individuals seeking to borrow money secured by mortgages on properties in gentrified neighborhoods. If the process has indeed recovered from the depths of the recession, mortgage lending in these neighborhoods should grow at least as fast as city-wide averages.

Second, we propose that the cumulative history of gentrification has altered the context for the reinvention of low-income housing policy. While inner-city revitalization is still dwarfed by suburban expansion, when we focus on the urban core we see a diverse, dynamic landscape created by several decades of class turnover. In some cit-

Figure 1. Hypothesized Links between Housing Policy and Gentrification



ies, the process has proceeded far enough to create seas of renewal that now surround the islands of decay inscribed by the boom in public housing construction during the 1950s and 1960s. Chicago's Cabrini-Green public housing development is perhaps the most widely known example: Vibrant retail and housing market activity has steadily encroached on the projects since the 1970s, and now the place is a legendary illustration of the sharp boundaries between poverty and wealth similar to those that inspired Chicago School works such as Zorbaugh's (1929) *The Gold Coast and the Slum*. In this context, gentrification mediates the balance between alternative strategies to reinvent distressed public housing: Private-market gentrification is a necessary, although by no means sufficient, condition for market-rate development and income mixing.

Our third hypothesis focuses on the links between the national system of housing finance and gentrification. The expansion of the secondary mortgage market has proceeded in tandem with widespread standardization and a secular relaxation of borrowing constraints, alongside a simultaneous rush to tap underserved markets in the inner city. As a consequence, we argue, mortgage capital now facilitates gentrification in ways that depart radically from earlier decades.

This final hypothesis entails frustrating methodological constraints. Ideally, a comprehensive assessment of long-run changes in the role of housing finance in neighborhood change would draw on data that allow microlevel analysis of supply- and demand-side processes in specific neighborhoods, in several cities, through several business cycles. Unfortunately, data meeting these requirements became available only in 1990; before that time, the data we use to examine the role of housing finance in neighborhood change (described below) were simply not collected. It is impossible, therefore, to conduct a precise historical comparison of mortgage lending dynamics in gentrified neighborhoods. Nevertheless, our hypothesis is bolstered by the historical baseline established in a broad and interdisciplinary literature in urban research. Every shred of evidence from the literature on redlining, suburbanization, and gentrification suggests that private, unsubsidized mortgage capital has always preferred the safety and profitability of the suburbs or established middle- and upper-middle-class urban neighborhoods to the risks of the gentrifying inner city. Indeed, in the 1970s, analysts quickly recognized that lenders tended to remain on the sidelines until artists, nontraditional households, or other urban pioneers proved that a neighborhood could successfully be revitalized (or until suitable public subsidies were offered), thus leading to stage theories of gentrification (Beauregard 1990; DeGiovanni 1983; Smith and Williams 1986). If we can demonstrate that conventional mortgage capital no longer systematically avoids gentrified neighbor-

hoods (and if this result holds up when considering variations among applicants), it provides strong evidence that standardization and secondary market flows have altered the role of housing finance in neighborhood change.

Mapping the resurgence of gentrification

Gentrification is notoriously difficult to measure, and results are sensitive to the indicators chosen, the time periods under investigation, and thresholds used to distinguish among neighborhoods. To develop a coherent portrait of the process, we draw on three complementary data sources.

Gentrification database

Our first data set may best be described as an ongoing effort to “ground-truth” the familiar census reports that form the mainstay of so much urban studies research. Over the past five years, we have assembled a growing database of gentrified neighborhoods in large U.S. cities, with a long-term goal of full coverage of the 30 most populous metropolitan areas. This study involves analyzing gentrification in eight cities: Boston, Chicago, Detroit, Milwaukee, Minneapolis–St. Paul, Philadelphia, Seattle, and Washington, DC. While these do not constitute a representative sample of U.S. cities, they vary widely in economic structure, housing markets, and the extent and intensity of gentrification.

Identifying and measuring gentrification is no simple matter. Typically, analysts identify the phenomenon by selecting a handful of demographic variables from tract-level census reports and then locating neighborhoods exceeding some specified threshold (for example, Lipton 1977 and Nelson 1988). When applied without complementary qualitative or historical sources, this approach amounts to what might be called inductive empiricism and is plagued by several flaws. Class turnover is exceedingly difficult to measure in a cross-sectional snapshot, and neighborhood change often frustrates the investigator by straddling decennial census years. Housing measures are sensitive to displacement or filtering processes that diffuse rent increases outward from tightened markets in gentrified neighborhoods (Waldorf 1991). Most important, this method invariably identifies elite and middle-class urban neighborhoods that never experienced sustained outmigration or disinvestment; in an incisive critique of the literature, Bourne (1993a, 1993b) seizes on this flaw in order to question the magnitude and relevance of gentrification for urban theory and urban policy.

In our research, we adopt an alternative approach designed to compensate for the inherent flaws of uncritical reliance on tract-level summary statistics. Our method involves three steps in each city: First, we review scholarly research, city planning documents, and local press sources to develop an initial list of gentrified neighborhoods. Second, we conduct a block-by-block field survey of tracts identified in the literature review. In this survey, we seek out visible evidence of housing reinvestment and class turnover; while not without its limitations, this approach captures the distinctive consumption norms, aesthetic sensibilities, and housing investments of the “new middle classes” responsible for a more restless urban landscape (Knox 1991). Third, we calibrate multivariate discriminant analysis models to distinguish gentrified areas from other urban neighborhoods on the basis of socioeconomic benchmarks of class turnover.⁶

As our database has grown, we have been able to use discriminant models derived from previous rounds of fieldwork to predict gentrified tracts in other cities, where we subsequently verify our hypotheses in the field. This technique allows an iterative blend of qualitative and quantitative sources to detect a phenomenon widely regarded as complex, diverse, and variable in its timing and empirical manifestation (Beauregard 1986, 1990; Bourne 1993a, 1993b).

We argue that a geographic perspective on neighborhood change requires integrating quantitative evidence with the more nuanced perspective allowed by field observation; although each addition to our database improves the sensitivity of our discriminant models, the idiosyncrasies of spatial aggregation and census classification are laid bare by site visits to suburban-style subsidized housing that suddenly boosts rents or house values averaged across tracts, or luxury apartments recently constructed at the frontier between gentrified enclaves and severe inner-city poverty. To capture these differences, we develop a neighborhood taxonomy to account for varied levels of intensity and spatial configuration of gentrification. First, we operationalize Berry’s (1985) seas of decay by identifying central-city census tracts with median household income below the

⁶ We recognize the limitations of these methods and have sought to compensate for the most obvious problems (the time lapse between 1990 census enumerations and the dates of our field surveys) (Wyly and Hammel 1998). While visible housing reinvestment is often an important outcome of gentrification, regulatory and tax codes in some housing markets (particularly New York) create powerful incentives for affluent owners to conceal rather than display housing wealth. And as Smith and Caris (1998) have emphasized, the circulation of capital investment in the urban landscape is often masked by the more readily apparent racial and class characteristics of who moves in and who moves out of a neighborhood: “One does not generally ‘see’ a bank refuse a mortgage for the resale of a house, or refuse a refinancing loan to make additions or repairs to perform periodic maintenance” (2).

citywide median in 1960; this is the “inner city,” most of which suffered outmigration, disinvestment, and decline during the vigorous housing boom of the early postwar period. From this set of neighborhoods we distinguish intensely gentrified core districts and fringe areas where reinvestment is comparatively modest, spatially fragmented, or in its early stages.

Figure 2 depicts this taxonomy for Chicago, and table 1 summarizes our fieldwork to date in eight cities that permit a test of our three

Figure 2. Gentrification Field Survey in Chicago

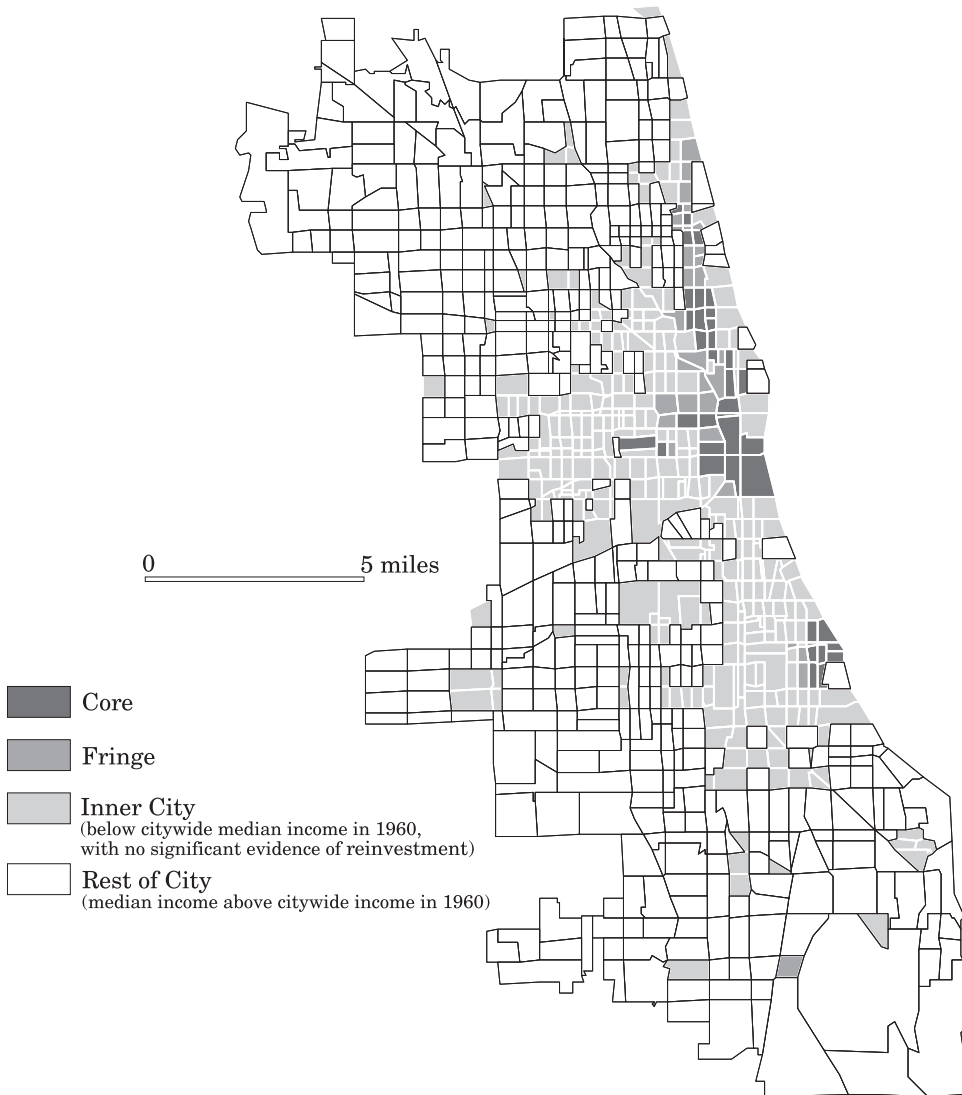


Table 1. Summary of Gentrification Field Surveys, 1994 to 1998

City	Date of Baseline Fieldwork	Number of Census Tracts	
		Core	Fringe
Boston	March 1998	14	11
Chicago	August 1995	37	32
Detroit	July 1998	3	4
Milwaukee	August 1995	6	7
Minneapolis–St. Paul	January 1994	7	19
Philadelphia	July 1998	13	7
Seattle	July 1998	9	12
Washington, DC	July 1995	17	11
Total		106	103

hypotheses. In 1990, the population of core gentry neighborhoods stood at just under 300,000, while an additional 271,000 lived in fringe areas. Consequently, our islands of renewal account for just under 22 percent of the total population of the seas of decay in these eight cities. Clearly, gentrification affects only a small fraction of the central-city housing market and is dwarfed by continued metropolitan expansion. Yet the process merits attention not on the basis of its magnitude, but for the intersection of complex economic and cultural processes at the neighborhood level (Beauregard 1986, 1990, 1994).⁷

Other indicators provide further insight into long-term neighborhood change in these cities. Table 2 presents the results of stepwise discriminant analyses that identify variables distinguishing gentrified tracts from surrounding inner-city areas. Separate discriminant functions for core and fringe neighborhoods yield fairly robust accuracy: With a combination of income, education, occupation, and racial indicators, the models confirm approximately nine-tenths of the districts identified in our field surveys. Education is the single best

⁷ Gentrification is often dismissed on the grounds of empirical magnitude, but few other social and economic processes are held to this standard. The problem of the urban underclass, for example, has prompted wide-ranging and interdisciplinary debate because of the problems facing poor residents and because the phenomenon is a theoretical battleground between structural explanations and individual culture-of-poverty theories. But so-called underclass neighborhoods account for a small fraction of the population and land area of cities, mostly old industrial centers of the Midwest and Northeast (Kasarda 1993; Ricketts and Sawhill 1988). Core and fringe gentry areas encompassed a total of 570,408 residents of our eight cities in 1990, equivalent to 21.6 percent of the total population in the inner city as defined above. Corresponding underclass estimates for these cities are 526,566 (using Ricketts and Sawhill's 1988 criteria) and 419,780 (with Kasarda's [1993] more restrictive Public Use Microdata Sample-based calculations). (See Kasarda 1993, appendix 1–F.)

