

The Case of Inclusive Gentrification in Casco Viejo:
When Long-Term Investment and Community Interests Align

By

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ABSTRACT

The gentrification of urban centers will become one of the greatest social inclusion challenges in the near urban future. The case of Casco Antiguo—the historic district of Panama City, Panama—demonstrates an instance in which the aligned interests of the community and real estate developers created an opportunity for shared growth for some of the groups who are excluded in traditional gentrification models. This research advances the state of knowledge within the gentrification discourse by providing a multi-disciplinary perspective and applying it to a thoroughly documented case study in a developing-country context.

Through an analysis of urban land markets, the social dynamics of neighborhoods with high concentrations of poverty, and the complexities of tenure informality in Latin American cities, this thesis builds the case that neither the speculative models of gentrification that lead to exclusion nor a resistance to change that perpetuates existing inequalities are desirable outcomes. Instead, when real estate developers take a long-term approach to investing in revitalizing a neighborhood, their interests in maintaining the authentic character of the place can align with the interests of the current residents. An inclusive model of gentrification then becomes possible.

Evidence suggests that a subset of the middle-class seeks diversity when choosing a neighborhood. For developers responding to this demand by investing in diverse city centers, the loss of social diversity caused by gentrification-driven displacement can pose a risk to property values. With a long-term investment horizon, mitigating this risk using a range of methods including building affordable housing or investing in employment programs becomes a strategic business need. Transferring part of the value created through this premium on diversity to reducing displacement enables a situation that benefits both developers and the community.

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1. INTRODUCTION

The regeneration of urban centers will become one of the greatest social inclusion challenges in the near urban future. Cities around the world are reversing the suburbanization trend, as new generations are reclaiming the urban areas their parents abandoned and left to the poor and marginalized, who are now being displaced. In this context, socially-minded developers are looking for ways in which current low-income residents can share in the economic growth generated by their activities. Better understanding this process will help to not only create accountability, better public-private relationships, and better land policies, but it will also provide developers with powerful information that can influence their decision-making and internalize socially sustainable practices in real estate development.

The Panamanian developer Conservatorio S.A. is pioneering the revitalization of the historic district of Panama City, known as Casco Viejo. This effort is a special case where the rise of property values due to investment in real estate and gentrification can lead to self-attrition: their land value is derived from neighborhood charm and cultural capital, making its human heritage a key asset. Once the communities that provide this localized experience are displaced out of the neighborhood due to rising prices, the investments lose their value. Therefore, developers have a business interest in creating a socially-inclusive neighborhood where old and new residents can cohabitate. Conservatorio is acutely aware that its success is intertwined with the neighborhood's transition. As such, the company has invested time and funds in promoting the local culture and running social programs to help the low income households in the neighborhood share in the economic growth and enable them to stay in the neighborhood. They see creating a stable mixed-income neighborhood within their area of investment as a form of long-run risk reduction that protects their property values. In fact, it is part of Conservatorio's business model.

This research advances the state of knowledge in the gentrification discourse by providing a multi-disciplinary perspective, applying it to a thoroughly documented case study, and doing this in a developing country context. The purpose is to answer the globally important question: when a neighborhood is gentrifying, can growth be shared by both developers and local residents in a sustainable way? The hypothesis explored here is that when real estate developers take a long-term approach to investing in revitalizing a neighborhood, their interests in maintaining the authentic character of the place can align with the interests of the

current residents. Despite general and context-specific difficulties, there are mutual benefits to combining these interests towards a shared growth model. Rather than a trickle down approach, this structure supports direct investment by the private sector in social causes.

