Housing Affordability & Gentrification: A System's View of Creative Destruction

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Overview

Housing unaffordability and insecurity are pervasive issues in the United States (U.S.). In this report, we construct a systems map to explain forces at play in the housing market. The economic market dictates the cost and supply of housing with little regard for those in need of housing. By identifying key stakeholders in the housing system, we determine leverage points and suggest solutions to shift the system towards prioritization of housing justice over profit.

Positionality Statement

The authors understand the importance of acknowledging positionality as a means to address power and privilege that are inherent to community research efforts (Muhammad et al. 2015). Both authors are white students and community practitioners that work in community economic and housing development. This project combines the collective wisdom of our community partners and study of community development to produce a living systems map that can help inform housing organizing taking place in our local context of Nashville, Tennessee.

Background + Research Question

Housing costs have risen dramatically over the past ten years in the U.S. (Doorn et al, 2019). As the nation transitioned from an industrial economy to a service-based economy starting in the 1970s (Harvey, 2007), the city has been transformed into an attraction to serve the growing creative class and tourists to bolster its post-industrial economy (Florida, 2003; Eisinger, 2000). Cities are quickly adapting to meet the needs of the creative class, loosely defined as highly educated and creative young people valued for their intellectual capital and purchasing power (Florida, 2003; Couture and Handbury, 2017). The growing demand for housing near urban amenities, in the previously disinvested city core, has led to an affordability crisis across cities in the U.S. (Doorn et al, 2019).

Nashville, Tennessee, is currently experiencing this crisis. In 2017, a report released by the Office of the Mayor found a shortage of 18,000 affordable homes that is projected to grow to 31,000 by 2025. They also found that 50% of renters in the city are cost-burdened, paying more than 30% of their income towards housing costs (Office of the Mayor, (2017). Housing insecurity and homelessness result from a problem of housing affordability (Shinn and Khadduri, 2020). Growing demand for housing in the city center is rapidly changing neighborhood cultures and classes. Long-term residents forced out of their neighborhoods for more desirable populations creating patterns of mass displacement for Black, brown, and working poor communities. Nashville is becoming unlivable for the people who built the city.

We seek to understand the systems that contribute to the housing affordability crisis by investigating how market forces facilitate the provision of affordable housing. Through mapping the economic forces behind housing affordability and access and identifying key stakeholders, we are able to suggest potential leverage points for intervention in this system. In creating this system map, we hope to pinpoint how capital functions to accumulate wealth from the city's built environment and to offer potential targets for organizing strategies in the future.

Methods

For this project, we used triangulation of three data sources to guide our analysis. These data sources include interviews, participant observation, and existing data and local reports. Interviews and participant observations were conducted within two housing advocacy organizations within Nashville with both tenants and housing organizers. This includes 152 hours of direct participant observation and 37 unstructured interviews conducted virtually due to the pandemic. Participant observation also includes the authors and their lived experience as renters.

The Iceberg Model (Meadows, 2008) was used to identify events that we were able to see to conceptualize the problem. Events were identified through national data (Joint Center for Housing Studies of Harvard University, 2020; National Alliance to End Homelessness, 2020), and observations and stories we've collected as community practitioners. Then, identification of patterns, structures, and mental models resulted from further research and conversations with individuals facing housing insecurity, community organizers, outreach workers, and academic experts. See the Iceberg Model in Figure 1.