Table 2. Stepwise Discriminant Analysis of Gentrified Neighborhoods, 1970 to 1990

		Model 1		
		Wilks' Lambda	Aggregated Values	
			Core	Rest of Inner City
1. Share of persons 25 and over with college degree, 1990	0.585	56.8	14.7	
2. Ratio of average family income, 1990/1970*	0.539	1.80	0.94	
3. Homeownership rate, 1990	0.526	26.7	31.9	
4. Change in 1946–1960 birth cohort as share of total population, 1970–1990	0.514	3.79	–6.86	
5. Poverty rate, 1990	0.506	14.7	36.3	
6. White nonfamily households as share of total households, 1990	0.499	58.7	19.2	
7. African-American population as share of total, 1990	0.494	17.9	60.2	
8. Managerial and administrative workers as share of total workforce, 1990	0.490	21.7	9.85	
9. Share of persons 25 and over with some college, 1990	0.487	15.3	14.9	
Percentage of core tracts correctly classified	91	(9 type I errors)		
Percentage of inner-city tracts correctly classified	94	(44 type II errors)		
		Model 2		
		Wilks' Lambda	Aggregated Values	
			Fringe	Inner City
1. Change in share of persons 25 and over with college degree, 1970–1990	0.730	28.0	8.75	
2. 1946–1960 birth cohort as share of total population, 1990	0.680	24.9	22.0	
3. Ratio of average family income, 1990/1970*	0.664	1.31	0.94	
4. Share of persons 25 and over with some college, 1990	0.649	17.9	14.9	
5. Non-Hispanic white population as share of total, 1990	0.638	64.1	23.9	
6. Change in white nonfamily households as share of total, 1970–1990	0.634	22.2	8.54	
7. Managerial and administrative workers as share of total workforce, 1990	0.630	15.4	9.85	
8. Change in share of persons 25 and over with some college, 1970–1990	0.627	6.45	8.58	
9. Average family income, 1990	0.619	\$43,158	\$27,554	
Percentage of fringe tracts correctly classified	86	(14 type I errors)		
Percentage of inner-city tracts correctly classified	89	(86 type II errors)		

Source: Authors' fieldwork and analysis of data from Tobin (1993).

*Measured in constant 1990 dollars.

discriminator, but income and income growth are also important: As a group, core gentry areas posted real growth in average family income⁸ of 80 percent, contrasting sharply with the slight erosion in the remainder of the inner city. In light of the methodological problems associated with identifying a process that varies widely in its timing in different cities, these results are encouraging.⁹ Nevertheless, the models yield a large number of type II errors—inner-city tracts that are mistakenly classified as gentrified. The factors behind these errors are complex and diverse, reflecting the problems of area averages and different types of public and private redevelopment activities (Hammel and Wyly 1996). These results suggest, however, that our approach provides a conservative estimate of gentrification.

Mortgage disclosure files

Our second source of evidence allows an unusually sharp image of capital flows on an annual basis. Since the early 1990s, disclosure requirements have required all but a small fraction of the nation's mortgage lending institutions to report information on the personal characteristics and action taken on individual loan applications (Federal Financial Institutions Examination Council [FFIEC] 1999; Fishbein 1992; Holloway 1998). These data have spawned an explosion in research on fair lending and redlining, but they also allow us to chart the demand for and supply of capital to one important segment of gentrifiers: middle- and upper-middle-income residents who must secure a loan to buy a house in a gentrified neighborhood. We assembled Home Mortgage Disclosure Act (HMDA) data on our

⁸ Average family income is by no means an optimal indicator: Median household income is superior, as is per capita income (Smith 1996). Unfortunately, average family income is the only relevant figure available in the census database we use (Tobin 1993). The Urban Institute constructed a customized tabulation that adjusts 1970 and 1990 census estimates to consistent 1980 tract boundaries, providing an unparalleled tool for analyzing neighborhood change, but the data set has only a selected set of variables. In previous research, we used printed census reports for 1960 through 1990, but this approach demands labor-intensive adjustments that do not substantially alter the results (see Wyly and Hammel 1998).

⁹ It is worth noting that gentrification preceded the widespread attention devoted to it in the 1970s, and thus our analysis does not capture the early stages. Ruth Glass (1964) coined the term to describe changes in London in the 1950s and early 1960s, and Smith (1996) identifies a number of important precursors. Of the cities included in the present study, Washington, DC, probably experienced the process earliest. Green (1963) dates the transformation of Georgetown to the 1920s: "The remodeling started then had proceeded slowly during the depths of the Depression, but about 1934 suddenly gained momentum. Impecunious New Dealers moved into the cramped restored little houses" (399). By 1970, the core gentry neighborhoods in the eight cities included here registered an average family income that stood at 144 percent of the average for the surrounding inner city.

eight case study metropolitan statistical areas (MSAs) for the boom period between 1992 and 1997. We use simple tabulations of these data to measure housing investment in the neighborhoods documented in our gentrification database. A multivariate model is developed and estimated with the HMDA data to test the hypothesis that conventional mortgage capital no longer systematically avoids the gentrifying inner city.

HOPE VI site profiles

Our third source of evidence is drawn from policy documents filed by local public housing officials. As part of the application process for federal grants under HOPE VI, PHAs must submit application materials that include a site profile for each public housing development slated for revitalization or demolition (Housing Research Foundation 1998). These profiles vary somewhat in length and coverage, but at a minimum they specify the PHA's plans to redevelop sites in ways that avoid the supposed ills of high-rise public housing design and prevent the reconcentration of low-income households. They also specify plans to integrate subsidized project-based assistance with scattered-site construction, rehabilitation, vouchers and certificates for use on the open market, and criteria to be used in mixed-income redevelopment of the original site. HUD encourages innovative leveraging of federal funds with Community Development Block Grant, HOME, and local financing as well as private capital (see Epp 1998; HUD 1997; U.S. Congress 1998).

We emphasize that these profiles are far from perfect: They are only capsule summaries of full applications, and our use of successful files certainly introduces some selection bias into the equation. Their utility lies in the aggregate picture that emerges when these developments are coded to our field-verified database on gentrification. We propose the underwhelming hypothesis that localized instances of gentrification have been incorporated into low-income housing assistance plans as local authorities confront the imperatives of devolution, privatization, and market discipline in attempting to meet the needs of extremely poor families while securing cross-subsidies from market-rate units (Marcuse 1998; Quercia and Galster 1997).

The resurgence of gentrification

We begin our empirical analysis with a simple question: Has capital investment in gentrified neighborhoods recovered after the recession of the early 1990s? To answer this question, we examine the geographic distribution of mortgage lending between 1992 and 1997

(the latest year for which data are available). Our goal is to assess the willingness of borrowers, lenders, and housing market intermediaries to accept the risks of investing in gentrified neighborhoods; thus we restrict our attention to conventional loans that were approved and originated.¹⁰ We also focus on comparisons between 1992 and 1997, although figures are presented as well for 1993 (when conventional, fixed 30-year interest rates briefly dipped below 7 percent).¹¹ We hypothesize that core and fringe gentrified areas will at least keep pace with metropolitan growth in mortgage investment. To the degree that core and fringe investment accelerates more rapidly than suburban expansion, we may conclude that gentrification has rebounded from the stalled property markets of the early 1990s. Whether growth in capital investment reflects demand- or supply-side factors, or even new housing construction, is largely irrelevant; demonstrating the resurgence of gentrification simply requires that aggregate investment grow more rapidly in these neighborhoods than in other parts of the metropolis.

As a group, these cities have attracted substantial reinvestment in the recovery of the 1990s (table 3). Given the risks that must be borne by home buyers, conventional loans for the purchase of single-family homes provide the most conservative test of our hypothesis. Between 1992 and 1997, total conventional home purchase lending grew by 50 percent, from \$31.5 billion to \$47.5 billion. Not surprisingly, the suburban ring accounts for the vast majority (more than 85 percent) of total capital flows. Yet growth rates have been disproportionately concentrated at the interior of the metropolis. Conventional home purchase lending to core gentry neighborhoods grew by 129 percent, from \$358 million in 1992 to \$763 million in 1997, and median loan amounts more than kept pace with suburban growth rates. This evidence alone is sufficient to cast doubt on predictions of degentrification: These neighborhoods attracted a wave of long-term investment that grew at 2.3 times the suburban rate. More significantly, reinvestment has spilled out into adjacent fringe neighborhoods, which posted growth rates 2.4 times that of the suburban ring. The rest of the inner city, which encompasses many different types of neighborhood changes since the 1960s, out-

¹⁰ The HMDA files permit analysis of four types of conventional mortgage loans: (1) purchase of single-family homes, (2) improvement of single-family dwellings, (3) refinancing of mortgages on single-family homes, and (4) loans for multifamily structures (including purchase, improvement, and refinancing). HMDA reporting requirements define single-family dwellings as those accommodating four or fewer families; all other dwellings are classified as multifamily. Condominium units are classified as single-family dwellings, even if they are located in multiple-unit buildings. See FFIEC (1999), 27.

¹¹ We analyzed lending for all years between 1992 and 1997, but 1993 is the only significant interruption of the secular trend.

Table 3. Aggregate Capital Investment in Selected Metropolitan Statistical Areas: Total Value of Conventional Loans Approved and Originated, 1992 to 1997

	Total Loan Volume			Median Loan Amount		
	1992	1993	1997	1992	1993	1997
Home Purchase						
Core	358,531	467,892	763,362	135	140	138
Fringe	176,400	225,746	382,746	118	115	124
Inner city	462,329	585,928	953,599	81	86	95
Rest of city	2,797,714	3,224,993	4,066,592	92	89	92
Suburbs	27,721,245	34,731,730	41,223,003	126	128	127
Home Improvement						
Core	22,131	25,509	13,010	32	28	20
Fringe	12,817	14,218	9,180	20	18	16
Inner city	54,467	108,091	74,313	7	8	10
Rest of city	292,177	476,400	354,158	9	10	10
Suburbs	2,200,086	3,379,268	2,063,924	14	12	15
Refinancing						
Core	651,914	912,436	419,602	139	132	144
Fringe	307,428	449,144	234,483	115	113	119
Inner city	808,912	1,110,191	884,824	93	89	60
Rest of city	5,163,065	7,400,078	4,326,689	85	84	60
Suburbs	61,307,792	90,720,188	36,421,343	106	107	102
Multifamily*						
Core	62,292	64,407	47,346	458	412	344
Fringe	117,021	121,291	31,415	469	384	352
Inner city	127,718	141,980	118,515	292	263	230
Rest of city	389,846	450,321	317,616	263	252	248
Suburbs	718,211	943,626	459,526	269	251	244

Source: FFIEC (1993, 1994, 1999).

