“Capital City” by Samuel Stein 2019 - A Summary

Intro: (1 page for every 8 pages of original text)

This very-current book covers the history, influences and motivating philosophies of urban planning in the US. It also discusses the effects of these plans on the people, neighborhoods and cities affected. Finally, today’s problems with gentrification, rapidly rising housing values, and resulting undersupply of affordable housing is explained.

Real estate makes up 60 percent of the world’s assets today ($217 trillion). 75% of this is in residential housing. Equity funds are constantly scouring the globe for undervalued investment properties and are finding them in housing. The capital gains gotten from traditional investments, like commercial real estate and stocks give an average 7% yearly return, where residential real estate can bring 9 to 13%. In 2016, 37% of housing was bought by absentee investors.

An owner-occupied house is expected to bring little profit: generally, it just appreciates slowly over many years. This is the main way the average person can build personal wealth and preserve their “nest egg”. In a way, owner-occupied housing holds the property value down. If this owner-occupied house is sold to an investor to rent, the house suddenly creates higher profit, which raises its value. Renters have little control over their payments, as they depend on “what the traffic will bear”.

Once a neighborhood is opened to rental housing, regular home-buyers must compete with wealthy investors to buy a house. They can’t compete because investors can offer high prices, which then raise the price of nearby residential homes. Often, if code allows it, investors can buy a house, tear it down, and replace it with multifamily housing, each unit of which is more expensive to rent than the original house. All of this prices original owners out of the market, and they must move elsewhere. This is called displacement due to gentrification. This process benefits Cities, because the tax base grows with the values of the properties. However, there isn’t a county in the US where a minimum wage worker can afford the average 2-bedroom apartment in a city.

The “real estate state” isn’t new. It’s an expression of the government in place. Landowners have always determined the way cities develop, and have always viewed housing as a commodity. What has changed recently is real estate investors have seen an incredible increase in wealth, and exert more influence on government decisions about land use. Increasingly planners are caught between conflicting goals: their decisions about land use, supportive infrastructure, transportation and housing should benefit the entire population, but intense pressure from investors can result in policies that benefit investor development and degrade the quality of life for the average resident.

The author set about answering 2 questions in this book: How much planning, beneficial to the general public, will Capitalists allow?

How can cities be improved and adequate housing be built without gentrification and displacement?

Stein will show us how we got here, how residents can fight back against a small number of investors controlling the lives of many, and how improvement of neighborhoods can be done without significant gentrification.

Chapter 1: The Rise of Real Estate

What is planning? It's people's attempts to secure their future. Individuals plan for their own survival and advancement, stretching their incomes, seeking to make their future brighter. Businesses also plan for survival, creating schemes to beat competition, sometimes with unconventional plans to give them an edge. Government planning should direct all other planning by considering the needs of all stakeholders to decide the locations of transportation, zoning, infrastructure, and by channelling money to some places and not others. But planners have contradictory goals in attempting this.

A. **Pragmatic Utopianism: Planning changes that ensure the workforce will persist and can live near their work in affordable housing (≤ 30% of their income goes to housing). These are often motivated by social movements and government subsidies.**

B. **A Commitment to Capital: Making sure every space can generate profit for someone. These are motivated by economic and political realities. Almost always, creating the new involves destruction of the old.**

Professional Planning has existed forever. In native American tribes, leadership planned locations and the layout of stable settlements and migratory villages, including areas for residential, commercial, open space and common areas.

European invaders' and settler's plans mainly involved techniques to take land from, segregate and eventually kill off all native Americans. This plan employed western expansion, disease, accelerated by settlements, roads and railroads.

There were periodic citizen rebellions in urban areas because of low wages, bad working conditions and inadequate housing. In the early 1800s, within new cities like New York, a strict grid system created lots, prescribing the style of real estate development; small uniform dwellings. It also established fire codes and nuisance laws. These were developments that satisfied the rank and file with affordable, safe housing near work, so that they wouldn't demand raises.

