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Rent Gap

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Abstract: The rent gap refers to the difference between the capitalized rent realized from a plot of land and the potential rent possible if it were developed to its “highest and best” use. Introduced by Neil Smith in 1979, the rent gap provides a systematic production-side theory of urban rent and inner-city transformation. The concept has been critiqued, however, for dismissing the role of individual agents and consumption preferences in explanatory accounts of gentrification.

Rent gap theory is a Marxian explanation of gentrification introduced by Neil Smith in 1979. Rent gaps denote a disparity between the actual ground rent being capitalized on a plot of land and the potential ground rent that could be realized if the site were developed to its “highest and best” use. The theory refers to the value of land (separate from improvements made on it) as appropriated through economic transactions in the form of ground rent. Potential and capitalized ground rents align immediately following the development of a site since land is employed in an optimal manner and intensity. Over time, actual economic returns tend to decline due to depreciation of capital fixed in the built environment and shifts in the social or physical condition of the surrounding area. Potential economic returns, in contrast, tend to continue to rise, creating a divergence between the rents that are, and could be, extracted. When capitalized ground rent falls sufficiently below potential ground rent, renewed opportunities for profit-making challenge rates of return available elsewhere and provide incentives for capital to flow back into devalored neighborhoods. According to Smith, rent gaps represent a historical discrepancy arising from uneven patterns of investment and disinvestment in the built environment. They are a structural product of capitalist land markets that provide the necessary economic conditions to catalyze processes of revalorization, rehabilitation, and renewal, including gentrification.

The theoretical and empirical validity of rent gaps have been broadly contested, notably in a series of debates between Smith and his critics in the 1980s and 1990s. Chris Hamnett (1991) criticized rent gap theory for dismissing the role of individual agents in shaping gentrification, and reducing demographic factors and structural changes in (postindustrial) employment to consumption preferences. Feminist scholars further pointed

to the need to supplant single causal mechanisms with a diversity of processes to explain inner-city redevelopment. Critics, including David Ley and Steven Bourassa, contested Smith's conceptual foundation, claiming that rent gaps lacked antecedents in Marxist analysis of land rent and failed to offer any significant insights relative to neoclassical land economics. In response, the theory's proponents asserted that the rent gap concept should not be reduced to a simple deterministic economic model, but rather needs to be contextualized within a more general theory of uneven development (Clark 1995). Smith (1996) refined his own account to address the intertwined cultural, political, and economic processes that unfolded along “gentrification frontiers.” His reformulations stressed that housing and other preferences are socially and collectively constructed and expressed by real individuals. The rent gap does not then determine property development, but reflects ongoing social and political struggles over the appropriation of value from the built environment within capitalist space economies.

While Smith’s discussion of rent gap formation tended to emphasize neighborhood decline and the associated decreases in capitalized ground rent, recent scholarship has argued that rent gaps are increasingly likely to develop due to rising potential ground rents. In a provocative study of Airbnb’s impact in New York City, Wachsmuth and Wiesler (2018) suggest short-term rentals have produced novel technology-enabled and culturally-mediated rent gaps in previously stable desirable neighborhoods. These rent gaps emerge rapidly given both the sudden shock that drives up potential rents and the minimal new capital investment required by landlords, tenants, or homeowners to realize new economic returns.

SEE ALSO: [Gentrification](#); [Marxist geography](#); [Urban uneven development](#)

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