Note: All values are expressed in thousands of constant 1997 dollars, adjusted for inflation with Metropolitan Statistical Area-level Consumer Price Index series for housing expenditures.

*Multifamily loans include home purchase, home improvement, and refinancing loans on structures with four or more units.

paced suburban expansion by a factor of 2.2. The remainder of the central cities lags slightly behind the suburban ring (45 percent growth rate versus 49 percent).

Considering other types of lending adds complexity to the picture but does not detract from the general trend. Gentrified neighborhoods mirror the suburbs in refinancing activity, which surged with the fall in interest rates in 1993. Median refinancing amounts in the suburbs and gentrified areas have fluctuated only slightly (9.3 percent in the most extreme case), but other central-city neighborhoods have seen a progressive shift in the refinance market toward smaller loans. This result may stem from the growth in home equity lending to moderate-income urban homeowners. Not surprisingly, multifamily lending accounts for a larger share of investment

in urban neighborhoods than in the suburbs: Multifamily lending is equivalent to less than 1 percent of single-family lending in the suburbs, compared with 6.2 percent in core gentry areas. Home improvement loans, however, account for a larger fraction of investment in the suburbs (5.0 percent of the amount devoted to single-family purchases) than in gentrified areas (1.7 percent in the core, 2.4 percent in the fringe).

It is important to recognize that these figures reflect a complex set of supply- and demand-side processes, as well as certain features of the HMDA database. Single-family home purchase loans, for example, include those for new detached homes and condominium units as well as older houses renovated by previous owners. Nevertheless, we can conclude that reinvestment in gentrified neighborhoods is not simply a product of small-scale renovation; it is dominated by home-purchase lending at the upper reaches of the central-city price range. On this crucial indicator, gentrified areas have enjoyed a resurgence of investment at a pace exceeding 2.3 times the suburban growth rate. Clearly, the dramatic resurgence of capital investment ushered in with the economic recovery of the 1990s has increasingly focused on the urban core.

Each of these cities has followed a distinctive trajectory in recent rounds of urban restructuring, and local reinvestment flows reflect these differences (see table 4). Measured against the growth rate of suburban investment, capital flows into core gentrified neighborhoods are most pronounced in Milwaukee, Seattle, and Washington, DC; fringe reinvestment has accelerated most briskly in Boston, Chicago, and Philadelphia. In general, fringe reinvestment has accelerated most rapidly in heavily gentrified cities, consistent with the notion of outward expansion in the wake of previous rounds of disinvestment and reinvestment. This interpretation is intuitively appealing, given the more active real estate activity in many transitional fringe neighborhoods. In Boston, Chicago, and Philadelphia, reinvestment activity has moved beyond the firmly established core of gentrification, and even the remainder of the inner city outpaces growth rates in suburban lending activity by a wide margin. Washington, DC, however, stands out as a striking exception, with growth in capital flows continuing to favor core gentrified areas as the fringe saw a net loss. We suspect that the sustained level of investment growth in these core neighborhoods reflects the steady turnover of affluent professionals associated with the city's agglomeration of government agencies, lobbying concerns, and national associations.¹² After the collapse of the early 1990s, indicators on a

¹² Using the admittedly crude census benchmark (the proportion of persons aged five and over who moved at least once in the five years before a decennial enumeration), the neighborhoods of Capitol Hill stand out for particularly high rates of

Table 4. Capital Reinvestment by Neighborhood Type in Selected Metropolitan Statistical Areas: Total Value of Conventional Originations for One- to Four-Family Home Purchase Loans, 1992 to 1997

	1992	1993	1997	Growth Rate, 1992–1997	Ratio to Suburban Growth Rate
Boston					
Core	76,452	113,675	179,786	135.2	1.58
Fringe	11,145	24,021	53,170	377.1	4.40
Inner city	21,896	24,821	54,510	148.9	1.74
Rest of city	165,605	221,338	320,314	93.4	1.09
Remainder, metro	2,762,218	3,903,628	5,129,899	85.7	—
Chicago					
Core	131,417	178,567	323,508	146.2	1.89
Fringe	53,004	80,646	159,840	201.6	2.61
Inner city	240,460	336,946	576,097	139.6	1.81
Rest of city	1,031,708	1,204,992	1,526,348	47.9	0.62
Remainder, metro	5,208,004	6,216,322	9,232,715	77.3	—
Detroit					
Core	569	990	1,150	102.3	1.09
Fringe	1,150	847	2,155	87.5	0.94
Inner city	8,112	10,202	18,125	123.4	1.32
Rest of city	40,151	51,415	116,731	190.7	2.04
Remainder, metro	3,343,691	4,396,080	6,467,229	93.4	—
Milwaukee					
Core	2,784	4,944	5,993	115.3	3.70
Fringe	9,196	15,257	12,079	31.4	1.01
Inner city	19,671	21,770	26,821	36.3	1.17
Rest of city	185,848	265,610	239,902	29.1	0.93
Remainder, metro	1,169,203	1,471,114	1,532,991	31.1	—
Minneapolis–St. Paul					
Core	11,560	16,726	15,053	30.2	0.64
Fringe	17,048	26,426	37,921	122.4	2.59
Inner city	52,695	70,436	106,011	101.2	2.14
Rest of city	173,176	232,981	343,304	98.2	2.08
Remainder, metro	2,232,363	3,480,191	3,287,196	47.3	—
Philadelphia					
Core	48,641	51,429	66,764	37.3	2.47
Fringe	2,205	4,184	4,542	106.0	7.04
Inner city	29,261	34,759	42,044	43.7	2.90
Rest of city	272,328	315,792	327,989	20.4	1.36
Remainder, metro	3,514,242	4,463,600	4,043,542	15.1	—
Seattle					
Core	42,308	47,438	106,629	152.0	3.25
Fringe	46,245	47,058	79,694	72.3	1.55
Inner city	67,585	60,981	97,196	43.8	0.94
Rest of city	719,042	712,047	953,213	32.6	0.70
Remainder, metro	2,956,994	3,019,263	4,339,095	46.7	—
Washington, DC					
Core	44,801	54,123	64,479	43.9	4.38
Fringe	36,408	27,307	33,345	–8.4	—
Inner city	22,648	26,012	32,795	44.8	4.46
Rest of city	209,857	220,818	238,791	13.8	1.37
Remainder, metro	6,534,531	7,781,532	7,190,336	10.0	—

Source: FFIEC (1993–1998).

Note: All values are in thousands of constant 1997 dollars, adjusted with Metropolitan Statistical Area–level Consumer Price Index series for housing expenditures.

citywide basis point to a general resurgence of real estate activity in Washington, DC, as private employment growth is now more than compensating for public sector retrenchment. Homes sold in the first half of 1998 increased by 48 percent over the same period of 1997, after a comparable expansion of 30 percent the previous year (Monteilh and Weiss 1998).

By contrast, until a recent surge of mortgage activity in core neighborhoods, cities where gentrification affects a smaller fraction of the urban housing market have lagged behind. To be sure, this trend may reflect any number of complex forces at work in local housing and mortgage markets. For example, core neighborhoods registered a temporary peak of lending activity in Detroit, Milwaukee, and Minneapolis–St. Paul when conventional, fixed 30-year interest rates briefly dipped below 7 percent in 1993. Gentrification activity is comparatively modest in these cities, suggesting that a narrow window of affordability may have been important in attracting buyers to core neighborhoods. No such peak is apparent in any of the other cities, where lending volume has advanced consistently in the face of interest rate fluctuations. Nevertheless, capital investment has surged even in Milwaukee and Detroit. Between 1996 and 1997, investment increased by 133 percent in Detroit's core gentry neighborhoods and by 211 percent in fringe areas. These extraordinary rates of increase were based on extremely small absolute lending volumes, however, and so it remains to be seen whether growth will continue. By 1997, conventional home purchase lending in Milwaukee's core and fringe neighborhoods stood at only \$18 million, and Detroit had only \$3.3 million. Nevertheless, reinvestment does seem to be under way. By the latter half of the decade, the national economic recovery had finally reached the abandoned blocks of central Detroit, and the *Free Press* tallied up a total of \$5.74 billion in new public and private development planned or under construction, including new stadia for the Tigers and the Lions, General Motors' takeover and proposed facelift of the Renaissance Center to accommodate 9,000 workers, and Chrysler's expansion plans for six plants throughout the city (Dixon and Solomon 1997).¹³ By the time we conducted our fieldwork in the city in the summer of 1998, the neighborhoods immediately adjacent to downtown were undergoing a kind of resurgence that seems to happen only in Detroit: new

turnover. In the solidly gentrified tract immediately behind the Capitol, fewer than 35 percent of the residents had lived there for more than five years; fully one-third had moved from another metropolitan area between 1985 and 1990.

¹³ Not counted in this tally was a projected \$1.2 billion investment associated with city-approved riverfront sites that will eventually accommodate three casinos to compete with those across the river in Windsor, Ontario. The first casino, a \$220 million MGM Grand, opened on a temporary site in late July 1999 (Meredith 1999).

single-family homes starting at \$425,000 across the street from boarded-up houses and deteriorated streetcar retail strips and apartment buildings, all within a stone's throw of the river.

These results demonstrate that predictions of the demise of gentrification were exaggerated (Bourne 1993a, 1993b). While contextual variations are important, gentrified neighborhoods in all of these cities enjoyed a remarkable surge in capital investment in the recovery of the 1990s. As a group, gentrified neighborhoods attracted mortgage capital at a rate that grew more than twice as fast as in the suburbs. The particularly rapid acceleration of reinvestment in fringe areas provides a vivid illustration of rent gap dynamics in the inner city. Capital began to fill the vacuum left behind by a wave of disinvestment that rippled outward from the urban core as metropolitan expansion boosted potential land rents far above the levels capitalized through prevailing local land uses (Clark 1995; Hammel 1999; Smith 1979, 1996). The current wave of mortgage investment in gentrified areas, however, departs from earlier generations in important ways. Historically, the spatial allocation of mortgage credit was responsible for the *creation* or *exacerbation* of rent gaps, not their elimination. Biased lending practices, often explicitly rooted in ecological theories of neighborhood change, as well as blatant racial and ethnic discrimination, were instrumental in prompting disinvestment and selective outmigration from older residential districts near the urban core (Bradford 1998; Jackson 1985; Smith 1979, 1996; Squires 1992).

As outlined earlier, however, this link has been altered and in some cases reversed by long-term changes in the nation's housing finance system. Two specific changes have been especially important for inner-city neighborhood change. First, a secular relaxing of borrowing constraints (Linneman and Wachter 1989), along with a dynamic erosion of the boundaries between conventional and government-backed lending and between market-rate and means-tested loans, has proceeded throughout the mortgage market. Reading the housing finance literature, especially in the applied policy arena, has become an exercise in sifting through hundreds of acronyms, trademarks, and specialized underwriting criteria. Even if one ignores the scores of state and local mortgage subsidy packages and the federally backed FHA guarantees, the dominant secondary market purchaser (Fannie Mae) offers 72 different "products" (sets of guidelines under which Fannie Mae will purchase a loan originated by a primary-market lender). Many of these are means tested by borrower income, permitting more flexible criteria in order to reach borrowers who would be excluded on standard conventional terms; but Fannie Mae also reaches HUD-designated underserved census tracts with the "FannieNeighbors® mortgage, which removes the income limit altogether" (Fannie Mae 1996, 18).

