CALIFORNIA ECONOMIC SNAPSHOT

Neighborhood Investment without Displacement:

A Case Study in Evaluating Gentrification and Displacement and Potential Policy Solutions

Although neighborhoods continually experience some degree of change, the concept of gentrification was first introduced in the 1960s, when an influx of "gentry," a reference to middle-class residents, moved into a low-income neighborhood in London, England, displacing residents and changing the social character of the community (Solomon, 2014). Since then, gentrification has been widely studied in cities globally. In the United States, gentrification has tended to occur primarily in large coastal cities but has also appeared in smaller cities in neighborhoods with a high concentration of amenities near a central business district (Wiltse-Ahmad, 2019). While there does not appear to be a universally accepted definition, gentrification is often described as a process of neighborhood renewal or revitalization resulting in the displacement of low-income and other vulnerable populations.

Causes and Effects of Gentrification

Gentrification is a complicated economic force. The exact causes have been widely debated, but many academic studies have focused on various causes that fall under three general, and sometimes overlapping, categories: 1) private market forces, such as an influx of private investment; 2) socioeconomic changes, such as an increase in affluent residents' preference for urban locales; and, 3) public sector policies, including long-term cycles of public investment, zoning, and code enforcement (Holland, 2016).

Gentrification can have positive or negative effects, depending on the circumstances of the neighborhood and on the populations affected. Positive impacts may include increased commercial activity, improved economic opportunities, lower poverty and crime rates, and increased property values, which can benefit existing homeowners. The negative effects can include increased rents, the loss of affordable residential housing, and the displacement of low-income households, ranging from young artists to the elderly on fixed incomes, and disproportionately renters and People of Color. In addition, gentrification can drive commercial lease rates, the loss of affordable commercial space, displacing long-standing small, independent establishments, that can no longer afford rent. Finally, gentrification often results in the transformation of a community's cultural identity and social fabric, especially when the community loses long-standing businesses that have potentially invested in the community and served as a gathering place for residents and employees (i.e., "third places").

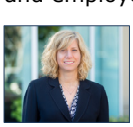
Evaluating Gentrification and Policy Solutions

Establishing a methodology to evaluate the extent to which gentrification and resulting displacement are occurring – and the groups most susceptible to displacement – will assist jurisdictions in tailoring specific policy solutions to the needs of a community. Jurisdictions should select evaluation metrics that represent the causes and effects of gentrification. For example, as part of the Stockton Blvd Plan, the City of Sacramento recently conducted a residential and commercial gentrification assessment that focused on changes in residential rental rates, demographic shifts by race, household income, and educational attainment, and trends in the number of small and minority-owned commercial establishments. Jurisdictions should supplement quantitative findings with community input to understand impacts further.

One of the primary long-term policy solutions to mitigate residential displacement impacts is to increase housing production of both market-rate and affordable units. Jurisdictions can facilitate this objective by streamlining the entitlement process and reducing development costs and other risks. Other shorter-term policy solutions include preserving subsidized and unsubsidized affordable housing, and implementing neighborhood stabilization initiatives like tenant protection programs, down-payment, first-time homebuyer, and home repair assistance programs, and facilitating opportunities like land trusts to help residents build wealth.

Mitigating commercial displacement should center on sustaining long-standing businesses. Jurisdictions should consider commercial rent protection programs; providing small businesses with grants, technical assistance, or other marketing services; promoting the utilization of local businesses on publicly funded projects; and zoning overlays that limit the size and type of stores in certain districts. Cooperative models, like commercial condominiums, can be considered a method for stabilizing rent and building equity, too.

Notably, many of the drivers of gentrification are essential components of successful urban environments, contributing to prosperity for many residents and businesses. However, programmatic and public policy interventions that target specific community needs based on quantitative analysis and community input are necessary to mitigate gentrification pressures on vulnerable populations.



