Small Businesses vs Gentrification and Real Estate Development

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This thesis is dedicated to the architects and the
real estate developers of the world.
They are the ones who redefine and change cities.
And to my parents,
for always having my back in everything I do.

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Introduction

Urban life captures the essence of city living, of which is a concentration of people, either for the better or for the worst. The study of urban economics is the study of urban externalities. These externalities range from the natural environment, the congestion of traffic, pollution, and public services. Gentrification, being a common form of an urban externality, has little mention, though from the evolution of a city's change, you can see it clearly. In the Oxford American Dictionary of the 1980s, the term gentrification was defined as "*movement* of middle-class families into urban areas causing property values to increase and having [the] secondary effect of driving out poorer families." Although gentrification is mainly focused on residential areas, we also see gentrification in non-residential areas where there is an obsolete building stock which causes rehabilitation to be practical enough for construction. Real estate development is an accelerant of gentrification, which is the main cause of the closure of small businesses.

Residential restructuring involves the process of two components. First, you have commercial redevelopment, which includes boutiques for food, furniture, pets, and clothes. Second, you have new development for recreational use, including bars to tourist attractions. Depending on location, there is gentrification that goes along with different forms. The most common form of gentrification is the one of old inner and central city building stock for new uses, that this can easily associate with the middle class. When we look at residential properties, the process begins usually in the working-class areas, where we see a devalued housing stock by disinvestment or through urban developments. Therefore, the location of this occurrence has become an increased prized and more highly prices, which gentrification would make it a profitable option (Schaffer and Smith 1986).

The term “gentrification” dates to 1964, when it was originally coined by a German-British sociologist, Ruth Glass. It has reflected and shaped economic and social change for each period. In the 1970s, gentrification caused a transition from a Fordism/Keynesianism complex, to a post-Fordism/neoliberalism one. At the end of the 1970s, there were a variety of issues that took place, such as economic, political, and social change, that occurred after the post-was crisis. By that time, the United States and Britain had adopted the neoliberalism context to replace Keynesian welfare state under the slogan of TINA; *There is No Alternative* (Hae 2012).

The effect of neoliberal gentrification has been shown at different times with different views. The first trend began around the time of the 1950s. Yet, this only represented a small portion of gentrification. The second trend began after the 1970 recession, which was characterized as public-private partnership and market-centered politics, therefore it pooled together gentrification into the global financial system. The most recent trend is from the 1990s, which has been witnessed as corporate developers and real estate investment trusts (REITs). Referring to the topic of urban externalities, city life is filled with them without our realization. Externalities occur when the agent does not take into consideration the effect of his/her actions. For example, a common externality is smoking. Therefore, smokers don’t understand the damage they do to others, but that causes an assortment of externalities. To understand urban externalities, we can look at firm locations and neighborhood demographics. Firms tend to be located where they are since there is a collection of other firms in the same area, and preferably in larger cities. On the other hand, individuals may choose their place of home depending on the neighborhood demographics, either avoiding or choosing certain ethnic groups of the area.

The residents of this city work in what’s called the central business district (CBD). Individuals of this model are the ones who travel between work and home. This can be treated as one-dimensional because distance matters when travelling to and from work and depending on where you live and the less you travel the more it is to your benefit, as opposed to longer travel. On the other hand, we have location theory, which tells us the cost of transporting humans as opposed to commodities. In location theory, we know that the transportation of goods is costly and that there are no commuting costs or workers.

A good can either be public or private. If a good is public, then it can be used or consumed by many individuals. If a good is private, then there are only a select few who can have access to it. In a study conducted by Kanemoto, he studies the normative aspect of externalities and public goods. In a normative analysis, there are two variations: efficiency and equity. To clearly understand efficiency, it is usually represented in the Pareto optimality. It is optimal if no one can be made better off without making somebody else worse off. Pareto optimality ignores distributional equity, yet we can eventually see Pareto optimal in cases where the wealthy take over and leave the rest of the population to a starving situation. This ties into the central thesis of this paper. With real estate development surging in New York City, we are seeing an increase in rent or housing prices, which is something only the wealthy can afford.
In 1995, Carpenter and Lees conducted an international comparison study on gentrification in three major cities across the world; New York, London, and Paris. In their study, they conclude that gentrification is extensively familiar as an international phenomenon, yet there has been little research and evidence conducted. When we think of gentrification, we think of change, yet change can come fast or slow depending on urban externalities. In the context of comparison between the United States and Europe, the United States, specifically New York (it being the only US city of study in their paper) has seen a vivid and fast response to gentrification, as opposed to Europe (London and Paris) where gentrification occurs slowly and delicately.

Ultimately, a common question is how gentrification can be applied to cities in a meaningful way around the world. As we will go into further detail of this study in the following chapters, we must also understand that there are different degrees of operation between, within Europe and different ones when comparing Europe to the United States.

A paper written by Brueckner and Rosenthal (2009), both review and study if gentrification will cause the downtowns of cities to be rich. In their study, Brueckner and Rosenthal try to understand if gentrification only affects a few neighborhoods, only done for publicity, or are there forces that will eventually change cities in the United States. In their model, we see that they explore different patterns of real estate prices in different cities. Statistically, the wealthy in the United States tend to live in the suburbs, and the central city incomes average to only about 40% of suburban residents. Therefore, it is hinted that the remaining 60% have incomes that exceed the average income of an urban resident. Nevertheless, as there is an increase in gentrification around a major city, it also begins to affect the rich neighborhoods close to the city. This though, tends to be the exact opposite in foreign cities. In other major cities of the world, a common example being Paris, you see the city center be occupied by the rich, and the suburbs occupied by the poor.

High income households have two forces. First you have a pull towards the suburbs, where you can get a low cost per square foot, making demands for houses in the suburbs high. Second you have a time-cost-base which is a pull towards the center where living in the city you would have a shorter commute to work, resulting in time-savings. To better understand these two forces, we can use the city of New York as the central city and suburban areas surrounding it, including the suburbs of Long Island, Upstate New York, and New Jersey. The cost of buying a house in the surrounding suburbs of New York City, would be around a third to a fourth of the price of an apartment or townhouse you would likely buy in the city. For the high income to choose to live in the center city, it would need to be topographical and have historical amenities, which include landmark and beautiful buildings, parks, museums, and/or river view. All are examples of Parisian-style location patterns. Mentions of fiscal amenities, are some of the reasons why the wealthy tend to escape center city and choose the suburban lifestyle. In addition to that, a better quality of public goods goes into consideration, while the escape of central city taxation is something the wealthy seek.

Jersey City is in the state of New Jersey and is roughly a five-to-ten-minute train ride into the city. Jersey City has four subway stations that can take you right into Manhattan. In each of those stations, the surrounding neighborhood has seen an increase in urban development, and tax-abatement structures. This brings in the topic of transportation, and how it is a major player in the areas that are seeing the most gentrification. In a city like Jersey City, you can get a grasp of what neighborhood tends to shift towards high or low income based on their accessibility to public transportation. Hence, the closer one is to a subway station the higher the cost of living, as opposed to someone who is the farthest away which tends to have a lower cost of living.

Demand for housing services increases with income. Thus, high-income households are drawn to the city center where they find young dwellings. If these dwellings are found in the suburbs, these high-income individuals will be drawn to these young dwellings pulling them outward, yet still have that time-cost-base force pulling them inward. In the case of redevelopment, and new young dwellings in the center city, both forces work in a cycle where they will be pulled inwards, towards the center city. This is where we see high-income households occupying space in center city and the suburbs, which is a common gentrification pattern we see in the United States. If higher-income households move into an aged dwelling, that would be the case only if its occupied residents are of high-income as well and closer to the central business district.

Much of recent gentrification findings mainly focus on the effects of residents and housing, yet little emphasis is given to neighborhood gentrification. We know that the nature and quality of urban neighborhoods is affected by gentrification. An emblem of locality in a city is the “corner store.” Corner stores are a major component of local retail and have long played an important role in neighborhood economics and development. Such retail services provide a less-tangible social and cultural capital, amongst providing necessary materials (Meltzer 2016). It is then safe to assume that neighborhoods that are under the effect of gentrification, will eventually have an equal affect to the local retail stores who provide the goods and services to consumers.

We are aware that local businesses, to be successful, have undergone a series of research to correctly fit in the existing consumer base for an ongoing survival. Therefore, when there is a gentrification-induced shift that takes place, economic and ethnic factors begin to unwind for local businesses. These changes can go either way for a local business. If the new consumers that emerge in the recently gentrified neighborhood have an appeal to the local businesses, then by their support, local businesses will thrive. On the other hand, if the new consumers of the community have a different taste or lifestyle, then they will usher out the pre-existing local businesses and usher in new businesses that fit their needs. Thus, it is common that residents choose the new businesses which will bring on new opportunities, because they weigh that more than the culture and services that-that neighborhood once relied on.

