Extracting Value from the City: Neoliberalism and Urban Redevelopment

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How do states make the built environment more flexible and responsive to the investment criteria of real estate capital? Spatial policies, such as urban renewal funding for slum clearance or contemporary financial incentives, depend on discursive practices that stigmatize properties targeted for demolition and redevelopment. These policies and practices have become increasingly neoliberalized. They have further distanced themselves from those "long turnover" parts of the city where redevelopment needs are great but where the probability of private investment and value extraction is slight. They have become more entwined in global financial markets seeking short-term returns from subsidized property investments. They have shifted their emphasis from compromised use values (embodied in the paternalistic notion of "blight") to diminished exchange values (embodied in the notion of "obsolescence"). I argue that obsolescence has become a neoliberal alibi for creative destruction and, therefore, an important component in contemporary processes of spatialized capital accumulation.

Introduction

The promise of durability has attracted kaisers, kings, mayors, and other megalomaniacs to the built environment. The physical-technical ensemble of the city—buildings, sewers, roads, monuments, transport networks—conveys a sense of fixity and obduracy that appeals to the political desire to make strong, lasting statements. However, these same characteristics often throw up challenges for the private capital that undergirds and enables urban development policies. The accumulation process experiences uncomfortable friction when capital (ie "value in motion") is trapped in steel beams and concrete. For example, property "exposure" requires elaborate and expensive schemes for offsetting risks. Prior investments create path dependencies that, because of the difficulties inherent in modifying physical structures, constrain future investments. The temporal horizons of investors, developers, and residents rarely coincide. The very materiality of the built environment sets off struggles between use and exchange values, between those with emotional attachments to place and those without such attachments.

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In order to reconcile the political imperative to build with the capitalist demand for liquidity, states have developed mechanisms to make the built environment more flexible and responsive to the investment criteria of real-estate capital. At the national scale in Europe and North America, these efforts include everything from funding for postwar urban renewal to neoliberal policy moves such as deregulating financial markets, commodifying debt (eg through mortgage securitization), destroying certain credit shelters for housing, and providing increasing support for real-estate syndications. Local states have produced their own set of directives, most aimed at absorbing the risks and costs of land development so capitalists do not have to do so. Municipalities justify such interventions by strategically stigmatizing those properties that are targeted for demolition and redevelopment. These justifications draw strength from the dual authorities of law and science in order to stabilize inherently ambiguous concepts like blight and obsolescence and create the appearance of certitude out of the cacophony of claims about value.

This research examines the changing role of states in property devaluation in the United States, searching in the detritus of the built environment for clues about regime shifts. States respond to the needs of capital in historically and geographically contingent ways. The degree of "epoch-making" change that took place in the early 1970s is hotly contested (Amin 1994): neither capitalist development nor associated state forms can be so thoroughly transformed as to lack any resemblance to former incarnations. Nevertheless, certain commonalities among Western industrial nations can be detected and periodized in order to draw out dominant principles. The policies and practices used to prepare real estate for the extraction of value in the last two decades, such as tax increment financing (TIF), are in many ways representative of the neoliberal turn theorized in more depth by others in this volume. Neoliberalism is a hypermarketized style of governance (ie government *through and by* the market) that denigrates collective consumption and institutions. It is also an ideological fetishization of pure, perfect markets as superior allocative mechanisms for the distribution of public resources (see, for example, Brenner and Theodore [paper] this volume). Although recent neoliberal policy moves draw from earlier tactics and discourses, they also refashion them in certain critical ways. This study attempts to avoid crude binarisms (ie Fordism/post-Fordism) while exploring both the changes and the continuities in the state financing strategies and associated discourses that influence value in urban property.

Value in the Built Environment

Capital circulates through the built environment in a dynamic and erratic fashion. At various points in its circulation, the built environment is junked, abandoned, destroyed, and selectively reconstructed. The physical shells of aging industrial orders may sit dormant for decades before being cleared for a new high-tech "campus," while efficiencies near the central business district come down efficiently to be reborn as luxury condominiums within a year. Marx saw the tendency of solid material to decompose and melt as a basic fact of modern life (Berman 1988). Contemporary scholars have gone a step further, analyzing the progression of time-space-structured transformations that revalorize devalued landscapes (Bryson 1997; Harvey 1989b; Smith 1996; Zukin 1982). In this section, I briefly trace the cycle of value creation and destruction in real estate before addressing the less-frequently analyzed role of the state in this cycle.

As a spatially embedded commodity, real estate embodies a crucial paradox. Real estate has always attracted a range of investors, from the small-scale speculator-next-door to the largest insurance companies, because the investment produces an alienable commodity whose association with a particular location makes it scarce and valuable (Fainstein 1994). Fee-simple ownership accords the owners the legal right to capture any socially produced increases in ground rent plus the value of the improvements. If returns from rents and future sales are sufficient to pay off the initial development costs and also meet the fees and time horizons of creditors and investors, new cycles of investment can be set in motion.

On the other hand, the fact that capital invested in the built environment is immobilized for long periods of time detracts from real estate's attractiveness as an investment instrument. Real estate is illiquid, entails high transaction costs upon sale, requires security, and is not easily divisible. Longer turnover periods create barriers to further accumulation, as capital gets tied up *in situ* until it returns a profit. The obduracy of real estate resists frequent modification (Hommels 2000). These qualities make the commodity of real estate very sensitive to devalorization, especially in contrast to machinery and other forms of fixed capital (Harvey 1982).