Second, activist research and mobilization since the late 1980s has achieved substantial victories against lending institutions accused of discrimination and redlining (Schwartz 1998; Squires 1992). In a movement that has increasingly been regarded as a form of regulation from below (Fishbein 1992) compatible with the political realities of privatization and public-sector retrenchment, community groups and advocacy research institutions have mobilized to document redlining (using data made public under HMDA) and to challenge institutions involved in such practices (under the Community Reinvestment Act [CRA] of 1977). CRA provisions require regulators to evaluate the degree to which institutions offer credit to all areas from which they accept deposits, and these annual CRA ratings are considered along with public input in applications for mergers, acquisitions, and major reorganizations. CRA challenges (and the threat of such challenges) thus became increasingly common with the rapid consolidation of the financial services sector in the 1990s. The first Clinton administration, moreover, revised assessment guidelines and reporting requirements under HMDA and CRA (see Vartanian et al. 1995). The results have been dramatic: In the past 20 years, more than 300 community reinvestment agreements valued at more than \$350 billion have been negotiated (Schwartz 1998).

Reinvention and revitalization in the islands of decay

Shifts in housing finance have coincided with, and in some cases been linked to, policy changes in housing assistance as devolution and privatization have gathered momentum. The proliferation of affordable mortgage products and dedicated loan pools, for example, has been essential in efforts to increase homeownership in central cities at the same time that local governments seek to transform their stock of public housing in line with new federal priorities. The reinvention of assisted housing, however, takes place in the context of an inner-city landscape influenced by three decades of neighborhood change. As a consequence, gentrification has become an important factor that conditions the implementation of reforms in assisted housing.

HOPE VI, while still a small program in its early stages, provides an ideal case study of this process. The program grew out of a long history of policy formulation and experience with the management challenges faced by PHAs (Epp 1998; Lane 1995; Schill 1997), but it also incorporates key assumptions drawn from influential theories in the social sciences. In particular, the formulation and implementation of HOPE VI plans have drawn heavily on theories relating social behavior to various aspects of the urban environment. These theories focus on two spatial scales: First, at the level of the hous-

ing development itself, social behavior is linked to architectural design. Since the 1970s, Oscar Newman's (1972, 1980) work on defensible space has forged a consensus that the modernist design principles embodied in tower-in-the-park public housing projects have failed: Public housing towers are not believed to be conducive to the creation of shared public areas that foster collective monitoring and other protective behavior by residents. In response, some redevelopment plans have drawn inspiration from the work of the "new urbanist" movement in city planning, which emphasizes the creation of physical spaces that encourage pedestrian circulation and informal social interaction (Bennett and Reed 1999; Bothwell, Gindroz, and Lang 1998).

Second, at the level of the neighborhood and the inner city, social behavior has been linked to the spatial concentration of poverty. William Julius Wilson's (1987, 1996) work has been especially influential, giving rise to a wide-ranging debate on the relative importance of behavior and structural constraints in the emergence of an urban underclass (Jencks and Mayer 1990; Massey and Denton 1993). While debate on these questions persists, the consensus among policy makers is that poverty is fundamentally transformed by its spatial concentration: When neighborhood poverty rates exceed some critical threshold, contagion effects spread behavioral pathologies through peer groups, while collective socialization erodes because children no longer see adults in positive role models as educated workers and married parents (Jencks and Mayer 1990). This consensus has driven efforts to integrate poor inner-city residents into the social and economic mainstream, either by dispersing concentrations of poverty or by redeveloping neighborhoods to achieve a mixture of incomes and racial groups. HOPE VI encourages PHAs to pursue either or both of these strategies, depending on the condition of existing public housing developments, the viability of the local housing market, and the prospects for attracting private developers and tenants. Reviewing the experience of public housing officials with the Urban Revitalization Demonstration (URD) program that preceded HOPE VI, Epp (1998) summarizes the challenges this way:

Creating a new mixed-income community might be feasible in those cities with strong housing markets and with URD sites in neighborhoods that can attract households with different incomes. Participants in the URD program have pointed out that not all sites have income-mixing potential between 60 and 80 percent of area median and that even fewer sites can attract market-rate families (with incomes greater than 95 percent of area median). (131)

This suggests the hypothesis that gentrification mediates the choice between redevelopment and dispersal of distressed public housing

projects. Where the class transformation of neighborhoods tightens the housing market in the vicinity of public housing, mixed-income redevelopment is both feasible and profitable if the parcel is configured in such a way that higher-income residents do not feel threatened by the proximity of poor families. By contrast, public housing developments that are distant from areas undergoing private-market revitalization will have difficulty attracting market-rate residents. When viewed at the metropolitan level, gentrification may indeed be confined to islands of renewal in seas of decay (Berry 1985), but it has inscribed a new context for efforts to “transform public housing communities from islands of despair and poverty into a vital and integral part of larger neighborhoods” (Epp 1998, 126).

To test this hypothesis, we reviewed all of the successful HOPE VI grant applications filed by PHAs in our eight cities for fiscal years 1993 through 1998 (all were obtained from Housing Research Foundation 1998). These grants account for a total of \$652.8 million promised by the federal government (not counting local government or private funding leveraged by PHAs), representing 21.2 percent of all grant amounts awarded nationally under the program in these years. Table 5 summarizes key elements of these redevelopment plans. Our hypothesis centers on the columns denoting (1) whether a site redevelopment plan involves moderate- or market-rate units, and (2) a development’s situation in relation to local gentrification as defined in our field survey.

Dispersal, redevelopment, and gentrification

PHAs must prioritize the needs of large inventories, and the location of severely distressed developments chosen for HOPE VI applications reflects the cumulative legacy of neighborhood change as well as resident admissions criteria and management capability. Thus, it is not surprising to see a wide range of redevelopment plans, each tailored to the unique conditions of the housing complex, its surrounding neighborhood, and the city’s overall housing market. Nevertheless, redevelopment plans provide qualified support for our hypothesis. Ten grants involve demolition and/or implementation with no provision for moderate- or market-rate housing on the original site; six of these developments have no nearby gentrification activity. Of the remaining four, two are in cities with relatively weak gentrification pressures (Detroit and Milwaukee), and two are in cities where private-market revitalization is more significant (Boston and Philadelphia). This suggests that nearby gentrification is not sufficient, by itself, to induce market-rate redevelopment.

Table 5. Profile of HOPE VI Demolition and Redevelopment Plans in Case Study Cities, 1993 to 1998

City and Development	Award ^a	Fiscal Year	Type ^b	Demolition	Rehabilitation	New	Mix ^c	Description	Tract	Location
Chicago										
Cabrini Homes Extension	50,000	1994	I	660	65	493	Market	Mixed with market rate units; most replacement units in surrounding community.	819	Surrounded by core and fringe tracts.
ABLA Homes/Henry Horner/Rockwell Gardens	400	1995	P							
Robert Taylor Homes	25,000	1996	D-R	790	125	125		No replacement units on site; site to be developed as light industrial park.	3817	Surrounded by poor tracts; more than 1 mile from nearest gentrification activity (fringe tract). In fringe tract.
Brooks Extension	24,483	1996	D	300		200	Moderate	Mixed with moderate: half of units will be open to families earning 50 percent to 80 percent of area median income (AMI); the remaining half will be reserved for those earning less than 30 percent of AMI. Adjoining parcels to be acquired; 54 units to be built on site, 146 on adjacent parcels.	2820	In fringe tract.
Henry Horner Homes	18,435	1996	I	743		150	Moderate	Mixed with moderate: half of units will be open to families earning 50 percent to 80 percent of AMI; remaining half reserved for those earning less than 30 percent of AMI.	2804	Adjacent to fringe tract.
ABLA Homes	35,000	1998	I	2,776		2,598	Market	Site replacement includes 1,052 public units; 580 affordable rental/ownership units, and 966 market-rate rental/ownership units.	2820	In fringe tract.
Boston										
Mission Main	49,992	1993	I	807		850	Market	Plan to build 850 mixed-income condominium, ownership, and market-rate rental units, and four- to six-story public housing units.	808	Adjacent to fringe tract.
Orchard Park	30,400	1995	P, I	441		280		On-site development of 280 public housing units, 40 tax-credit rental units, 10 ownership units; 224 public units to be constructed in surrounding area.	803/ 804	Approximately 0.4 miles from core tract.

Table 5. Profile of HOPE VI Demolition and Redevelopment Plans in Case Study Cities, 1993 to 1998 (continued)

City and Development	Award ^a	Fiscal Year	Type ^b	Demolition	Rehabilitation	New	Mix ^c	Description	Tract	Location
Detroit Parkside Homes	48,120	1994	P, I	392	350	180		Plan to demolish about half of the 60 buildings, reconfigure remaining units, construct 180 town houses in adjacent neighborhoods, and acquire and rehabilitate 345 single-family homes throughout Empowerment Zone to be sold to public-eligible households.	5122	No gentrification within 2 miles.
		1995								
Jeffries Homes	49,807	1994	D, I	612				Construction of low-rise replacement units both on and off site.	5207	Approximately 0.5 miles from downtown core tract.
		1996								
Parkside Addition/ Herman Gardens/ Gardenview	400	1995	P							
		1996								
Herman Gardens	24,224	1996	D-R	1,223	274	672		Plan to increase income of current residents; 176 ownership units to be constructed for residents completing self-sufficiency program.	5454	No gentrification within 3 miles.
Milwaukee Hillside Terrace	45,689	1993	I ^d	119				Goal to reduce density and revitalize existing development.	141	Approximately 0.5 miles from downtown core and fringe tracts.
		1995								
		1996								
Parklawn	34,230	1998	I	138	380	40		Demolition of 138 public units, to be replaced by 40 new single-family lease-to-purchase homes, half on site and half off site. Remaining public units to be rehabilitated.	40	No gentrification within 5 miles.
Philadelphia Richard Allen Homes	50,000	1993	I	129	314	80		Plan to reconfigure three existing quadrants to 314 town house units and construct new five-story building with 80 units for older people.	131,	Approximately 0.25 miles from fringe and core tracts.
									132	
Martin Luther King	25,630	1995	P, I	537		330	Moderate	Plan to build 85 new public units, 93 affordable rental units, and 152 homeownership units for "a range of incomes."	15	Bordered by core tracts on north and east.
Schnylkill Falls	26,401	1997	I	266		300	Moderate	Plan to build 330 new rental and homeownership units for a cross-section of incomes. Families with incomes up to 120 percent of AMI to have opportunity to purchase home through lease-to-own program.	207	No gentrification within 4 miles.

Table 5. Profile of HOPE VI Demolition and Redevelopment Plans in Case Study Cities, 1993 to 1998 (continued)

City and Development	Award ^a	Fiscal Year	Type ^b	Demolition	Rehabilitation	New	Mix ^c	Description	Tract	Location
Seattle										
Holly Park Apartments	48,617	1993 1995 1996	P, I ^d	893		1,200	Market	Complex development with multiple financing sources; consists of three phases. Plan for 800 total rental units, 40 market-rate; 400 total ownership units, 300 at market rates.	110	No gentrification within 3 miles; between poor and middle-class tracts.
Rainier Vista/High Point Roxbury House/Roxbury Village	400 17,810	1995 1996 1998	P D, I	60	151	60		Plans to rehabilitate Roxbury House, a 151-unit high-rise for older people; Roxbury Village to be demolished and replaced with 60 family townhomes.	114	No gentrification within 4 miles.
Washington, DC										
Ellen Wilson Dwellings	25,076	1993 1995	I ^d	134		153	Market	Construction of townhouse units to integrate development into surrounding historic district; 19 market-rate units, remaining 134 organized as co-op. Half of co-op units open to families earning 50 percent to 80 percent of AMI; provision for up to 20 units at no more than 115 percent of AMI.	70	In core gentry tract.
Sheridan Terrace Fort Dupont	400 1,995	1995 1996	P D	133				Demolition only.	99.02	No gentrification within 3 miles.
Valley Green/Skytower	20,300	1997	I	312		314	Market	Plan for 48 new public units; 100 public housing units for older people; 30 public lease-to-purchase homes; 32 market-rate rentals; and 104 for-sale homes.	97	No gentrification within 3 miles.