In other towns, like Chicago, grand, neoclassical public structures and wide boulevards were built to attract upscale housing and industrial investment. This satisfied elite investors, having their preferences reflected in the urban space.

In Birmingham, planners wrote codes to encourage mining interests, suppress black labor mobility, and segregate neighborhoods. Northern towns codified racism as well.

Philosophies: Early planning was less about egalitarian design and more about stimulating land markets for private investor financial gains. Three motivating philosophies during the next century were Progressive Reformism, City Beautiful, and City Practical.

Progressive Reformers were interested in reshaping towns: to ensure the sustainability of an urban labor force that could serve industry, to quell uprisings in the city, and to boost profits. In some towns, this meant municipal socialism, where public monopolies controlled infrastructure and maintenance. Other progressives created settlement houses, which housed the poor, provided them with social services, and indoctrinated them with Protestant values. Safety codes were created to require fire escapes, air shafts, windows and toilets. This made safer and more attractive housing, but drove up property values, eventually displacing the tenants they were meant to serve.

City Beautiful was launched in 1909 after the National Conference on City Planning. The goal was to set a high standard for urban design and aesthetics, like grand public spaces and buildings, in order to attract investment. Unfortunately the land used for this development often required the elimination of neighborhoods of poor people, immigrants and African Americans. New York's Central Park was built this way.

Local elites refused to pay for these developments. The solution was to make the planning process more public by creating Planning Commissions, populated by real estate elites. Their job was to stimulate profits, convince the general public to build the grand monuments, boulevards and museums, while spreading out the cost of construction among a wider base of taxed citizens.

This led to the City Practical movement. After congress passed the Standard State Zoning Enabling Act and the Standard City Planning Enabling Act, cities were allowed to make "Master Plans" or Comprehensive Plans". Now cities created zoning to tell what kinds of buildings were allowed where (residential, industrial, commercial). Although investors initially didn't like their real estate choices to be controlled by government, they soon saw that it gave them a predictable environment in which to develop, with fewer conflicts with the public.

Zoning brought more than rational planning. New York and other cities used zoning to establish red-lining: prohibiting darker races and Jews from populating certain parts of town or getting house loans. In 1916, high-end merchants on New York's Fifth Avenue were successful in convincing the city to eliminate manufacturing factories in the city, in order to keep Jews in the garment trade out of sight of 5th Avenue customers. In Modesto, California zoning barred Chinese from certain parts of the city.

By the end of WWII, planning departments viewed themselves as fair, efficient, experts at using data to make decisions, feeling that they knew better than anyone else what was best for their town, and that racial capitalism was a viable theme for planning. They also had lots of power.

During this time in New York, some rent-control laws were made, along with huge urban renewal projects and highway projects which generally destroyed the neighborhoods of black or poor people. In response many residents rebelled and formed advocacy planning groups. They believed that neighborhoods should determine their own fate. They reduced demolitions, and created the Cooper Square land trust. This coop still exists and has held down housing costs in its buildings.

In response conservative groups complained that cities were acting as social engineers, and eventually brought about deregulation, which allowed incremental growth instead of huge planning themes. This boosted the power of finance, insurance and real estate companies and reduced the function of planning departments to simply trying to retain investment in the community.

In New York in 1975, the RAND corporation instituted “Planned Shrinkage” in neighborhoods of color. This policy closed down hospitals, fire and police stations to force Blacks and Puerto Ricans to move out of the city. This starved cities, making them desperate for capital. This led the way in the 1990s to the New Urbanists. The line between planners and real estate investors blurred, and brought about a focus of renovating and expanding suburbs. It also made public-private partnerships the only way some improvements could be made in the city, giving investors new power in the planning process, and increased private profits, with less benefit to the public. The public be Damned.

Planners are usually nice people. They can work well with the people and, although others may make money as a result of planner’s decisions, planners don’t usually intend to line their own pockets or those of the wealthy elites or to displace the poor. Yet this is a common outcome of their planning. Why?