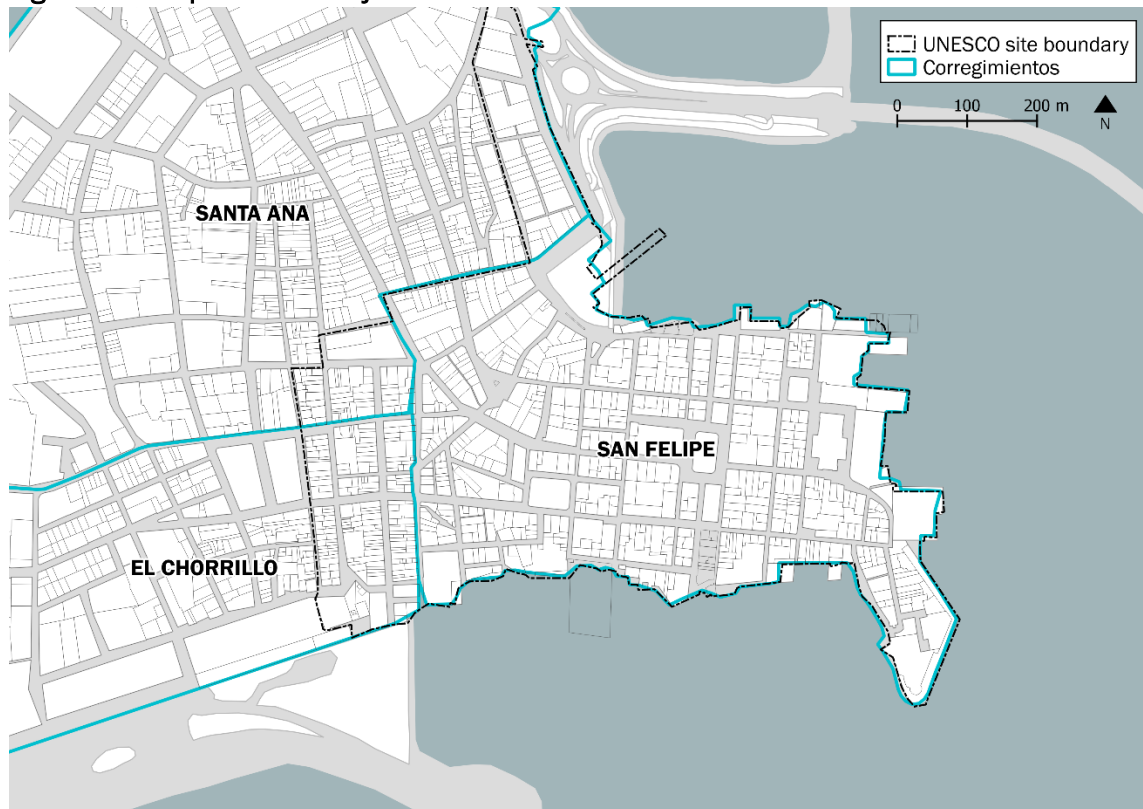
The thesis is structured as follows: Chapter 2 introduces Casco Viejo, describing its rapid physical transformation driven by public and private investment. It then presents a summary of the current debate about the positive and negative impacts on gentrification, as well as the methodological challenges in studying the phenomenon empirically. Drawing from this literature background, it establishes the conceptual framework used in the remainder of the thesis, highlighting the values and biases that can influence the analysis. Chapter 3 uses urban economic theory to explain the land market dynamics that generate gentrification, and then applies these theories to Panama City. It concludes with an analysis of land value changes in Casco Viejo, supporting the argument that real estate interests are driving the transformation of the neighborhood. Chapter 4 uses census data to describe the living conditions in the poor areas of Casco Viejo through socioeconomic indicators, and well results from field interviews with residents from these areas. The purpose is to profile those who are being impacted by gentrification. It explores the dynamics of poverty concentration and the role of social capital in providing opportunities for economic growth, pointing towards the potential of social diversity for reducing urban inequalities.