About the Author:
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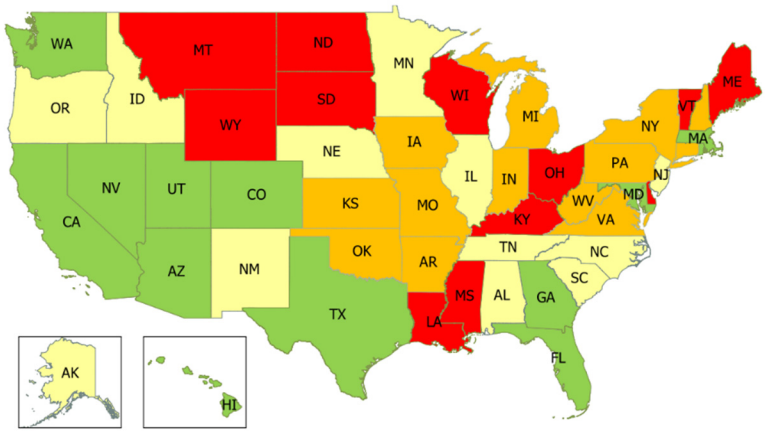
CALIFORNIA ECONOMIC SNAPSHOT

Annual Nonfarm Job Growth Rate By State



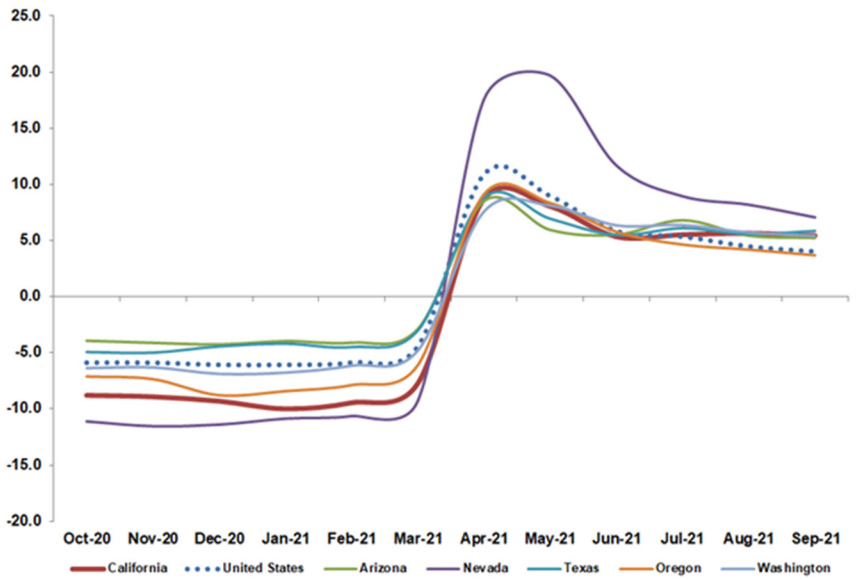
Upper		Upper-Middle		Lower-Middle		Lower	
Hawaii	13.1%	New Jersey	3.8%	New Hampshire	2.8%	District of Columbia	2.4%
Nevada	7.1%	Minnesota	3.7%	Connecticut	2.8%	Vermont	2.3%
Texas	5.9%	Oregon	3.7%	New York	2.8%	Ohio	2.1%
Massachusetts	5.6%	South Carolina	3.4%	Kansas	2.7%	Mississippi	2.1%
California	**5.5%**	North Carolina	3.4%	Missouri	2.7%	Kentucky	2.1%
Washington	5.4%	New Mexico	3.3%	Michigan	2.6%	Maine	2.0%
Arizona	5.3%	Tennessee	3.2%	Pennsylvania	2.6%	Wisconsin	1.9%
Utah	5.2%	Alabama	3.1%	Arkansas	2.6%	North Dakota	1.9%
Florida	5.1%	Idaho	3.0%	Iowa	2.6%	Delaware	1.8%
Georgia	4.4%	Nebraska	2.9%	Oklahoma	2.5%	South Dakota	1.6%
Colorado	4.2%	Alaska	2.9%	Indiana	2.4%	Montana	1.5%
Maryland	4.1%	Illinois	2.9%	West Virginia	2.4%	Wyoming	1.2%
Rhode Island	3.9%			Virginia	2.4%	Louisiana	1.0%

Source: CA Employment Development Department, September 2021; U.S. Bureau of Labor Statistics; EPS

Highlights

- All states continue to experience positive job growth rates in the third quarter, but at rates lower than those experienced in the second quarter for all but three states.
- Positive job growth rates continue to reverse the negative job growth rates experienced through the first quarter of 2021 resulting from the current COVID-19 Pandemic.
- California has risen from the lower-middle tier to the upper tier with a job growth rate of 5.5 percent.
- Hawaii experienced the highest job growth rate at 13.1 percent.

