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Re-establishing the Rent Gap: An Alternative View of Capitalised Land Rent

Daniel J. Hammel

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Summary. The debate between the proponents of the rent gap hypothesis and Steven Bourassa concerning its internal consistency centres on the role of land use in capitalised land rent. Bourassa argues that capitalised land rent is nonsensical because it is determined in part by land use which is in conflict with land rent theory. The paper explores the determinants of capitalised land rent by reviewing the rent gap hypothesis and related research, and argues that the issue of scale is implicit in the rent gap. Land rent can be determined at a minimum of two scales resulting in at least two different land rents. This argument rectifies Bourassa's contentions, and is consistent with the theoretical foundations of the rent gap.

Introduction

The debate on the rent gap hypothesis appearing in part in the pages of this journal has resulted in two distinct and incompatible views of the hypothesis and related issues of land rent theory (Badcock, 1990; Bourassa, 1990, 1992, 1993; Clark, 1987, 1988, 1995; Smith, 1996). This paper serves as an addition to that debate. The intentions are threefold: to comment on the debate between Bourassa and Clark in an attempt to clarify several key issues; to begin to provide the basis for a different understanding of capitalised land rent than has been suggested by either author (although it is clearly more compatible with that of Clark); and to indicate how this new view of capitalised land rent is compatible with the rent gap theory.

The rent gap hypothesis has been the subject of a tremendous amount of debate mostly centring on its effectiveness in explaining gentrification. Much criticism of the hypothesis is external in nature, critiquing the rent gap through comparisons with other preferred explanations. Steven Bourassa, however, has taken a somewhat different approach in his critique by arguing that the hypothesis suffers from serious internal inconsistencies, and essentially is in conflict with previous work in land rent theory. It is this line of argument that he has developed in his debates first with Badcock and later with Clark, and it is this contention that will be addressed here.

Three arguments form the basis of this paper. First, the fundamental disagreement in the debates involves the role of land use in determining land rent on a particular parcel. Neither Clark nor Bourassa has been completely convincing on either side of this issue. Secondly, Smith (1979) made a basic error in defining capitalised land rent and perhaps overemphasised the historical con-

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text for capitalised land rent at the expense of the geographical context. Both items have created confusion. Thirdly, a review of the rent gap hypothesis identifies support for an alternative view of capitalised land rent emphasising geographical context, particularly the role of scale, in understanding how land rent is determined. It is argued here that this alternative view helps to legitimise the concept of capitalised land rent in Marxist land rent theory. Before discussing these points, the paper first turns to a brief review of the rent gap hypothesis and the arguments of the major participants in this debate.

It should be noted that the intention is not to disparage or promote the rent gap as an explanation of gentrification. The goal is to step aside from the voluminous commentary on that issue, and to argue the rent gap's legitimacy as a theory concerned with urban land rent separate from its effectiveness as an explanation for gentrification.

Background

The Rent Gap

The rent gap hypothesis is well connected to a long tradition of Marxist economic theory including much work on land rent (see, for example, Smith, 1982, 1984). The debates over the hypothesis, however, have focused upon the more basic aspects of the rent gap itself. In short, upon Smith's addition to land rent theory. Given this emphasis, this review will be confined to the specifics of the rent gap hypothesis and to its connections with larger issues in land rent theory.

The rent gap hypothesis is based upon the concepts of capitalised and potential land rent. Land rent according to Smith represents "a reduction from the surplus value over and above the cost-price by producers on the site" (Smith, 1979, p. 543). Capitalised land rent is "the actual quantity of ground rent that is appropriated by the land owner, given the present land use" (Smith, 1979, p. 543), alternatively, "sale price = house value + capitalized land rent" (Smith, 1979, p. 543). Potential land rent represents, "the amount (of rent) that could be capitalized under the land's 'highest and best use'" (Smith, 1979, p. 543). The key phrase here is "highest and best use" which will require closer analysis in the following sections. Both capitalised and potential land rents start at the same level when a parcel is developed. Over time, the improvements on the parcel may suffer from obsolescence or disinvestment and capitalised land rent may decline. Potential land rent, however, will gradually increase as the city grows and more capital is applied to land in the metropolitan area. The divergence between capitalised and potential land rent represents the rent gap and creates the possibility of significant profit through reinvestment in the parcel.

