THE CHANGING STATE OF GENTRIFICATION

JASON HACKWORTH* & NEIL SMITH**

**358 Bellamy Building, Department of Geography, Florida State University, Tallahassee, FL 32306-2190, USA. E-mail: jhackwor@mailer.fsu.edu*
***Center for Place, Culture, and Politics, The Graduate Center, City University of New York, 365 Fifth Avenue, Room 6107, New York, NY 10016-4309, USA. E-mail: nsmith@gc.cuny.edu*

Received: May 2000; revised November 2000

ABSTRACT
Gentrification has changed in ways that are related to larger economic and political restructuring. Among these changes is the return of heavy state intervention in the process. This paper explores heightened state involvement in gentrification by examining the process in three New York City neighbourhoods: Clinton, Long Island City, and DUMBO (Down Under the Manhattan Bridge Overpass). We argue that state intervention has returned for three key reasons. First, continued devolution of federal states has placed even more pressure on local states to actively pursue redevelopment and gentrification as ways of generating tax revenue. Second, the diffusion of gentrification into more remote portions of the urban landscape poses profit risks that are beyond the capacity of individual capitalists to manage. Third, the larger shift towards post-Keynesian governance has unhinged the state from the project of social reproduction and as such, measures to protect the working class are more easily contested.

Key words: Gentrification, New York City, governance, neighbourhood change, state restructuring, economic restructuring

INTRODUCTION

Late in 1998, real estate developer David Walentas was given permission by the city of New York to redevelop a portion of the northern Brooklyn waterfront next to the neighbourhood of DUMBO (Down Under the Manhattan Bridge Overpass). Walentas has been trying to gentrify DUMBO since the early 1980s, and has been seeking permission to do so for almost as long. Turning the waterfront into a commercial arcade, not unlike South Street Seaport, directly across the East River, is an important component of his bid to bring the gentry to DUMBO. Yet for most of the 1980s and early 1990s Walentas encountered nothing but resistance from City Hall and Albany (the state capital). He lacked the experience and funding, they said, to be given permission to redevelop the site (Ennen 1999). If the private market did not have enough faith to back Walentas with lending capital, why, asked public officials, should tax dollars be used to support it?

Recently, the city changed its stance towards Walentas' plan. Not only was he given the planning permission that he coveted for the waterfront, but he was also given important zoning concessions as well. This occurred despite the fact that neighbourhood residents were unified against the plan (Ennen 1999). While this case could be simply discarded as another example of the Giuliani Administration repaying campaign contributors, other (very different) examples of recently increased state involvement in gentrification imply that something larger is afoot. Several years earlier, for example, the Federal Housing Administration awarded MO Associates – a firm trying to gentrify Long Island City (LIC) – unprecedented mortgage insurance for a luxury condominium project in Queens. Not long before this, the city's department of Housing Preservation and Development (HPD)

Published by Blackwell Publishers, 108 Cowley Road, Oxford OX4 1JF, UK and 350 Main Street, Malden MA 02148, USA

all but eliminated its anti-gentrification enforcement in the neighbourhood of Clinton. After years of *laissez-faire* politics regarding gentrification – i.e. to encourage it only if the private market has proven it viable and in some cases, even help in its resistance – local governments, state level agencies, and federal administrations are assisting gentrification more assertively than during the 1980s. In the USA, some of this shift has been formalised into urban policy, but much of this change has been played out less formally, in the form of increased local government assistance to gentrifiers, relaxed zoning, and reduced protection of affordable housing. Why is this the case? This essay explores the reasons for the return of state intervention by examining the nature of recent gentrification in three New York neighbourhoods: Clinton, Long Island City, and DUMBO (Figure 1). Each avoided a major bout of gentrification during the 1980s but all are presently the focus of reinvestment, largely though not exclusively because of recent state intervention. As such they represent useful case studies for exploring why – in an epoch of continual deregulation – the state is suddenly *more* involved in the process.

In order to address this question, a short history of gentrification is chronicled. Following this, explicit attention is focused on why the state's role in gentrification has increased, by drawing on the available literature and exploring the process in the aforementioned neighbourhoods.

WAVES OF GENTRIFICATION

While most gentrification researchers would agree with Loretta Lees (2000, p. 16) when

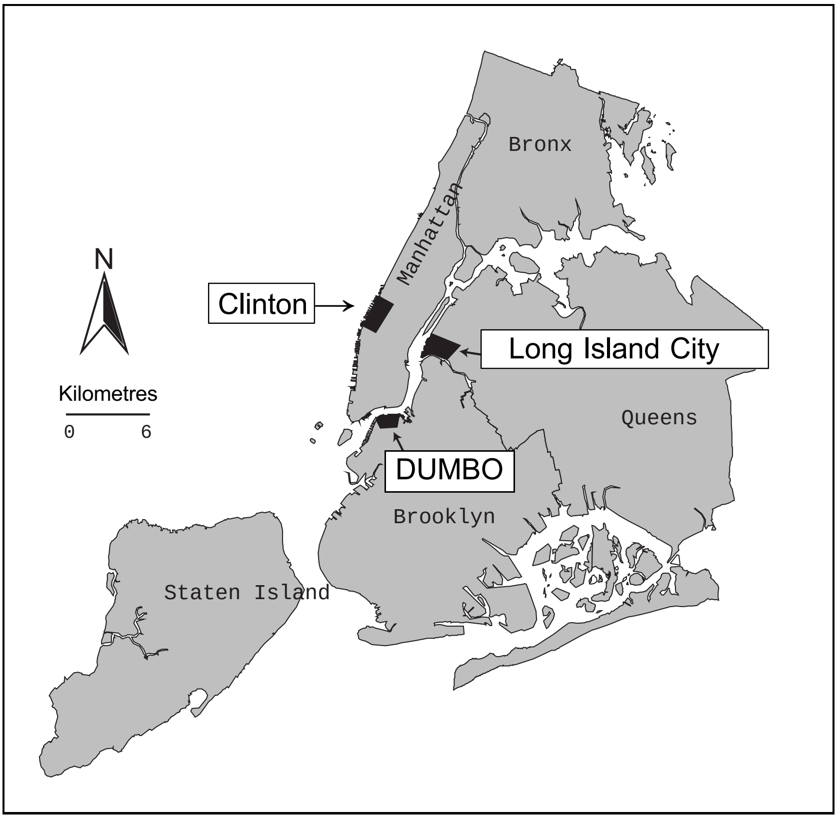

Figure 1. *Case study neighbourhoods in New York City.*

she explains that, 'gentrification today is quite different to gentrification in the early 1970s, late 1980s, even the early 1990s', little explicit attempt has been made thus far to chronicling, much less theorising, these changes. In order to understand the changing role of the state in gentrification, it is first necessary to understand (at a minimum) the context for changes to the process as a whole.