Once a structure is built, its ability to generate rents depends on the fluctuating value of two distinct elements: its improvements and location in space. Ground rents depend on demand for a particular location. They may increase as new development surrounds a building or the cachet of the neighborhood improves. They may decrease as demand wanes or if a location becomes overbuilt. For this reason, spatialized capital, unlike derivatives or corporate equities, has the unique (dis)advantage of having its value held hostage by the vagaries of proximity and its relationship to other properties (Fainstein 1994; Logan and Molotch 1987).

The value of the physical structure is similarly context-dependent. As soon as a building is constructed, it begins to age. Buildings will suffer from physical depreciation over time, which, *ceteris paribus*, reduces their market value. In this sense, the wear and tear on a building is not so different from a piece of machinery or other kinds of fixed capital. The tax code and private-appraisal industry account for the value change by recognizing depreciation in both capital equipment and building improvements (land does not depreciate) as a function of a building's "economic life."

However, a structure's value is a function not only of elapsed calendar time, but also of the conscious decision to invest and maintain or, conversely, to undermaintain and disinvest. Although the value of land does not depend on its upkeep, improvements require ongoing maintenance. Beyond routine reproduction of the circuit of capital, new investments will only be made if owners can capture rents or create surplus profit through innovation (Schumpeter 1942). Property may be revalorized through innovation in construction materials, design, and amenities. Some innovations may improve the efficiency of building operations, for example by lowering ceilings to reduce heating costs. Other innovations bank on an increase in sign values associated with a modern aesthetic. Schumpeter's notion of "creative destruction" captures the way in which capital's restless search for profits requires constant renewal through galelike forces that simultaneously make way for the new and devalue the old.

What is left behind by innovation is considered "obsolete." Obsolescence implies something out of date—a product, place, or concept displaced by modernization and progress. Appraisers divide property conditions into "functional" and "economic" obsolescence, categories that correspond roughly to value changes in location and improvements. Functional obsolescence results from changes in modern building practices and the manner in which buildings are utilized (Appraisal Institute 2001). Indicators of functional obsolescence in housing include

> structures of an overly large size; poor central utilities, especially hot water systems without circulating pumps; central hallways, which increase utility costs; high ceilings; inconvenient layout; out-of-date plumbing; electrical figures including square sinks and inadequate numbers of electrical outlets; old light fixtures; inadequate hot water capacity; pre-1973 aluminum electrical wiring. (Bullock 1996:36)

Economic or external obsolescence relates to factors outside of the property that reduce demand and negate its value. Buildings may become obsolete as the adjacent properties are rezoned and the buildings become unsuited to their new surroundings.

Obsolescence tends to suppress rental income and exchange values, but it may not diminish utility or use values. For example, an older building's structural components and configurations may meet the expectations and needs of tenants. If its owners cannot capture sufficient rents to encourage upkeep or additional investment, however, obsolescence may produce a lower level of physical maintenance and eventual deterioration. Utility and exchange value move in concert if the building becomes so structurally deteriorated as to be uninhabitable and abandoned (Cohen 2001; Sternlieb and Burchell 1973). The building's owners, seeing scant prospects for immediate redevelopment in the neighborhood, may continue to disinvest.

Capitalists triage devalued buildings into their own temporal categories. If the building in question is located in an area of concentrated poverty, it may become marginalized as "long-turnover" because the short-term rent gap is not sufficiently wide to warrant rehabilitation.[1] Its carcass may be left for scavengers and illegal uses as it falls into ruin and capital moves out to other more lucrative opportunities. When the value of the structure declines faster than the ground rents increase, however, it becomes "short-turnover," and demolition—a potent spatial fix—prepares the land for gentrification and building upgrading. Spatial-temporal boundaries "restrict the effects of devalorization, economic decline, and asset loss to clearly circumscribed neighborhoods and protect the integrity of mortgages in other areas" (Smith 1996:192). Uneven development sets the stage for the movement of capital in the relatively fixed built environment as new opportunities for value arise from the ashes of the devalued.

States and Creative Destruction

The calculus employed by capitalists to identify value in the built environment is neither standardized nor unchanging. They rely heavily on the determinations made by communities of technical experts, such as appraisers and market analysts, but speculation, luck, political influence, and class resistance also conspire to transform the process of value creation and destruction into one of intense sociopolitical struggle (Brenner and Theodore [paper] this volume). It would also be a mistake to view the creative destruction of the built environment as purely market-determined, a disembodied and overdetermined process that progresses in a linear fashion and is catalyzed by every withdrawal and subsequent injection of capital. The price mechanism alone does not determine if and when buildings will be devalued, demolished, or reborn. The private real-estate market often cannot supply all the conditions necessary for the extraction of value (Feagin 1998). Within each locale, a lattice of state and nonstate institutions—thick and hierarchal in some places, thin and ephemeral in others—influence value in the built environment.