Real Estate and the Macroeconomy

The first decade of the 21st century can only be understood in a macroeconomic context since there has been major rental growth and yield fluctuations. Truly, macroeconomic conditions are just as reliable as real estate research and advice, of the current time. Some of the major factors that affect the real estate industry are the rental and construction cycles, capital markets (bubbles), herd behavior, and impact of urban growth (Barkham 2012). In terms of economics, real estate backs to the production of goods and services, therefore not requiring intrinsic qualities. As there is an increase in output, there will be an increase in real estate. The market discount rate, and the interest rate are all results of macroeconomic conditions. Real estate, being an asset considered risky, has a boost in values due to a positive sequence in macroeconomics. When talking about the supply side of the current issue, is there is an increase in economic confidence, this would increase the supply of finance within the real estate development industry. As a result, this would increase construction, and also increase the vacancy level in the marketplace. When we have strong growth and increasing inflation, investors as a result will acquire real estate due to its known ability to hedge inflation (Barkham 2012).

International Comparison

In a study conducted by Carpenter and Lees, they examine and compare gentrification in three major cities across the world. In their international comparison, they relate New York, London, and Paris, and ideally, how there are some common factors amongst all three cities. They look at how investment capital leads to gentrifications in some of the unexpected neighborhoods in these three cities. New York City, amongst London and Paris are all postindustrial cities, so it can be assumed, by the authors, that the supply of gentrifies which is crucial, tends to not be a problem. A postindustrial city is where a saturation of manufacturers and factories once were, on open space and near the edge of the city. All three cities have bodies of water that flow through them. The Hudson River and East River for New York City, the Thames River for London, and the Seine River in Paris.

Disinvestment and Reinvestment into a City

In their research, they find that disinvestment and reinvestment are the two crucial points to fully understand gentrification. In a paper written by Harvey 1977, *Social Justice and the City,* he points out that if there is a buildup in the primary circuit of the production process, then this as a result prompts a switch in the secondary circuit in the process. To fully understand, the primary circuit of capital can be defined as the investment and production of consumer goods. The secondary circuit of capital is defined as surrounding capital flows into buildings such as offices, factories, and housing. It is then argued that disinvestment and reinvestment are cyclical in a built environment, and therefore they are the main determinants of the supply of gentrifiable housing in the inner city. Gentrification can be shown to originate as the move of suburban development begins to rise. As capital shifts to suburban development, and there is no capital for inner city investment, structures in the inner city begin to age, have a rise in maintenance costs, and eventually become abandoned. This is then called the "rent gap." Rent gap is the difference in capitalized ground rent under present land, and the potential ground rent under a more profitable investment. Once it is established that there is a wide enough rent gap, land investors would then seize the opportunity to buy that abandoned land for a profitable investment. This is how it leads to reinvestment.

On the side of reinvestment, you also have an argued side of what is called the "value gap." Value gap is what the owner wants or needs from a sale of their businesses, which is currently not being reached. An article written by Hamnett and Randolph (1986) titled *Gentrification of a City,* they argue that there is a different value of property under tenant and under owner occupation. When there is a period of inflated property values, while there are also depressing rent levels, landlords may tend to exploit the value gap by selling property to individual own occupiers. This as a result ends up being some sort of, unaware, promotion of gentrification, due to the conversion of tenure and an increased shift in residential profile.

The shift in residential profile also brings perspective into Conspicuous consumption. Conspicuous consumption in other words is the terms "show off." People in this category are the ones who purchase the luxury goods and services, and publicly display their purchase power (income or accumulated wealth) to enhance their prestige. This is something that is increasing at high levels, and is something, the wealthy middle class have constructed their identities around. Gentrifiers want to be distinctive with their own cultural context, while simultaneously mark themselves to stand out from others. They all differ, but all have a traditionalism which makes them known by one another. Therefore, we can see gentrification as a globalization of culture in a postmodern world; it is something that has begun to take world dominance, with yet little distinctiveness.

Local Businesses

Before the 1970s, local businesses such as local eateries, markets, corner stores, and small businesses, have been the main point of determinant of economic and cultural activity in a neighborhood. In neighborhoods of immigrant and minority populations, these local businesses have been the center and drive of entrepreneurship. Thus, all these local businesses are not only vital for job creation but are crucial to community life. As noted earlier on in this paper, gentrification was a term that was used to study the transition in socioeconomic behavior. When a neighborhood gets "gentry" or more elite, as the more affluent move into low-income neighborhoods, there becomes a change in demand. The change in demand bring in a change of stores, and according to Jason Patch, to fully understand gentrification look at retail change or what he refers to it as "street gentrification."

For pre-existing businesses, gentrification can either go two ways; make more money or bankrupt. Joel Waldfogel finds empirical data that income, education, and race/ethnicity do in fact play a role in the retail services people chose to attain. Commercial services are amongst the top for household residents. On the other hand, say if consumers like the pre-existing businesses in their neighborhood, their injection of cash flow, if there was a lack previously, in the local community could create a stabilizing energy. This could in addition be a driving force to bring in new businesses in the neighborhood.

On the other hand, gentrification is also a cause in what it takes to operate a business. This ties into consumer demand because consumer demand is the main determinant of business operation. For a pre-existing business, with more business after gentrification, this will result in a direct manner, and thus businesses will see an increase in rent. As opposed to those businesses who do not have any demand, they will eventually see force closure due to their inability to pay rent prices, even if they have not gone up in their case. It is important to know that there is a difference though in residential and commercial rents. Commercial rents, as opposed to residential, tend to be longer, and businesses can sustain operations, at properties in the neighborhood at the original rent, otherwise appreciate. Thus, displacement can take longer to emerge. Though with new businesses emerging in a gentrified neighborhood, they can bring goods and services that are more expensive in pricing and fit in a different category than what previously. As a result, commercial spaces may or may not see a longer period to be occupied for a sustainable period of time (Meltzer 2016).

Evidence shows that a higher income neighborhood and lower income neighborhood will see different establishments. In a lower income/ minority neighborhood we will see trends of les diverse retail establishments, smaller average establishments, and a higher proportion of unhealthy food options. It is also important to note, that even after there is a controlling purchase power, banks and supermarkets tend to not locate in poorer zip code neighborhoods. As a result, as gentrification emerges in new neighborhoods and the demographics shift alongside with it, when so do the businesses that serve the area. Further studies have found that neighborhoods that have shown a fast-paced appreciation or larger income gains, also saw more retail establishments. These results were shown in middle-class neighborhoods who saw the dramatic shift of businesses. “Meltzer and Capperis found that, although more businesses churn takes place in neighborhoods undergoing relative price appreciation, most of it is driven by new business births rather than business deaths or exits. The authors also found that retail churn is associated more with changes in the local consumer profile than in the commercial environment. Supply-side factors matter, too; evidence indicates that changes in local businesses are also driven by targeted investment” (Koebel 2002).

Bringing evidence to the table once more, it shows that socio-historical role of a neighborhood and government intervention play an important role to the local businesses and consumer behavior in the area. In another study, it there was a comparison by individuals who moved into neighborhoods that were gentrified and individuals who stayed putt. Those individuals who decided and could afford to stay in the gentrifying neighborhood, saw an increase in satisfaction, than those who were in neighborhoods of low-income saw it as a heavy constant. While the pre-existing individuals found changes in the gentrified neighborhood safer, they wondered how all these new businesses would benefit then, when they were only created to benefit individuals who were just moving in (Meltzer 2016).

Poor People and Cities

The study of urban economics also always examined poor people relative to neighborhoods and asked why poor people live disproportionately in cities. A MSA is an acronym for *metropolitan statistical area.* In the 1990s, about 17% of the central city population of MSAs lived in poverty, while only 6.9% of the suburban population lived in poverty. In a working paper titled *Why Do the Poor Live in Cities?* published by Glaeser, Kahn, and Rapaport, they argue that poverty in central cities attracts the poor only because they are poor cities, rather not because central cities make poor people. It is proven thought, that throughout time, the poor would generally concentrate in the central cities, while the middle-income individuals, would tend to concentrate in the suburban areas. "A primary triumph of urban land use theory (Alonso1964) is its ability to explain the urban centralization of the poor. The monocentric urban model argues that richer consumers want to buy more land and therefore choose to live where land is cheap. The model can explain why the poor live in city centers as long as the income elasticity of demand for land is greater than the income electricity of travel costs per mile (which is often thought to be one) (Glaeser, Kahn, Rapaport 2000).