Systematic gentrification dates back only to the 1950s but has evolved enough to assemble a periodised history of the process. Figure 2 is a schematic summary of this history. Each phase of gentrification in the diagram is demarcated by a particular constellation of political and economic conditions nested at larger geographical scales. Though the timeline draws heavily from the experience of gentrification in New York City it has wider applicability insofar as studies from other cities were used to assemble it. Specific dates for these phases will undoubtedly vary from place to place, but not so significantly as to diminish the influence of broader scale political economic events on the local experience of gentrification.

First-wave gentrification: sporadic and state-led – Prior to the economic recession that settled through the global economy in late 1973, gentrification was sporadic if widespread. Disinvested inner-city housing within the older north eastern cities of the USA, Western Europe and Australia became a target for reinvestment. While highly localised, these instances of gentrification were often significantly funded by the public sector (Hamnett 1973; Williams 1976; Smith 1979), as local and national governments sought to counteract the private-market economic decline of central city neighbourhoods. Governments were aggressive in helping gentrification because the prospect of inner-city investment (without state insurance of some form) was still very risky. While state involvement was often justified through the discourse of ameliorating urban decline, the effect was of course highly class specific. Conditions generally worsened for the urban working class as a result of such intervention (Smith 1996).

If the global economic recession that affected various national economies between 1973 and 1977 also depressed national housing markets, its effects on gentrification were more ambiguous. The recession was triggered by the international oil embargo but provoked at a deeper level by various developments: falling profit rates in the productive sectors of the economy; increasing global competition and integration as Germany and Japan emerged as industrial powers; competition from the cheap labour of newly industrialising countries; and crises in the financial sector (Harvey 1989a). Despite the severity of that recession, there is little evidence that gentrification was radically circumscribed in the mid 1970s, though disinvestment intensified in certain US cities (Sternlieb & Hughes 1983). This was certainly the case in New York City where landlord abandonment and arson rose to an all-time high in the 1970s. At a more general level, the economic downturn also encouraged the shift of capital from unproductive to productive sectors, setting the stage for a reinvestment in central city office, recreation, retail and residential activities (Harvey 1985).

Second-wave gentrification: expansion and resistance – When depressed markets began to revive in the late 1970s, gentrification surged as never before. New neighbourhoods were converted into real estate 'frontiers', and cities that had not previously experienced gentrification implemented far-reaching strategies to attract this form of investment. Most local state efforts, however, focused on prodding the private market rather than directly orchestrating gentrification. Federal programmes like block grants and enterprise zones encouraged this relatively *laissez-faire* role. Despite slow economic growth between 1979 and 1983, gentrification activity remained largely unaffected (see Ley 1992 for the case of Canadian cities). In New York, sales prices in gentrifying neighbourhoods like Harlem did drop somewhat in 1982–83, apparently in response to the recession, but rebounded sharply thereafter (Schaeffer & Smith 1986). Less systematic evidence from other neighbourhoods in the city suggests that the recession was similarly mild throughout the inner city.

The second-wave, lasting almost to the end of the 1980s, was characterised by the inte-