State Annual Nonfarm Job Growth Rate



Source: CA Employment Development Department; U.S. Bureau of Labor Statistics; EPS

Highlights

- All analyzed states arrived at stable job growth rates throughout the third quarter with slight reductions seen in all states from the second quarter.
- Following the trend experienced by all analyzed states, job growth rates for the United States remained stable in the third quarter showing positive job growth rates slightly below those experienced in the previous quarter.
- Job growth rates in Nevada remain above all other analyzed states ending the quarter with the highest job growth rate.

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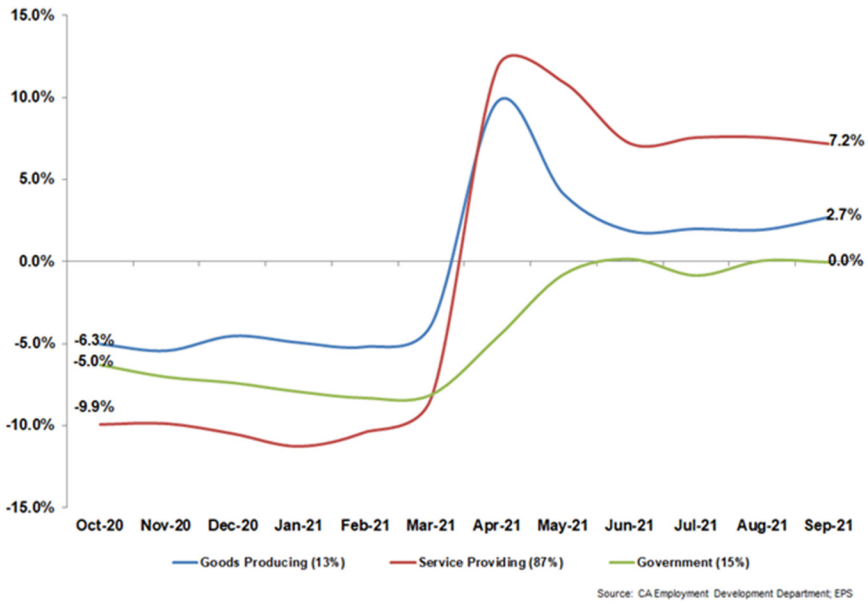
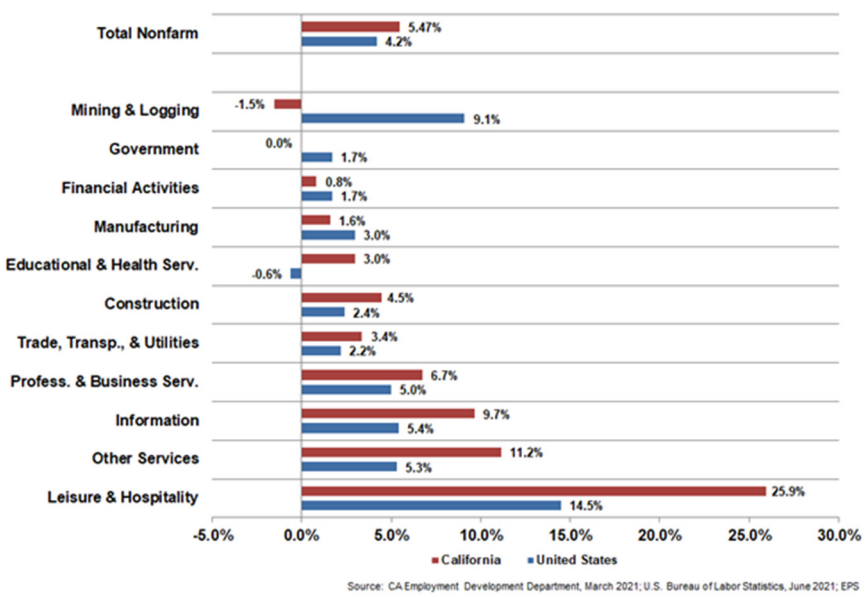
California Annual Industry Segment Job Growth Rate



Highlights

- After realizing a slight increase in job growth rates at the beginning of the quarter, job growth rates in California's Service-Providing sectors, comprising 87 percent of Nonfarm jobs, declined slightly at the end of the third quarter.
- Remaining consistent with levels seen in the second quarter, job growth rates in Goods-Producing sectors increased significantly in the latter half of the third quarter.
- Government sector job growth rates experienced a slight negative dip at the beginning of the quarter, ending the quarter with a neutral job growth rate.