Interventions into real-estate markets require states to juggle two contradictory imperatives: "to maintain or create the conditions in which profitable capital accumulation is possible," while at the same time managing the potential political repercussions (O'Connor

1973:6). Balancing accumulation and legitimation is a difficult task: the extension of the state into the market renders the political, economic, and legal bases of corporate legitimacy visible and thus vulnerable to interrogation and resistance (Habermas 1973). State actors may "mystify (their) policies by calling them something they are not," or "try to conceal them (eg by making them administrative, not political, issues)" (O'Connor 1973:6). They may solicit mass support for growth-oriented policies by ensuring some trickle-down benefits (eg jobs, expanded tax base, or lower taxes) and fostering a more collaborative political culture.

Beyond obfuscation and redistribution, states may neutralize some of the conflict surrounding value in the built environment by bringing different kinds of expertise to bear on divisive issues in hopes of achieving some semblance of ideological "closure." States have historically relied on the collaborating authorities of law and science to legitimize different regulatory regimes. Both law and science share a general commitment to resolving conflict through the discovery of truths. Laws convert state power into deeply embedded routines, the legitimacy of which depends on the perceived rationality of established procedures, the appearance of neutral administration, and the *de facto* acceptance of an order of authority by its subjects (Weber 1978). Science promises a similar mastery over the irrational, contested, and ambiguous. To the extent that the knowledge justifying state policies can be construed as natural, scientific "truths" perform the task of reproducing the values and credibility of state institutions (Callon, Law and Rip 1986; Wynne 1989).

Finding value or a lack thereof in the built environment is an arbitrary and inconsistent process in which the state, particularly the local state, offers its assistance. States discursively constitute, code, and order the meaning of place through policies and practices that are often advantageous to capital (Beauregard 1993). Because the presence or absence of value is far from straightforward, states attempt to create a convergence of thinking around such critical issues as the economic life of buildings, the priority given to different components of value, the sources of devaluation, and interrelationships between buildings and neighborhoods. By emphasizing the discursive nature of state interventions, I do not mean to imply that the discourse of devaluation is a mere fiction, distinct from both the objectively lowered value in the built environment that I described in the previous section and the policies I will describe in the following sections. Narratives often become indistinguishable from the basic empirical identities of buildings, neighborhoods, and entire cities (Shields 1991).[2]

Moreover, the discourse mutates in tandem with the changing market logics of real estate (dis)investment, as words take on new meanings and new themes shape spatial tactics. The Keynesian welfare state of the immediate postwar era allowed specific forms of financial regulation to predominate at the national scale, which influenced both the nature and availability of capital in local real-estate markets as well as the redevelopment priorities of municipalities. With varying degrees of assuredness, scholars have identified a rupture in the mode of capital accumulation in the early 1970s, a break that underpinned important changes in real-estate finance and its governance (Aglietta 1979; Amin 1994). Banks, for example, found their primacy challenged by new sources of fast-moving, globalized capital, while innovations in securitization and trading technologies have made the product of real estate more liquid and alienable. Although Fordist modes of production and Keynesian state forms were dismantled, it still remains to be seen exactly what forms of accumulation and financial governance will take their place. Some have classified the period following the crisis in Fordism as one of institutional searching and temporary fixes (Peck and Tickell this volume). Neoliberalism either has filled the void as a successor regime or represents new crisis tendencies acting out. In the following pages, I consider how these changes have shaped the urban spatial practices of the state.

Urban Blight and Renewal

In the postwar period, the national state provided a protected harbor in which domestic suppliers of real-estate capital (primarily banks) provided long-term mortgage loans at fixed interest rates to developers, investors, builders, and homebuyers (Downs 1985). Credit availability, relatively high wages, and national subsidies—particularly to the growing ranks of the white middle classes in the form of insurance (for bank deposits and mortgages) and defense contracts—helped fuel a postwar building expansion in the suburbs. Depopulated of their middle- and upper-income residents, cities became home to concentrations of poor immigrants and African-American migrants who lived and worked in a decaying built environment. In the middle of the century, the federal government possessed the tax revenue and the political will necessary for robust, national-level interventions (Teaford 1990). Starting with the Housing Act of 1949 and the amending Housing Act of 1954, cities received a growing stream of federal aid to purchase inner-city property for urban redevelopment and renewal. To receive the federal funds for land acquisition, they were required to draw up plans for development, form renewal agencies emboldened with new legal powers, and create mechanisms to quickly appropriate devalued property (von Hoffman 2000). Massive amounts of federal funds flowed into US cities through the 1970s, subsidizing developers and unionized construction workers with cleared prime land at bargain-basement prices (ie “write-downs”).

To dispose of devalued properties during this era and prepare space for new rounds of investment, the national state collaborated with the local state to create quasiscientific methods for identifying "blight." The language of urban destruction evolved from the vice-obsessed teens and twenties into its own technical language in roughly the middle third of the century. Historic accounts of urban policy during this period point to blight as the primary justification for creative destruction (Beauregard 1993; Fogleson 2001; Page 1999). In the local renewal ordinances and state statutes of this period, the definition of blight is vague: it is framed as both a cause of physical deterioration and a state of being in which the built environment is deteriorated or physically impaired beyond normal use. The discourse of blight appropriated metaphors from plant pathology (blight is a disease that causes vegetation to discolor, wilt, and eventually die) and medicine (blighted areas were often referred to as "cancers" or "ulcers"). The scientific basis for blight drew attention to the physical bodies inhabiting the city, as well as the unhygienic sanitary conditions those bodies "created."