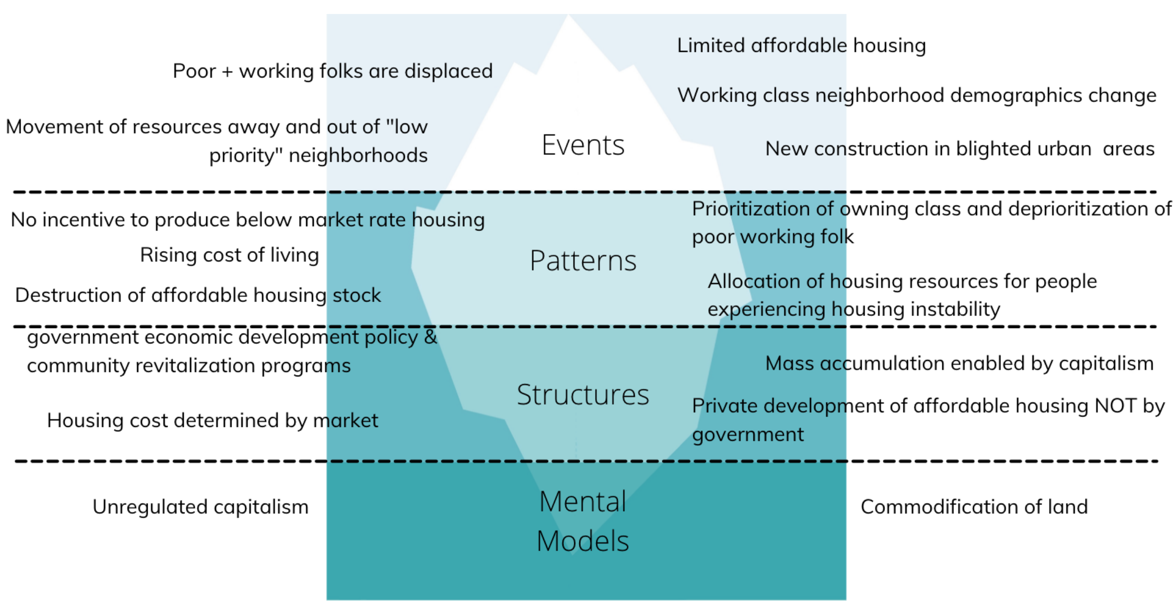

Figure 1. Iceberg Model of the Housing Affordability Crisis

Systems Analysis

We next pieced together system causes and effects into a broader systems map using the causal loops method (Stroh, 2015). Because we found that city and state governments in Nashville and Tennessee have little interest in regulating housing, our map focuses on the role of capital investment and the housing market in facilitating gentrification and displacement. We identified five causal loops--capital accumulation, disinvestment, reinvestment, gentrification, and displacement--that operated within the larger process of creative destruction shown in Figure 2.

Creative Destruction, A Balancing Loop

Flows of capital and investment in the built environment come in waves (Harvey, 2006). Creative destruction uses capital flows to maximize profit where investors ignore certain areas to later reinvest, develop, attract new commercial activity, and gain a larger return on their investments. The method of creative destruction considers cities as important strategic places to concentrate wealth and power through cycles of destruction and subsequent creation (Brenner & Theodore, 2002). The process of creative destruction drives each action in this cycle--disinvestment, redevelopment, gentrification, and displacement--and is a result of the accumulation of wealth.

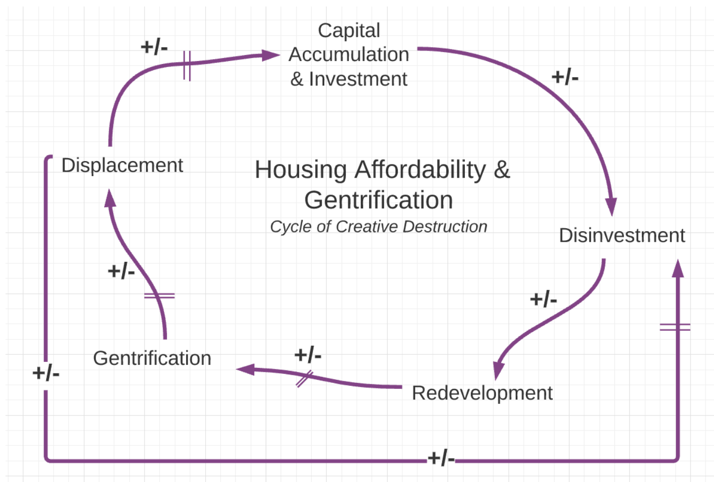

Figure 2. Balancing, and longitudinally reinforcing, loop of creative destruction