Planning is not a natural outgrowth of nature, nor a natural evolution from previous thinking. The history of capitalism shows a need for carefully-designed and controlled plans, which rely on massive legal, logistical, infrastructural and technical systems. They require coercive police and military power to enforce the rules and protect property. Planners are responsible for encoding and perpetuating racial inequalities. This is usually done under the guise of a concern for rational and orderly landscapes, but often means redlining and urban renewal that eliminates neighborhoods of color. Road and walkway patterns, fences and walls can be designed to prevent people of color from easily accessing other neighborhoods.

Because planners often have to convince the public that proposed capitalist projects serve the needs of both workers and the elite, participation theater is used. The public is invited to see a presentation of a given project, and can give written or spoken input, which is often ignored. High-minded reasons are given for development: for instance, new, more expensive housing are said to increase housing supply, reduce demand and then the prices of dwelling units, instead of its usual effect of driving gentrification, higher rents and increasing displacement. Or eliminating single-family zoning and replacing it with multifamily structures will automatically be ecologically responsible, even though green space is reduced, people still commute long distances to work, and many will have to build another ring of suburbs to get the type of housing they want- single family housing. All the while the project's intent is to make more money for investors.

The Property Contradiction describes the tension between commercial and residential capitalists. Not all capitalists want the same thing. Industrial capitalist landholders may not like strenuous zoning, because they don't want to be told what they can and can't develop, or where. Industrialists may demand cheaper housing for their workers to stave off demands for raises, and also reduced environmental standards. Real estate capitalists like zoning, because it can preserve assets of residential housing by preventing pollution, loud noise, and other conditions that degrade life there. They would object to any rule that constrains their ability to maximize profits and rent.

The Capitalist-Democracy Contradiction describes how planners deal with the variety of opinions about land use in the community. Planners must show enough transparency and theater to reassure the general public that planners are taking their needs into account, while ensuring that capitalist supremacy is maintained. Rigging the public hearings, limiting the input options and information available to the public, can placate the public. The public can use up their energy serving on advisory boards and planning commissions, which have no power. So the planner must juggle making the planning process look open to the public, while doing the bidding of capitalists.

Manufacturing vs Residential Investment

Over the last 300 years manufacturing has been located in city cores and has been a key player in determining city policies. Since the 1980's urban manufacturing has faded, due to automation, outsourcing jobs overseas, and relocating older factories, especially in the north, to rural areas around cities, especially in the southern US. These manufacturing and logistical centers then have little on no influence on policy in nearby cities. Remember, urban manufacturers traditionally prefer government-sponsored affordable housing and rent control, benefiting labor, and their employees' ability to live in the city without needing a raise. Without the manufacturing lobby to carry on this cause, it is left to organized renters, unions and non-profits. Against huge odds fighting real estate capitalists, these groups have often settled on rules that require upscale housing to include a few affordable housing units in their buildings. But this barely scratches the surface of supplying affordable housing.

Now, the top 1% has poured huge amounts of money into huge, expensive and largely-uninhabited skyscrapers, often as a method of money-laundering. Cities where this has been done (New York, London, Mumbai, San Francisco, Seattle) have seen housing prices go up by 50%.

Cities prefer expensive development, since it creates a large tax base. Those who can't afford expensive housing are bought out, or displaced. Anything which threatens the tax base is discouraged by the City.

<u>Chapter 2: Planning Gentrification</u> - Why are our cities becoming so expensive?

Cities continue to change with technology, economic ups and downs, population, etc. But lately, cities around the world are experiencing rapid redevelopment of residential neighborhoods by investors, with working class residents not being able to afford the new housing: gentrification and displacement.

Sometimes investors will buy an apartment building, evict the residents, and renovate the units into something more expensive. Original tenants have to move out of town, making a longer commute for the poor and shorter commutes for the rich. Nearby stores are refitted to serve mostly white, wealthier tastes, which puts shopping locally out of reach for original tenants. Or else an older, owner-occupied, cheaper house can be bought by an investor, torn down, and made into a multifamily building, with each new unit costing much more than the original house.