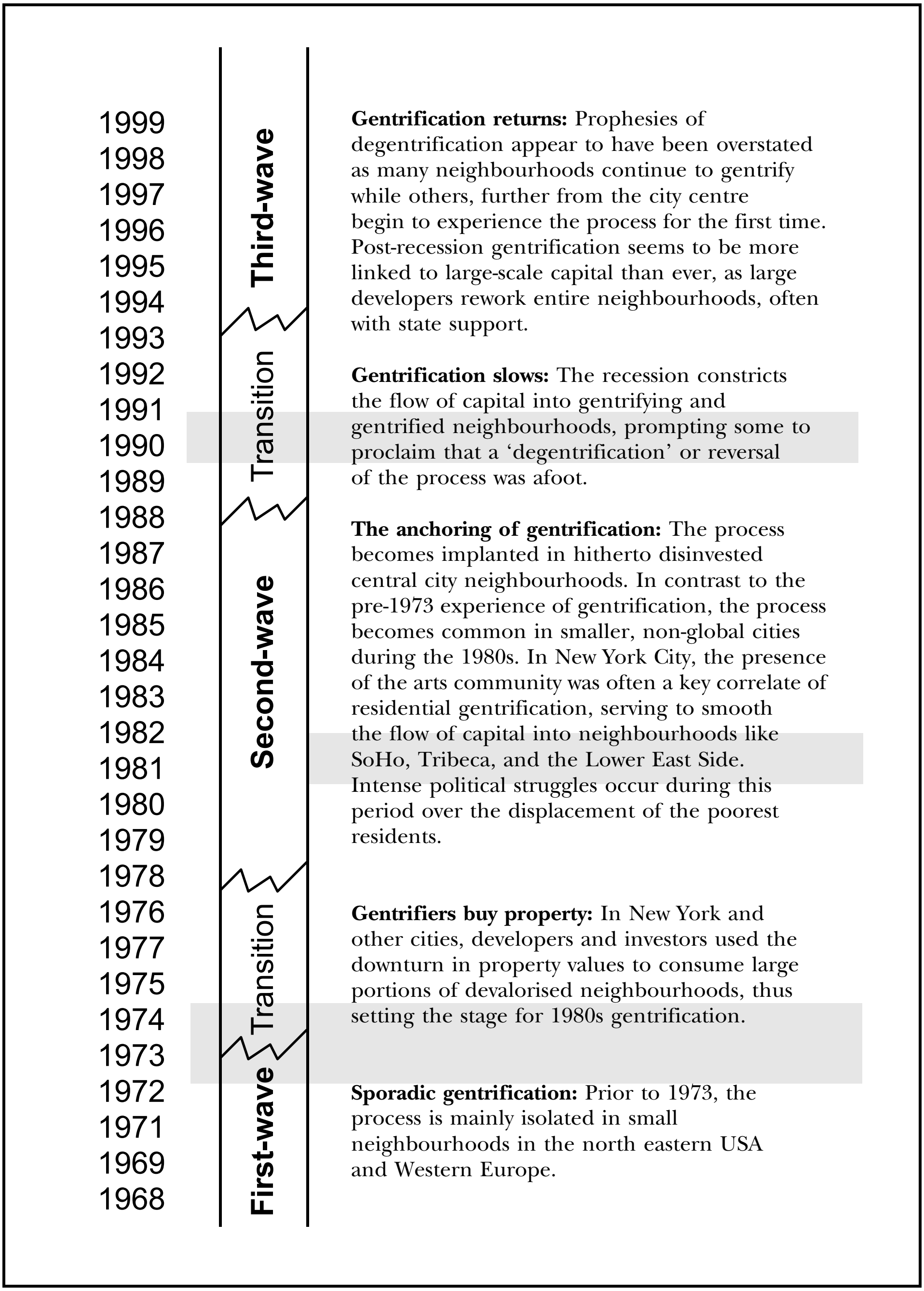

Figure 2. *Schematic history of gentrification (recessions in grey).*

gration of gentrification into a wider range of economic and cultural processes at the global and national scales. Nowhere was this more true than in New York, where the city's emergence as a world city, the inflation of the real estate market, and the burgeoning of an internationally recognised 'alternative' art scene in SoHo and the Lower East Side went hand-in-hand with powerful and at times ruthless gentrification (Zukin 1982, 1987; Deutsche & Ryan 1984). Although celebrated by some (Caufield 1994), gentrification was also challenged in and around places like New York's Tompkins Square Park, where homelessness, eviction and the increasing vulnerability of poor residents was directly connected to gentrification (Smith 1989, 1996). To the north, in Clinton, activists used the apparatus of local government to fight gentrification, but like the resistance in the Lower East Side, their efforts struggled to offset the overwhelming advance of the process in these neighbourhoods by the decade's end.

Third-wave gentrification: recessional pause and subsequent expansion – The stock market crash of 1987 provided the first warning signs of another imminent recession, but it was not until 1989 that inner-city residential land markets crashed along with the rest of the US economy. Unlike previous recessions in which gentrification slowed very little, during the recession of the early 1990s, gentrification came to a halt in some neighbourhoods and was severely curtailed in others. The effects of the recession certainly varied, but it was sufficiently severe to lead some critics to speculate that the 1990s were witnessing 'degentrification' (Bagli 1991). Bourne (1993), for example, predicted the 'demise of gentrification' due to an ageing of the baby boom, declining real incomes, and a relative reduction in the supply of inner-city housing. Since 1993, however, the expectation of degentrification has evaporated as reinvestment has again taken hold and a third-wave begun. In New York, all of the key inner-city housing market indicators – housing unit sale prices, rent levels, tax arrears, mortgage levels – have reversed themselves (from the recessional downturn) with the onset of the third-wave of gentrification, while growth in the suburbs has been slower to recover. The recession appears in retrospect to have been a transition period to the third-wave more than the advent of degentrification or any curtailment of inner-city reinvestment.

Post-recession gentrification – the third-wave of the process – is a purer expression of the economic conditions and processes that make reinvestment in disinvested inner-urban areas so alluring for investors (Smith & Defilippis 1999). Overall, economic forces driving gentrification seem to have eclipsed cultural factors as the scale of investment is greater and the level of corporate, as opposed to smaller-scale capital, has grown. In particular, third-wave gentrification is distinct from earlier phases in at least four ways.

First, gentrification is expanding both within the inner-city neighbourhoods that it affected during earlier waves and to more remote neighbourhoods beyond the immediate core. Second, restructuring and globalisation in the real estate industry has set a context for larger developers becoming involved in gentrifying neighbourhoods (Logan 1993; Coakley 1994; Ball 1994). While such developers used to be common in the process only after the neighbourhood had been 'tamed' (Zukin 1982; Ley 1996), they are now increasingly the first to orchestrate reinvestment. Third, effective resistance to gentrification has declined as the working class is continually displaced from the inner city, and as the most militant anti-gentrification groups of the 1980s morph into housing service providers. Fourth, and of most relevance to this paper, the state is now more involved in the process than the second-wave. The remainder of this paper focuses on the possible reasons for the latter change to gentrification.

THE CHANGING STATE OF GENTRIFICATION

After a curious departure from direct involvement in gentrification during the second-wave, the state has become more interventionist in the third-wave. There are several salient aspects to this history. First, the private market expansion of gentrification in most cities has generally exhausted itself. In classic first-wave neighbourhoods, like Society Hill in Philadelphia and SoHo in New York City, the state (mostly at city and federal level) had a very direct role in organising and encouraging gentrification (Smith 1979; Zukin 1982). Inner-city reinvestment was still very risky (during the 1960s), so land assembly, tax incentives, and property condemnation were all orchestrated by the state, as were more informal attempts to convince conservative lenders and patrician families to move to such neighbourhoods (Smith 1979). After initial footholds in neighbourhoods like Society Hill and SoHo, gentrification radiated outward without such a direct need for the state because inner-city real estate investment was becoming less risky. During the 1980s, a private-market gentrification congealed into a reinvested core close to the central business district (CBD) of many cities (Hackworth 2001). But after almost two decades of this type of expansion, most of the easily gentrified (i.e. high amenity, close to the CBD) neighbourhoods have already been fully reinvested. By necessity, gentrifiers and outside investors have begun to roam into economically risky neighbourhoods – e.g. mixed-use neighbourhoods, remote locations, protected parcels like public housing – which are difficult for individual gentrifiers to make profitable without state assistance. The private-market expansion of gentrification has generally exhausted itself; state assistance (or some other form of assistance) is increasingly necessary for the process to swallow 'underdeveloped' parcels further from the CBD.