At this level, the hypothesis is quite simple. These seemingly straightforward ideas of capitalised and potential land rent, however, are the source of much controversy. In part, the issue is one of terminology—as can be seen in the exchanges between Bourassa (1993), Clark (1995) and Smith (1996)—but the terminological disagreements are minor compared to the real theoretical disagreement over land rent in general and capitalised land rent in particular.

The Arguments

The debate in question began as a response to empirical work on the rent gap in Adelaide (Badcock, 1989, 1990; Bourassa, 1990). The objections Bourassa raised in his initial argument were developed more fully (Bourassa, 1992, 1993) and elicited more reaction (Clark, 1995). Recently, the author of the rent gap joined the debate (Smith, 1996). The points of each participant are summarised here, where relevant to the current arguments.

Bourassa raises a number of objections to the rent gap, but they can be grouped into three areas. First, he notes that most land yields an aggregate return in conjunction with other inputs. In practice, it is usually impossible to separate land rent from proceeds of the land's improvements. This "technical objection" (Badcock, 1990,

p. 459) makes the rent gap—a land-rent-based explanation of gentrification—impractical, if not untenable. Secondly, Bourassa argues that land rent is determined independently of land use in traditional land rent theory. Thus, capitalised land rent, depressed by deterioration of the land's improvements, becomes a nonsensical proposition. Lastly, tax assessments—based as they are on the land's highest and best use—are representative of land rent or, in rent gap terms, potential land rent. Thus, the several empirical studies (Clark, 1987; Kary, 1988; Badcock, 1989) that used assessments as a measure of capitalised land rent committed a fatal error. Let us first turn to the issue of separating the inputs of land and improvements.

The difficulty in separating land rent and the value of improvements on a particular property is quite real, and a serious issue for Tideman (1982) and others (see, for example, Mills, 1981, 1982; Bentick, 1982; Wildasin, 1982) when discussing issues of land value taxation. The practical nature of the problem requires an accurate and clear assessment of land rent. Within the context of the rent gap, however, the issue is of little importance. As Clark points out, the inputs of land and improvements are easily separated analytically. In addition, this separation has been long accepted by land rent economists (Barlowe, 1978).

The relationship between land rent and land use poses a much more complex problem which forms the crux of the disagreement. Simply stated, Bourassa argues that "land value is defined in the land economics literature as the value of a site as if it had no improvements" (Bourassa, 1990, p. 458). Thus, capitalised land rent has no theoretical basis in land rent theory because it rests on the assumption that land use affects land rent.

Bourassa (1993) notes that land use can affect land rent, but only when it represents a deduction to land rent, as in the case of the demolition costs associated with a derelict building on the site in question. This general concept of land rent *is* consistent with the manner in which most economists have viewed land rent (see, for example, Barlowe, 1978, 1986; Dolan, 1980, 1983).

The issue of tax assessments and capitalised land rent is also a difficult one, and it flows directly from the previous argument about land use and land rent. Assessments are made with a property's highest and best use in mind, and highest and best use ought not to be affected by the land's current use. Thus, assessed values of land should fail to represent accurately capitalised land rent. In part, this argument can be dismissed quickly. Tax assessments often have no relationship to a parcel's highest and best use price because they are more affected by political influences than economic ones. However, there are situations where tax assessments may be quite accurate.[1] In these situations, Bourassa's critique can not be dismissed so easily and must be looked at in greater detail. Badcock (1989) begins this task in a necessarily brief reply. He managed, however, to identify a crucial point. In discussing the issue of land assessment, he noted that

> *pure* valuation theory … denies the validity of a measure of current market value under an existing use (Badcock, 1989, p. 459; emphasis in original).

The key word in this case is "pure". In practice, however, land price is based on estimates of market prices for similar properties which implicitly consider land use. I argue that the nature of land assessment practices and the concept of highest and best use on which they are based form a crucial building block in the determination of capitalised land rents, an idea we will return to later.