Neoliberalism is inherently a self-destructing system (Harvey, 2006); however, the process of creative destruction tends to balance the system by starting the process over again in new areas, postponing its inevitable destruction. This process overall, however, is longitudinally reinforcing and will at some point destroy itself when resources are extracted to the point of destruction. Each step in this larger balancing and longitudinally reinforcing feedback loop represents its own reinforcing feedback loop, shown in Figure 3, that helps perpetuate and escalate the problem of housing instability.

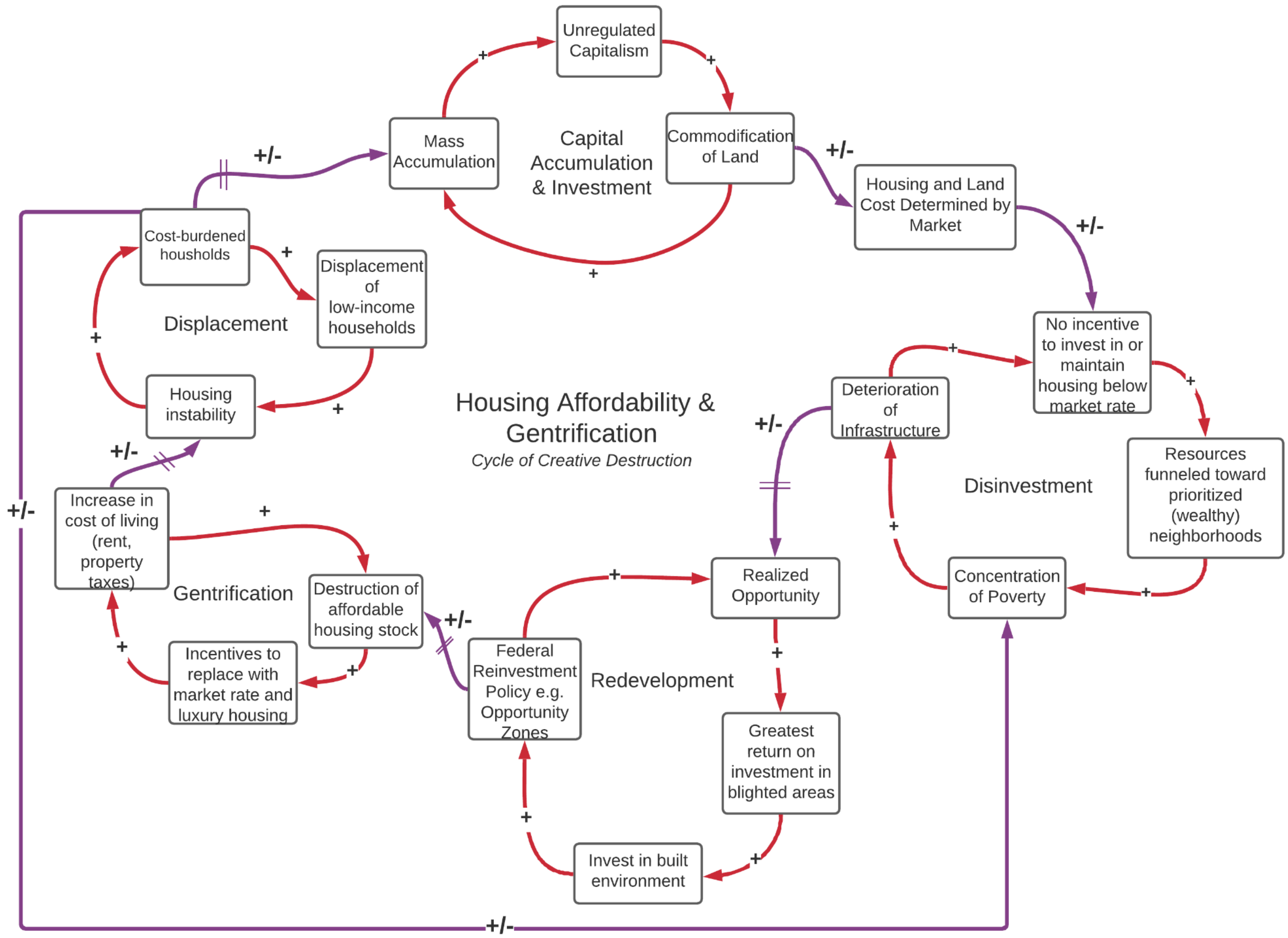

Figure 3. Housing Affordability and Gentrification System Map

Loop 1: Capital Accumulation and Investment

Since the cost of housing is determined through market forces in the U.S., unregulated capitalism is at the crux of housing unaffordability. The fundamental goal of capitalism is to amass wealth for the owning class. Frequently, surpluses in productive capacity lead investors to funnel excess capital into the built environment (Sites, 2003; Wilson 1991). The results of these investments in land and infrastructure are twofold. First, by developing the built environment and selling for profit, individuals gain a return on their investment which further fuels profit accumulation. Second, investment in the built environment during intermittent cycles of overaccumulation leads to uneven development. With radically different levels of development in certain areas and housing prices dictated by the market, some areas consequently become undervalued (Wilson 1991).

Loop 2: Disinvestment

Uneven development creates spaces with drastically different levels of capital investment (Powell, 2007). Capital is first funneled into the production of market rate and luxury housing, for their substantial return on investment. Racist methods that were designed to protect these investments include redlining and discriminatory lending practices to create a clear distinction between neighborhood desirability (Aaronson et al, 2020; Ouazad, 2015). In Nashville, segregation dates back to the Civil War, when the city was the site of multiple contraband camps where formerly enslaved Black Americans were held (Cooper, 2014). Years later, Black folks in Nashville remained concentrated in the areas where these contraband camps existed (Lovett, 1995). Many of these communities were also sites of the federal practice of red-lining or the devaluing Black neighborhoods by refusing to provide loans to residents