Chapter 5 grounds the research on the Latin American context, highlighting the role of informality of tenure and the legal implication this creates for redevelopment of inner urban areas. Framing the conflict as a clash between property rights and the right to the city, it evaluates current eviction policies in Casco Viejo, and draws from the UNESCO approach to authentic preservation of historic sites without exclusion. In-place affordable housing opportunities emerges as the option that least infringes on either right. Taking into consideration the findings from the previous sections, Chapter 6 takes the perspective of real estate developers. Using Conservatorio as an example of an alternative model to gentrification, the chapter explores how the social diversity of the neighborhood is tied to the financial interests of developers who have a long-term investment horizon, revealing an opportunity for inclusive gentrification. Finally, the concluding section extracts the lessons from the case of Casco Viejo and Conservatorio to evaluate how policies can promote this alternative inclusive model to achieve a more optimal outcome that is beneficial to all stakeholders.

2. BACKGROUND AND CONCEPTUAL FRAMEWORK

The history of Casco Viejo and its unique architectural heritage is an important context needed to understand the more recent social and economic transition that is discussed in detail in later chapters of this thesis. After a series of fires, destructions and reconstructions over the centuries, what remains of the originally walled city today dates back to the 1850s to 1930s¹. The only remnants from its colonial period is the typical urban grid, with its iconic churches and plazas (Tejeira Davis, 2007). The existing architectural heritage can be described a mix of Art Deco and Art Nouveau, with both French and American influences tied to those two countries' respective period of involvement with the Panama Canal (Tejeira Davis, 2007) with a distinct local Caribbean flavor (UNESCO, 1997). Its architectural value stems from this unique mix. The Historic District of Casco Viejo, as defined by its UNESCO World Heritage Site boundary, includes all of the *corregimiento* (borough) of San Felipe and parts of the *corregimientos* of Santa Ana and El Chorrillo (Figure 2.1).