California & United States Annual Major Sector Job Growth Rate



Highlights

- California's annual job growth rate exceeded the nation in seven of the 11 major sectors and total Nonfarm job growth. Positive or neutral job growth was experienced in all sectors, except for mining and logging.
- The most drastic increases in state job growth rates occurred in Leisure and Hospitality, fueled by growth in employment at Amusement Park occupations.
- While the Mining and Logging sector experienced sizable positive job growth rates nationally, California experienced job losses in the Mining and Logging sector.

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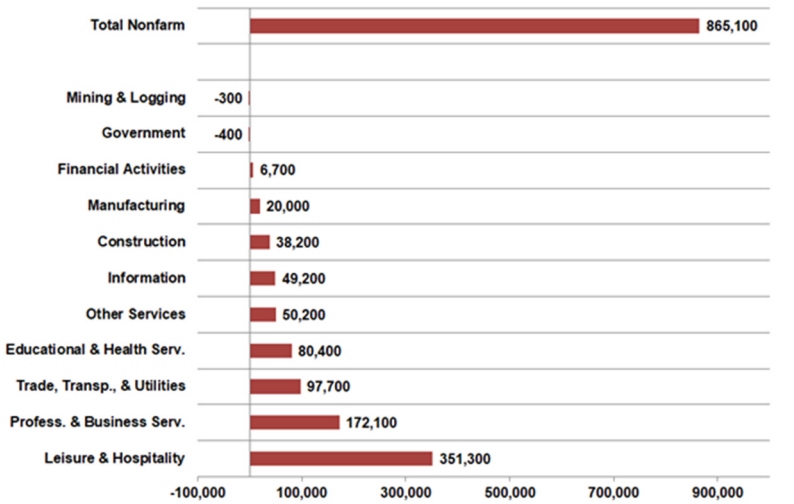
California Absolute Annual Job Gains and Losses

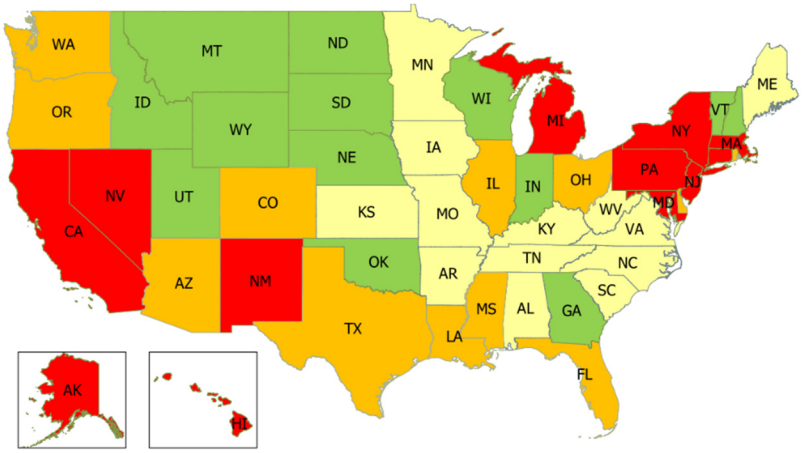


Source: CA Employment Development Department, March 2021; EPS

Highlights

- Over 865,000 Nonfarm jobs were gained in California in the 12 months prior to September 2021.
- California's absolute job growth was strongest in Leisure and Hospitality, led by growth in employment in Amusement Park and Drinking Place occupations.
- California experienced positive job growth across all sectors, except Mining and Logging and Government sectors.

State Annual Average Unemployment Rate



Upper		Upper-Middle		Lower-Middle		Lower	
Nebraska	1.4%	Minnesota	2.8%	Oregon	4.2%	Alaska	5.3%
Utah	1.6%	Iowa	2.9%	Arizona	4.3%	Maryland	5.3%
Montana	1.9%	Missouri	2.9%	Florida	4.3%	Massachusetts	5.3%
Oklahoma	2.0%	Alabama	3.0%	Ohio	4.3%	Connecticut	5.4%
Vermont	2.0%	Arkansas	3.2%	Rhode Island	4.4%	Pennsylvania	5.4%
Idaho	2.1%	Virginia	3.2%	Washington	4.4%	Michigan	5.5%
South Dakota	2.2%	West Virginia	3.2%	Colorado	4.7%	New Mexico	5.8%
New Hampshire	2.4%	South Carolina	3.3%	Mississippi	4.7%	District of Columbia	5.9%
Georgia	2.5%	Kansas	3.5%	Delaware	4.9%	New Jersey	6.3%
North Dakota	2.6%	Tennessee	3.5%	Louisiana	4.9%	New York	6.3%
Wisconsin	2.7%	North Carolina	3.8%	Texas	4.9%	**California**	**6.4%**
Wyoming	2.7%	Kentucky	3.9%	Illinois	5.1%	Hawaii	6.4%
Indiana	2.8%	Maine	4.0%			Nevada	6.4%