Clark (1995) provides a point-by-point response to Bourassa's objections, but most importantly he adopts the position that land use significantly affects land rent. He argues that land rent will be depressed when land use is inappropriate for the site and when land is not in its highest and best use. Capitalised land rent exists because land returns less than its potential due to its use. This idea is in direct conflict with the traditional understanding of land rent advocated by Bourassa.

Clark (1987), however, mounted a substantial search for theoretical precursors to the rent gap hypothesis and found several that recognise a relationship between land use and land rent.

The brief writings of Marshall (1936) on this topic have been printed in this journal previously, and their meaning is still in dispute (see Bourassa, 1993, p. 1736; and Clark, 1995, p. 1498). Marshall appears to suggest that the aggregate rent of a parcel may not always exceed its site rent by the full value of the improvements in situations where the improvements are not appropriate to the site. Bourassa suggests that Marshall is simply referring to the situation where the 'improvements' represent a deduction to the land rent. Both interpretations have some merit, but with a close reading of the material it does appear that Marshall may have been referring to a situation akin to Smith's rent gap. Clark has noted, however, that this selection of Marshall's writing represents a minor sidelight (encompassing a footnote and part of an appendix) to a tome on economics, and is not a fully developed theoretical justification of the rent gap.

Clark (1995, p. 1498) also cites a passage from Engels (1955) which may provide a similar indication of a precedent for the rent gap. Engels engages in a brief discussion of the potentially depressing effect of an inappropriate land use on land rent. He too appears to be referring to a situation akin to the rent gap. Again, however, this is a brief passage and not a fully developed pre-1979 exposition of the concepts of capitalised and potential land rent.

Smith's (1996) critique of Bourassa's work is fundamentally different from previous critiques. As he notes, the paper

> is in no way a comprehensive critique or rebuttal then, but rather a statement of some basic and pervasive problems in Bourassa's piece (Smith, 1996, p. 1199).

While not completely ignoring the specifics of Bourassa's critique, especially the terminological issues, Smith emphasises the fundamental differences between neoclassical and Marxist economic theory. In short, Smith claims that the rent gap is being evaluated as a neoclassical theory when it was never intended to be one.

Bourassa attempted to launch a general critique of the rent gap founded in both neoclassical and Marxist traditions. Instead, Smith argues, he developed a radical idealist critique that takes neoclassical economics one step farther by opening up the 'black box' of consumer sovereignty and attempting to explore its inner workings.

In addition, Bourassa's critique is ahistorical in that he ignores the fundamental changes in the meaning of such key phrases as value, rent and price from Adam Smith, Marx and Ricardo to the present-day 'reductionist' meanings of neoclassical economics. This is no small issue considering the significant historical detail in Clark's (1987) attempt to provide theoretical background for the hypothesis.

Nevertheless, Bourassa has raised some serious questions about the rent gap. The critique does point to some apparent inconsistencies in the rent gap theory—primarily that most land rent theorists do reject the idea that land use can affect land rent on a particular parcel. Thus, the hypothesis does run counter to traditional views of land rent despite the work that Clark has done to identify potential theoretical precursors.

Clark and Smith both note that this non-traditional stance in not necessarily wrong, nor is it always necessary to build on the theoretical traditions of the past, as long as the theory has explanatory power and internal consistency. In fact, the interrelationship of land rent and land use inherent to the rent gap is sprinkled throughout the history of land rent theory at least up until the writings of Marshall. However, the implicit nature of this thread has prevented Clark from establishing a completely coherent link from classical economics to the rent gap theory. The theory itself made the land rent–land use relationship quite explicit. Unfortunately, the support for this relationship, while present, is well hidden in the rent gap theory. It is suggested here that the rent gap does represent a theoretically consistent explanation of gentrification; that capitalised land rent can be seen as a coherent form of rent; that the origins of capitalised land rent must be considered at a minimum of two different scales; and that these scales can been seen in Smith's cycle of devalorisation and his further discussion of both potential and capitalised land rents.

Capitalised Land Rent

Smith's Definition

The original definition of capitalised land rent is problematic because as Clark points out it is inconsistent, and as Bourassa notes, the term capitalised has a specific meaning that serves to equate capitalised land rent with land price. Smith identifies capitalised land rent as the actual amount of land that a site is returning in its present use. He goes on to note that

> the landlord's capitalized ground rent returns mainly in the form of house rent paid by the tenants (Smith, 1979, p. 543).