Federal and local officials crafted standards of urban rebuilding that were drafted into the law. As preconditions for the use of local eminent-domain powers, these standards allowed them to triage what was worth preserving from what demanded immediate destruction. Armed with checklists of the spatial-temporal qualities that constituted blight (ie "blighting factors"), some of which had been developed in the 1950s by the American Public Health Association, planners' standardized techniques hid underlying motives and biases. The checklists included factors like the age of buildings (their "useful life," in most cases, was considered to be forty to fifty years), density, population gain or loss, overbuilding on lots, lack of ventilation and light, and structural deterioration. The criteria for blight designation sometimes referred to public health statistics such as the death rates from tuberculosis and syphilis (see, for example, *Morris v. District of Columbia Redevelopment Land Agency* 117 F. Supp. 705, 1953). Many of the blight indicators involved some sort of mixing or blurring of boundaries: a mixture of land uses or of the race and ethnicity of residents. As Swartzbaugh (2001) notes in her historical study of race in Chicago, even though buildings on the black South Side were not as old as those on the north and west sides of that city, they were more frequently categorized as unfit or substandard. Blight was disproportionately found in nonwhite areas; one checklist even included "percentage of Negroes" (Chicago Plan Commission 1942, quoted in Swartzbaugh 2001:9) as one of three indications of blight.

The early redevelopment legislation and city ordinances are notable for three areas of emphasis: first, the compromised use-values of residents living in blighted neighborhoods and buildings; second, a focus on building new low-income housing to replace the deteriorated stock; and third, justifications for managerial state intervention in order to eliminate or prevent conditions injurious to the public health, safety, morals, or welfare. In the legal challenges that followed, blight was perceived as a legitimate precondition for demolition and new housing construction because it produced hardships for residents and bred crime and disease (Quinones 1994). Obsolescence, on the other hand, primarily limited the profitability of property owners and was a more questionable justification for the use of urban police powers (ie "public purpose"). Although the downtown business interests and their friends in City Hall defined blight as an economic condition in which the market value of property is lost (Beauregard 1993), the courts tried—unsuccessfully, in many cases—to draw a line between use and exchange values to keep cities from indiscriminately assisting capital. In its attempt to defend an older neighborhood from the bulldozer, one court went so far as to note:

> Its fault is only that it fails to meet what are called modern standards. Let us suppose that it is backward, stagnant, not properly laid out, economically Eighteenth Century—anything except detrimental to health, safety, or morals. Suppose its owners and occupants like it that way. Suppose they are old-fashioned, prefer single-family dwellings, like small flower gardens, believe that a plot of ground is the place to rear children, prefer fresh to conditioned air, sun to fluorescent light. In many circles all such views are considered "backward and stagnant." Are those who hold them therefore blighted? Can they not, nevertheless, own property? Choice of antiques is a right of property … The slow, the old, the small in ambition, the devotee of the outmoded have no less right to property than have the quick, the young, the aggressive, and the modernistic or futuristic. (*Morris v. District of Columbia Redevelopment Land Agency* 1953, 38)

In the context of American-style welfare capitalism, targeting blight instead of obsolescence allowed the state to destroy with a public purpose—the laudable goal of "healthy" cities—as the moral overtones of blight blurred the boundaries between public and private responsibility.

The proffered solutions for dealing with this problem changed midcentury. Before the Housing Act of 1954, the bulldozer approach prevailed. Like teams of surgeons, city governments removed the concentrations of blight while the federal government assumed the role of the insurance company, absorbing the costs of demolition and land preparation. Cutting off the possibility of other alternatives, local states and real-estate interests campaigned against the "evil" of rehabilitation, labeling it wrong-headed and illegitimate. "Guard Against Unwarranted Rehabilitation," read one slogan of the time, for it would "only perpetuate bad land patterns" and "provide no lasting solution" (Swartzbaugh 2001:14). Property could be better sanitized and revalorized in its empty state, thus eliminating the possibility of the blight returning. From liberal-technocratic mayors in cities like Chicago and San Francisco to the construction trades and public employees unions, from master builders like Robert Moses and Ed Logue to local banks, disparate groups were enrolled in the project of justifying the destruction and rebuilding. Local governments expanded their workforces to accommodate the increase in activity and extend the webs of patronage, while the federal government protected them from serious legal challenges from residents and their advocates.

The 1954 act substituted the term "urban renewal" for "urban redevelopment" to indicate the federal government's more comprehensive approach and signal its acceptance of the conservation of existing structures as a means of stemming blight (von Hoffman 2000). As cities shifted away from slum clearance and housing construction, they also expanded the meaning of blight to include those areas and properties that had the *potential* to become deteriorated. Blight was portrayed as an epidemic—dysfunctional, corrosive, and inherently mobile. This move allowed cities to cater to the cultural elite with commercial projects like Lincoln Center in New York City and subsidize conspicuously profitable private office space for corporate headquarters and manufacturing districts to stem the white flight to the suburbs (Ranney 2001). Federal funds were supplemented by the local taxpayers, who supported large amounts of municipal debt finance, much of which was used for public institutions—urban campuses of state universities, hospitals, government facilities—that lacked their own exchange values but pulled up those of surrounding properties. In this sense, municipal Keynesianism depended on cities as nodes of production, where rising industrial productivity and close ties to the federal government would ensure sustained growth.