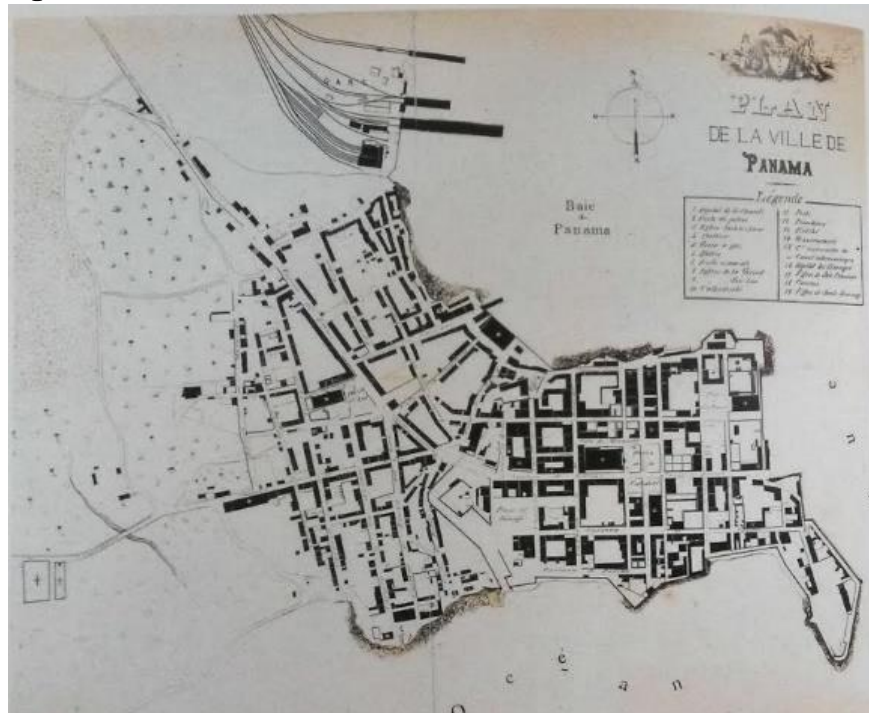
Figure 2.1: Map of Casco Viejo Area



Source: author, with data from CascoDB

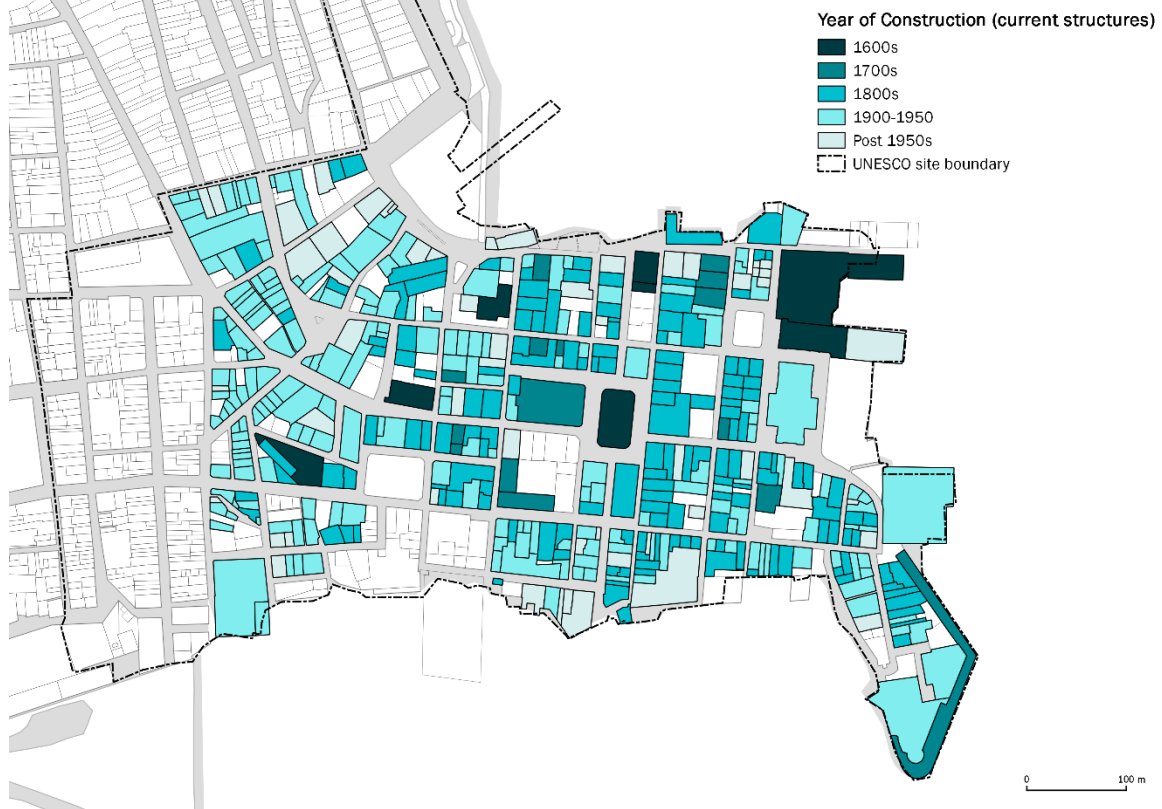
¹ A complete history of the city, starting from its foundation in its current location in 1673 is well detailed in Eduardo Tejeira Davis (2013).

Figure 2.2: "Plan de la Ville de Panama" c. 1882



Source: (Eduardo Tejeira Davis, 2013, p. 56)

Figure 2.3: Current buildings in San Felipe by year of construction



Source: author, with Office of Casco Antiguo data

With the expansion of Panama City towards the northeast of the Historic District in the second half of the 20th century and the movement of economic centers of activity to more modern parts of the city, particularly the financial sector, Casco Viejo lost its centrality. Its desirability as a place to live also weaned in favor of more suburban and modern parts of the city. This abandonment as a place of interest led to a period of severe deterioration. However, in the past 20 years, there has been renewed interest and investment in the neighborhood, for reasons described in detail in Chapter 3. The result of this inflow of capital has been a dramatic physical improvement of the real estate stock of Casco Viejo. The Office of Casco Antiguo (OCA), a non-regulatory governmental office responsible for overseeing and documenting change in the historic district, has carried out two full censuses of properties in the district - in 2000 and 2012 - enabling the before-and-after comparison of the physical change presented here. These changes evidence the magnitude of investment concentrated in the neighborhood in recent years, and set the baseline for further analysis of the consequences of this investment.