The suggestion of capitalised land rent occurring as a continuous flow either based on the present use or as a house rent payment led Bourassa to identify capitalised land rent as synonymous with contract rent, and reject its significance in understanding gentrification. Bourassa too quickly dismisses the concept of capitalised land rent. First, he confuses the term land value. To Bourassa, land value is equivalent to its market value or price. To Smith, working in the Marxist tradition and subscribing to the labour theory of value, land value is unrelated to market price. In addition, Bourassa ignores the full meaning of capitalised land rent which can be seen less in Smith's definition of the term and more in his discussion of potential land rent and neighbourhood decline.

Smith's Arguments

The difference between Smith's definition of capitalised land rent and other ideas contained in the same paper are significant enough to require further examination. Two areas are of particular interest: the cycle of valorisation and devalorisation that Smith uses to present the historical development of the rent gap; and the manner in which he conceptualises potential land rent.

Much of the 1979 paper involves what Smith refers to as "a rather schematic attempt to explain the historical decline of inner-city neighbourhoods" (Smith, 1979, p. 543). This five-stage model of decline provides a key insight into the nature of capitalised land rent. In the first stage, "new construction and the first cycle of use", Smith concentrates on the possible sources of depreciation: advances in the productiveness of labour, style obsolescence, and physical wear and tear. All of these processes act upon individual structures and may involve a series of decisions made by individual home-owners. The scale of analysis here is the individual structure which is similar to the scale at which Smith defines capitalised land rent. Owners, however, may take steps to modify the structure to slow style obsolescence or to invest in the structure to remedy the results of wear and tear. They could also decide to forgo further investment in the structure, sell it and invest in a newer house. Alternatively, owners may wish to invest in the structure, but may not have access to the necessary capital. The path a home-owner will follow, Smith takes pains to point out, is not merely an individual decision, but a decision that is structured by a number of housing market factors operating in the neighbourhood in question. Thus, at the end of the first cycle of use, the scale of analysis switches from the individual parcel to the neighbourhood.

The remaining four stages provide more detail about processes such as landlordism and undermaintenance, blow out and blockbusting, redlining and abandonment. Smith discusses all of these processes as operating at the neighbourhood scale. Redlining may be the most explicit example. Financial institutions obstruct the flow of capital necessary to maintain the value of the structures by refusing to approve loans to a specific area because of the social and economic characteristics of that area. Redlining defines the process of decline at the neighbourhood level by literally defining neighbourhoods where decline will continue to occur.

The importance of the neighbourhood scale of analysis arises too in the discussion of the early stages of gentrification. Smith notes that the process is not brought about by individual decision-makers, but by collective action at the neighbourhood level. This statement is meant to contradict consumer sovereignty arguments, but it clearly indicates Smith's emphasis on the neighbourhood scale of analysis.

The discussion of potential land rent also provides indications of the importance of the neighbourhood scale in determining capitalised land rent. Smith made few comments about potential land rent, but they bear repeating. He notes that

> Under its present land use a site or neighborhood is able to capitalize a certain quantity of ground rent. For reasons of location usually, such an area may be able to capitalize higher quantities of ground rent under a different land use (Smith, 1979, p. 543).

Smith confined his discussion to a particular site when defining capitalised land rent. In the discussion of potential land rent, however, he refers to *capitalised* land rent at the neighbourhood scale, and suggests that potential land rent is determined largely by location. This idea is far from new. It is curious, however, that Smith ignores the issue of location as a determinant of capitalised land rent except in a general manner (i.e. inner city versus suburban). It is possible that Smith adopted the emphasis that he did because he was interested in advocating an explicitly historical explanation of gentrification to link the process first with years of disinvestment and second with continuing development on the urban fringe. The research on gentrification at the time lacked the historical context found in the rent gap. Gentrification represented simply a new and different phenomenon to many, but to more critical scholars it also represented an inevitable outcome of decades of inner-city decline. In establishing this emphasis, however, Smith appears to have de-emphasised the geographical issues that could have helped to establish more firmly the concept of capitalised land rent.