It is shown that the cost of housing for the rich, which is relative to the cost of housing for the poor, does not have a decline in the suburbs. Instead, in metropolitan areas, there is a higher centralization of the poor where they have the greatest housing market incentive (Glaeser, Kahn, Rapaport 2000). In their study, they incorporate the understanding of public transportation, and how it is used as an explanation as to why poor people live in cities. They claim that public transportation is inexpensive but slow, which makes it attractive to the poor. Whereas, owning a car is expensive and fast, which makes it favorable to the wealthy. Personally, this is a very debatable subject, since we have seen over the past years that concentrations of new developments tend to happen in areas where access to transportation, mainly the subway for New York City, for easy city center access. At the time of this published article, in the year 2000, New York City hadn't witnessed the destruction of 9/11, the recent evolution of Hudson Yards, Billionaires Row, and redevelopment of Brooklyn. Yes, gentrification was occurring but not at a faced pace. Thus, the article *Why Do The Poor Live in Cities?* by Glaeser, Kahn, and Rapaport can be highly debatable since today even billionaires are occupying space in major cities, such as New York City.

Implemented during the period of 1950s through the 1960s by most advanced capitalist nations, gentrification was an organized process for urban renewal, slum clearance, and post-was reconstruction programs (Schaffer, Smith 1986). Glass coined the term in the following text:

> One by one, many of the working-class quarters of London have been invaded by the middle classes- upper and lower. Shabby, modest mews and cottages - two rooms up and two down-have been taken over, when their leases have expired, and have become elegant, expensive residences. Larger Victorian houses, downgraded in an earlier or recent period which were used as lodging houses or were otherwise in multiple occupation-have been upgraded once again. . .. Once

> this process of "gentrification" starts in a district it goes on rapidly until all or most of the original working-class occupiers are displaced and the whole social character of the district is changed (Glass 1964**,** xviii).

Sporadic rehabilitation first began in the nineteenth century in European cities, when at that time it was due to a factor called, *The Improvements* as defined by the British, or *embourgeoisement* defined by the French. The only difference between rehabilitation and gentrification was the latter of it being far more systematic and widespread. Thus, it is an international process and not national, and is synchronized with larger economic, political, and social changes. As studied by the Chicago School, the places that seem to get effected by gentrification are the ones who are in the inner-city area, those around the central business district (CBD). Therefore, there are three main questions that need to be asked in relation to gentrification. First, the significance of the process. Second, the effects. And third, the causes.

Significance of Gentrification

Feasible signs of gentrification started to appear in the United States around the time of the 1970s, according to the census data. The Urban Land Institute (1976) suggested that that nearly half of the cities in the United states with a population exceeding 50,000 people saw some level of rehabilitation in their inner-city housing market. "The debate is essentially this: is gentrification a small-scale, geographically restricted process that has little or no effect on the city as a whole, or it is a harbinger of major reconstruction of urban space?" (Schaffer, Smith 1986). In terms of policy, gentrification has been argued to be the solution to the urban problem, yet it is also argued that it can also be the problem to urban housing and has resulted in an encouraged stance. In many cities across the United States, we see the model of gentrification that resembles the European model. "This model is characterized by a historically preserved urban center where numerous high-income residential areas have been maintained and where elite retail and commercial establishments are concentrated. Some see this "social Manhattanization" as already clearly evident in many U.S. cities" (Schaffer, Smith 1986).

Effects of Gentrification

One of the benefits of gentrification is economic vigor. That is because gentrification has been praised as major hope to reverse the economic and social decline that still has a dominant factor in inner cities. In a view against this is the percentage of people getting displaced in gentrified neighborhoods. 23% of residents in gentrifying neighborhoods are displaced. Government figures estimate over 500,000 families are displaced for their homes yearly, which of this number is mainly accounts for minority displacement. The effect of gentrification has become a real problem as communities begin to reshape their demographics. As neighborhoods transform, so do families as they get displaced and must find new housing. As for those who have stayed in the gentrified neighborhood from start to finish have a story to tell about a friend or family member that got displaced.

Causes of Gentrification

"The strictly ecological explanation referred to above the treatment of gentrification as a re-invasion of the zones of transition – have certainly been invoked as well as criticized" (Schaffer, Smith 1986). In the United States, the process of gentrification has been defined to change lifestyle. This is because there is a maturation of the baby boom generation, the increase of adults living together, as roommates, and as there is an increase in the labor force by women.

Gentrification in Harlem

Harlem serves are a target for gentrification in the City of New York. Harlem, a symbol of black culture is identified by two images. The first theme being the nostalgic Harlem, going back to the Harlem Renaissance or the Black Panthers. The second theme being Harlem known as the ghetto, as one of the largest working-class and poor inhabitants in the United States. This image also includes the physical collapse, crime and drugs, and violence. If these two themes are different, then they are not incompatible, and thus each only portrays only a part of the real Harlem. Thus, in this case, authors Schaffer and Smith focused on the degree of gentrification in Harlem as an ally known as a black neighborhood.

Harlem's housing stock is comprised of five to six-story tenements and townhouses, initially a working-class area of the last decade of the 19th century and is located on the northern edge of Central Park in Manhattan. It began when Harlem originally saw a move of white middle class individuals flee to the suburbs, and an increase of migration from the south of black individuals. World War I did in fact play as an accelerant to this migration to the north. By the 1920s, as it was the beginning of the Harlem Renaissance, this eventually shaped and rounded up the center of black culture. As a result, as new construction ceased, Harlem saw dramatic disinvestment and more evidently during the Great Depression. Any funding that was to occur in Harlem would be funding from the state, and by the 1960s when Harlem began to make international headlines, it was changed into a slum and famously known for black depravation in America.

Nevertheless, as Harlem is one of many examples of a neighborhood facing disinvestment and other common and similar signs of gentrification amongst other neighborhoods in the world, Harlem is atypical in other ways. At the time of publishing of this article in 1986, according to United States census data, the population of Harlem was 96 percent black. Today, according to data gathered from NYU's Furman Center, Harlem's population is 56.1 percent black, 22.9 percent Hispanic, 13.8 percent white, and 4.4 percent Asian. "Gentrification in the United States has certainly led to the displacement of black and other minority populations, but because many of the black urban neighborhoods had been targeted earlier by urban renewal and because white middleclass gentrifies have generally been less squeamish about moving into white working-class areas, the earliest neighborhoods affected by gentrification have usually been white or at least mixed" (Schaffer, Smith 1986). Apart from Capitol Hill in Washington D.C., being an obvious exception, having gone gentrification since the mid-1960s, predominately black neighborhoods have been perceived are hard areas to gentrify. In addition, Harlem is much larger than Capitol Hill, by an area of four-square miles, and 300,000 more residents. On the other hand, it does promise considerable economic opportunity for developers who want to gentrify the neighborhood (Schaffer, Smith 1986). Amongst Harlem, that can be gentrified building stock, common examples are the neighborhoods of SoHo, Tribeca, Lower East Side, Chelsea, Clinton (Midtown West), and the Upper West Side. Harlem represents the largest working-class residents, with no gentrification. At the time of publishing on this article, 1986, gentrification shied away from Harlem.

The iconic Apollo Theater, located on 125th Street between Frederick Douglass Blvd and Adam Clayton Powell Jr. Blvd, is found on the street that is currently setting the new border for gentrified and non-gentrified in the neighborhood of Harlem. 125th Street is currently being turned into one of Manhattan's famous commercial retail streets. Most Harlemites refer to the new redevelopment of 125th Street, as an extension to the Upper East Side, while this redevelopment is currently pricing out its original inhabitant. Housing prices have soared to 247 percent than what they were 10 years ago. Renovated lofts and townhouses are now going for $1.5 to $4 million, which you can easily assume that individuals who are purchasing these lots are of a wealthy background, when the median household income in Harlem as of 2018 was $48,500.

An increase in all these prices is also increasing the cost of operating a business. Throughout New York City, a diner is a central hub for anyone. It serves as an informal club, and as years go by, locals tend to make their neighborhood diner their second home, as they can be found there day after day, or week after week, being a commoner as time goes by. Jeremiah Moss, blogger of Jeremiah's Vanishing New York wrote, "If we are regulars, we become known, connected, to a network of people who remain over the span of years, even decades. In the anonymous city, these ties can be lifesavers, especially for the elderly, the poor, the marginal, but also for all of us. Without them, the city become ever more fragmented, disoriented and unrecognizable." Yet, diners are one of the major key players in the city's economy that are starting to disappear, or to be said economically, they are being priced out. The borough of Manhattan in specific, has seen the most diner closures amongst the five boroughs. The rising costs and rapidly gentrifying neighborhoods lead to change of taste, which causes rents to increase, causing diners to lose business, get priced out, and eventually shut down. Thus, the loss of diners in New York City causes a crisis in history.