Urban renewal pulverized the inner city in the middle of the century, funneling billions of federal dollars into costly downtown commercial projects, highways, and sanitized streetscapes. Between 1949 and 1965, one million people, mostly low-income, were evicted in the name of eliminating and containing blight (Hall 1996). Ultimately, rent strikes, widespread protests, Black Power, Jane Jacobs, and several crucial lawsuits helped to replace renewal funds with Community Development Block Grants and diffuse the power of the renewal agencies to a broader network of neighborhoods and state actors. Renewal opposition was successful partly because organizations and lawsuits challenged the scientific and legal basis of blight, unhinging the signifier from the referent. Friedman (1968:159) observed, "Finding blight merely means defining a neighborhood that cannot effectively fight back, but which is either an eyesore or is well-located for some particular construction project that important interests wish to build." Blight was maligned as a convenient incantation to justify the use of redevelopment powers for projects that were already planned.

However, although resistance to the demolition and redevelopment plans was organized and powerful enough to slow the federal bulldozer, efforts to undermine the legitimacy of "blight" did not entirely remove the term or its legacy from the lexicon of urban policymaking.

The Neoliberalization of Devalued Property

The 1970s brought high inflation, an increasingly global context for investment, and a flood of capital from basic manufacturing into real estate and other speculative investments. The same phenomena that hastened the demise of Fordism also lowered the risk-adjusted returns on capital invested in the built environment vis-à-vis other asset categories. On the demand side, capitalists found that accumulation was better served by keeping financial resources churning rapidly within the system, rather than making sunk costs that would expose capital to great risks (Dow 1999).

Since the 1970s, capital deployment and turnover times have sped up, as have flows of information and signs in general (Lash and Urry 1987; Virillio 1986). On the supply side, in order to attract capital looking for large, liquid trading markets, the commodity of real estate has become progressively dematerialized and deterritorialized. Real estate has lost its status as a distinct and quirky asset class, in the process becoming more detached from place and more subject to the disciplining power and accelerated schedules of global capital markets.

The federal government actively accommodated the drive for liquidity in real estate by creating new forms of property and incentives to invest in real estate through tax policies, such as shelters, deductions, and tax credits. By creating a secondary mortgage market through quasipublic institutions (eg Fannie Mae, formed in 1968), the state has increased the total size of capital flows with the unattainable aim of reducing cyclical instability of real-estate capital. These institutions buy mortgages, package them, and guarantee their payments with government backing on mortgage-backed securities held by other institutions, such as pension funds. Securitization connects real-estate credit markets to the nation's general capital markets and creates more liquidity in the system (Budd 1999). The secondary mortgage market also enables investors in one part of the country to invest in mortgages originated in another region, effectively ending the geographic segmentation of credit (Schill 1999). These innovations, mediated by the development of new electronic trading technologies, have increased the pace of financial transactions so that capital does not get grounded for too long.

The federal government also deregulated the thrifts in the 1970s and lifted the ceilings on interest rates. Less regulated institutional investors (eg mutual and pension funds) and insurance companies became engaged in bank-like activity displaced banks from the credit markets they formerly dominated. Enacting a change in tax shelters in 1981, the Reagan administration effectively bolstered the role of equity syndicators, such as real-estate investment trusts (REITs), flooding the markets with capital. The resulting overaccumulation resulted in the overbuilding of the 1980s (Fainstein 1994), particularly in the Sunbelt office sector, and led the real-estate industry into its worse crisis since the Great Depression.

Clearly, finance does not just "hang above the rest of the political economy, as it were, as a dominating and abstract force whilst forming part of an order … of neoliberalism" (Gill 1997:72). New aspects of finance and the money form at the national and global scales are directly relevant to local governance, setting the market rules for (dis)investment in the built environment (Christopherson 1993). Financial deregulation and the increasing securitization of real estate removes owners from actual structures and moves locally determined value away from the underlying property. Determining a property's true value requires detailed knowledge of the local real-estate market (Warf 1999). Distant capitalists will only invest if the property is recognizable beyond its unique character embedded in space and if it can provide short-term returns. When these conditions are met, the particularity of a building is transformed into the uniformity of a financial "instrument," and place becomes subordinated to "a higher realm of ordering beyond territorialism: speed" (Douglas 1999:146).

If these conditions are not met, disinvestment may occur. Distant investors that operate in many jurisdictions often lack in-depth knowledge of and familiarity with the markets in which they operate. For this reason, the spatial distancing of real-estate investments may encourage the demolition of devalued properties over their rehabilitation. Although each location in space is unique and requires place-specific knowledge (eg of the demand for local real estate, zoning regulations) to assess its value, land that is devoid of improvements is more recognizable to the abstracting, utilitarian logic of capital markets. Rehabilitation and upgrading requires additional knowledge (of contractors and building materials) that distant investors often lack. In comparison, space is more malleable and potentially more valuable to investors when it is empty. If higher degrees of local knowledge are required, either profits will have to be higher in order to compensate for these inflexibilities (Clark and O'Connor 1997) or other parties, such as the state, will have to assume a portion of these additional costs.