We are left then with an understanding of capitalised land rent defined by Smith as operating at the scale of the individual parcel, but with origins at the neighbourhood scale, and a rent that may have some theoretical precursors as identified by Clark (1987). I suggest that capitalised land rent can be developed in a way that avoids the difficulties inherent in the present concept, and in a manner that is consistent with the less explicit meaning of capitalised land rent expressed in Smith's original paper.

An Alternative View of Capitalised Land Rent

Determinants of Land Rent

The determinants of a property's land rent can be many and varied, and to a large extent depend upon the researcher's methodological orientation. The purpose here is not to delve into the nature of land rent as it is expressed, for example, in Marxian rent categories, but to look more closely at the determinants of variation in land rent within urban areas.

Land rent varies from one parcel to the next for several reasons, but predominantly, as Smith said, for "reasons of location". We have long understood that urban land with higher levels of accessibility will return higher rents (see, for example, Seyfried, 1963). A simple conception of urban land rent patterns suggests that land rents peak in the CBD and decline outward at a rapid pace (Hoyt, 1933; Knos, 1962). Other views of land rent patterns in the multicentred metropolis have identified a land rent peak in the CBD with other somewhat smaller peaks at other major nodes in the city (Berry *et al.*, 1963). Despite this theorised pattern, empirical work has identified land rent valleys in inner-city areas. Smith refers to Hoyt's work in Chicago in his 1979 paper on the rent gap hypothesis. Other work in Chicago (Yeates, 1965) and in Boston (Edel and Sclar, 1975) has also identified a similar pattern. Thus, Smith develops the idea that land rent and the sale price of much inner-city land is less than expected based on its location and accessibility. What creates this pattern? Location and accessibility are important factors, but they must be viewed at two different scales.

Potential land rent is determined at the metropolitan scale—that is, by the factors that work at the scale of an entire city. The amount of rent a parcel should be returning is based on its location in the metropolitan area, the size of the metropolitan area, the proximity to major thoroughfares, etc. Thus, the pattern of potential land rent is similar to the theorised pattern of land rents that is quite familiar to urban scholars, with inner-city properties having relatively high potential land rents and areas on the fringe having lower potential land rents.

Capitalised land rent is determined largely at the neighbourhood scale. The general socioeconomic characteristics of the neighbourhood, including land use, act to limit land rent. Thus, the capitalised land rent of a particular site may be less than its potential if the land use of the surrounding parcels is not of the type that will allow the full measure of potential land rent to be captured.

Land Rent and Scale

The processes of differentiation and equalisation that Smith lays out as a foundation for the rent gap (Smith, 1982, 1984) clearly rest on the issue of scale. The dialectical nature of these basic processes provides the possibility for an immensely rich and complex understanding of urban development, but even a simple view of them highlights the importance of scale. The concentration of high-priced white-collar occupations in the core of a select group of metropolises represents a process of differentiation at the national or even global scale. The resulting urban growth, often through suburbanisation, creates a form of equalisation by lowering capital investment in inner-city areas and increasing capital investment on the urban fringe. Inherent to these processes is the need to examine them at different scales because capital acts at different scales.

In a different context, Smith clearly identifies the issue of scale as being "vital" to understanding the economic geography of the American manufacturing belt (Smith and Dennis, 1987). We are introduced to the intriguing phrase, "the production of geographical scale" (p. 167). Smith and Dennis argue that one of the basic tasks of the "new regional geography" is to develop theory to identify the scale at which regions are defined. Without taking the comparison too far, it is this task that is at hand in understanding the rent gap. At what scale must it be analysed in order for it to be consistent and have explanatory power? I argue that the neighbourhood and metropolitan scales form a minimum level of analysis—that the geographical scale of gentrification is produced at those levels.

Examining the determinants of potential and capitalised land rent at different scales provides three advantages to the current rent gap hypothesis. First, this view of capitalised land rent avoids the theoretically difficult problem of the interplay of land use and land rent in a given parcel. Secondly, it is in keeping with observations of land rent and land values in inner-city areas as seen in part by the way that we appraise the value of land. Thirdly, it is fully compatible with Smith's description of the rent gap hypothesis and our understanding of the gentrification process in general. Let us now turn to a more detailed discussion of each of these points.