Many of these diners can be referred to as a microorganism of immigrants, that originate from Costa Rica, Ecuador, Greece, Mexico, Poland, and Romania. Mainly operated and run by immigrant groups, as a chase for the *American Dream* that have currently shaped the city to what it currently is. Author and sociologist Ray Oldenburg writes in his book *The Great Good Place,* "exists the fading image of the city itself and the kind of human interaction, the easy and interesting of strangers that made the city what it was" referring to diners as a special element to a city (Blecher 2016). Each diner has its own gem, which is why locals eventually become attached to it. Its ambiance, sound, food, coffee, and décor all play a role in what makes someone select a diner as their second home. In the movie *My Big Fat Greek Wedding* we get to see a diner operated by a Greek family. In fact, most diners in the city of New York, are still owned by Greek Americans. Growth in Greek-owned family run diners rose after the Second World War, combining entrepreneurship, long working hours, and a safety net for connections.

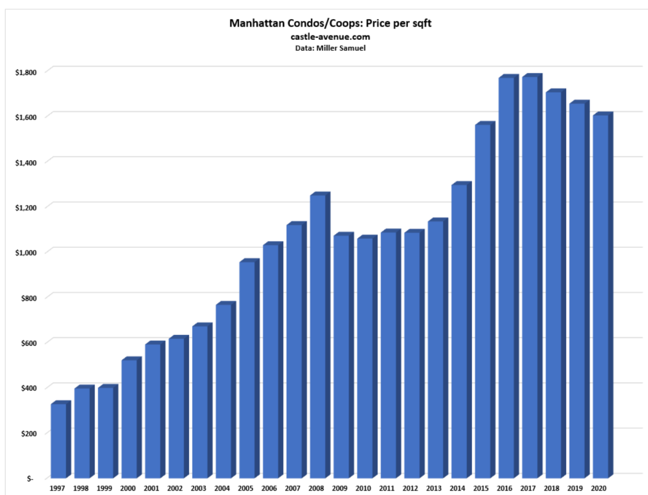
<u>To Gentrify or Not to Gentrify, to Develop or Not to Develop, to Small Business or Not to Small Business</u>

Over the past 20 years, real estate in American cities have soared to record breaking levels. "According to the U.S. Census, the media value of an owner-occupied housing unit in Manhattan rose from $245,633 in 1980 to $377,246 in 2000 (both figures in 2002 dollars), implying a real appreciation rate of 2.2 percent per year that is doubled the national average measured by the Freddie Mac Repeat Sales Price Index" (Glaeser, Gyourko, and Saks 2004). Currently, in the 21st century, one-third of American cities have added more housing units than the national rate of 1980, this causing a fall in real median housing prices. As New York City began to grow during the 1950s, there was demolition of homes for construction of residential buildings that were denser, to include space for new homeowners as the city began to grow in population. Today, there are difference forces that impact real estate of New York City.

At the time of the publishing of the article (2004) *Why is Manhattan so Expensive? Regulation and the Rise in Housing Prices* by Glaeser, Gyourko, and Saks it was noted that in their research they found that the average price per square foot in a condominium (condo)/cooperative (co-op) in Manhattan would exceed $600/sqft. Developers in New York

City would see an “irresistible arbitrage [of] opportunities” which they would buy land and develop luxury-type condos/co-ops at a price of $300 per square foot and sell for $600/sqft. Below, in Figure 1, we will see a bar graph of the average price per square foot for a condo/co-op in Manhattan. Over the years of 1997 to 2020, there has been a 357% increase in the price per square feet starting at an estimate of $350/ sqft in 1997 to $1,600/ sqft in 2020. Though we do see a decrease from the past three years, whereas in 2016 and 2017 we saw a peak in prices that was a little under $1,800/ per sqft.

Figure 1



Data: Miller Samuel Appraisers

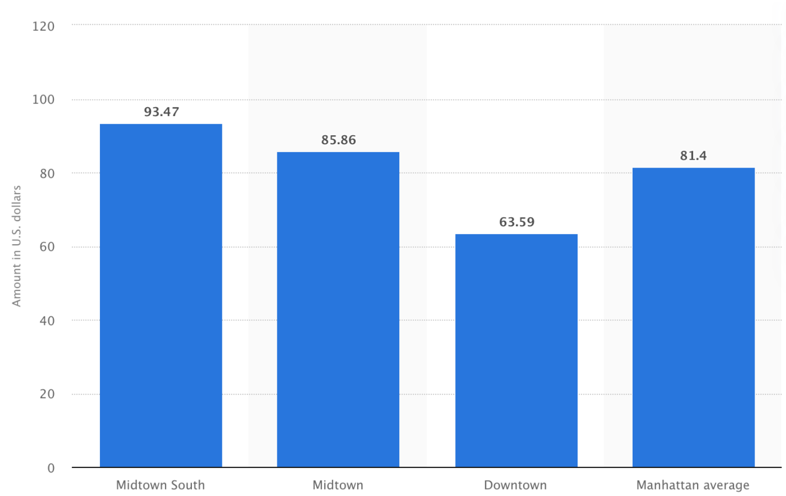
In the standard model of economic theory, if there is absence of government regulation, once in equilibrium, buildings will be sufficiently large so that price will equal marginal cost (Glaeser, Gyourko, and Saks 2004). Prices would be above marginal costs if there is a government regulation regarding height, but if there is competition and development going on, prices will equal average costs.

Just how expensive are we talking?

> Not surprisingly, there is a tendency of prices to rise in their value with building height. The average price per square foot for condos in buildings with between 10 and 20 stories is $400, while the average price per square foot in buildings with more than 40 stories is $573. These price differences presumably reflect two factors. First, apartments in taller budlings have better views. Second, taller buildings will perhaps be of higher quality and may be made of more expensive building materials. We also see that prices are higher in larger buildings. The price per square foot is around $400, in the smaller buildings, but rises to over $500 for units in larger buildings. Again, it is unclear if this price differential reflects better views or other characteristics that might be related to the building (Glaeser, Gyourko, and Saks 2004).

The luxury real estate market in New York City focuses on three things: ultra-tall, ultra-luxury, and ultra-rich. At the time of the publishing of Glaeser, Gyourko, and Saks in 2004 of course the real estate market was remarkably cheaper than what it is today, yet their slight focus on higher buildings having higher price per square foot has come to be correct currently. Today, we know for a fact that individuals who buy into these apartments want the amenities and the views of the New York Skyline. Billionaires' row is a series of eight residential buildings by Central Park south, each being taller than 1,000 feet, and categorized as pencil towers. Some of the most expensive homes have been sold here at record prices of $87.8 million, $91.5 million, $100.47 million, and $238 million, making them record prices for homes to have ever been sold in New York City. This shift in the luxury real estate market has also caused a shift in the stores that surround Billionaires' row. Below, in figure 2, we will see the average ask for Class A asking rent in Q4 2020 in Midtown, Midtown South, Downtown, and Manhattan Average.

Figure 2



Above, we will notice that the average price per square foot for a Class A rent in midtown is 85.86 USD. So, for example, if you have a 1,000 square foot Class A unit for 85.86 per sqft, you would be looking at $85,860 USD monthly rent. Class A commercial buildings are classified as the newest, and of highest quality in the market. Class B commercial buildings are a notch down from Class A. They are relatively old, yet have great tenants, and management, and upkept it kept at its best. Class C commercial buildings are buildings located in less derisible locations and need an extensive amount of renovation.

In the paper by Glaeser, Gyourko, and Saks (2004) their focus is on the real estate prices and regulations of residential real estate, as opposed to minor emphasis on commercial real estate prices. With a small amount of research in commercial real estate, they state:

> "In sum, data on the office sector is much more limited than what is available for housing, but the evidence is constant with a market in which the supply still responds to demand (with a lag) and with smaller premiums of price-to-cost even in periods of strong demand. This is precisely what one would expect in a sector where political influence business tenants desire to keep their rent levels down by a minimizing restrictions on new supply."

A Case for Park Slope, Brooklyn

Park Slope is in Brooklyn, adjacent to its central business district (CBD) and its only four miles away from Wall Street, Manhattan. Park Slope was originally one of the early suburbs of Manhattan, which ultimately attracted professionals from Manhattan. One can say that that is currently the case now as well. Originally built during the nineteenth and early twentieth century it is filled with tree lines streets, and beautiful classic New York City townhouses. During the depression, Park Slope was home to the working class. That changed after the Second World War where there was a change in demographics and then it was occupied by the Irish and Italian Americans immigrant communities. Gentrification in this area slowly began in the 1950s, and became more intense in the 1970s. Currently, Park Slope is ranked seventh in the most expensive neighborhoods of Brooklyn, averaging a little under $1.3 Million for median sales price. Commercial rent in Park Slope ranges from a low of $40 per square foot/ per year to a high of $145 per square foot/ per year.