The globalization of real-estate capital and the dematerialization of property have created new challenges for the local state. Municipalities are subject to a highly territorialized fiscal dependency, and they operate in a more delimited and competitive space than do national regimes. Moreover their ability to raise the revenues with which to bid for private investment is controlled by higher orders of government, such as state-government-imposed debt caps. Rather than retreat from policymaking, the last two decades have witnessed a proliferation of municipal regimes increasingly active in creating landscapes amenable to the quick excavation of value (Swyngedouw 1997). Cutting back national sources of assistance, such as urban renewal dollars and development block grants, has only aggravated interjurisdictional competition, raising the stakes and encouraging more desperate efforts to pin down increasingly fleet-footed capital.

Whereas the national and local bureaucracies of the Keynesian state formed a thick structure of organized power around urban renewal, local strategies now emanate from a hollowed-out, "contract" state (Jessop 1998; Strange 1996). Local government functions have been sold to the lowest-cost bidders: to private consulting firms (who draft neighborhood plans), bond underwriters (who help municipalities privatize infrastructure development and management and then underwrite the bonds to pay for those activities), and nonprofits (who build and manage housing and social services for those displaced from public housing). Whereas cities were beholden to the temporal pressures of the federal government during urban renewal, they are now dependent on the short-term horizons of REITs and those institutional investors who purchase municipal bonds. The contract state operates through decentralized partnerships with real-estate capitalists, and what remains of the local state structure has been refashioned to resemble the private sector, with an emphasis on customer service, speed, and entrepreneurialism. Indeed, the narrative of entrepreneurialism has underpinned city management practices since the late 1980s, as local governments attempt to project modern self-images and embrace innovative tactics to remake old spaces in the face of global competition (see MacLeod this volume).[3]

The marketized ideologies of neoliberalism as articulated in the entrepreneurial practices of cities stress different justifications for the stigmatization of space necessary for its revalorization. Agricultural and medical metaphors may have been appropriate for the rapidly urbanizing society of the mid-20th century, with its rural roots and relative bureaucratic legitimacy. However, the civil rights movement, dissolution of Keynesian managerialism, and numerous legal challenges forced cities to be more cautious about recalling the paternalism of the welfare state. Cities have attempted to sidestep this ideological minefield in two related ways. First, they have further distanced themselves from those "long-turnover" parts of the city where redevelopment needs are great but where the probability of private investment and extracting additional value is low. Second, although cities continue to identify blight in order to stigmatize space, I would argue that some of the concept's welfarist associations have been neutralized by the overarching narrative of municipal entrepreneurialism and its antithesis, the narrative of obsolescence. Obsolescence has become a neoliberal alibi for creative destruction, and therefore an important component in contemporary processes of spatialized capital accumulation.

There is nothing new about obsolescence. Concerns that the city as a settlement form was obsolete were voiced in earlier parts of the century (Beauregard 1993), and obsolescence is frequently cited as one of many "blighting factors" in redevelopment from the 1930s onward. Obsolescence poses a greater threat to exchange values than to use values, whereas blight threatens both. An obsolete building, eg one that has overly high ceilings, is not physically unusable but rather cannot be used as profitably as one with lower ceilings and modern heating systems. A recent legal suit over a redevelopment agency's activities noted that "Whether the building has become nonfunctional or obsolete for its use under current market conditions does not indicate whether the building is unsafe or uninhabitable for human purposes … [Such buildings] do not breed disease or crime; they fail to measure up to their maximum potential use in terms of economic, social, architectural, or civic desirability" (*Friends of Mammoth v. Town of Mammoth Lakes Redevelopment Agency* 98 Cal. Rptr. 2d 334, 2000:553).

Proof of obsolescence, therefore, requires the purveyor to demonstrate an objective loss of exchange value, rather than to subjectively comment on the loss of utility for a building's current residents. Appraisers, developers, and local officials point to certain indicators, such as rental values that are less than either the cost of demolition or accumulated depreciation (Urban Land Institute 1996). Obsolete office buildings can then be reclaimed as lofts, obsolete zoning and building codes can be revamped so that they are more user-friendly, and obsolete manufacturing space can be demolished to increase the supply of potentially developable land. Or, as one excited journalist noted about New York City, "after languishing on the sidelines as the wallflowers of the real-estate industry, outmoded industrial buildings, vacant for years, are being pursued by investors and developers who are profiting by dressing them up and dancing them around again" (Charles 1998:1).

Couching justifications for redevelopment in the language of obsolescence allows entrepreneurial cities to evade responsibility for the less commodified components of welfare, such as health, safety, and morals, previously assumed (at least discursively) by the early managerialist state. On the surface, obsolescence appears morally and racially neutral, as if the social has been removed from an entirely technical matter. Whereas the Keynesian state framed slum clearance as a government responsibility to aid victim-residents, entrepreneurial urban policies use discursive frames that assign neither blame nor responsibility. What is responsible for obsolescence? Time, for one. Buildings age in what is framed as a natural, inevitable, and irreversible process. They are replaced by successively more modern structures. Functional obsolescence is simply the spatialization of turnover time; it is time given material expression in physical space. Obsolescence takes the agency from the owner-investor-tenant and relocates it in the commodity itself.

Markets are also responsible for obsolescence, although, by virtue of their lack of agency, they are cleared of any moral charge for the outcome of uneven development. Innovation and changing consumer demand, the logic goes, will create excess capacity in any market as new commodities become desirable and older ones fall out of favor (eg suburban greenfield versus urban brownfield sites). Markets are the straightforward expression of the popular will, and "since markets are the product of our choices, we have essentially authorized whatever the market does to us" (Frank 2001:5). As the correlate of gentrification, obsolescence appeals to the individualist notions of taste and preference that guide consumption and trump any structural or social explanations for wide-scale devaluation (Smith 1996). The market is viewed as an omniscient and neutral arbiter of value, with consumer sovereignty as the link between freedom and capitalism.