Some of the most striking buildings in Casco Viejo remain institutional and serve national government purposes. These include the National Theater, The Presidential Palace, The Bolivar Palace, and the National Cultural Institute (see Figure 2.4). These buildings never ceased to serve their national functions, so when private investment began flowing back in the 1990s, it originally concentrated in the eastern, waterfront side of the neighborhood, where these buildings were located, and which was considered safer (Espino, 2009). Overtime, it expanded westward, towards El Chorrillo and Santa Ana (see figure 2.1). Of the 41 buildings identified by OCA as restored in the 1990s, 28, or 68% were in the area between the waterfront and Calle 6, which demarcates the area where the government buildings are concentrated. By 2012, the location of restoration activity had started to shift westwards, as the cumulative distribution in Figure 2.5 shows (street numbers increase from east to west).

Figure 2.4: Institutional buildings in Casco Viejo

Governmental Properties



Map source: Public Cadaster

Presidential Palace



Flickr, thyngum

Palacio y Salon Bolivar



iffpanama.org

INAC



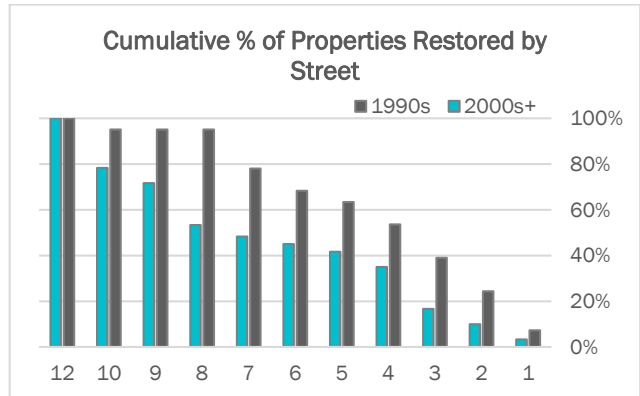
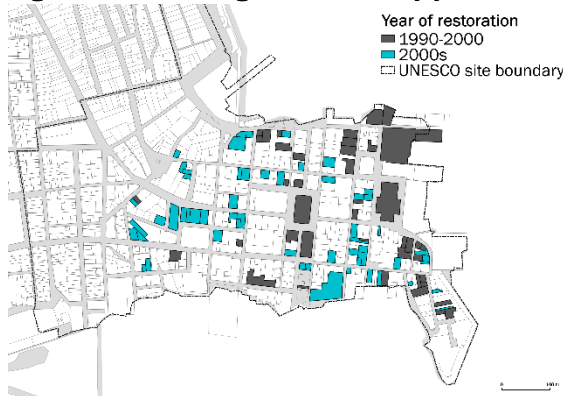
mire.gov.pa

Teatro Nacional



OCA 2000

Figure 2.5: Building restoration by year and location



Source: author, with data from OCA. Street numbers increase from east (1) to west (12)