The Evolution of Gentrification in Park Slope

Suburbanization

One of the main determinants of disinvestment in New York City has been the status of suburbanization. With a cause of suburban development, there is a shift in capital alongside with a shift of people leaving inner city areas. Suburbanization first got introduced to Park Slope around the early 1900s. Many middle-class occupying families of Park Slope moved out even further to Flatbush, what was known to be a suburb back then. While Park Slope saw a decline in middle-class families, it saw an increase in lower-class occupancy during the Depression. While at and at the end of the Second World War, there were changes that affected suburbanization in

Park Slope. There was an increase in construction of roads and bridges, which focused on connecting Long Island City to Manhattan. In addition, Park Slope also saw a phenomenon known as "white flight." This is known as being a migration of white people out or urban areas and into the suburbs. As a result, a total of 682,000 white people left for the suburbs (Carpenter and Lees, 1995).

Institutional Disinvestment

There is evidence that in New York, just a London, being another major city of the case study by Carpenter and Lees, there has been institutional disinvestment of the inner city through the process redlining. According to *Investopedia,* redlining is defined as, "a discriminatory practice that puts services (financial or otherwise) out of reach for residents of certain areas based on race or ethnicity." Park Slope being one of the major neighborhoods that redlining has been emphasized, it has been back up by The Advance Mortgage Corporation, and that it has been a fact for life for all brownstone communities. Brownstone communities are a series of houses that have a brown brick exterior, hence its name. Yet, a brownstone is just a façade of a townhouse, so these words can be used interchangeably. Redlining officially became forbidden in the United States in 1977, and official New York state law the following year, in 1978.

Abandonment

Abandonment is a key view in what shows the disinvestment in the area, in this case Park Slope. Between the years of 1965 and 1968 alone, there has been over 100,000 units removed from the housing market, caused my disinvestment of the inner city. Between those years, there was an annual 6% increase for an owner and 2% increase for a rent-controlled unit. As opposed to uncontrolled, there was a 25% increase on a two-year lease, hinting that abandonment was emphasized more in the uncontrolled sector as opposed to the rent controlled. As a result, there was a higher neglect in Park Slope due to abandonment and property taxes. Therefore, there was a longer period of neglect in housing units in Park Slope and took extra time for reinvestment.

Re-investors

Reinvestors play a crucial role in the gentrification process, as which was mentioned above earlier. They are the individuals who come in the change the way or living and upscale the place. In this case of Park Slope, the reinvestors were private individuals, property developer, and public utility companies. In the case of private individuals and property developers, they came in and believed that money would be made if there were conversions into condominiums (condos) and cooperatives (co-ops). Their focus was to bring in the middle class and convince them that their investment in Park Slope would be profitable in the future. On the other hand, the two utility companies were Con Edison, and Brooklyn Union Gas. Their focus was to transform brownstones to single-unit residences. They focused on *trompe l'oeil,* or paintings on the side of buildings, Cinderella Schemes, what was then ugly is not beautiful, and the Renaissance Programs, which was a focus by Con Edison and the renewal of co-op units.

Retail Stores in Poor Neighborhoods

Before we dive into the analysis of retail stores in poor neighborhoods, we must first define what makes a poor neighborhood poor. First, the poverty rate must be in the high 25% of all the zip codes that are examined. Second, high school graduation rate is in low 25% rate. Third, labor force participation is in the bottom 25%, and fourth, unemployment is above 25%.

One of the major reasons why poor consumers are at a drawback, as opposed to the middle and wealthy class, is the goods and services that are provided to them. Geographically, studies have shown that poorer neighborhoods do not have access to the same grocery stores and banking. Where we see a saturation in low-income residents, we also see smaller supermarkets in these zip code areas. For a supermarket to open in a low incomes neighborhood it faces the difficulty of having to find an acceptable size to fit in the inner city, since there is fragmentation of property ownership. Amongst that, New York City also faces zoning laws which make it hard to a building to open. For example, there are certain restrictions on where a store can open in New York City. even after a store is cleared by the Manhattan Borough Council (or any borough council), they may face the possible political, community or regulatory barriers of the surrounding environment, limiting the opening of a store. Zoning laws is that the government uses to diving up land, of which each zone has their own regulations on new development.

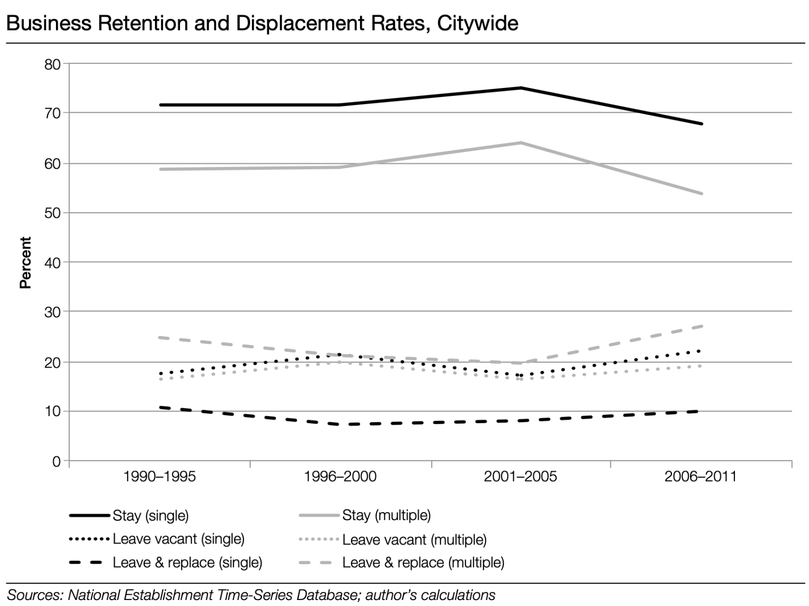
In a study that was conducted in Newark, New Jersey (Bremner 1990), he found that smaller grocery stores tended to only have more familiar brands, due to their limited shelving as opposed a chain supermarket, and as a result prices in Newark's grocery stores were 38% times higher than those of suburban supermarkets. One of the main reasons why the prices were this high was also due to the fact of the wholesale cost, which gets passed onto the consumer whenever possible.

Threat or Opportunity

In 2016, Meltzer did a study regarding if small businesses in gentrifying neighborhoods face a threat or an opportunity. Her study focused over the years of 1990 to 2011. She found, that in the time frame of both decades, businesses were more likely to stay in place than leave.

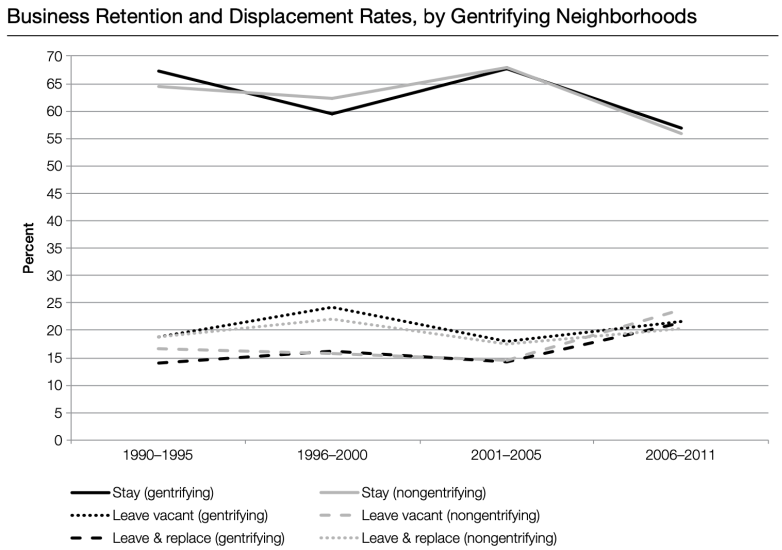
Though, in her study she notices that there is a “retention rate that goes down in the second half of the 2000s and is lower for multiple-business properties throughout both decades. Businesses are more likely to leave without replacement, meaning that space is vacant by the end of the 5-year interval” (Meltzer 2016). Below, in Figure 3 we see six trend lines, of which the top two, stay, have stayed between the 50-80%.

Figure 3



Meltzer goes on after to change statistics and include low-income and gentrifying and low-income and non-gentrifying neighborhoods. Below in Figure 4 we notice a persistence of the citywide to gentrifying neighborhoods to follow along a similar path. As a result, “small businesses stay in place, and the smallest share leaves with replacement.”