Entrepreneurial Interventions

Although markets drive obsolescence, state institutions continue to provide assistance in identifying its presence and reclaiming it. Real-estate executives insist that "[T]here is no alternative to extensive government intervention to encourage renovation or replacement of obsolete structures" (Lueck 1994:C3), and many of these same executives sit on the committees that design the strategies meant to provide such assistance. Urban renewal was very successful in laying the foundation for the devalorization and revalorization of capital, and many of its tactics, such as land write-downs, remain in use today. However, the neoliberal governance of urban development has allowed other spatial practices to flourish and new politicized and marketized relationships to convene around financing, constructing, destroying, and reconstructing the built environment.

One of the most interesting developments has been the resurgence of sublocal fiscal enclaves within the city limits that have access to sources of finance beyond the reach of the city as a whole and compete among themselves for the attention of private investment and the bond market. These enclaves include tax increment financing districts (TIF), business improvement districts (BID), and special-purpose development corporations, all of which have their roots in older special assessment districts to some extent. TIF forms the focus of the remainder of this paper, for, as a rescaled form of city power, it is both heavily invested in the classification of obsolescence and particularly illustrative of the neoliberal turn.

TIF evolved out of a method used to match federal block grants in the 1950s, but it was only used by a few states (particularly those on the West Coast) until the 1970s. By the 1990s, TIF had become the most popular means of financing redevelopment in the US (Briffault 1997). TIF creates a special taxing jurisdiction around an area targeted for redevelopment and earmarks future property tax revenues to pay for the up-front costs of development. The area in question must meet the definition of "blight" found in the state enabling legislation. However, the existence of blight is most frequently demonstrated by the presence of obsolete structures and land uses and by property values that have not grown as quickly as some benchmark (usually the average growth rate of the municipality as a whole).[4] Developers and consultants, in concert with the municipality, draft a study to document the deterioration, the age of the building stock, zoning and land-use designations, vacancies, and changing property values. These criteria resemble some of those used to identify blight during urban renewal, although they have been purged of any reference to race, health, or hygiene.

When municipalities have attempted to demonstrate blight in recent years by pointing to compromised use-values, as they did during urban renewal, they have been challenged by popular protests and legal suits. For example, the Chicago suburb of Addison tried to demonstrate blight by pointing to "dust on windowsills, missing toilet paper roll holders, small cracks in linoleum floor … and unwashed dishes in kitchen sinks" (*Hispanics United of DuPage County v. Village of Addison* 958 F. Supp 1320, 1994:27). The municipality planned to use TIF to demolish 827 units in two poor and predominantly Latino neighborhoods, but they only brought down eight four-unit apartments before a lawsuit and three years of intense negotiations forced them to stop. Municipalities have had better luck demonstrating blight and engaging in redevelopment activities when they do not seek to implicate use values but instead focus on those areas where rent gaps are wide and where potential for revalorization is great. This is because TIF depends, not on absolute levels of property taxes, but on the "increment" or difference between property taxes in the year of designation and subsequent years (in Illinois, the time period is twenty-three years). In other words, surplus value only accrues to the local state and, by extension, the market when assets are repriced upwards. Introducing property that was publicly owned (eg a public housing complex), acquired through eminent domain, or destroyed through demolition into a sufficiently hot real-estate market creates the huge spike in property values necessary to justify the up-front expenditure and pay off the bonded debt.

As a result, cities have used TIF primarily for large-scale downtown redevelopment projects and in gentrifying neighborhoods, bypassing the slow-turnover parts of the city where there is little hope of generating additional property taxes. TIF has supported the entrepreneurial state's involvement in place marketing, tourism, historic preservation, and beautification. Such efforts often seek to alter the sign value of devalued buildings and places through the commodification of a sanitized kind of nostalgia. Chicago, for example, has spent $60 million in TIF funds to renovate several downtown theatres (Neighborhood Capital Budget Group 1999). These historic structures could be considered obsolete because by the 1970s they no longer hosted Broadway musicals but instead showed martial arts movies for a low-income audience.

Timing the intervention is key to its success or failure. If TIF designation occurs at both (a) the nadir of the value curve and (b) when there is initial speculative interest in the properties, TIF can maximize the surplus appropriated from the property. Only a coalition of municipal officials and affiliated real-estate capitalists possesses both the local knowledge and the police powers to be the first movers in such a small window of opportunity. Conflict typically ensues as these coalitions attempt to keep other speculators out (because they may cause assessments to rise prematurely) until the TIF process can be put securely into motion. After designation, the city borrows against the potential stream of future revenues in order to absorb the present cost of land development, infrastructure improvements, property assembly, and demolition so that developers do not have to do so.

Co-constructing obsolescence allows the state and private developers to both write down property values and speed the turnover of capital in the built environment. When particular properties experience significant devaluation, the local state may draw on its own expertise and legal authority to initiate a "quick-take" use of its eminent domain power. Tax-delinquent, "nuisance," and abandoned properties—often grouped together as "temporarily obsolete, abandoned or derelict sites," or "TOADS"—then become part of the city's extensive inventory of real estate (Greenberg, Popper and West 1990).