of the neighborhood (Metro Human Relations Commission, n.d.). Historic discriminatory practices concentrated Black people and people of color in devalued neighborhoods to exclude them from traditional economic activity and mitigate opportunity for social mobility (Marcuse, 1999) which resulted in these communities to continue to be concentrated in these underdeveloped urban areas (Kneebone, 2014). This created a place-based class structure so that any other households who cannot afford market rate housing are forced into underdeveloped areas too. Little attention is devoted to improving their living conditions in these areas and as such, disinvestment leads to deterioration of and concentration of poverty in an area. In time, these areas of "blight" with low property values are seen as investment opportunities for new growth.

Loop 3: Redevelopment

Capital investment flooded into city centers across the U.S. facilitated somewhat by federal tax break policy and grants for developers restoring "blighted" urban areas beginning in the 1950's. Blighted areas provide fertile ground for high-profit redevelopment and are a popular investment strategy for investors looking to increase their wealth (Weber, 2002). Despite often advertised as benevolent efforts to clean up the city, these blighted areas are often parts of the city with high concentrations of poor, working class people--often people of color--who were historically marginalized by the same capitalist class and economy. Focused only on potential profit margins, investors and developers have little regard for the existing neighborhoods and communities. With these growth "opportunities" realized by investors (Logan & Molotch, 2007), the government provided tax breaks and funding for developers to disrupt neighborhoods and make these spaces more attractive for new residents under the guise of community and economic development programs such as opportunity zones since the 1990s. These revitalization efforts are often centered on anti-poverty initiatives such as decreasing economic exclusion, initiatives that could dampen displacement effects theoretically; however, data shows that "trickle-down" community investment does not produce the intended results promised to community members (Foell & Pitzer, 2020; Ong et al, 2017). Additionally, natural disasters also provide a window of opportunity for investors. In Nashville specifically, destruction from the 2010 floods prompted redevelopment that led to further gentrification of the city (Tamburin and Wadhwani, 2016).