Source: CA Employment Development Department, September 2021; U.S. Bureau of Labor Statistics; EPS

Highlights

- All states saw a decrease in unemployment from the previous quarter.
- With an unemployment rate of 6.4 percent, 1.6 percentage points lower than the previous quarter, California remains in the lower tier.
- The largest decrease in unemployment rates from the previous quarter was experienced by Wyoming, with a 3.2 percentage point decrease.
- Approximately 44.7 percent of unemployed Californians have been out of work for more than 27 weeks, a figure higher than the national average of 32.2 percent.
- California's "real" unemployment rate, accounting for underemployed and marginally attached workers, was 14.0 percent, higher than the national average of 10.4 percent.

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Annual Nonfarm Job Growth Rate for Metropolitan and Non-Metropolitan Areas

Upper		Upper-Middle	
Mono County	14.5%	Merced MSA	4.7%
Mariposa County	12.3%	Santa Rosa MSA	4.7%
Colusa County	11.8%	Oxnard MSA	4.6%
Sierra County	11.1%	**San Francisco MSA**	**4.6%**
Alpine County	8.8%	**San Jose MSA**	**4.5%**
Napa MSA	6.7%	**Riverside MSA**	**4.2%**
Glenn County	6.5%	Yuba City MSA	4.2%
Los Angeles MSA	**6.0%**	Santa Maria MSA	4.1%
Nevada County	5.8%	El Centro MSA	4.1%
Salinas MSA	5.8%	**San Diego MSA**	**4.0%**
Chico MSA	5.4%	Vallejo MSA	3.8%
Humboldt County	4.8%	Lake County	3.8%

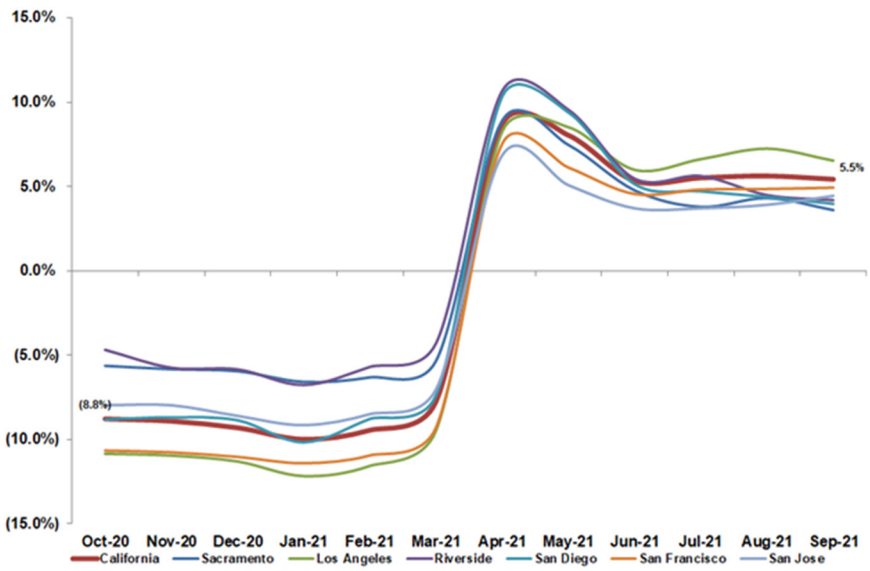
Lower-Middle		Lower	
Modoc County	3.6%	Fresno MSA	2.6%
Amador County	3.6%	Redding MSA	2.1%
Sacramento MSA	**3.6%**	Visalia MSA	2.1%
Hanford MSA	3.6%	Santa Cruz MSA	2.0%
Calaveras County	3.6%	Madera MSA	1.8%
Modesto MSA	3.6%	Lassen County	1.7%
Tehama County	3.1%	Inyo County	1.6%
Del Norte County	3.1%	Tuolumne County	1.5%
Stockton MSA	3.0%	Mendocino County	1.5%
Bakersfield MSA	2.8%	Trinity County	1.4%
Plumas County	2.7%	Siskiyou County	1.0%
		San Luis Obispo MSA	0.8%

Source: CA Employment Development Department, September 2021; EPS

Highlights

- All California metros experienced positive job growth rates in the third quarter, consistent with trends experienced in the second quarter.
- The San Francisco metro remains in the upper-middle tier and the Los Angeles metro rose to the upper tier. The Los Angeles metro accounts for 41 percent of the state's absolute job gains alone and 54 percent when combined with the San Francisco metro.