But the return of state intervention is more than the product of gentrification's spatial expansion. It is also encouraged by the secular tendency away from the maintenance of mass consumption – Keynesian governance. While Keynesian governance was certainly on the ebb by the mid 1970s, it would be a mistake to conclude that it had summarily expired with the election of Ronald Reagan and Margaret Thatcher. State attempts to encourage gentrification during the second-wave were still partially impeded by internal vestiges of the Keynesian state – in the USA, the Department of Housing and Urban Development (HUD) is the best example. By the late 1960s, social movements had forced the creation of the cabinet level housing agency (HUD), which, in part, restricted the private market pursuits of local government by redirecting public funding to affordable housing. As Feldman and Florida (1990) note, the effect of this change in the USA was swift and prohibitory for pro-business local states. Removing public housing – long seen as anathema to gentrification – was, for example, made practically impossible by HUD, and affordable housing construction dramatically increased between 1968 and 1973. Though the Reagan and Thatcher administrations actively assaulted such regulatory obstacles during the 1980s, their work was only partially completed by the time both left office.

The assault took the form of funding reductions for welfare and affordable housing, but more subtly it also encouraged non-Keynesian modes of *local* governance (Gaffikin & Warf 1993). The latter typically involved the encouragement of the 'entrepreneurial local state' (Harvey 1989b) through programmes that prodded the private market ('enterprise zones', for example) rather than direct subsidy. Direct intervention by the local state was, however, still constrained by agencies like HUD, which forced cities to address affordable housing issues if a gentrification plan was unveiled (Hackworth 2000). In the USA, many of these constraints were dissolved in 1994, with the swift devolution of much of the regulatory capacity (over the affordable housing sector) that was still nested in the federal state (Staeheli *et al.* 1997). HUD was disemboweled – 'reinvented' to use the euphemistic parlance used to justify it – and significantly restricted from offsetting gentrification at the local level. Their HOPE VI programme, for example, now allows municipal governments to remove public housing units for the purpose of redevelopment without one-for-one replacement (Wyly & Hammel 1999). The few remaining obstacles (within the federal state) to gentrification (which partially restricted state involvement in the second-wave) have largely been removed since the onset of the third-wave.

Paralleling heightened deregulation in the third-wave is a reduction in federal redistribution to localities. With a decline in federal redistribution during the 1990s, some of the pressures that originally encouraged the formation of the entrepreneurial local state (Molotch 1976; Harvey 1989b; Leitner 1990) have been ratcheted up even further. The imperative to generate tax dollars has, for example, become even more pressing for localities because federal funds are now more scarce. As such, many cities have embarked on a partnership with capital that exceeds even the pro-business 1980s (Smith 1999). Compounding the necessity to generate tax dollars is the need for cities to appear business friendly in order to maintain their credit rating (Gaffikin & Warf 1993, p. 78; Sassen 1996, pp. 15–16; Sinclair 1994). Ever since the well-publicised bankruptcies of several large cities in the 1970s (Tabb 1982; Lichten 1986), the lending community has become more demanding of municipalities to maintain a businesslike ledger sheet. Losing a good credit rating can be devastating for an urban regime that has leveraged the future of a given city on the redevelopment of its downtown or the gentrification of a given neighbourhood. With the decline in federal outlays to cities, the need to borrow funds for redevelopment has increased during the third-wave. In order to retain the fiscal viability necessary to keep receiving such loans, many cities have, more unabashedly than in the past, turned to the attraction and retention of the middle class to increase tax revenue (Varady & Raffel 1995).

Altogether, the state shift towards a more openly supportive role in gentrification has helped facilitate a rapid expansion of the process during the third-wave. Yet while the larger reasons for this shift are common, its local articulation is more varied.

Clinton – In Clinton, for example, the most notable shift in state involvement during the third-wave is the departure from Keynesian regulation, manifest through the Special Clinton District (SCD). The SCD was the result of community organising during the 1960s. It restricted the power of property owners to gentrify their holdings in the neighbourhood, and was enforced (somewhat effectively) by the city until the 1990s.

The genesis of the Special Clinton District is embedded in the history of the Clinton Planning Council (CPC). The CPC was established in the mid 1960s to organise against urban renewal plans that were directed at the neighbourhood. In 1968, the CPC became prominent with its opposition of the newly written New York City Master Plan, which identified Clinton as the ideal location for several large renewal projects. The Plan called for the construction of 3,000 hotel rooms, 7.5 million square metres of office space, and 25,000 new apartments in the neighbourhood (Sclar 1993). Clinton residents felt that the plan would eventually lead to their displacement and began to organise through the CPC. By 1972, this opposition to development coalesced into the 'Save Clinton Committee', which wrote an alternative 'People's Plan', and dedicated itself to the specific task of resisting the siting of a proposed convention centre in the neighbourhood (HKNA 1999; Sclar 1993). The opposition movement attracted the attention of Congresswoman Bella Abzug who pressured city leaders to explore other neighbourhoods for the proposed centre. In response to pressure from Abzug and others, City Planning Commissioner John Zuccotti proposed special district status for Clinton, so that residents could more effectively oppose the project. In November 1973, the proposal was formalised into a one-year interim special district for Clinton (Sclar 1993). The interim district emboldened popular support for the neighbourhood's efforts so local elected officials began to warm to a more permanent designation. Shortly thereafter, Manhattan Borough President Percy Sutton took the bold step of conditioning his support of the convention centre on the establishment of a permanent district for the neighbourhood (Sclar 1993). In October 1974, the New York City Planning Commission, under increasing pressure, acquiesced, and voted to create a permanent special district for Clinton.