Figure 4



Sources: National Establishment Time-Series Database; author's calculations

When we look closely, we will notice that retention was most common and high in the second half of the 2000s. Another notice was for businesses that stay in place in gentrified neighborhoods during the late 2000s were older than those of a non-gentrifying neighborhood; in the 1990, the opposite was true. We will also notice that at the end of both decades there is an increase in vacancy of commercial space because of displacement and is more distinct in gentrifying neighborhoods.

> "Lastly, the likelihood that the new business is a chain varies as well by neighborhood classification and decade. In the 1990s, replacement businesses are likely to be chains in gentrifying neighborhoods; in the 2000s, this trend reverses and replacement businesses are more likely to be chains in gentrifying neighborhoods with those in non-gentrifying areas" (Meltzer 2016).

Case Study on East Harlem, Astoria, and Sunset Park

Meltzer goes on in doing a case study for three Neighborhoods in the City of New York; East Harlem, Astoria, and Sunset Park. East Harlem is located on the northeast section of Manhattan, traditionally known to be a Hispanic neighborhood with some of the oldest housing stock, poor environment, and the highest share of Black residents. “More than one-half of the 22 census tracts that make up this microneighborhood were designated as being low income in 2000, and, of those tracts, nearly one-half. Were classified as gentrifying in the decade that followed” (Meltzer 2016). As a result, there was a population change in the late 1900s and early 2000s, which followed by a population surge in the gentrifying areas of this neighborhood. Throughout the area, we saw 5% points decrease of Hispanics, and an increase of White people in the gentrifying areas. In addition, college-educated residents grew at a faster rate and the poverty rate declined dramatically in the gentrifying areas. Furthermore, the early 2000s saw an increase in commercial prices because of gentrification.

Astoria is in the northwestern part of Queens, right on the East River, across Manhattan. Astoria, being one of the most ethnically diverse neighborhoods of New York City, houses residents from Europe, South America, and the Middle East. Statistically, it has a higher percentage of White residents, but is one of the highest ranked neighborhoods for foreign-born residents. In the case of Astoria, it saw an increase in population in the late 1990s and a population decrease in the late 2000s, yet the gentrifying tracts saw a great population decline. It is shown that this decline in population was the White individuals. Again, just like in East Harlem, college-educated residents rose, and poverty levels decreased in gentrifying neighborhoods.

Sunset Park is found right on the Hudson River, on the southwest park of Brooklyn, and has been home to Hispanic and Asian immigrants. Sunset Park is also an area in Brooklyn with large land zones of manufacturing (attracting chains stores like The Home Depot and Costco) which has been one of the main reasons to attract people in the area for investment. Sunset Park is a neighborhood of Brooklyn that was originally designed to serve the low-income, like East

Harlem, and less than one-half of the area is designed as gentrifying. As a result, there was a population shift that caused White people to decline, but in a less dramatic fashion in the non-gentrifying areas. Also, just as in East Harlem and Astoria, there was an increase in college-educated individuals.

New York City Restaurants

Quoting Thomas DiNapoli, in a September 2020 issue of tracking the restaurant industry in New York City, he states, "restaurants are one of the keys to what makes New York City a world-class metropolis. Restaurants are essential to defining what New York City and its neighborhoods are, from a tourist and international business destination to the City's rich cultural identity and immigrant community. These businesses are a vital element that helps draw concentrations of retail and arts and entertainment to thrive in the City, and imbue neighborhoods with character and individuality. They also provide a launching pad for entrepreneurs and immigrants looking to achieve the promise that New York offers" (DiNapoli 2020).

One of the major characteristics of New York City are diners. They are the epicenter of a local neighborhood, some are 24-hours open, and they are what keeps local connections growing and thriving. Though, as great as they can be, slowly are beginning to disappear due to the rising commercial rents of the city. In an article published by *Crain's New York Business* they emphasize three reasons as to why diners are slowly dying down. First, you have economic pressures. These are high rents that owners are unable to pay due. Second, there is a change in eating habits. Truth be told, vegetarianism or veganism was never as common as it is not back in the day. Millennials and Gen Z are changing their behavior on what they eat, where they eat, surrounding, social media influence, and relationships. As a result, this has caused a low demand for people to eat at a diner and an increase of people wanting to eat out at a fancier restaurant. The third reason as to why diners are slowly dying is the shifts. Diners are famously known to being a family business, and something that was passed down from the grandparents to the parents, but not the children. Current generations do not want to work 16 hours a day shift managing a cash register or even managing employees or current situation that may arise.

According to a study by the Department of Health in New York City, there were over 1,000 diners over a decade ago. Currently there are only 398 establishment that define themselves as diners or coffeeshops. Statistically speaking, there has been a 60% decline in diners in the past 25 years. The Evergreen, a diner, generates an estimate of $1.5 million in revenue per year. The owners pay a rent of $25,000 per month, summing to $300,000 in annual rent. Don't let the remaining $1.2 million seem as enough. Include maintenance, cost of staff, inventory, and anything else that may cause to spend money on. To show the aftermath of a diner, in July of 2015 *The Real Deal,* a real estate publication, posted an article on how an famous New York City developer, The Moinian Group, had filed to demolished a 1962 vintage diner and turn it into a 13 story condominium.

In 1918 John Vassilaros, a Greek immigrant launched his own coffee company, Vassilaros Coffee Company. As a motive to help his other Greek immigrants succeed in the diner industry in New York City, he would agree to back them in the business and in return they would have to buy his coffee. Currently, Vassilaros Coffee has provided coffee for diners and other restaurants for over 100 years and estimates that New Yorkers drink around five million cups of coffee from their supply.

To compare profits of a New York City diner and restaurant, we will compare The Bel Air Diner, located in Astoria, Queens, and Tao Downtown. The Bel Air diner generates an approximate annual revenue of $3.6 million. Tao Downtown generates an annual revenue of $38 million (revenue as of 2015). Tao Downtown was topped at the most generating annual restaurant in all of New York City, with second place being Smith and Wollensky at an annual revenue of $26 million. Even so, regarding margins, the Bel Air Diner remains more profitable than any other expensive restaurant in the city, where the Bel Air Diner has a 6% or about $200,000 in annual profits, whereas in Shake Shack margins are at 2%, and for Ark Restaurants (owners of the Bryant Park Grill) their margins are a little under 5%. "High-end restaurants tend to have lower margins than cheaper ones because they have to hire more staff, such as coat-checkers, and wine stewards, not to mention the higher cost of unionized waiters and busboys" (Crain's New York Business 2015).

In the 1970s land in New York City was cheap, so if you could afford to buy the land under which you wanted to open your business, you would be in a peace of mind. Currently, rental space in New York City has increased by 39% from 2012 to 2015, according to the Real Estate Board of New York. Owners of the Bel Air Diner pay $25,000 on monthly rent.

Today, the cost of opening of a diner costs around $4 million, as opposed to $500,000 to $1 million that it costs to open a higher-end restaurant. The reason as to why a diner cost four or eight times the amount of a higher-end restaurants is because diners have a much larger menu and need a much larger inventory as opposed to a high-end restaurant where their menu could be a page and inventory is much less. In addition, landlords prefer to choose to rent their space to chain stores like Applebee's rather than an independent storeowner. That is because if the franchise can't pay the rent to the landlord, the landlord can just ask the corporate parent for rent.

At the end of the day, the owner of Bel Air Diner says, "A diner is a much bigger gamble than any other kind of restaurant. That's just reality."

Nightlife

Without a doubt nightlife is a major component of New York City's identity. New York City is responsible for movements such as the social consciousness of beat poetry, folk music, hip-hop, rhythms of Jazz, salsa, disco, punk rock, and many more. In New York City, creativity soars, and music combines people into contributing to the distinctive energy. In New York City, there are [at the time of 2018] 25,000 nightlife establishments citywide. That provided a total of 299,000 jobs, a $31.1 billion total in employee compensation, and a $35.1 billion in total economic output. As a result, that led to a $697 million tax revenue for New York City. between the years of 2011 and 2016, there was a 2% growth rate in nightlife, a 5% job growth (the city's overall growth being 3%), and a 8% wage increase (compared to 4% for citywide).

In New York City, nightlife is categorized into five subsectors from the time of 6PM to 6AM. They are, food services, bars, Arts, venues, and sports and recreational. When talking about food services, this subsector included partial restaurants, cafes, and food trucks which all serve as the backbone for New York City nightlife. They amount to 19,400 establishments in all five boroughs creating 141,000 jobs, $4.2 billion in wages, and $12 billion in economic output. In addition, New York City is home to 72 Michelin-starred restaurants, more than any other city in the United States. Bars are the drinking establishments' that mainly serve alcoholic beverages and amount to 2,100 establishments. They generate a total of 13,400 jobs, $492 million in wages, and $2 billion in economic output. The Arts, include galleries, museums, live performing art spaces, movie theaters, Broadway, and include a total of 1,800 establishments. They sum to

18,300 jobs, $804 million in wages, and $3.1 billion in economic output. Venues are the concert and entertainment venues, independent venues, and informal and cultural performance spaces, summing to 2,400 establishments. They contribute to 19,900 jobs, $373 million in wages, and $1.2 billion in economic impact. Lastly, sports and recreation total to only 100 establishments, which include 3,900 jobs, $352 million in wages, and $735 million in economic output.