In order to make a neighborhood ripe for this process (gentrification), coordination and planning are needed: between city planners, investors and potential wealthy new residents. If investors don't invest, buyers can't buy and a profit opportunity is lost. If investors build and no one buys, the market busts. Only with city planning departments, organizing financing, designating areas to develop, and attracting desired residents and industries by providing financial incentives, can this gentrification happen smoothly and quickly.

During the first half of the twentieth century, real state paled next to manufacturing and industry in profits, and so industry had a greater influence of city policy. In the last half of the 20th century, trade agreements created free trade zones, with low tariffs, and encouraged shipping manufacturing overseas. Trade unions were attacked, starting in the Reagan era, and lost much of their power to negotiate livable wages. Transportation of goods became more efficient, often moving logistical centers out of town, and removing urban living-wage jobs.

From 1950 to 1990 in New York City, 750,000 manufacturing jobs were lost, while the value of the real estate the factories and housing sat on increased from $20 billion to $400 billion. Manufacturing made less money, and planners actively pushed manufacturing out of the city. Residential real estate was much more lucrative. In the 50's and 60's suburbanization was one product of this residential real estate boom. Guided by red-lining, these suburbs were white. Another effect of this boom was urban renewal, with the bulldozing of the urban neighborhoods of the poor, and people of color, in order to build infrastructure and "the projects"; giant, cheap apartments full of poor and black people.

In 1934, the Federal Housing Authority was created. Bankers and developers created the Home Owner's Loan Corporation. HOLC's job was to rate neighborhoods and judge the amount of risk banks might encounter in making loans. Criteria to make this decision were the age of the buildings, the density of housing, and the racial or ethnic makeup of residents. Stereotypes were employed, such as: Jews were thought to be

communists, Italians as mobsters, and blacks were written off entirely. Consequently old, dense, black or ethnic neighborhoods were deemed risky, leading banks to not loan money within them, or to only issue loans at a high interest rate. The FHA used HOLC ratings to decide who was eligible for federal loans.

These neighborhoods then declined, many lost their houses, and the cities saw shortfalls in their budgets. Poorer neighborhoods were neglected. City workers lost benefits and raises. Wealthy investors came to the rescue, buying the land these neighborhoods had occupied, and building expensive housing with attractive amenities. Cities pushed gentrification.

In 1977, geographer Neil Smith explained the economics of gentrification. Real estate investors identify neighborhoods that have low rents. They know that much higher rents can be had if they gentrify them. The difference between current low rents and future potential high rents is called a "rent gap". If enough properties in a neighborhood have a large enough rent gap to pencil out, developers will buy up and develop them. After that, surrounding buildings develop a rent gap, and more gentrification occurs. Some investors don't rent out the properties, but sell them on the speculation of potential high rents to be had.

There can also be a "value gap". Apartments can be renovated and become condos and sold to new owners. This happens when the income gotten from renting apartments is much less than the money gained from selling these same properties as condos over a certain time period.

There is also a "functional gap". Old factories in central city locations might still support many workers, but if the function of the building changes and becomes residential, the new apartments and lofts can make much more money than manufacturing could.

Of course, teams of analysts are constantly employed by investors to identify rent, value and functional gaps around the world. Warren Buffet has bought up trailer parks, often the rural havens for those displaced from the city, and raised the rents. Disney has bought up large plots in New Orleans' French quarter to turn it into a gentrified tourist trap. Investors in Greenwich Village have taken already-expensive housing and turned it into housing for the ultra-rich.

The flight of manufacturing from urban centers, along with the huge returns to be had in gentrifying old industrial and residential sites, has made residential developers a major force in determining planning decisions. Many high-end developments receive 8- to 14-year tax breaks. Not only should luxury housing not get these subsidies, but the loss of tax revenue raises the taxes of other residents and causes cutbacks in city services. These tax breaks are called "geo-bribing".