Capitalised land rent determined at the neighbourhood scale avoids the theoretical difficulties arising from the effect of land use on land rent inherent in capitalised land rent, but it recognises that land use in general does affect land rent. It must. If land use has no effect on land rent, then we are back to the pre-classical notions of a natural value to land. Rent in its most basic form is a mediator between conflicting social forces vying to use land for various purposes, and as such it is inexorably linked with land use. Urban land rent is determined by matters of location, but also by infrastructural characteristics that are now 'inherent' to the land. Both of these factors are created by human action and use of land. They both enable and constrain the use of the land and determine its rent.

In urban areas, we have created a pattern of land use that, despite the pace of change, is often remarkably permanent. Inner-city areas have many sites with a potential for development that could return high levels of rent. That development never occurs, however, because the perception of an impoverished neighbourhood prevents large amounts of capital from being applied to the land. The surrounding uses make high levels of development infeasible, and the property continues to languish. Thus, the potential land rent of a parcel based on metropolitan-wide factors is quite high, but factors at the neighbourhood scale constrain the capitalised land rent to a lower level.

Land assessment practices also provide some indication of the role of scale in differentiating capitalised and potential land rents. A discussion of land assessments and assessment practices is particularly relevant here not only because they acknowledge the difference between the present price of many properties and their potential price, but also because assessments provide an important source of data for empirical study of the rent gap (Clark, 1987; Kary, 1988; Badcock, 1989) which Bourassa heavily criticised. Land is assessed, according to Bourassa, at its highest and best use. Thus, the data that Badcock, Clark and Kary used to estimate capitalised land rent were in fact indicative of potential land rent. As I will show, land assessments *are* made with the land's highest and best use, but this a slippery concept that is bound by issues of change over time and geographical scale.

Appraisers value land by its highest and best use only in theory. In practice, land value is based on the sales of surrounding comparable parcels (Badcock, 1990). The concept of highest and best use is basic to land appraisal, but this principle does not mean that all tax assessments represent a property's value at its highest and best use. As Luceno states,

> The role of highest and best use in the appraisal process is one of great significance … , and is a culmination of the steps and influences in the appraisal process leading up to a foundation upon which the land, as though vacant, can be estimated, and the three approaches to value can be applied; ultimately resulting in a final value estimate (Luceno, 1990, p. 123).

In other words, highest and best use is a *concept* on which an appraisal is made. Thus, Bourassa is correct that assessments are made on the basis of a property's highest and best use, but is incorrect in assuming that the assessed value represents the highest and best use value. In fact, a property could be assessed with several different values by the same appraiser all based on the same highest and best use. In addition, highest and best use is not the straightforward concept that it appears to be. Appraisers speak of multiple highest and best uses (AIREA, 1987, p. 290) and have used the term "potential future highest and best use" (AIREA, 1987, p. 271). Thus, highest and best use value of a property depends upon the way that the appraiser values the property which brings us back to the issue of scale and its effects upon the determinants of land rent.

Appraisers are required when possible to base a market value appraisal on the recent sale of a comparable property. Fundamental to the idea of using a comparable property is the issue of location. There are a number of points on which to compare properties, but propinquity is among the most important (AIREA, 1987). Thus, appraisers determine the highest and best use value of a property by comparison with other nearby properties. This practice sets a property in a context that is generally at the neighbourhood scale (see Stark's (1988) outline of the process, for example). The highest and best use of a property is determined by its immediate or neighbourhood context similar to capitalised land rent, and not a larger metropolitan context. Potential land rent, based on a metropolitan context, would be something of a foreign concept to most appraisers, and would not be the same as a parcel's highest and best use value.

The appraisal process recognises the limitations that the neighbourhood context may place on sale price and land rent. The process also emphasises the importance of scale in determining land price or land rent. Bourassa uses highest and best use as an abstract concept that is in many ways similar to potential land rent. In the appraisal process, highest and best use is seen in more realistic terms where the effects of localised land uses play an important role in determining a parcel's price and its land rent. In this sense, the appraisal process implicitly recognises the importance of scale in capitalised land rent.

This new view of capitalised land rent is also compatible with other aspects of the rent gap hypothesis. The compatibility is evident in two aspects of the hypothesis: the devalorisation process; and the root causes of gentrification identified in the hypothesis.