California Large MSA Annual Nonfarm Job Growth Rate



Source: CA Employment Development Department; EPS

Highlights

- Job growth rates in all the major California metros followed the same trends as seen throughout the nation, with positive job growth rates remaining relatively consistent with those seen at the end of the previous quarter.
- The Los Angeles metro ended highest among all major metros, consistent with trends seen in the previous quarter.
- The Sacramento metro ended the third quarter with the lowest job growth rates among all major metros analyzed.

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Annual Average Unemployment Rate for Metropolitan and Non-Metropolitan Areas

Upper		Upper-Middle	
San Francisco MSA	**5.3%**	Napa MSA	6.6%
San Jose MSA	**5.3%**	Oxnard MSA	6.6%
Lassen County	5.9%	Mendocino County	6.7%
Sierra County	5.9%	Glenn County	6.9%
San Luis Obispo MSA	5.9%	**Sacramento MSA**	**7.0%**
Nevada County	6.0%	Modoc County	7.0%
Calaveras County	6.0%	Redding MSA	7.1%
Santa Rosa MSA	6.0%	Amador County	7.2%
Inyo County	6.1%	**San Diego MSA**	**7.2%**
Trinity County	6.3%	Tehama County	7.3%
Santa Maria MSA	6.3%	Chico MSA	7.4%
Humboldt County	6.5%		

Lower-Middle		Lower	
Santa Cruz MSA	7.4%	Modesto MSA	8.7%
Los Angeles MSA	**7.6%**	Madera MSA	9.0%
Lake County	7.7%	Plumas County	9.1%
Mono County	7.7%	Yuba City MSA	9.2%
Tuolumne County	7.8%	Stockton MSA	9.2%
Vallejo MSA	7.9%	Fresno MSA	9.5%
Del Norte County	7.9%	Hanford MSA	9.9%
Siskiyou County	8.0%	Bakersfield MSA	10.5%
Riverside MSA	**8.0%**	Merced MSA	10.5%
Alpine County	8.3%	Visalia MSA	11.0%
Mariposa County	8.4%	Colusa County	12.1%
Salinas MSA	8.6%	El Centro MSA	17.4%

Source: CA Employment Development Department, September 2021; EPS

Highlights

- The San Jose and San Francisco markets experienced the lowest average unemployment rates for the 12 months ended in September 2021 and most of the Bay Area metros and counties remain in the upper tier, consistent with trends seen in the past year.
- Throughout the third quarter, unemployment rates have decreased throughout California with all markets seeing unemployment rates in the third quarter lower than those experienced in the previous quarter.

State Leading Index

The State Leading Index indicator predicts the six-month growth rate of the Coincident Index for each state, combining several indicators of current conditions.

Given the sudden, extreme impact of the COVID-19 outbreak on initial unemployment claims in recent weeks, our researchers' standard approach for estimating the six-month change in coincident indexes is not appropriate. Therefore, the Federal Reserve Bank has suspended the release of the state leading indexes indefinitely.

Economic trends to follow:

- Consumer confidence improved and personal spending increased by 0.6% in the previous quarter, despite concerns regarding inflation being at the highest levels since the 1980's.
- The uncertainty of the potential impacts of newly discovered COVID-19 variants leads to uncertainty pertaining to the future job growth and personal spending in the coming year.

Quarterly Highlights

- Throughout the third quarter, all states experienced positive job growth rates, continuing to signal potential economic recovery after sudden loss of jobs in early 2020 resulting from the COVID 19 Pandemic.
- Similar to nationwide trends, all California metros experienced positive job growth rates throughout the third quarter.
- Unemployment rates have decreased in all states and California metros from the previous quarter.

For questions regarding the report findings, please contact Sean Fisher, EPS Associate, at (916) 649-8010 or sfisher@epssac.com.
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