One technique is Payment in Lieu of Taxes (PILOT). Here, the city waives normal taxes for the investor, allowing them to make a much smaller yearly payment to the city

instead. Another is Tax Increment Financing (TIF). Here the city declares an area blighted, issues bonds, and installs new infrastructure and land improvements. This can create a rent gap, because the neighborhood now has new amenities. Investors invest. If property values rise, investors pay higher taxes, which are used to pay off the bonds. But if the property value falls, the city is on the hook to pay off the bonds. So, in good times, the profits go to the investor (aside from a tax increase) and all the risk is transferred to the city.

Economic downturns are another tool to enrich investors at the expense of poorer people. In a downturn, some homeowners can't pay city taxes. The houses are seized by the city. Then they are sold off for taxes to anyone who has the money to buy them and they are flipped or gentrified.

After the crash of 2008, banks owned many foreclosed houses. They were sold to investors, who began renting, or renovating and then renting, them. This represents a huge decrease in resident owners and a huge increase in investor-owned rental properties. Financed by the federal HOPE IV program, during the 70's and 80's, cities began tearing down public housing and replacing it with small, subsidized homes. This caused a net loss of subsidized housing.

In addition, rent controls were dropped over the years, allowing landlords to squeeze low-income people from their apartments. If rent controls are in place, new parks, schools and infrastructure in a neighborhood benefit the neighborhood, while reducing gentrification. Today there are almost no rent control programs in the US and it's actually illegal in many states.

Planners have increasingly turned over Historic landmarks and gathering places to developers to create"Festival Markets", which are oriented towards tourist traffic and shopping, not the surrounding residents. Box stores and malls have also been created in these spaces, competing with traditional smaller local business owners.

Planners are actually hamstrung by reductions in federal and state funds for housing. While city governments are responsible for solving lack of housing affordability, federal governments restrict citys' ability to fund public housing, and many states prohibit rent control. Zoning ends up being an important tool to encourage development.

Up-zoning means increasing the allowed density, and deregulating the types of development that can occur in a neighborhood. This automatically increases the value of a lot by increasing the number of rental units a developer can build on it, and increasing the profit that can be had. This encourages developers to knock down old buildings and build taller ones with more units. Rent for a new unit is more than for an old one. Housing prices go up. People are displaced.

Down-zoning means limiting or decreasing the density, and regulating the types of buildings that can exist in a neighborhood. When an older neighborhood with grand

buildings is downsized, the value of its buildings goes up. This encourages builders to renovate them and create higher rents. Again, housing prices go up and people are displaced.

So, with the stroke of a pen, planners can instantly increase the value of land or buildings, and make them attractive to developers with rezoning. But zoning doesn't automatically mean gentrification. It can be used to undo exclusionary zoning in suburban neighborhoods with huge single-family houses that keep working-class people out. But most often, zoning favors investors and benefits to the general public suffer.

Gentrification isn't a passive process. Landlords can drive away old tenants with higher rents, but also harassment, violence, arson, and even murder. Even police can be too concerned with protecting property, and can discourage the "wrong people" from being in a certain neighborhood, using tickets, traffic stops, arrests, even violence, for low-level infractions.

Justifying Gentrification

Planners recognize the moral and economic problems gentrification can cause in their cities. They speak of balanced growth, inclusion, increased opportunity, but in the end, their success is measured by rising land values. To reassure themselves and placate the working class, which will experience the downsides of gentrification, planners employ some theories and ideologies.

Highest and Best Use   Basically this is a real estate proposal: for any piece of land, the best use is that which creates the highest value for the lowest cost, and actualizes maximum rents. This will create a better tax base and create funds for city improvements. Parks and amenities aren't valued for the quality of life they bring residents, but in their ability to raise property values, create rent gaps, which are then closed by new development.