However, neoliberal ideology dismisses most forms of public ownership as socially and privately unproductive. When ownership resides with the government, the logic goes, the property is fiscally barren, and there is no profit motive or institutional check on the dissipation of potential value by manager-bureaucrats. Indeed, neoliberal urban development strategies, including TIF, have sought to privatize the city's property holdings and increase the pace at which they are acquired and subsequently disposed. Cities, like the finance capital that enables them, tend to resist the role of landlord over long periods of time. Devalued properties typically do not stay in public hands for long before being reintroduced into circulation. They are gifted or auctioned off to private developers, scavengers, or speculators. Once the public housing came down and titles to the formerly tax-delinquent properties were safely transferred, cities in the 1990s found themselves sitting on a goldmine of value that was sold to the highest bidders.[5] In this way, as Smith (1996:70) notes, "assembling properties at a fair market value and returning them to developers at lower assessed prices, the state bears the cost of last stages of capital devalorization, thereby ensuring that developers recoup high returns without which rehabilitation or redevelopment would not occur." The city plays a critical role in the circulation of capital as a short-term holding tank for devalued properties.

Property-tax dollars are not simply granted to firms as abatements or deductions, as they were during an earlier "dismantling" phase of urban policy (Peck and Tickell this volume). Instead, TIF creates new institutions to put tax revenues "in play" in global capital markets, where they are bonded and arbitraged beyond recognition. For example, the City of Chicago has placed a TIF around its most notorious public housing complex, Cabrini Green, in preparation for its demolition and redevelopment as mixed-income housing in an extremely expensive real-estate submarket (Ranney 2001). The City developed a complex financing scheme to secure the TIF bonds because of the political risks inherent in the project (ie at the time of the bond sale, a lawsuit that was filed on behalf of the residents and sought to halt the redevelopment was pending). It paid a large fee to the Bank of Canada to provide bond guarantees and arranged for Nations Bank to engage in an interest-rate swap that gave Nations Bank the right to invest the tax increments. Only with these costly guarantees to nullify the political risk would the insurance funds purchase the TIF bonds.

Just as flexible accumulation looks more to finance capital than the Fordist firm did, entrepreneurial states rely more heavily on the markets in public debt and private equities in real estate than did the Keynesian state. Dependence on financial markets contributes to the public sector's loss of time sovereignty, as investors have much shorter time horizons than states. A small cadre of highly specialized underwriting shops for TIF deals have become important agents in the networks of urban fiscal governance. These boutiques are able to charge higher spreads for TIF debt because of the speculative risks involved. Meanwhile, cities woo bond-rating agencies with exaggerated claims of performance in hopes of securing better grade—and therefore less expensive—debt. Despite the bull market, however, several TIF bonds defaulted in the 1990s, and for every default, there were a hundred close calls that strained the contract state's capacity for fiscal management (Johnson 1999).

Conclusion

As the federal-grants economy that funded urban renewal efforts has been dismantled, entrepreneurial cities have sought to distance themselves from prior welfarist commitments, reclaim obsolete spaces, and find innovative ways to make costly redevelopment projects "pay for themselves." Devolution increased cities' dependence on own-source revenues, namely property tax revenues, which in turn made them more dependent on those that create value: the private real-estate market. Neoliberal redevelopment policies amount to little more than property speculation and public giveaways to guide the place and pace of the speculative activity. In this way, the miniaturization of fiscal space through strategies like TIF assists the local state in preparing urban property for the deep excavation of value.

The local state's dependence on its own property base and its willingness to subject that base to market rule accounts for the renewed zeal with which it stigmatizes space. Obsolete buildings melt into air, making it easier for the state to match distant investors with the empty, deterritorialized spaces left behind. However, reliance on the erratic capital markets to reinvigorate devalued properties often jeopardizes the fiscal health of cities. Nowhere is this more evident than with TIF, where cities front huge sums for land acquisition and development based on tenuous promises of future value generation. Such speculative risks expose the fact that control is costly in neoliberal regimes where value in the built environment depends on the circulation of fast, fictitious money and an unruly web of politicized and marketized relationships.

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Endnotes

[1] Rent gaps materialize when current property values do not fully capitalize their potential ground rent.

[2] For an example of this, one need look no further than the case of depreciation, which both describes a real loss of value from age and use and also represents a discursive figment of a tax system that rewards property ownership with deductions for "expected" devaluation. Appraisers, the private gatekeepers of value, use standards informed by the federal tax code to identify actual depreciation in buildings.

[3] Entrepreneurialism is defined broadly as a combination of competitive, growth-oriented local economic development strategies, intimate public–private collaborations, and boosterism (Harvey 1989a; Jessop 1998).

[4] Indiana's TIF legislation, for example, states that municipalities must demonstrate that "normal development and occupancy are undesirable or impossible due to a lack of development, cessation of growth, dearth of improvements, character of occupancy, substandard buildings or the presence of other factors that impair values or prevent normal use of development of property" (cited in Michel 1996:460).

[5] In Chicago, local officials admit that the city's excessive use of TIF (with over 113 districts in which over 12% of the city's tax base is tied up) places pressure on them to return as many properties as possible to the tax rolls, preferably in a more highly valued state (interview with City of Chicago Department of Buildings, July 2001).

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