Source: Authors' analysis of site profiles published by Housing Research Foundation (1998).

Note: Minneapolis and St. Paul were ineligible to apply under the initial HOPE VI criteria but received \$1.8 million in fiscal year 1998 to demolish the Glenwood/Lyndale Towers.

^a Grant awards are expressed in thousands of dollars, not adjusted for inflation; awards are conditional federal commitments spread over several years and do not include leveraged funds from local government or private sources.

^b Grant type codes: P = Planning; D = Demolition; R = Revitalization; I = Implementation.

^c Mix: Explicit goals of redevelopment with regard to mixed-income housing on original site.

^d Includes amendment funds.

Six plans involve explicit provisions for market-rate housing on the original site. Four of these are within or immediately adjacent to gentrified tracts, and in every case the plans acknowledge the effect of surrounding activity on the feasibility of attracting market-rate residents. Similarly, three of the four plans slated for moderate-income redevelopment are surrounded by core or fringe tracts. Two redevelopments, however, run counter to our hypothesis by proposing income mixing in areas distant from gentrification. In Washington, DC, one market-rate redevelopment (Valley Green/Skytower) is at the boundary between the city and suburban Prince George's County and includes a HUD-owned Section 8 foreclosure. In Seattle, the city's largest public housing development is more than three miles from any gentrification activity. This development, Holly Park, is a 102-acre parcel strewn with 1- and 2-story wood-frame town houses constructed as temporary war worker housing in the early 1940s. Redevelopment plans call for three construction phases over a five- to six-year period, drawing on an intricate combination of funding sources and including 300 market-rate homeownership units.¹⁴ The site lies between a corridor of working-class neighborhoods south of downtown Seattle and a ring of stable middle-class areas around Lake Washington; thus, local land market pressures are likely to support the plan.

With these notable exceptions, redevelopment plans generally confirm our hypothesis. Gentrification tightens local housing markets, enabling the integration of the publicly owned, affordable, and market-rate housing that is at the heart of HUD's reinvention. Contrasts among different cities are particularly striking. In the vibrant housing market of the Chicago metropolitan area, four of the city's five redevelopment plans include provisions for moderate-income or market-rate housing, while none of the plans in Detroit or Milwaukee involve market-rate units. Differences within cities are also important and highlight the fine-grained variation of development pressures and neighborhood conditions at the frontier between decay and reinvestment.

¹⁴ The Seattle Housing Authority's site profile for the Holly Park redevelopment is among the most detailed of those examined in this study and includes an itemized list of funding sources. The federal contribution under HOPE VI implementation grants comprises only 21 percent of the estimated costs; other sources include Tax Exempt First Mortgages (9 percent), Low-Income Housing Tax Credit equity (15 percent), Community Facilities Partners (2 percent), home sales (31 percent), Seattle Housing Authority capital funds (6 percent), State of Washington contributions (5 percent), and City of Seattle funds (9 percent). Note that the use of home sales to fund the ongoing phases of the redevelopment exceeds the federal grant contribution by a large margin, exemplifying the cross-subsidization imperatives facing housing authorities under HUD's reinvention (Quercia and Galster 1997).

One of Washington, DC's revitalization plans offers a particularly ambitious agenda and a vivid illustration of the links among gentrification, physical design and portrayals of the built environment, and the transformation of low-income housing policy.

The Ellen Wilson Dwellings occupied a 5.3-acre site nestled behind the major freeway corridor that bisects Southeast Washington. The complex, which opened in 1941, consisted of 134 units in walk-up brick buildings. By the 1980s, the structures had deteriorated so much that the local housing authority declared the development uninhabitable and closed it in 1988. The project was thus the only HOPE VI site among those studied in HUD's *Historical and Baseline Assessment* (Abt Associates 1996) that was entirely vacant at the time of application. Plans for demolition and redevelopment were delayed several times in the midst of turmoil at the housing authority, but demolition finally commenced in April 1996. The complex, now redeveloped, lies immediately south of several blocks of rehabilitated rowhouses a short walk from a Metro station and less than a mile from the Capitol; the site, therefore, stands in a very tight local housing market at the sharp frontier of one of the most heavily gentrified parts of Washington. Moreover, the complex is part of a designated Historic District. The goals of the HOPE VI redevelopment plan, not surprisingly, include the "re-establishment of the small-scale rowhouse appearance, consistent with the historic patterns and appearance of residential development" in the surrounding Capitol Hill Historic District (Housing Research Foundation 1998).

The plan involved the demolition of all of the existing structures, reconfiguration of streets and the restoration of mews, and the construction of a community center along with 153 new town house units. Nineteen of the town houses scattered throughout the development will be sold at prevailing market rates; the remainder (corresponding to a one-for-one replacement) will be owned and operated as a co-op with oversight functions shared by the resident-owners and a private management firm. The community will be divided into three income bands: One-quarter of the units will be open to residents earning no more than 25 percent of the area median income (AMI); one-quarter will be available to those earning 25 percent to 50 percent of the AMI; and the remainder will be open to moderate-income families earning between 50 and 80 percent of the AMI. Up to 20 of the 67 units in the top income band, however, will be available to residents earning no more than 115 percent of the AMI—\$72,105 for a family of four—"to enhance marketability and expand the range of household incomes in the new community" (Housing Research Foundation 1998).

The case of Chicago

It is in Chicago, however, that one finds the most compelling evidence that gentrification conditions the reinvention of assisted housing policy. At first glance this assertion might seem absurd to those familiar with the debate over Chicago's "Mixed Income New Communities Strategy" (MINCS). Lake Parc Place, arguably the nation's most prominent model of a reinvented, mixed-income public housing project, is not surrounded by gentrification, but by some of the city's poorest neighborhoods.¹⁵ This project, however, has a complex history in which income mixing was proposed long after a site was chosen for rehabilitation. The Lakefront Properties, consisting of six 15-story towers, were vacated in 1985 in preparation for renovation, but controversy soon erupted over alternative plans for the structures. When a former developer, Vincent Lane, assumed control of the Chicago Housing Authority (CHA) in 1988, the site was chosen as the demonstration for an ambitious strategy to transform the city's distressed public housing. When finally completed, Lake Parc Place stood out from the surrounding neighborhood as "a high-security gated community" (Vale 1998, 749) and "an enclave of superior amenity and management" (Vale 1998, 754).^{16, 17}

¹⁵ Lake Parc Place is just over three miles south of the Loop, separated from the lakefront by the old rail corridor of the Illinois Central and Lake Shore Drive. The surrounding Oakland neighborhood has a median household income of less than one-fifth the citywide median, is more than 99 percent African American, and lost more than half its population between 1980 and 1990 (Schill 1997).

¹⁶ Vincent Lane led the CHA as director and then chair from 1988 until the federal government took over the agency in May 1995. The CHA lobbied Congress to establish a demonstration program in the National Affordable Housing Act of 1990 to permit regulatory flexibility in design, income formulas, resident screening, and rules governing contracts with private landlords (Lane 1995; Schill 1997). Two renovated towers, containing a total of 282 units, opened in 1991, with the goal of achieving a 50–50 mix of residents with very low incomes (less than 50 percent of the area median) and low incomes (between 50 and 80 percent of the area median). The remaining towers of the Lakefront Properties were demolished in 1997. The sociological and behavioral assumptions underlying MINCS have prompted praise as well as strident criticism (Bennett and Reed 1999; Miller 1998; Nyden 1998; Rosenbaum, Stroh, and Flynn 1998; Schill 1997; Vale 1998).

¹⁷ Vale (1998) points out that MINCS has been promoted partially on the grounds that revitalized public housing will spur private market activity in the surrounding neighborhood. Vale's assessment, however, is an eerie echo of Berry's (1985) islands of renewal in seas of decay on a more localized level. Vale (1998) sees little "progress on the broader plan for reinvestment in Lake Parc Place's wider neighborhood. Lake Parc Place fronts neither lake nor park; it is squeezed between a set of railroad tracks and a devastated landscape of disinvestment. As [Rosenbaum, Stroh, and Flynn 1998] acknowledge, it is an 'island.' Its promoters rescued a piece of the public housing stock, but at great cost. Much of this money seems to have been well spent creating an enclave of superior amenity, security, and management" (754).

In every other effort to reinvent public housing under HOPE VI, however, the CHA has been acutely aware of the fine-grained geography of gentrification and disinvestment in the inner city. On the city's poor, mostly black South Side, the nation's largest public housing community is being redeveloped under one of Chicago's four HOPE VI implementation grants. The Robert Taylor Homes, a corridor of 28 buildings with more than 4,300 units built between 1959 and 1963, have become central in the iconography of urban decay, racial and income segregation, and the failures of public policy. The location of the Robert Taylor Homes was determined by the city's segregated racial geography in the middle of the 20th century, but over time the projects themselves became an important causal factor in the neighborhood (Hirsch 1998). Given the massive disinvestment, poverty, and outmigration from the South Side, the Taylor HOPE VI plan relinquishes any hopes of new housing construction: Five buildings have already been demolished, with residents receiving Section 8 certificates. A small number of replacement and rehabilitation units will be scattered across the Greater Mid-South area, and the original parcel will be developed as a light industrial park incorporated into the city's Empowerment Zone.

On the West and North Sides, however, HOPE VI revitalization takes place in the context of vibrant growth and expansion of what many Chicagoans have come to call the "Super Loop." The plan for the Henry Horner Homes, on the Near West Side, grew out of a legal settlement of a 1991 lawsuit charging the CHA with intentional neglect as part of an effort to eventually demolish the project and disperse its residents (Bennett 1999). The HOPE VI plan specified a net onsite reduction from 743 units to 150, to be replaced by a mixed-income community and relocation of displaced residents with vouchers and new units in adjoining West Side neighborhoods. However, Bennett (1999) reports problems in finding suitable properties near the Horner development, which is adjacent to the United Center (site of the 1996 Democratic National Convention and many other events): "In addition to its encountering skyrocketing real estate prices, the off-site developer has also met with disapproval by homeowners' groups concerned about the movement of public housing relocatees into their blocks" (Bennett 1999, 11). Similar problems are apparent at the ABLA development, which consists of four separate West Side housing complexes (Addams, Brooks, Loomis, and Abbott) nestled between the campus of the University of Illinois at Chicago and the nation's largest medical district. The revitalization plan calls for a net elimination of three-fifths of the public housing units on site: About one-fifth of new onsite units are to be "affordable," and almost two-fifths will be market-rate rental and homeownership units.

Finally, on the Near North Side, demolition and revitalization are well under way at Cabrini-Green, one of the nation's most notorious public housing projects which now appears to have replaced the Lakefront Properties as the CHA's banner initiative for mixed-income communities (Bennett 1998; Bennett and Reed 1999; Salama 1999; Schill 1997; Smith 1999; U.S. GAO 1998). The Cabrini-Green development consists of a mixture of low-rise units built in the early 1940s, in addition to some 31 high-rise buildings constructed in the late 1950s and early 1960s, and occupies a 70-acre site on what was once known as Chicago's "Little Hell." This part of the Near North Side has always been a polarized landscape of poverty and wealth (this was the slum studied by Zorbaugh in 1929), but in the past 30 years, the rhythms of neighborhood change have fundamentally altered the area surrounding the cluster of public housing. Gentrification swept through Lincoln Park to the north in the 1960s, and to the south, galleries and restaurants invaded an old warehouse district that was renamed River North in the 1980s.