The goals of the permanent Special Clinton District were fairly straightforward. The District was established to protect against widespread development that might displace existing residents. The goal was to maximise the number of affordable, family-sized units within the neighbourhood to counterbalance mounting development pressure. The most restrictive clause of the district designation prohibited demolition of any structurally sound building and prohibited any alteration permit where a history of tenant harassment could be found. Harassment violations were determined by the HPD working in conjunction with the Clinton Neighborhood Preservation Office. If the proposed development took place at a site free of past tenant harassment, a certificate of non-harassment was issued by the HPD, and construction was permitted. Predominant focus was placed on a portion of the neighbourhood deemed 'the preservation area', where building heights were kept at no more than 19.8 metres (or seven stories, whichever was lower). Special variance permits could be sought for new construction, alteration, or demolition within the SCD, but only after a hearing with the city's HPD.

Yet while provisions were made for those wishing to build in the neighbourhood, most developers abhorred the District's power. It created an obstacle that many felt was excessively punitive. In 1986, BACO Fifty-Fourth Street Corporation formalised this sentiment by suing the city and the neighbourhood preservation office for establishing an unconstitutional barrier to development (HKNA 1999). BACO argued that the SCD was unconstitutional because it shackled current builders to the harassment of past owners. Tenant harassment was tied geographically to a particular plot of land rather than to a given developer so there was no way for current owners to remediate the wrongs of the past. The clause was originally created because New York developers and landlords have a long-established record of shifting properties between one another to conceal ownership, thus making it difficult, if not impossible, to trace tenant abuse (Deutsche 1996). BACO argued that, regardless of its intent, the clause was unconstitutional because landlords were unable to 'cure' the harassment of previous owners. In 1987, a federal court judge partially agreed with the company by stating that while it is entirely constitutional for the neighbourhood to define the future of development, a 'cure clause' must be added to the existing SCD that would enable developers to 'exonerate' properties from harassment committed in the past (Dunlap 1989).

More trouble for the SCD and its advocates came in 1990 when the New York State Senior Citizen Foundation (NYSF) tried to build a retirement home in Clinton. The proposal violated the 19.8-metre height limit and the anti-demolition clause of the SCD and as such, deeply divided the community between those who wanted to protect the sanctity of the SCD and those who thought that senior citizen housing was too important to limit because of District regulations (Dunlap 1988; HKNA 2000). HPD eventually made an exception for this case but because developers would now have a legal precedent to resist the SCD, city officials were forced to modify the District's regulations more generally. Later in 1990, the terms of the SCD were renegotiated by the City Planning Commission to accommodate the court order and the NYSF controversy (Sclar 1993). First, developers were given permission to 'exonerate' their properties in order to obtain a demolition or alteration permit if they agreed to devote 28% of their new structure to affordable housing units. Additionally, demolition of sound structures would be allowed if: a) the project was not eligible for subsidised rehabilitation funds; b) affordable housing was included in the overall project; and/or c) substantial preservation was required (over 20% of the residential floor area) to improve the structure (Sclar 1993). The ostensibly benign technical modifications to the SCD and the palpably less enthusiastic enforcement by the HPD (Gwertzmann 1997; Lobbia 1998) have been effective at lowering developer aversion to the neighbourhood. The local real estate press lauded the neighbourhood as one of the trendiest gentrifying districts in the city during the 1990s (Lobbia 1998; Cawley 1995; Deutsch 1996; Finotti 1995). As each of these reports have also pointed out, however, the previous ability of the SCD to retain affordable housing has slipped away. Much of this is because the new regulations are so hard to enforce, particularly determining whether 28% of the units are affordable. Community activists have also noted that HPD under the Giuliani Administration is much quicker to deliver a requested permit than earlier administrations (Gwertzmann 1997). Paraphrasing one longtime housing activist, reporter J. Lobbia (1998) explains, 'the Department of Buildings readily gives permits to owners who, for a number of reasons, should not have them, or allows those with permits to do construction and demolition work well beyond what the permit allows' (p. 49). As housing becomes less affordable in Clinton, progressive neighbourhood activists are leaving, along with the working class residents whose housing is no longer protected (Gwertzmann 1997). As Bob Kalin, another long-time activist in the neighbourhood, explains, 'There will always be an element of poor people in this community but it will be smaller and smaller and we [activists] will end up organizing in more and more buildings where the tenants have enough money to access attorneys' (Gwertzmann 1997). Overall, the recent experience of Clinton provides a useful example of how the (few) internal (to the state) obstacles to gentrification during the second-wave have eroded to such a point as to be ineffectual during the third.

The goal of state power to resist gentrification was partially achieved with the creation of the SCD. But within the context of political deregulation, devolution of the federal state, and growth of the reinvested core, pressures to gentrify Clinton intensified and percolated through the local state to dissolve the SCD. Removing the power of the SCD was crucial for gentrification to expand in Clinton, but the impetus and backing to do so have only recently coalesced.

Long Island City – Recent state involvement with gentrification has also intensified in Long Island City, albeit in a form different than Clinton. Though local government has been trying to assist luxury residential development in LIC since the early 1980s, it is only since the onset of the third-wave that the political environment changed sufficiently for this activity to intensify without effective resistance. Banks have been squeamish about lending in Long Island City for many years, largely because it is a mixed-use neighbourhood, with many active warehouses, factories, and working-class apartment buildings. Because so much of the neighbourhood is zoned commercial, property is expensive enough to all but rule out the involvement of small-scale gentrifiers, who tend to be more dependent on traditional forms of lending capital. The state holds a crucial role in offsetting the high risk that even corporate gentrifiers face when the 'frontier' diffuses into such (relatively) remote locales.[1]

The key piece of LIC's state-facilitated gentrification is the Queens West Project – a massive plan to bring luxury residential, office and commercial space to the neighbourhood. After years of planning, the city's Economic Development Corporation (EDC) and the Port Authority of New York and New Jersey (PA) unveiled a $2.3-billion plan in the mid 1980s, which called for the construction of 6,385 residential units, 600,000 square metres of office space, a 350-room hotel, 67,500 square metres of retail space, 12,000 square metres of community facility space, and off-street parking for 5,331 cars (HPCC 1996; Port Authority 1999). The project was to be completed in three phases.