Since people enjoy the nightlife of New York, there is an additional impact on NYC's economy from additional spending on retail, transportation, lodging, and other services that are contributed to nightlife. This as a result, supports 48,000 jobs, $2.3 billion in wages, and $6 billion in economic output. When comparing nightlife across all five boroughs, each vary since each have something different to offer based on personal characteristics. Manhattan is ranked the top borough for nightlife surpassing Queens, Brooklyn, Bronx, and Staten Island. Following Manhattan you have Brooklyn, with the highest percent growth rate, followed by Queens, the Bronx and then Staten Island.

Art Galleries in SoHo and Chelsea

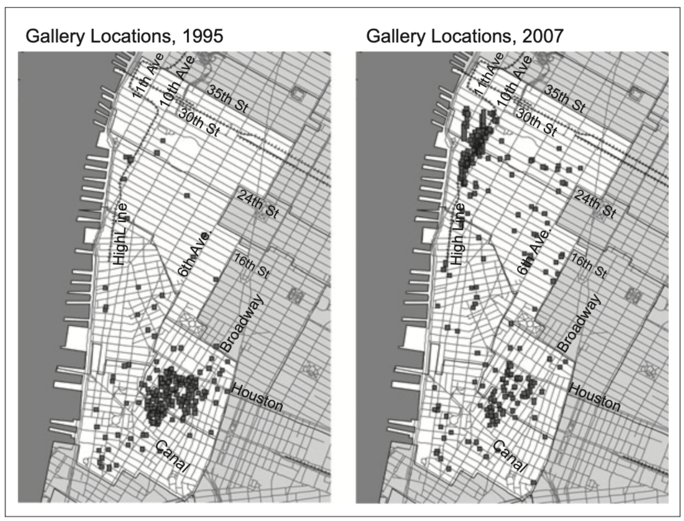
In 2009, Molotch and Treskon published a paper titled *Changing Art: SoHo, Chelsea, and the Dynamic Geography of Galleries in New York City*. In their paper they compare SoHo, which once was the art center of the world. Classic New York City lofts, tall ceilings, and cast-iron façade. Today, there has been a shift in the art world where galleries and artists that once were in SoHo are transitioning to Chelsea. They analyze property markets and social scenes that affect urban morphology.

In Figure 5 we see a chart and a map of the New York City gallery scene. The chart notes five years; 1990, 1995, 2000, 2005, 2007. We will notice that the main neighborhoods of art galleries were in Chelsea, SoHo, and the West Village. We will notice that within two decades there was almost 19 times the original amount of art galleries in Chelsea. In SoHo, we will see a steady decrease, while in the West Village it stayed stagnant. In the pictograph we will see the exact location of galleries in 1995 and in 2007.

Figure 5

	1990	1995	2000	2005	2007
Chelsea	16	12	144	257	303
SoHo	275	286	192	133	104
West Village	5	10	23	17	18
Totals	296	308	359	407	425

Source: Art in America (1990; 1995; 2000; 2005; 2007)



Note: size of bar represents number of galleries at given address
Figure 5 Gallery locations, 1995 and 2007: SoHo, Chelsea and West Village (source: map created by Mark Treskon based on data from Art in America, 1995; 2007)

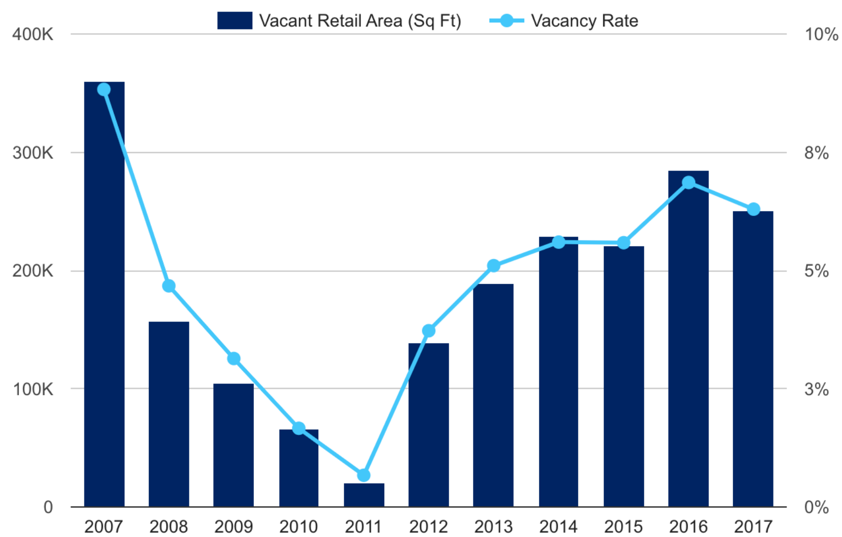
By 2007, retail rental prices in SoHo rose drastically. What started out as $75 per square foot, then to $77, $129, $224, eventually rose to $501 by 2007, respectively. On the other hand, there is no retail rent data from 1990 in Chelsea, but from 1995 rents ranged by $12, $40, $52, leading up to $82 per square foot. To calculate the rent of the space you would be looking for you would multiple the price per square foot by the square feet in the space you wanted. For example, if you were looking for a 1,000 square foot commercial space for your gallery, 1,000 * $501 = $501,000 monthly rent for Soho. For Chelsea it would be 1,000 * $82 = $82,000.

Aside from the rising rent and the shift in location, there has been government intervention designated to the “Special West Chelsea District” which the city of New York want to “encourage and support growth of the arts-related uses” in the area. This project included the Whitney Museum of American Art, and The High Line, both as architectural fitting in the area, and as a cultural escape.

New York City Comptroller

On the New York City comptroller website, you can find data from retail vacancies in 24 neighborhoods of all five boroughs. For the sake of this paper, we will just focus on two neighborhoods, both in Manhattan, both of location where it is very popular. First, we will focus on Times Square/Clinton area. Below we see a bar chart for retail vacancies between a ten-year period from 2007 to 2017. We notice that 2011 was the year where Times Square/Clinton had the lowest vacancy rate, while after vacancies began to increase.

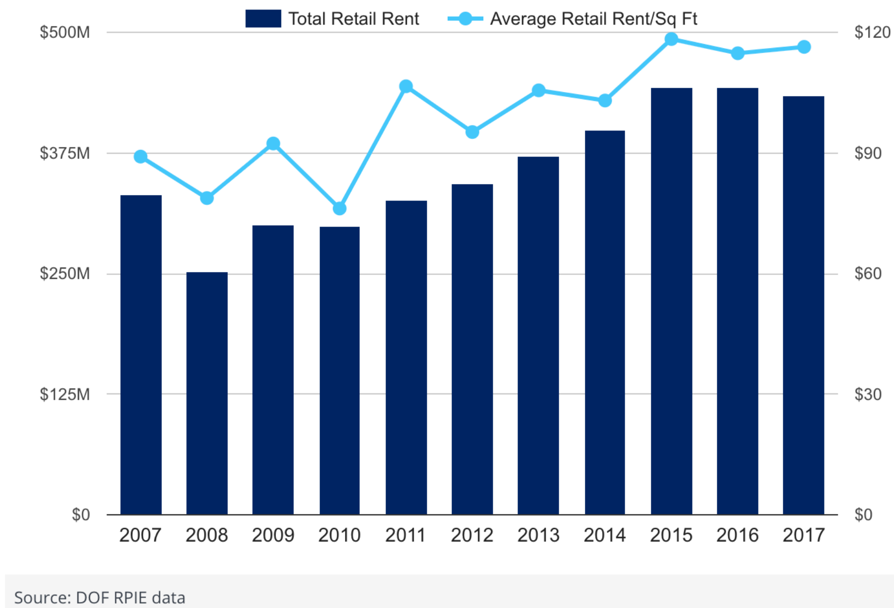
Figure 6



Source: New York City Department of Finance Real Property Income and Expense (DOF RPIE) data

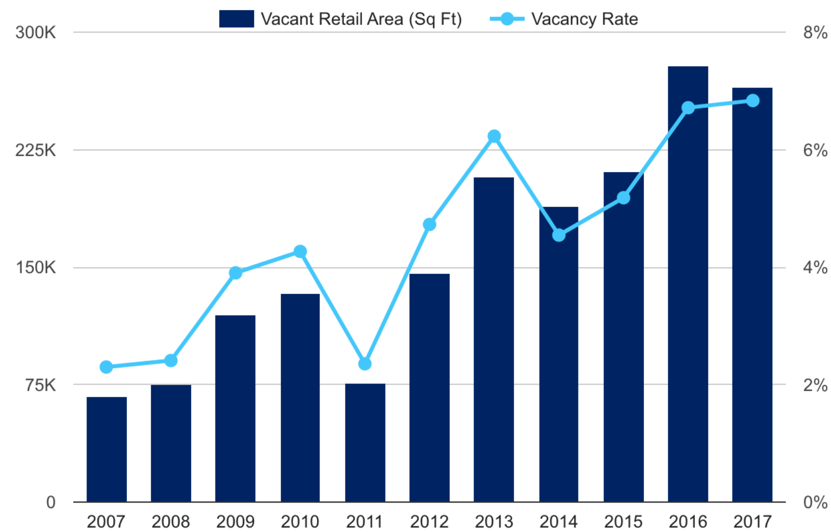
In the following graph, Figure 7, we will see a trend of the total and average rents in Times Square/ Clinton. We will see those rents in the area over the 10-year period keep increasing, amounting to $116.38 for the average price per square foot. Based on more data, there is also an increase in average property taxes per square foot.