Loop 4: Gentrification

The phenomenon that follows redevelopment is gentrification, the process of attracting new residents of a higher social class than before after an area of a town or city experiences new improvements. Investor-backed developers initiate this process by purchasing land and demolishing existing infrastructure. Frequently, the existing infrastructure that is scrapped includes affordable housing units, often substandard housing to begin with. New infrastructure raises property values in the area, putting upward pressure on rents and property taxes. Even if existing units are replaced by new housing developments, market pressures drive the costs of these units to market-rate and luxury prices to be competitive. Moreover, investor-backed developers are physically reducing the stock of affordable housing by either replacing it with market-rate or luxury homes or raising housing costs of the existing stock. Whether directly being bought out or being pushed out due to rising prices, disruptions of gentrification cause immense destabilization of households, often resulting in displacement (Marcuse, 1985). In Nashville, this type of gentrification is seen throughout the city in multiple neighborhoods such as East Nashville, 12 South, Germantown, Edgehill, and the Nations and led to radical shifts in the culture and demographics of these areas (Metro Human Relations Commission, n.d.)

Loop 5: Displacement

Once gentrification begins to take hold in a neighborhood, one of the immediate effects is resident housing instability (Marcuse, 1985). Frequently, property management companies and landlords use neighborhood improvements as an excuse to unexpectedly raise rents. This often places tenants in the stressful situation of cost burdening. Additionally, by letting apartments deteriorate or by filing evictions for minor faults, those who manage rental units often actively try to displace residents or force them to move. Working class people are then forced to choose between moving to another area of concentrated poverty or suffering the weight of cost-burdening. Whether extracting rent from cost-burdened households paying exorbitant rent or from individuals paying at least the market-rate, investors profit from this cycle of displacement. These extracted profits funnel back into the cycle of capital accumulation and can be invested again when the cycle of creative destruction restarts. Redevelopment, first incentivized in the 1950's, took hold in Nashville and led to the displacement of over 4,100 households in the 1960's. These trends have continued today as the city adapts to population growth and outside investment (Metro Human Relations Commission, n.d.).

Stakeholders

Housing unaffordability is the result of patterns of investment in and extraction of value from the built environment at the expense of poor and working households. Interventions that target this system necessitate a thorough understanding of stakeholders and their relative power within the system. These individuals have opportunities to shape the housing system either directly or indirectly based on their varying levels of power within the system. In Figure 4, stakeholders are mapped based on their level of interest and influence in the housing system. Interest is measured as the stakeholders level of commitment to realizing specific outcomes in the housing market. For example, investors who are interested in extracting profits and the housing insecure seeking quality affordable housing are both high interest stakeholders. Alternatively, influence is measured as the level of power held by stakeholders to enact change in the system. In the U.S., government actors and wealthy individuals hold power in markets while individuals and organizations aimed at redistributing capital have little influence. Stakeholder positions and their degrees of influence and interest towards achieving housing justice is crucial to determining effective leverage points in this system.