Tipped off by public officials that the waterfront area of Hunter's Point in Queens was being considered for redevelopment, William Zeckendorf Jr. and several other major developers, investment bankers and real estate brokers, began acquiring property in the neighbourhood (Moss 1990). The entry of major real estate capital into the neighbourhood, inspired a reinvestment in the housing market and emboldened City Hall to offer tax breaks to Queens West. The Koch Administration offered a 16-year tax abatement and $30 million in city money to assist the project (Moss 1990; Fainstein & Fainstein 1987). Despite such support, Queens West was still risky, but City Hall was unable or unwilling to ameliorate this risk by offering more. Other obstacles existed: community opposition to the project was beginning to coalesce by the early 1990s, and the residential portion of the project would need some form of mortgage insurance to become reality.

Local opposition became an obstacle with the formation of the Hunter's Point Community Coalition (HPCC) in 1990. The HPCC did not want the bulky project built in its neighbourhood without some guarantee that jobs and working-class residents (particularly the elderly) would be protected (HPCC 1996). Not long after the local opposition materialised, the New York State Urban Development Corporation (UDC) entered the Queens West development team (Moss 1990). The resultant behemoth (which already included the EDC and PA) was deemed 'the Queens West Development Corporation' (QWDC). The entry of the UDC substantially undermined the ability of the HPCC to resist the project and its impact. Originally established to site low-income housing complexes, the UDC has the power to override local opposition to development proposals (Gutfreund 1995). The UDC's participation satisfied a crucial requirement for the completion of Queens West – a way to overcome neighbourhood opposition.

By 1995, the QWDC had begun making formal plans for the first phase of the project which involved a small community park and the Citylights Building – a 42-storey, 522-unit apartment building. Though the building was slated as the project 'loss leader' (apartments were to be sold at under market value), the building was still viewed as a risky prospect (Passell 1996). Convincing banks to invest luxury housing dollars into Long Island City's mixed-use landscape would require further state intervention – namely mortgage insurance. The needed support arrived in 1996 when the Federal Housing Administration (FHA) awarded the Citylights builder, Manhattan Overlook (MO) Associates, mortgage insurance for the first residential structure (Passell 1996). Though the FHA was originally established to provide home loans for working-class buyers, it backed the mortgage here even though there was an openly stated goal to make the project semi-luxurious. FHA involvement was reportedly motivated by the 'pioneer' hyperbole that the local real estate press used to frame the project (Passell 1996). Said one FHA official, 'One of the FHA's primary roles is to help the pioneers' (Passell 1996, p. 6). But given its long history of aversion to such projects, there are likely less capricious reasons for the Administration's involvement. It is perhaps more usefully framed within the gradual reorientation of such agencies away from Keynesianism.

Whatever the reason, the effect was unambiguous. After the insurance was in place, the AFL-CIO Housing Investment Trust provided the $85.6 million in mortgage capital to MO Associates and construction began (Passell 1996). Citylights was completed in 1997, and though some relatively inexpensive units were set aside, the majority of its apartments now command luxury rents (Oser 1998). Though construction of the first Queens West building has not translated into an immediate gentrification of the surrounding neighbourhood, the intense effort of government (manifest through the QWDC) to actuate this goal provides a useful window into the nature of the state-gentrification nexus in the third-wave.

The involvement of the state as profit protector in this instance is not only part of a larger return of the state to gentrification in the third-wave but also evidence that this return is not limited to the local state. As gentrification moves further from the CBD, and becomes more risky for individual investors, the state becomes more necessary to rationalise the conditions for profit. During the second-wave (when the development process for Queens West began), the federal state was not as likely to guarantee mortgages for luxury housing, primarily because of Keynesian relics in the federal state which directed attention to affordable rental housing rather than risky attempts to bring affluent living to mixed-use neighbourhoods like LIC. The Queens West case also reveals how agencies of redistribution (like FHA and UDC) are being morphed into powerful progenitors of gentrification as their regulatory capacities get removed through state restructuring.

DUMBO – Like Long Island City, DUMBO is a difficult neighbourhood to gentrify. The small loft district in northern Brooklyn is relatively isolated, zoned non-residential, and still home to competing industrial land users. As described earlier, the gentrification of DUMBO is being largely orchestrated by one real estate developer, David Walentas. But despite his power as a developer, he was until recently unable to begin implementing his plan for the neighbourhood.

Walentas first purchased property in the neighbourhood – nine turn-of-the-century industrial loft buildings at a cost of $16.5 million – in 1982 (Dunlap 1998). His plan was to transform the neighbourhood into an upscale office and residential enclave. Shortly after purchasing the buildings, Walentas was tentatively selected by the city – eager to bring some (any) productive activity to the derelict landscape – to redevelop the waterfront of DUMBO. Redeveloping it would be crucial if gentrification in DUMBO were to work, so Walentas was pleased with the nod from the city. But before he could even assemble a formal plan for the site, the city summarily removed Walentas after anti-abatement (and anti-Walentas) council member Ruth Messinger and deputy mayor Kenneth Lipper publicly objected to the support (Ennen 1999). The deputy mayor justified the removal by arguing that Walentas' Two Trees Company had neither the experience nor the financing to pull off such an extravagant plan. To compound his difficulty, he also failed to procure the zoning concessions necessary to turn DUMBO into a residential enclave (Tierney 1997). Walentas had apparently failed the private-market litmus test that the local state often employed during the second-wave.

Yet while Walentas encountered difficulty in garnering support for his original plan, he did receive important support of another form. In 1986, the state of New York agreed to move its Department of Labor into one of Walentas' buildings for ten years (Ennen 1999). This provided him with the stability of a long-term renter and time to attract the necessary support from both City Hall and the lending community for his original plan. During the period 1987–97 (while the Department of Labor was present), Walentas focused on 'taming' the neighbourhood for the type of investors he was seeking. Primarily, he offered rent concessions to artists to relocate in DUMBO. By 1997, Walentas had successfully attracted three ground-floor art galleries and numerous working artists to his portion of the neighbourhood alone. DUMBO had not only been 'tamed' but it had actually become one of the city's trendiest art enclaves by the mid 1990s (Trebay 1999). A yearly arts festival and several boosterish articles by the local press (for example, Dunlap 1998; Garbarine 1998) fuelled this perception and lowered investor reluctance.