Figure 7



Another area of which is great to focus on is Canal Street and Tribeca. This area of Manhattan has a total of 4.8M sqft total retail space amounting to 319 spaces. In Figure 8 we will see that there has been a steady rent vacancy increase over the past 10 years, with the exception of 2011, which had the lowest vacancies.

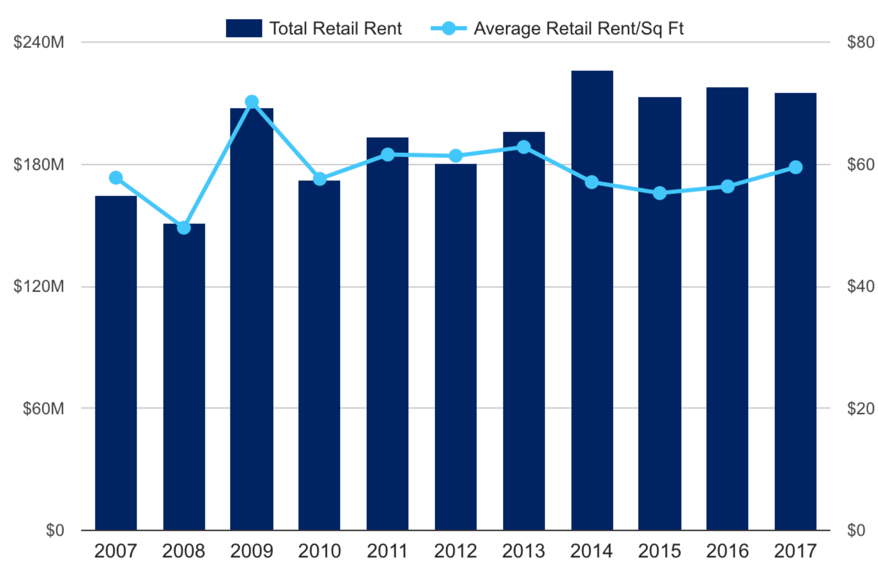
Figure 8



Source: New York City Department of Finance Real Property Income and Expense (DOF RPIE) data

The total average retail rent prices (Figure 9) have also increase oved the ten-year period. The average retain rent per square foot is $59.50 summing to a total amount of $215,078, 480.

Figure 9



Source: DOF RPIE data

Recommendations versus Reality

"Local, small businesses are very much tied into their surrounding communities: physically, economically, and culturally" (Meltzer 2016). With that being said, once a city, or neighborhood goes under economic and social change such as gentrification, this causes a ripple effect to the community from individuals to small businesses in the area. As. A result of change, how much of an effect does it have on the area?

In Melzer's paper, she concludes with mixed results, that there are different degrees of gentrification that are not always possible on being observed in a citywide trend. She finds that there is not a huge gap of small businesses displacement from a gentrified to non-gentrified neighborhood. "This finding is in line with the evidence on residential displacement, which does not show systematic displacement if low-income residents in the context of gentrification." In further research of Meltzer's, she focuses on neighborhood retail churn. Retail churn if the relationship one has with a store. This is calculated in "customer churn rate" and can vary by someone who is a lifetime or present customer. This can be of comparison to existing and new businesses. How does the consumer react? Will they go on and still support that same store they always have, or go and support a new business? This is very much like the diner business. Customers find diners as their second home to spend their time. Some are daily, or weekly customers and get used to the environment. How will a customer of this sort of change to being a new customer to a restaurant?

As mentioned before, Meltzer finds that when a small business closes, it would take longer for that vacancy to fill up in a gentrified neighborhood, as opposed to a non-gentrifying neighborhood, where it will be rented out faster. When a new business is introduced into a gentrified neighborhood, it is more than likely to bring in a new type of service than what there was there previously. In a gentrified neighborhood, only less than 5% of new replacement business will be a chain store, and the remaining will be a new store with a different service from before.

Since the study proved that retail stores in New York City see the same level of displacement during their time of being gentrified or non-gentrified, this does not mean that a city that has a less vibrant neighborhood might witness the same circumstance as New York City. To go into more detail, cities have the same definition, but each city is structured based on its environment and people. If another city is less vibrant, as opposed to New York City which is constantly moving and thriving, gentrification in that city can cause a much bigger damage to its area. Ideally, it all comes down to how well the city and its population interact with one another. Do people keep the city alive most hours of the day, or do they keep it alive for a quarter of the day?

Density also plays a role in the process of gentrification. How dense a city is affects if it will eventually get gentrified or not, as a result in supporting their local retail markets. New York City being the densest city in the United States (an average of 27,000 people per square mile) and the most walkable city in the United States as well, cities like New York might have a harder time supporting local retail markets, even if there is no gentrification emerging.

More importantly, the major issue of gentrification and real estate development is the rise of rents. It is the displacement of local individuals that once lived their whole life in an area, which are asked to move out. Take the case of Alphabet City, which once was the center of the most diverse neighborhood in Manhattan, old structures, and problems. Today, it has changed drastically to a safer, and evolving gentrified buildings to suit the wealthy new millennials and Gen Z. An area where you could once shop on credit (or add it to your tab) at your local bodega, is now willed with Walgreen's, boutique stores, and restaurants who probably have never heard of "add it to my tab" even means. Individuals who have lived their whole life there may like the changes. Turing Alphabet City into a safe place to walk around in the 2000s sounded like wanting to go to the moon and back in one hour; it was impossible. Therefore, safety has increased, which is one of the great points of gentrification. Though, individuals who live in public housing development, cannot imagine what it would be like to lose their home. Having a new development, a block away from public housing is a risk, eventually hinting that they would want to take over public housing and turn it into luxury high-rises.

Following up from an article titled *Reducing the Cost of New Housing Construction in New York City,* by Salama, Schill, and Stark, they mentioned at the end of their study some policy recommendations to help better assist New York City.

I. There should be a list of vacant land, updated weekly, allowing it to be used by developers to create new developments for the displaced or community business fairs.
II. There should be re-zoning of land in New York City, organized by the mayor to modernize land usage.
III. Developers should develop mid-rise to high-rise buildings dedicated to public housing within the city.
IV. Projects, products, and materials should be sustainable to environment.
V. New York City should implement rent stabilized rent to apartment and retail spaces, not allowing to exceed prices by their choosing, but through government regulation.
VI. Protect senior citizens, and people of need.
VII. Change public housing rules to help those in need.

Conclusion

This paper aims to give a clear understanding to the reader the results of gentrification and how real estate development is a major driving force of it. Part of the paper go into detail on what drives gentrification and how disinvestment and reinvestment play a huge role in the community. The goal of the focus on the individual neighborhoods that are mentioned throughout the paper are to help establish an understanding on what was and what is now. Trying to understand a neighborhood in the past will help us understand where it will head in the future and the obstacles it faced.

Restaurants and diners and nightlife are all a major driving force of New York City. they generate money, stimulate the economy, but they also change what we come to call neighborhood. Without a doubt, diners, a classic place to be, are becoming something that is slowly disappearing. Where locals would spend their time, and create their second home, is a home that is leaving with a shift of gentrification, a shift in high-rises, and a shift in higher rent prices.

Rent prices have always been a major disturbance in New York City, and as we continue to move into the luxury market more and more by the day, New York City is becoming expensive. Aside from rent, so are the prices of buying a home. Manhattan, known for listing and selling apartment and townhouses for over 50M, is becoming unreasonable and slowly bringing into question the future of real estate. Has the American Dream replaced having children with owning expensive luxury real estate?

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