The Cabrini-Green HOPE VI plan was stillborn in the midst of the federal takeover of the CHA,¹⁸ but after HUD approved a revised plan in 1997, the revitalization effort has proceeded rapidly. The original HOPE VI plan called for the demolition of buildings containing a total of 660 units, with funds for 493 replacement units, most of them in surrounding neighborhoods; the revised plan calls for the demolition of 1,324 units, a net reduction of 79 percent in public units, and an ultimate neighborhood mix of 30 percent public housing, 20 percent moderate-income families, and 50 percent market-rate units (Salama 1999; U.S. GAO 1998).

In June 1996, Mayor Daley unveiled the Near North Redevelopment Initiative (NNRI), an ambitious effort to marshal an estimated \$315 million in public and private investment to transform the area surrounding Cabrini-Green. Bennett and Reed (1999) have published a comprehensive analysis of the history and sociological assumptions behind the NNRI (see also Bennett 1998; Salama 1999; Smith 1999), but for our purposes it is instructive simply to consider the metaphors used to describe a public housing complex that has become surrounded by gentrification. The CHA's revised HOPE VI plan portrays Cabrini-Green as "a pocket of isolated and concentrated poverty surrounded by wealth, and the challenge is to end years of isolation for public housing residents through integra-

¹⁸ HUD rejected the CHA's original HOPE VI application in fiscal year 1993, but a provision of the 1994 appropriations act required HUD to make awards, without competition, to all PHAs that applied in 1993. HUD took over the CHA shortly after the agency had submitted a revitalization plan in early 1995, and a revised plan was not approved until September 1997 (see U.S. GAO 1998).

tion of public housing in a vibrant revitalized Near North Side neighborhood” (CHA 1997, 1.2). The CHA’s original HOPE VI application made the puzzling assertion that the social isolation of Cabrini-Green residents “is more profound than other CHA communities,” presumably the Robert Taylor Homes, that are “within the poorest neighborhoods of the city” (CHA 1993, 20). And yet “Cabrini-Green, due to its location, over time became surrounded by wealthy communities that are racially diverse. . . . Cabrini-Green resembles an island—cut off from nearby resources by vast and insurmountable racial and social boundaries, as well as physical ones” (CHA 1993, 20). Assessing the progress of the HOPE VI revitalization, the U.S. GAO recognized that the long history of mistrust between public housing residents and the CHA is especially severe in the case of Cabrini-Green: “Both HUD and housing authority officials told us that because promises made to residents by the housing authority’s former management have not been kept and because residents view the revised revitalization proposal as a land grab by the housing authority, the city, and the developers, the residents do not trust the responsible parties” (1998, 58).

Modeling the context and contingency of renewal

Thus far, our analysis has focused on two processes: the resurgence of aggregate capital investment into gentrified neighborhoods in the inner city, and the explicit linkage of public housing revitalization to the local context of gentrification. The evidence marshaled reveals a widespread, dramatic resurgence in urban land markets that has inscribed a new environment for the reformation of publicly assisted housing policy. However, housing policy has also influenced gentrification. While acknowledging the impossibility of drawing rigorous historical comparisons (because of the data limitations described earlier), we believe that there is ample evidence to conclude that shifts in housing finance have transformed gentrification in important ways (see hypothesis 3, figure 1). Specifically, we hypothesize that mortgage securitization and standardization have lubricated the flow of capital investment into inner-city neighborhoods once redlined as unacceptable risks.

Simple tabulations of mortgage loans (such as those presented earlier) are insufficient to test this hypothesis, because lending growth could result from changes in the applicant pool in gentrified neighborhoods. It is entirely possible, for example, that public policy has filled the vacuum left by degentrification. Targeted lending criteria, mixed-income housing initiatives, and subsidies for low- and moderate-income homeownership programs could account for a large part of the surge in private mortgage investment in the inner

city. These trends might therefore signal that gentrification is becoming more of a middle- and moderate-income phenomenon.

Model specification

Assessing this argument requires that we return to the mortgage data for a multivariate analysis. To disentangle supply and demand effects, we begin with a simple model of loan denial

$$\ln \left[\frac{P_{\text{denial}}}{1 - P_{\text{denial}}} \right] = b_0 + b'A_i + b''R_i + b'''I_i + e_i \quad (1)$$

where A_i is a vector of applicant financial characteristics, R_i is a set of variables denoting applicant racial/ethnic origin, and I_i is a set of controls for institutional-level variations. This model is an “accept/reject” specification that is widely used in studies of mortgage lending discrimination (Carr and Megbolugbe 1993; Holloway 1998; Munnell et al. 1992, 1996). Typically, positive and significant coefficients for the race terms for minorities are interpreted as evidence of discriminatory practices in loan underwriting, but critics charge that this simple specification is vulnerable to omitted-variable bias. The most prominent discrimination study, conducted by the Boston Federal Reserve Bank, dealt with this problem by obtaining comprehensive loan and applicant information directly from a sample of cooperating lending institutions (Munnell et al. 1996). Because we are limited to the information in the public-release HMDA files, we adopt an alternative approach proposed by Abariotes et al. (1993) and used by Holloway (1998) to construct an instrumental variable representing the likelihood that an applicant is rejected on the basis of bad credit history.¹⁹ Adding this instrument yields the best model of the lending decision that is possible given the limitations of current publicly available data:

¹⁹ For many years, lending industry researchers have lamented the dearth of information on applicant financial characteristics in the mortgage disclosure files, which include nothing more than applicant income. For denied applications, however, lenders may (but are not required to) report up to three reasons for their decision. Options include an excessive debt-to-income ratio, unstable employment history, poor credit history, insufficient collateral, insufficient cash to meet down payment or closing costs, unverified information, incomplete application, denial of private mortgage insurance, and an unspecified “other” category. Our instrumental variable is constructed from a logit model predicting the likelihood that any one of the three denial indicators is reported for poor credit history. Given the optional nature of denial reporting, this is certainly not a perfect measure of applicant credit risk, but it represents the best possible approach, and the burgeoning attention to lending discrimination over the past decade gives lenders powerful incentives to report why they deny applications.

$$\ln \left[\frac{P_{\text{denial}}}{1 - P_{\text{denial}}} \right] = b_0 + b'A_i + b''C_i + b'''R_i + b''''I_i + e_i \quad (2)$$

We are now able to test for contextual variations in mortgage market activity that persist after taking into account the varied characteristics of applicants. Consider the addition of variables to capture differences in housing and mortgage market conditions across the eight cities (*MSA*) and to test for distinctive lending decisions in core (*CORE*) and fringe (*FRINGE*) gentrified neighborhoods:

$$\ln \left[\frac{P_{\text{denial}}}{1 - P_{\text{denial}}} \right] = b_0 + b'A_i + b''C_i + b'''R_i + b''''I_i + b_1MSA_i + b_2CORE_i + b_3FRINGE_i + e_i \quad (3)$$

This specification essentially exploits omitted-variable bias to capture distinctive neighborhood effects in gentrified areas undergoing a resurgence in capital investment. We deliberately exclude tract-level conditions associated with property appraisal, such as housing vacancy rates, rent levels, housing values, and so on. Our purpose is to determine whether the core and fringe gentry designations are sufficient to account for these neighborhood conditions.²⁰ In other words, after controlling for all applicant-level characteristics, do we find that gentrified neighborhoods exhibit lending decisions that diverge from those elsewhere in the metropolis?

Finally, interaction terms allow us to test for differences in lending to potential homebuyers with varied incomes (*INC*):

$$\ln \left[\frac{P_{\text{denial}}}{1 - P_{\text{denial}}} \right] = b_0 + b'A_i + b''C_i + b'''R_i + b''''I_i + b_1MSA_i + b_2CORE_i + b_3INC_i * CORE_i + b_4FRINGE_i + b_5INC_i * FRINGE_i + e_i \quad (4)$$

²⁰ Other concerns merit the exclusion of neighborhood-level variables. On technical grounds, using 1990 census estimates becomes more dubious with each passing year; however, the proprietary nature of commercial tract estimates (from Claritas, Inc., or other well-known vendors) precludes any scrutiny of methods used to update decennial figures. On theoretical grounds, underwriting standards are undergoing a shift in scale, possibly rendering tract-level controls irrelevant. Current secondary-market underwriting guidelines advise appraisal of the immediate vicinity (analogous to the block or block-group level) as opposed to the broader geographic assessments that historically played a role in blatant racial redlining (Jackson 1985). Then again, there is anecdotal evidence of an opposite scale shift in some inner-city lending initiatives. One mortgage bank relied on suburban comparables to assess properties in Detroit's first new private construction of single-family homes in 40 years (Listokin et al. 1998).

Taken together, these models allow progressively rigorous tests of the hypothesis that mortgage market activity has contributed to the resurgence of gentrification in the 1990s. We estimate models for equations 2, 3, and 4 with 1996 and 1997 loan records for conventional home-purchase loan applications; observations with missing or questionable data are excluded on the basis of generally accepted criteria used in the discrimination literature.²¹ A standard set of applicant and institutional variables is defined for these models, each of which also includes the instrument derived from the bad credit model (see table 6).

Model results

Consider first the model restricted to applicant and institutional variables (table 7, Model 1). This specification fits well and con-

Table 6. Logistic Regression of Application Denial for Poor Credit History, 1996 to 1997

	Parameter Estimate	e ^B
Intercept	-3.1391**	
Applicant income (x 1,000)	-0.0075**	0.993
Loan amount (x 1,000)	-0.0056**	0.994
Female?	-0.1529**	0.858
Traditional white family ^a	-0.2514**	0.778
African American (1 = yes)	1.0463**	2.847
Hispanic (1 = yes)	0.2894**	1.336
Other race (1 = yes)	-0.1374*	0.872
Race unreported (1 = yes)	0.891**	2.438
Office of the Comptroller of the Currency	1.2157**	3.373
Federal Reserve Board	0.7674**	2.154
Federal Deposit Insurance Corporation	0.7329**	2.081
Office of Thrift Supervision	1.1196**	3.064
National Credit Union Administration	0.3231**	1.381
Number of observations	389,274	
-2 LL	101,808	
Chi-square versus null model	8,191**	
Percentage correctly classified	71.5	

Source: FFIEC (1997, 1998).

^aTraditional white family is defined as a white male applicant with a white female coapplicant.

* $p \leq 0.01$. ** $p \leq 0.001$.

²¹ Following most discrimination studies, we exclude observations with missing values or with data quality flags in the loan application register. We also exclude observations on the basis of three additional criteria: extremely high or low applicant income (less than \$10,000 or more than \$500,000 annually), applicants refusing to state whether they are men or women (mostly applications taken by telephone), and applications that are incomplete, withdrawn, or approved without subsequent origination of the loan.