When the state's labour department left the Clocktower Building in 1997, Walentas acted quickly to convert the structure into an up-scale residential apartment complex. In March of 1998, Two Trees was able to procure a construction loan – $30 million from the Emmes Asset Management Company – after being rejected by several (more traditional) commercial institutions (Garbarine 1998). He used the loan along with $3 million of his own money to convert the structure in just under one year. Demand for Clocktower units was astonishing. By May of 1999, all but one of the building's 124 units had been sold or were under contract. Two Trees was even able to raise asking prices several times during the sales process (Ennen 1999). With demand proven, Two Trees is currently renovating several nearby loft buildings to create 1,000 more housing units.

While Walentas has done much independently to gentrify DUMBO, his effort, power, and influence would have been insufficient without the support of the local state. In addition to finally receiving the zoning concessions necessary to convert the Clocktower Building, Walentas was re-appointed as developer of the nearby waterfront just as Clocktower units were coming on the market despite community opposition. The decision by the city played no small part in fuelling and stabilising demand for the luxury units, and for the larger project of gentrifying the neighbourhood.

This case highlights yet another aspect of an interventionist state in gentrification. As large corporate developers become more involved in gentrification, the contours of the process begin to change. Such development actors are more able to hold their property until support from the lending community and state materialise. Walentas had difficulty in getting the state to support his project during the 1980s, but has found support at several levels during the third-wave. The state has made important zoning decisions and given him uncontested approval to redevelop the waterfront despite public opposition (Sengupta 1999; Finder 1999) and ambivalence from the lending community. By removing these obstacles, City Hall has removed much of the risk associated with gentrifying DUMBO, and to this extent has mirrored a larger shift towards increased state involvement in gentrification during the third-wave.

CONCLUSION

While heightened state involvement has very real consequences for localities, it is important to frame it within the broader shift that is fueling the third-wave of gentrification. This shift has translated into an expansion of reinvestment from pockets created during the first and second-waves. It has translated into larger, more corporate developers involved in the early stages of gentrification, and a palpable decline of community opposition. These changes are mutually reinforcing in complex ways and worthy of another paper in their own right.

This paper is an attempt to understand only one aspect of this larger shift – namely how, in an environment of privatisation, the state has become more direct in its encouragement of gentrification. In each of the cases described above, the state was deeply implicated during both the second and third-wave of gentrification, but it was only in the latter context that such support overwhelmed community opposition, land-use obstacles, and Keynesian relics designed to offset the process. Though work remains to be done on how the restructuring state is affecting other aspects of capitalist urbanisation, it is evident at this point that a systemic change in the way that the state relates to capital is afoot.

Note

1. Although only a kilometre (across the East River) from the most expensive neighbourhood in NYC (the Upper East Side of Manhattan), LIC is still considered 'remote' by the real estate community because it is in Queens.

Acknowledgement

The support of NSF Grant #: SBR-9724988 is gratefully acknowledged.

REFERENCE

BAGLI, C. (1991), 'De-gentrification' Can Hit When Boom Goes Bust. *The New York Observer* 5 August, p. 12.

BALL, M. (1994), The 1980s Property Boom. *Environment and Planning A: Urban and Regional Research* 26, pp. 671–695.

BOURNE, L. (1993), The Demise of Gentrification? A Commentary and Prospective View. *Urban Geography* 14, pp. 95–107.

CAUFIELD, J. (1994), *City Form and Everyday Life: Toronto's Gentrification and Critical Social Practice.* Toronto: University of Toronto Press.

CAWLEY, J. (1995), New York Community Boiling Over Name Change. *The Chicago Tribune* 15 January, p. 17.

COAKLEY, J. (1994), The Integration of Property and Financial Markets. *Environment and Planning A: Urban and Regional Research* 26, pp. 697–713.

DEUTSCH, C. (1996), Worldwide Plaza and Its Neighborhood: In Hell's Kitchen, Retail is on the Front Burner. *The New York Times* 5 May, p. 5.

DEUTSCHE, R. (1996), *Evictions: Art and Spatial Politics.* Cambridge, MASS: MIT Press.

DEUTSCHE, R. & C.G. RYAN (1984), The Fine Art of Gentrification. *October* 31, pp. 91–111.

DUNLAP, D. (1998), SoHo, TriBeCa, and Now Dumbo? *The New York Times* 25 October, pp. 1, 20.

DUNLAP, D. (1988), Community Seeks End to Redevelopment Ban. *The New York Times* 10 January.

ENNEN, M. (1999), An Immodest Proposal. *Brooklyn Bridge Magazine* January, pp. 48–53.

FAINSTEIN, N. & S. FAINSTEIN (1987), Economic Restructuring and the Politics of Land Use Planning in New York City. *Journal of the American Planning Association* 53, pp. 237–248.

FELDMAN, M. & R. FLORIDA (1990), Economic Restructuring and the Changing Role of the State in U.S. Housing. *In*: W. VAN VLIET & J. VAN WEESEP, eds., *Government and Housing: Developments in Seven Countries*, pp. 31–46. Newbury Park, CA: Sage.

FINDER, A. (1999), Long View From the Waterfront: Developer Has Pursued a Brooklyn Dream for 20 Years. *New York Today* 24 June.

FINOTTI, J. (1995), Clinton: Hell's Kitchen Recipe: A Tangy Diversity. *The New York Times* 9 April, Real Estate Section.

GAFFIKIN, F. & B. WARF (1993), Urban Policy and the Post-Keynesian State in the United Kingdom and United State. *International Journal of Urban and Regional Research* 17(1), pp. 67–84.

GARBARINE, R. (1998), A Neighborhood Called Dumbo Has High Hopes. *The New York Times* 7 August, p. 8.

GUTFREUND, O. (1995), Urban Development Corporation. *In*: K. JACKSON, ed., *The Encyclopedia of New York*, pp. 1218–1219. New Haven: Yale University Press.

GWERTZMANN, M. (1997), *Keeping the 'Kitchen' In Clinton: Community Efforts to Resist Gentrification* (unpublished report, www.hellskitchen.net).