Value Recapture Whenever planners change zoning, they create rent gaps and additional income for developers out of thin air. Sometimes in return, planners can require developers to provide some public benefit. Perhaps developers will have to include a certain number of affordable apartments in an otherwise expensive development, or pay into a fund set aside to create affordable housing, or create a park or some other public amenity as part of the project. This is called value recapture, where the public gets a share of the value of a private development. It really means an increase in regulation by planners.

Value recapture may make it seem that the developer is now "paying their fair share" to the public. But any value recapture costs to the developer are passed on to the tenants. The amenities and new buildings will cause gentrification, the original neighborhood residents will be displaced, and won't get to personally experience these amenities.

Another technique to spur development is to <u>deregulate a neighborhood</u>. In this case planners seek to "unlock the competitive advantage of the inner city". This euphemistic principle asserts that working class neighborhoods are just underexploited markets, which can be developed into more profitable opportunities for big retailers, box stores. Planners can make this transition happen with lax zoning, looser environmental and labor laws, and corporate tax breaks. Once again, original residents and small local businesses get pushed out. These areas identified for large-scale renewal (even though it does current residents nothing but harm) are called harmless-sounding names. Clinton called them "empowerment zones", Thatcher "enterprise zones", Trump "opportunity zones". It's just a cold-hearted land grab.

Some planners will create a "competitive advantage" by luring the"creative class" to a neighborhood. This may not cause gentrification in itself, but the hope is to lure a younger, monied (white) class and create "livable" neighborhoods. What dies livable mean? Human scaled, walkable, environmentally sustainable; nice. But the new niceties don't apply to the two most important parts of being able to live somewhere: the prices of labor and shelter. In fact "livable" is often used by planners as a euphemism for gentrification.

During the late 1990's and early 2000's New Urbanist planners did studies and wrote articles, which claimed that gentrification <u>didn't</u> significantly cause displacement. Gentrification was viewed as a necessary process for improvement in cities. Although many disagreed, these articles were well publicized, even in magazines like Time.

All of these buzz words, highest and best use, value capture, deregulation and "opportunity zones", "competitive advantage", and livability are rationalizations planners use to calm themselves and citizens about the negative effects of gentrification.

<u>Coercing Compliance</u>

Banks make decisions that determine which new project types will or won't get funds. They organize financing by packaging bonds and mortgages into securities and selling them off in pieces to speculators and investment capital groups all over the world. In this way, they have huge control over development. Even planners find it impossible to fight the banks when deciding what will be built.

Municipal credit rating agencies (CRAs) also hold great control over development as they evaluate the qualities of cities and projects, which can affect the risk and success of a venture. They favor public policies that support the F.I.R.E sectors (financial, insurance, real estate), weak unions (especially public unions), private-public partnerships, and business-friendly local political regimes. These cities' bonds get a AAA rating.

These credit rating agencies aren't passive, but ideologically-driven activists, who meet regularly with municipal governments to push the expansion of capitalist

ventures and resulting gentrifiation. New York was rewarded with a higher bond rating by CRAs in the 80's for granting tax breaks to developers, and reducing benefits to its public workers. Philadelphia, in the 90's, received a higher rating after enacting government shrinkage, with public employee wage freezes and health care cuts.

So planners would rather not be under the control of banks and CRAs, without federal funding on local projects, there is almost no other way to close budget gaps. Cities' ability to tax is often constrained by state and federal rules, or their own voters. Cities are legally prevented from running a deficit. If they are rated poorly by CRAs, no one will invest in their municipal bonds. They must often pursue gentrification if only to get a survivable bond rating and the investment that can bring

So a city is controlled by banks and developers, and plans and funding are detetrmined by the finance sector. What was public becomes private, what was available to all becomes enclosed and traded, what was cheap becomes expensive, and neighborhoods and their members see none of the benefits, but suffer from gentrification and displacement.

How much local control over their own city will this gigantic financial and investor system allow residents and planners? Will citizens ever be able to have a significant hand in directing how their city will grow? If so, how?

Read part 2, which includes

3. New York's planning Consensus

4. The Developer President and the Private Side of planning History

5. Unmaking the Real Estate State