Table 7. Logistic Regression Models, Conventional Home-Purchase Loans, 1996 to 1997

	Model 1: Applicant and Institutional Variables		Model 2: Metropolitan Controls and Gentrification		Model 3: Contingent Gentrification	
	Parameter	e^B	Parameter	e^B	Parameter	e^B
	Estimate		Estimate		Estimate	
Intercept	-0.757**		-1.1021**		-1.084**	
Applicant income (x 1,000)	-0.00303**	0.997	-0.003**	0.997	-0.00342**	0.997
Loan amount (x 1,000)	-0.00626**	0.994	-0.00582**	0.994	-0.00577**	0.994
Female?	-0.1144**	0.892	-0.0904**	0.914	-0.0915**	0.913
Traditional white family ^a	-0.3229**	0.724	-0.2821**	0.754	-0.2797**	0.756
African American (1 = yes)	0.1112**	1.118	0.128**	1.137	0.1341**	1.144
Hispanic (1 = yes)	-0.0237	0.977	0.1085**	1.115	0.1083**	1.114
Other race (1 = yes)	-0.0722**	0.930	-0.0464**	0.955	-0.046*	0.955
Race unreported (1 = yes)	0.0964**	1.101	0.1544**	1.167	0.1596**	1.173
Office of the Comptroller of the Currency	-0.7976**	0.450	-0.6997**	0.497	-0.6957**	0.499
Federal Reserve Board	-0.7161**	0.489	-0.6851**	0.504	-0.6833**	0.505
Federal Deposit Insurance Corporation	-1.0353**	0.355	-0.939**	0.391	-0.9375**	0.392
Office of Thrift Supervision	-1.1662**	0.312	-1.1645**	0.312	-1.1612**	0.313
National Credit Union Administration	-1.3356**	0.263	-1.3436**	0.261	-1.3418**	0.261
Year 1997 (1 = yes)	0.081**	1.084	0.0697**	1.072	0.0699**	1.072
Loan for owner occupancy (1 = yes)	0.0928**	1.097	0.1242**	1.132	0.1237**	1.132
Credit history instrument (Loan/income) > 3.0? (1 = yes)	7.3137**	999	8.1971**	999	8.1179**	999
CORE	0.669**	1.952	0.6497**	1.915	0.643**	1.902
FRINGE			0.1598**	1.173	-0.3244**	0.723
Boston ^b			0.00628	1.006	-0.4201**	0.657
Detroit			0.0646**	1.067	0.0646**	1.067
Milwaukee			0.5893**	1.803	0.5889**	1.802
Minneapolis-St. Paul			-0.4375**	0.646	-0.4382**	0.645
Philadelphia			0.0433**	1.044	0.0444*	1.045
Seattle			-0.163**	0.850	-0.1626**	0.850
Washington, DC			0.3642**	1.439	0.3653**	1.441
INC*CORE			0.2894**	1.336	0.2946**	1.343
INC*FRIN					0.00659**	1.007
					0.00684**	1.007
Number of observations	734,437		734,437		734,437	
-2 LL	512,376		506,674		506,489	
Chi-square versus null model	55,471**		61,172**		61,358**	
Chi-square versus Model 1			5,701**		5,887**	
Chi-square versus Model 2					186**	
Percentage correctly classified	72.9		73.3		73.4	

Source: FFIEC (1997, 1998).

^aTraditional white family is defined as a white male applicant with a white female coapplicant.

^bChicago is the reference category for metropolitan dummies.

* $p \leq 0.01$. ** $p \leq 0.001$.

forms closely to the findings of the vast literature on lending discrimination. Denial is less likely with increasing income and loan amount, although lenders clearly must enforce ceilings on mortgage debt burdens (as evidenced by the doubling of denial odds for applicants with loan-to-income ratios over 3.0). The credit history instrument, not surprisingly, is critical in evaluating loan applications. Compared with independent mortgage companies, depositories are only one-quarter to one-half as likely to deny applications, a reflection of the high degree of specialization and segmentation in the housing finance system. Finally, racial disparities in the lending decision persist even after we control for all other factors: African Americans are 1.12 times more likely to be denied than similarly qualified non-Hispanic whites.

Adding contextual variables and specifying tests for gentrification effects yields mixed results (see table 7, Models 2 and 3). Note that substantial variations are apparent across metropolitan mortgage markets, with likelihood of denial greatest in Detroit. After we control for these variations, however, gentrified neighborhoods do not register higher approval rates: Fringe areas are not significantly different from the rest of the metropolitan area, while applicants in core areas are 1.17 times *more* likely to be rejected. The enhanced model with interaction terms helps illuminate these unexpected results (see table 7, Model 3). The income-gentry interaction parameters are positive and significant, indicating that high-income applicants are more likely to be denied in gentrified areas than their affluent counterparts elsewhere in the metropolis. Nevertheless, after we control for the higher relative denial rates of high-income borrowers, strong gentrification effects do appear: Rejection is only 0.72 times as likely in core areas and only 0.66 times as likely in fringe neighborhoods. We emphasize that the standard econometric criticism in this sort of situation—omitted-variable bias—only strengthens our argument. Whether reduced probability of denial stems from unmeasured applicant characteristics or from underwriting practices is irrelevant. Our purpose is simply to show that conventional home-purchase mortgage capital, a critical ingredient of neighborhood investment flows, is no longer a reluctant participant in gentrification in the 1990s. The resurgence and historical durability of gentrification, coupled with shifts in housing finance, have fostered an acceleration of lending to core and fringe neighborhoods. While mortgage capital flows may have been responsible for disinvestment and the creation of rent gaps in an earlier generation (and may still be doing so in other inner-city neighborhoods), in the boom of the late 1990s, lending now appears to be leading the reinvestment process in the established outposts of gentrification. The model results, incorporating a comprehensive array of controls, including an estimate of applicant credit history, provide strong multivariate support for our central hypothesis that shifts in housing

finance have facilitated the movement of capital back into gentrified neighborhoods.

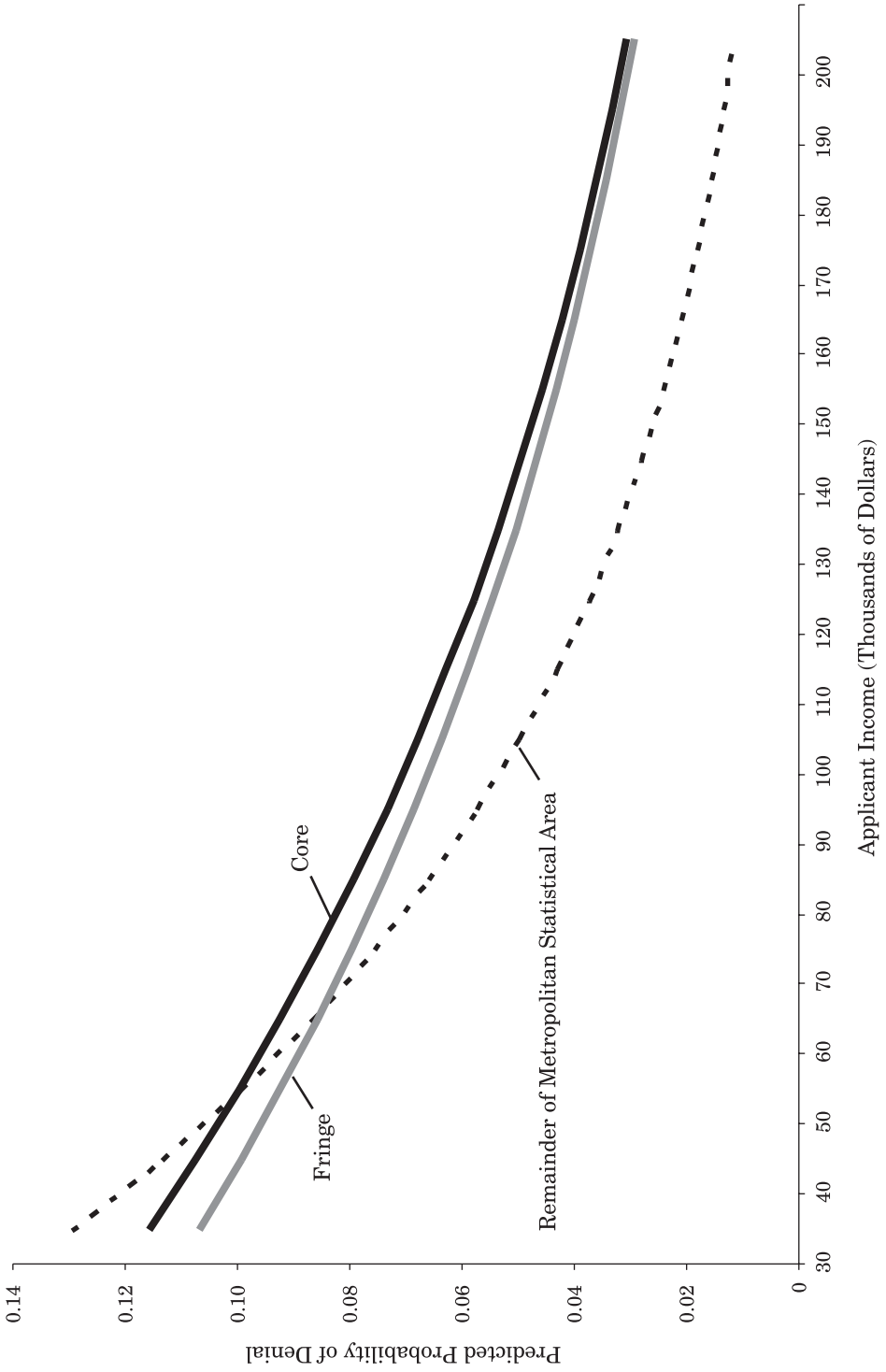
The role of gentrification in widening class polarization, however, implies that distinctive neighborhood effects should be most pronounced among high-income households. On this point our results are counterintuitive, and the higher relative denials of high-income applicants compared with their affluent peers elsewhere imply a transformation of gentrification as much as a resurgence. To examine this issue more closely we constructed conditional probability plots (see Holloway 1996, 1998) to relate predicted probability of denial to income in different neighborhoods. We constructed these plots by calculating denial odds for the traditional target market for conventional lending: non-Hispanic white males filing applications with white female coapplicants and seeking loans at twice their annual income; mean values for all of the other variables are used in the logit equation. By calculating probabilities separately by neighborhood type and varying income, we can determine contrasts in the relative advantage or disadvantage among different high-income applicants.

The results of this analysis are illuminating (see figure 3). The downward sloping curves confirm, not surprisingly, that denial odds fall among more affluent households. But higher-income applicants in gentrified areas seem to face a more gradual relaxation of scrutiny at higher incomes than their peers in the suburbs. Put another way, the easier access of high-income applicants remains biased toward suburban areas. Among borrowers earning more than \$160,000, *ceteris paribus* odds of denial in gentrified areas are twice those in the rest of the metropolis. By contrast, probability of denial varies little across neighborhoods in the middle-income ranges (probabilities of 8 percent to 9.5 percent at the mean income of \$71,600), while gentrified areas enjoy an advantage in the moderate-income range.

What kind of transformation?

At first glance, these findings might suggest that gentrification is becoming more of a middle- and moderate-income phenomenon, with concomitant theoretical implications for displacement and class polarization. For several reasons, we believe that this diagnosis is wrong. First, the technical limitations of all analyses of this type must be acknowledged: Spatial aggregation to the tract level is necessary, but certainly not ideal in light of the fine-grained scale of disinvestment and reinvestment in many inner-city areas.

Figure 3. Conditional Plot of Probability of Denial by Applicant Income



Second, our models of the conventional mortgage market present only a partial picture of household and capital movement into and out of gentrified neighborhoods at a particular point in time. Mortgage disclosure records miss buyers who choose to buy homes outright, borrowers who obtain seller financing, and renters moving into luxury apartments. And these data tell us nothing about retail development, office construction, and all the other public and private investments required to transform parts of the inner city into places where the professional middle class lives, works, or plays.