The devalorisation process outlines a general framework for understanding the neighbourhood decline that precedes gentrification. Smith identifies the process as leading to a decline in the traditional form of capitalised land rent, but the process just as easily provides a framework for understanding a decline in the alternative form of capitalised land rent I have described. Smith describes the process as working at the neighbourhood level, and this is no accident. The activities he refers to, such as the interplay between landlords and tenants, act at the neighbourhood scale. The processes may be widespread, but their influence is localised. Blockbusting, for example, has numerous repercussions, but it is unlikely significantly to affect property values outside the immediate area. The term itself refers to this localised effect. I do not suggest that the causes of devalorisation lie at the neighbourhood level, but that the process works itself out at that scale. Thus, the devalorisation process is compatible with a capitalised rent that is also determined at the neighbourhood level.

The root causes of gentrification, according to the rent gap hypothesis, are in the movement of capital to and within the domain of property investment (the second circuit). There is not room here to delve into the intricacies of capital circuits, but I will make one point. One of the more basic aspects of the rent gap hypothesis is the idea that gentrification is an inevitable result of the manner in which value is created and extracted in a capitalist land market. Key in this process is the dialectic between investment on the urban fringe and in the inner city. Capital's flight to the suburbs moves the devalorisation process forward, eventually creates the rent gap, and creates the potential for gentrification. While this dialectic links distant neighbourhoods, there is nothing contradictory between capital circuits and the concept of a scale-based capitalised land rent. Capitalised land rent is determined by a set of neighbourhood-based factors that are in part a result of movement of capital and that also act to direct those movements.

Conclusion

Capitalised land rent determined at the neighbourhood scale provides an alternative manner of understanding the rent gap hypothesis without essentially altering most aspects of the hypothesis. It helps to resolve the issue of the effect of land use on land rent that is a serious point of contention in the arguments between Bourassa and Clark. It also appears to be consistent with traditional theories of land rent and newer ideas being developed to link the rent gap hypothesis to other land rent theory (Clark, 1996). Most importantly, however, it makes explicit the effect of scale on gentrification, and on our theories attempting to explain gentrification. To understand certain aspects of the gentrification process, any analysis must consider at least the two scales identified here—the metropolitan and the neighbourhood. There may be other important scales to consider. In fact, Smith's work on uneven development suggests that gentrification needs to be viewed in part at the global scale to be fully understood. I suggest, though, that analysis at the metropolitan and neighbourhood scales provides the minimum perspective necessary for understanding the foundations of the rent gap hypothesis.

Just as the issue of scale is implicit in the rent gap, it is also implicit to much gentrification research. Early models of the gentrification process describe the need for a critical mass of gentrifiers in a neighbourhood before the process can proceed 'successfully' (Gale, 1979). This need for a critical mass can be seen as a need for a gentrifying area to overcome the obstacles to gentrification at the neighbourhood scale, and bring land rent in the neighbourhood to the levels suggested by its location at the metropolitan scale. In addition, much of Clark's analysis of gentrification in Malmö refers to at least two scales at which land rents are determined. The method he used to operationalise potential land rent was based on metropolitan-scale factors, while the sources of capitalised land rent were more localised.

Scale is not new to gentrification research, and it played an implicit role in the development of the rent gap hypothesis. Thus, this new form of capitalised land rent forces us to view the determinants of land rent at these different scales and provides a firmer theoretical basis for the existence of two possibly divergent land rents in any parcel of urban land.

The rent gap remains a controversial explanation of gentrification, and this alteration in capitalised land rent may have no effect on the debates concerning the importance of the rent gap as an explanation of gentrification. It should, however, establish that the rent gap hypothesis is theoretically consistent with land rent theory, and can be evaluated on its ability to help us to understand gentrification—not on internal inconsistencies and theoretically confused foundations for its basic components.

Notes

1. Clark's work in Malmö represents an example of the use of high-quality tax assessment data in an empirical investigation of the rent gap. Such data are rare, and even when they exist the investigator must take great pains to adjust or modify the data in some form to ensure that they are reliable. Clark's discussion of the data in Malmö provides an indication of the difficulty presented by tax assessments, but also of their potential as a source of data.

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