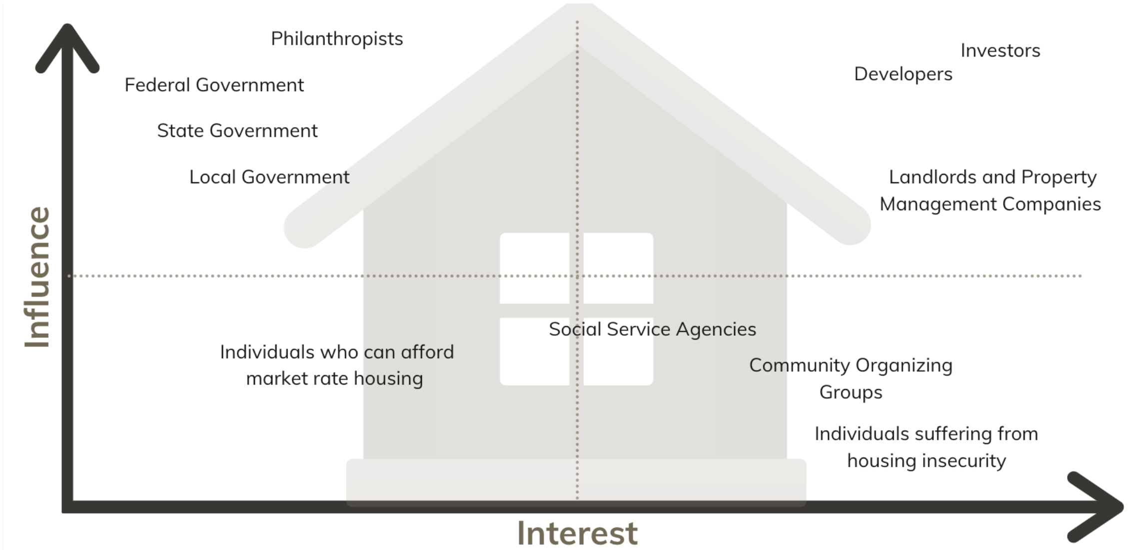

Figure 4. Stakeholder Map in Housing System

Resulting Solutions

In our systems map, we name extraordinary market influence as the leading source of housing unaffordability; therefore, we believe that solutions must work towards intervening in this economic system. These solutions are not a comprehensive list to achieve housing justice, but they provide some insight into potential courses of action. Using Donella Meadows' twelve leverage points (2008), we identified four solutions, each with different degrees of leverage within the system, to demonstrate potential interventions. The leverage points of each solution are presented in Figure 5.