Third, and most important, our results are not inconsistent with the general image of gentrifiers that emerges from two decades of research on the subject. The unexpected results for high-income applicants might be explained by a surge in young professionals with high income but few assets; these applicants exemplify the stereotypical yuppie influx at the heart of both economic and cultural theories of gentrification but represent substantial risks if they are unable to make a sizable down payment.²² Also, the probability of denial curves may reflect an influx of buyers who are simply attempting to reach beyond their means, either on the basis of household finances or the perceived potential of a particular property. Several pieces of evidence support this interpretation. The mean income of approved applicants in core areas jumped significantly between 1996 and 1997 (\$95,324 to \$100,487, prob > T value = 0.0011), placing these borrowers far above the suburban level (\$74,207 to \$77,677, prob > T value = 0.0001). Moreover, from the perspective of lending institutions, rejections in gentrified areas generally paint a picture of a fairly attractive applicant pool.

Table 8 presents aggregated denial codes for all rejections and for denials of borrowers with incomes over \$100,000. Note that poor credit history is cited as the primary reason nearly twice as often among suburbanites (26 percent) as among applicants in core (17 percent) and fringe areas (14 percent). Home buyers in gentrified districts may be seeking homes at the frontier of reinvestment where conventional lenders remain cautious and skeptical: Compared with the suburbs, twice as many denials of high-income applicants in gentrified neighborhoods cite collateral. Affluent borrowers in fringe areas also may be stretching their household debt burdens more than their wealthy peers in core gentry neighborhoods.

Further, the large proportion of rejections for “other” reasons may be a red flag. We suspect that many of these applicants may be turned down because of the differential calculus of portfolio loans. At incomes over \$100,000, borrowers who seek loans at the standard multiple rapidly bump up against the limits for mortgages

²² Unfortunately, it is impossible to determine down payment or loan-to-value ratios from the HMDA records.

Table 8. Reasons for Denial of Application, Conventional Home-Purchase Loans, 1996 to 1997

Denial Reason Cited	Percentage of All Denial Codes Reported					
	All Applicants			Applicants with Income over \$100,000		
	Core	Fringe	Suburbs	Core	Fringe	Suburbs
Debt-to-income ratio	25.5	26.4	25.7	13.4	21.9	19.0
Employment history	3.5	4.0	4.9	2.9	2.9	3.6
Credit history	18.7	19.6	33.8	17.2	14.3	25.9
Collateral	12.3	12.3	5.8	18.5	18.1	8.9
Insufficient cash for down payment/closing costs	8.3	7.3	6.4	7.1	7.6	6.1
Unverifiable information	3.0	3.1	2.3	2.1	1.0	3.6
Credit application incomplete	9.5	7.0	5.6	9.7	10.5	11.1
Mortgage insurance denied	2.5	0.8	1.2	1.3	1.9	1.1
Other	16.7	19.6	14.3	27.7	21.9	20.7
Totals	100.0	100.0	100.0	100.0	100.0	100.0
Total denial rate	11.3	12.2	12.8	8.1	9.1	6.0
Percentage of denials for which credit history is primary reason	15.0	14.6	28.1	16.8	13.3	22.3
Percentage of denials for which no reason is cited	21.9	27.8	42.8	22.1	20.4	25.1

Source: FFIEC (1997, 1998).

Note: Lenders may, but are not required to, report up to three reasons for loan denials. Tabulations do not include tracts in the "inner city" and "rest of city" categories as shown in tables 3 and 4. Percentages may not total 100 percent because of rounding.

that Fannie Mae will purchase (conforming limits ranged from \$215,000 for a single-family home to \$412,000 on a four-family house in 1997). Lenders exercise far greater individual discretion—both in terms of the borrower and the property—in portfolio lending than in conforming salable loans. Lenders may be reluctant to accept these risks at the frontiers of gentrification. But this simply provides indirect support for our hypothesis, which is that shifts in the national housing finance system—that is, the standardization of loan products and the relaxation of underwriting criteria for loans salable to Fannie Mae and other large national purchasers—has lubricated the flow of mortgage capital into gentrified areas. The ironic result is a relative advantage in the middle-income ranges, reminiscent of Holloway's (1998) finding that targeted lending initiatives in the inner city can sometimes reverse well-documented racial disparities in loan disposition.

A final possibility merits consideration. In an innovative analysis set in New Orleans, Lauria (1998) suggests that under certain circumstances, labor market and real estate cycles can be more important than “white flight” in neighborhood racial turnover. Lauria marshals evidence that many white professionals buying into New Orleans's middle-class neighborhoods in the mid-1980s had high debt loads and little equity when the regional recession hit a few years later, leading to disproportionate default and foreclosure rates. Where these loans were spatially concentrated, the result was to make more homes affordable to African Americans and thereby to accelerate racial turnover. A similar process could be at work in the resurgence of capital flows in neighborhoods defined in our study.

While data limitations preclude a rigorous, direct test of Lauria's (1998) foreclosure hypothesis,²³ we find little evidence of expanding homeownership opportunity for minorities in gentrified neighborhoods. While African Americans account for a growing share of all applicants for conventional home purchase loans in fringe tracts (from 4.5 percent in 1992 to 8.7 percent in 1997), the figure remains small, and no similar increase is apparent in core neighborhoods (6.9 percent in 1992, 6.8 percent in 1997). African Americans do account for a larger share (almost one-fifth) of applicants for FHA-insured loans, but this market segment is underrepresented in gentrified areas. In 1997, FHA-insured loans accounted for only 5.1

²³ Lauria's (1998) analysis includes, but does not focus on, FHA-insured loans. An ideal test of the hypothesis that foreclosures contribute to racial change would consider lender and realtor steering into FHA products; such an analysis would require identifying properties in which a lender foreclosed on a white household defaulting on a conventional loan, followed by a sale to an African-American household securing an FHA-insured loan.

percent of all home purchase applications in core tracts, compared with 11.4 percent in fringe tracts and 18.1 percent in the suburbs. The FHA/conventional split remained stable in core and fringe neighborhoods between 1992 and 1997. Moreover, there is no evidence of beneficial effects in gentrified areas for African Americans applying for conventional loans. Adding interaction terms to the denial model indicates that African-American applicants in fringe tracts experience no significant difference in loan disposition compared with their counterparts in other neighborhoods (table 9). African Americans applying in core neighborhoods are 1.45 times more likely to be rejected than African Americans who apply elsewhere. The processes that yield distinctive place-based outcomes (enhanced loan approvals in gentrified areas) also appear to reinforce racial segregation. While Lauria's (1998) work suggests that a regional recession can contribute to racial transition by expanding opportunities for minority homeownership, we find no evidence for this in the boom of the 1990s.

Conclusions

Evidence of postrecession gentrification is clear. Not surprisingly, those cities attracting the most intense activity during previous rounds of investment are also prominent targets in the boom of the late 1990s. Yet cities at the margins of the national revival of central-city land markets cannot be ignored. The pace of investment has accelerated rapidly in cities like Milwaukee and Detroit, and it is in these places that gentrification holds the greatest potential to restructure the urban landscape—for good or ill. The initial waves of class turnover and capital reinvestment in Detroit in the late 1990s mirror those observed more than a decade ago in Harlem.

Whether viewed through the detached lens of census tract statistics or in the field, the quickening pace of reinvestment in parts of the inner city is truly staggering. Between 1992 and 1997, gentrified neighborhoods in our eight case study cities attracted mortgage investment that grew more than 2.3 times as fast as the suburban rate. As gentrification has reshaped significant portions of the urban fabric, it has altered the environment in which policy makers seek to revitalize the concentrations of poverty inscribed by several generations of public housing policy. When viewed at the level of the metropolitan region, gentrification remains confined to islands of renewal in seas of decay, but when the lens is focused on the urban core, it is clear that public officials now view some of the nation's most distressed public housing projects as islands of decay in seas of renewal. Perhaps "[r]ich people are simply not going to live next to public housing" (Lueck 1991, 1), but policy increasingly relies on a rhetoric emphasizing the virtues of mixing poor and

Table 9. Logistic Regression with Race-Gentry Interaction Terms

	Parameter Estimate	e ^B
Intercept	-1.0839**	
Applicant income (x 1,000)	-0.00342**	0.997
Loan amount (x 1,000)	-0.00576**	0.994
Female?	-0.0919**	0.912
Traditional white family ^a	-0.2804**	0.755
African American (1 = yes)	0.1271**	1.136
Hispanic (1 = yes)	0.1076**	1.114
Other race (1 = yes)	-0.0464*	0.955
Race unreported (1 = yes)	0.1588**	1.172
Office of the Comptroller of the Currency	-0.6964**	0.498
Federal Reserve Board	-0.6839**	0.505
Federal Deposit Insurance Corporation	-0.9381**	0.391
Office of Thrift Supervision	-1.1619**	0.313
National Credit Union Administration	-1.3424**	0.261
Year 1997 (1 = yes)	0.070**	1.073
Loan for owner occupancy (1 = yes)	0.1234**	1.131
Credit history instrument	8.1372**	999
(Loan/income) > 3.0? (1 = yes)	0.643**	1.902
CORE	-0.3866**	0.679
FRINGE	-0.4341**	0.648
Boston ^b	0.0661**	1.068
Detroit	0.5893**	1.803
Milwaukee	-0.4372**	0.646
Minneapolis-St. Paul	0.0449*	1.046
Philadelphia	-0.1618**	0.851
Seattle	0.3664**	1.442
Washington, DC	0.2954**	1.344
INC*CORE	0.00678**	1.007
INC*FRIN	0.0069**	1.007
African American*CORE	0.3708**	1.449
African American*FRINGE	0.0685	1.071
Number of observations	734,437	
-2 LL	506,475	
Chi - square versus null model	61,371**	
Percentage correctly classified	73.4	

Source: FFIEC (1997, 1998).

^aTraditional white family is defined as a white male applicant with a white female coapplicant.

^bChicago is the reference category for metropolitan dummies.

* $p \leq 0.01$. ** $p \leq 0.001$.

middle-income residents. What remains to be seen is whether dispersal, demolition, and redevelopment simply alter the geometry of class polarization without promoting social and economic mobility. There is no doubt, however, that some inner-city landscapes are enduring a restless turbulence comparable to that observed in the industrialization of the early 20th century. In the summer of 1999, several vacant towers in Chicago's Cabrini-Green complex awaited

the wrecking ball, as the CHA attempts to integrate the island of poverty with the surrounding neighborhood of wealth and renewal. Little more than a block away to the Northeast, construction is nearing completion on a three-story, 4,000-square-foot single-family home promoted by a yard sign as “housing for today’s urban life-style.” With a rooftop deck and a posted price just shy of \$1,100,000, this home offers the prospect of a million-dollar view as Zorbaugh’s *The Gold Coast and the Slum* (1929) is reinvented in line with the imperatives of devolution, privatization, and the transformation of assisted housing policy.

The resurgence of mortgage investment into gentrified neighborhoods signifies a fundamental restructuring of the process. Capital flows that once decimated the inner city have been redirected and focused on a few highly desirable neighborhoods, as attempts to reach underserved markets have fostered reinvestment elsewhere in the city. Mortgage market regulation, securitization, and standardization have reduced or eliminated many of the practices responsible for redlining, but in so doing these innovations have unleashed powerful gentrification pressures.

The links between public policy and gentrification are hardly new, but they have evolved considerably since the days of urban renewal in the 1950s and the piecemeal initiatives of the stillborn national urban policy of the 1970s. In the past decade, shifts in mortgage markets have intersected with privatization, devolution, and the reinvention of housing assistance. Contemporary gentrification, therefore, has become mutually constituted with housing policy: It has been reshaped by housing finance, while its cumulative imprint now helps mediate the tensions between dispersal, demolition, and redevelopment of distressed public housing projects. Ultimately, housing policy and market forces have created a turbulent landscape of decay and renewal that demands careful scrutiny of the implications for residents and neighborhoods in the inner city.

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