HACKWORTH, J. (2000), State Devolution, Urban Regimes, and the Production of Geographic Scale: The Case of New Brunswick, NJ. *Urban Geography* 21(5), pp. 450–458.

HACKWORTH, J. (2001), Inner City Real Estate Investment, Gentrification, and Economic Recession in New York City. *Environment and Planning A: Urban and Regional Research* 33(5), pp. 863–880.

HAMNETT, C. (1973), Improvement Grants as an Indicator of Gentrification in Inner London. *Area* 5, pp. 252–261.

HARVEY, D. (1985), *The Urbanization of Capital: Studies in the History and Theory of Capitalist Urbanization.* Baltimore: The Johns Hopkins University Press.

HARVEY, D. (1989a), *The Condition of Postmodernity.* Oxford: Blackwell.

HARVEY, D. (1989b), From Managerialism to Entrepreneurialism: The Transformation of Urban Governance in Late Capitalism. *Geografiska Annaler* 71, pp. 3–17.

HKNA (1999), website: www.hellskitchen.net

HPCC (1996), *The View: Newsletter of the Hunter's Point Community Coalition* 3, p. 5.

LEES, L. (2000), A Re-appraisal of Gentrification: Towards a 'Geography of Gentrification'. *Progress in Human Geography* 24(3).

LEITNER, H. (1990), Cities in Pursuit of Economic Growth: The Local State as Entrepreneur. *Political Geography Quarterly* 9, pp. 146–170.

LEY, D. (1992), Gentrification in Recession: Social Change in Six Canadian Inner Cities: 1981–1986. *Urban Geography* 13(3), pp. 220–256.

LEY, D. (1996), *The New Middle Class and the Remaking of the Central City.* Oxford: Oxford University Press.

LICHTEN, E. (1986), *Class, Power & Austerity: The New York City Fiscal Crisis.* South Hadley, MA: Bergin & Garvey Publishers, Inc.

LOBBIA, J. (1998), Hell's Kitchen is Burning. *The Village Voice* 8 September, pp. 47–51.

LOGAN, J. (1993), Cycles and Trends in the Globalization of Real Estate. *In*: P. Knox, ed., *The Restless Urban Landscape*, pp. 33–55. Englewood Cliffs, NJ: Prentice Hall.

MOLOTCH, H. (1976), The City as Growth Machine: Toward a Political Economy Place. *American Journal of Sociology* 82, pp. 309–330.

MOSS, M. (1990), Pinpointing Conflicts in Queen's Development: Hunter's Point Proposals Put Mayor's Pledge to Test. *Newsday* 26 April.

OSER, A. (1998), Queens West Pioneers are Getting Company. *The New York Times* 22 March, p. RE1.

PASSELL, P. (1996), Pioneers Wanted: East River Views: Innovative Financing – and $25,000 Average Prices – are Lures at First Queens West Building. *The New York Times* 6 October, Real Estate Section, pp. 1, 6.

PORT AUTHORITY (1999), website: www.panynj.gov

SASSEN, S. (1996), *Losing Control? Sovereignty in an Age of Globalization.* New York: Columbia University Press.

SCHAEFFER, R. & N. SMITH (1986), The Gentrification of Harlem? *The Annals of the Association of American Geographers* 76, pp. 347–365.

SENGUPTA, S. (1999), A Neighborhood Identity Crisis: Transformation Brings Anxiety in Brooklyn's DUMBO. *The New York Times* 9 June, pp. B1, B7.

SCLAR, E. (1993), *Analysis of the Special Clinton District: Prepared for Community Board #4* (unpublished report).

SINCLAIR, T. (1994), Passing Judgement: Credit Rating Processes as Regulatory Mechanisms of Governance in the Emerging World Order. *Review of International Political Economy* 1, pp. 133–159.

SMITH, N. (1979), Gentrification and Capital: Theory, Practice, and Ideology in Society Hill. *Antipode* 11(3), pp. 24–35.

SMITH, N. (1989), Tompkins Square: Riots, Rents, and Redskins. *Portable Lower East Side* 6, pp. 1–36.

SMITH, N. (1996), *The New Urban Frontier: Gentrification And The Revanchist City.* New York: Routledge.

SMITH, N. (1999), Which New Urbanism? New York City and the Revanchist 1990s. *In*: R. Beauregard & S. Body-Gendrot, eds., *The Urban Moment: Cosmopolitan Essays on the Late-20th Century City*, pp. 185–202. Thousand Oaks, CA: Sage.

SMITH, N. & J. DEFILIPPIS (1999), The Reassertion of Economics: 1990s Gentrification in the Lower East Side. *International Journal of Urban and Regional Research* 23(4), pp. 638–653.

STAEHELI, L., J. KODRAS & C. FLINT, eds. (1997), State Devolution in America: Implications for a Diverse Society. Thousand Oaks, CA: Sage.

STERNLIEB, G. & J. HUGHES (1983), The Uncertain Future of the Central City. *Urban Affairs Quarterly* 18(4), pp. 455–472.

TABB, W. (1982), *The Long Default: New York City and The Urban Fiscal Crisis.* New York: Monthly Review Press.

TIERNEY, J. (1997), Brooklyn Could Have Been a Contender. *The New York Times Magazine* 28 December, pp. 18–23, 37–38, 47–48.

TREBAY, G. (1998), Out of the Garret: A New Study Examines the Economic Life of Artists. *The Village Voice* 21–27 October.

VARADY, D. & J. RAFFEL (1995), *Selling Cities: Attracting Homebuyers Through Schools and Housing Programs*. Albany: State University of New York Press.

WILLIAMS, P. (1976), The Role of Institutions in the Inner-London Housing Market: The Case of Islington. *Transactions of the Institute of British Geographers* 3, pp. 23–34.

WYLY, E. & D. HAMMEL (1999), *Islands of Decay in Seas of Renewal: Urban Policy and Resurgence of Gentrification*. CUPR Working Paper.

ZUKIN, S. (1982), *Loft Living: Culture And Capital In Urban Change*. Baltimore: Johns Hopkins University Press.

ZUKIN, S. (1987), Gentrification: Culture and Capital in the Urban Core. *American Review of Sociology* 13, pp. 129–147.