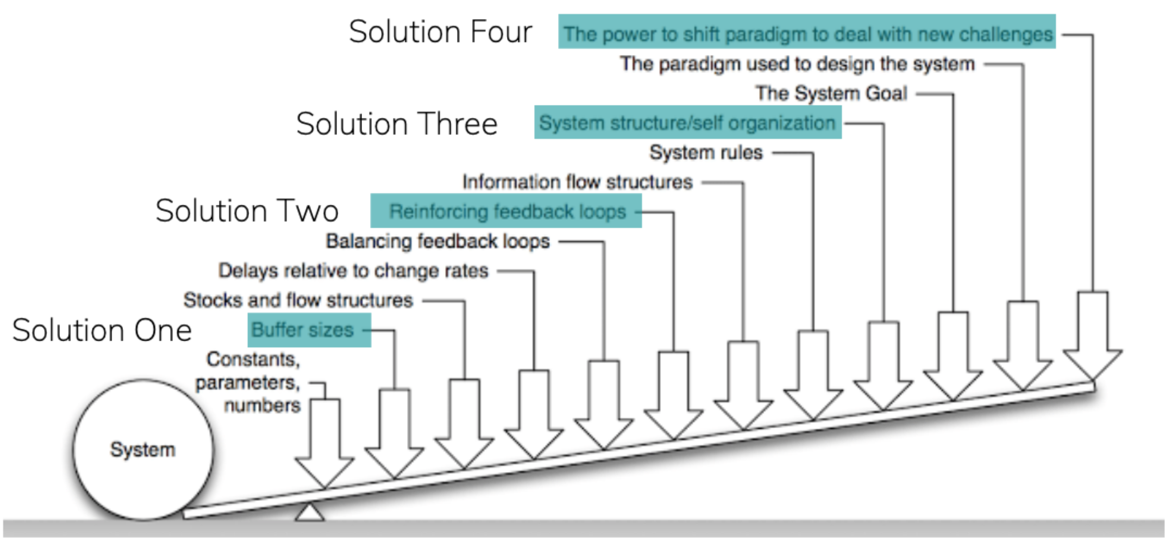

Figure 5. Leverage Points of Selected Solutions for Housing Justice

Solution One: Housing Vouchers as a Buffer

Currently, the federal government provides Housing Choice Vouchers or "Section 8" subsidies for households that cap rent at 30% of the household income. Although not accepted by all landlords in all areas of the U.S., Section 8 vouchers make housing affordable to those with the subsidy (Dept. of HUD, 2020). Expanding the housing choice voucher program would provide a buffer by increasing affordability for those with the vouchers. Although buffers are relatively ineffective leverage point in achieving system change, increasing the number of housing choice vouchers could relieve pressure on the system while waiting for other changes to occur.

Solution Two: Capital Gains Taxes to Disrupt the Reinforcing Loop of Capital Accumulation

In the U.S., a high percentage of profits made in blighted urban areas are designated non-taxable income by both local and federal policy. Requiring taxation on investment profit in the housing market, particularly for corporations receiving tax breaks for redevelopment, may reduce the scale of disruption caused by urban redevelopment projects. By reducing the profit incentive in these developments, projects in empowerment and opportunity zones could focus on community redevelopment that prioritizes empowerment of current residents. Effective capital gains taxes on housing investments could slow the growth of wealth and limit the common problem of "success to the successful." This action would require mobilization of government actors.

Solution Three: Local Participatory Budgeting to Democratize the Allocation of Funds

The local budgeting process involves both the mayor and the city council in a collaborative process. Recent movements in Nashville have pushed for increased citizen participation in the budgeting process to align local funding with the needs of its residents (Nashville People's Budget, 2021). Recent conversations within the Nashville People's Budget Coalition have included the need for increased funding towards housing. By adjusting the organization of the budgeting process to include more democratic processes, power could be reorganized to limit the influence of investors and increase the power of residents. If the budgeting process required community participation before approval, more money in the city's budget could be committed towards housing including preserving housing and increasing affordable housing stock in gentrifying neighborhoods. Additionally, by democratizing the system and providing residents with more power, the system can bend in response to the will of the people.

Solution Four: Promoting Housing Justice as a Transcending Paradigm

The final solution is to work towards a paradigm shift in our collective view of housing. Currently, housing is considered an asset, that is, a commodity to be bought and sold on the market. By shifting the emphasis in this system towards people over profit, we may begin to see slow changes in the way the housing system operates. Although a long-term solution, public education campaigns that emphasize housing as a human right have begun to shift the conversation around housing and elucidate the unjust outcomes of our current housing system. In Nashville, People's Alliance for Transit, Housing, and Employment is hosting a truth-telling series to shift paradigms in this way.

The Role of Stakeholders in Enacting Interventions

Establishing successful interventions requires stakeholder commitment. Both Solutions One and Two leverage the existing power of government. Although government actors may not have vested interest in the housing system, they could be powerful allies for those experiencing housing insecurity. Through public education campaigns and mass mobilization, government actors could be educated about the housing system and convinced to act. Solution Three places greater emphasis on allowing individuals experiencing housing insecurity to share power and take action rather than relying on officials to act in their best interest. Democratizing the system would lead to a significant shift in the current balance of power in local governments. Lastly, Solution Four creates space for those experiencing housing insecurity, and their supporters, to promote counter-narratives and demand a paradigm shift in the way we approach housing. Public education campaigns and relationship building are key components of this strategy that could help promote the narrative of people over profit.

The solutions discussed above provide examples of points within the system that can be leveraged to shift the narrative around housing. Although all viable solutions, multiple approaches involving diverse stakeholders are required to dismantle the unjust system of housing insecurity created by the cycle of creative destruction. By shifting the system to include perspectives beyond those of developers, a system where all people have access to quality, affordable housing can be reimagined.