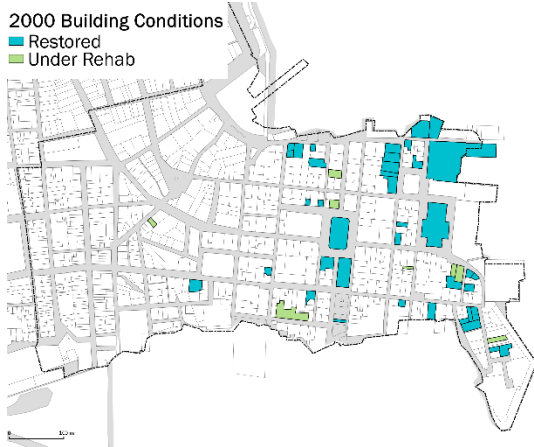
In 2000, of the 427 properties for which OCA collected information, 10% were being rehabilitated or already restored, but more than a third (34.2%) were in poor condition or condemned. By 2012, the proportion of rehabilitated or under restoration properties had risen to 31%. In terms of building use, residential-only property decreased from 44% of OCA's 2000 inventory to 25% in 2012. Vacancy increased from 16% of the 2000 inventory to 27% in 2012, perhaps signaling the repossession of abandoned properties for future redevelopment.

Figure 2.6: Building conditions

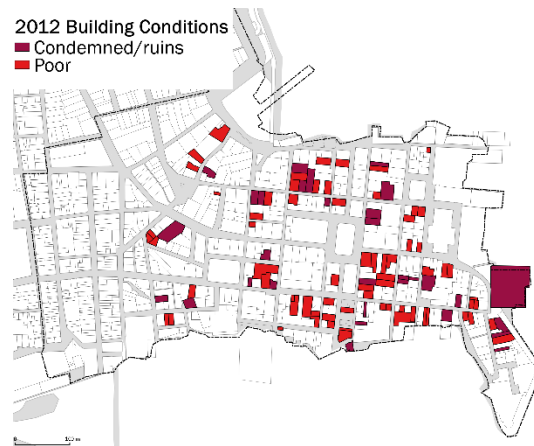
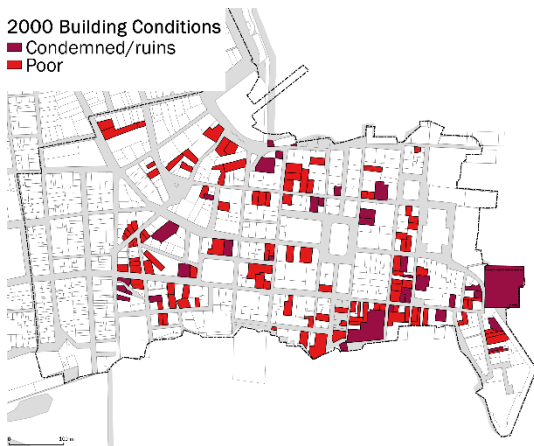
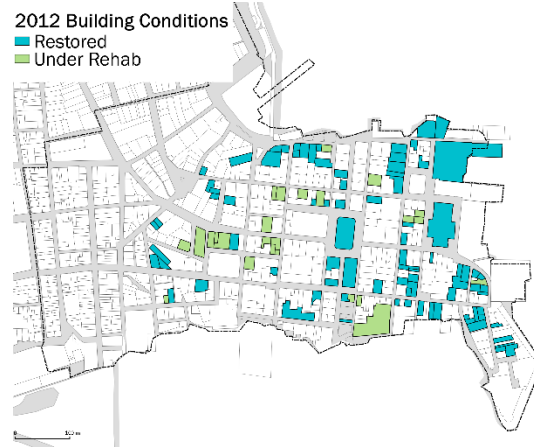
Condition	2000		2012	
	%	number	%	number
Rehabilitated	9.4%	40	21.7%	78
Under rehab	1.9%	8	9.2%	33
Good	17.6%	75	18.4%	66
Fair	31.1%	133	17.5%	63
Poor	25.8%	110	19.5%	70
Condemned/in ruins	8.4%	36	8.6%	31
Vacant land	3.7%	16	4.7%	17
Unknown	2.1%	9	0.3%	1
Total	100.0%	427	100.0%	359

source: compiled by author from OCA inventory

Figure 2.7:
2000 Building conditions



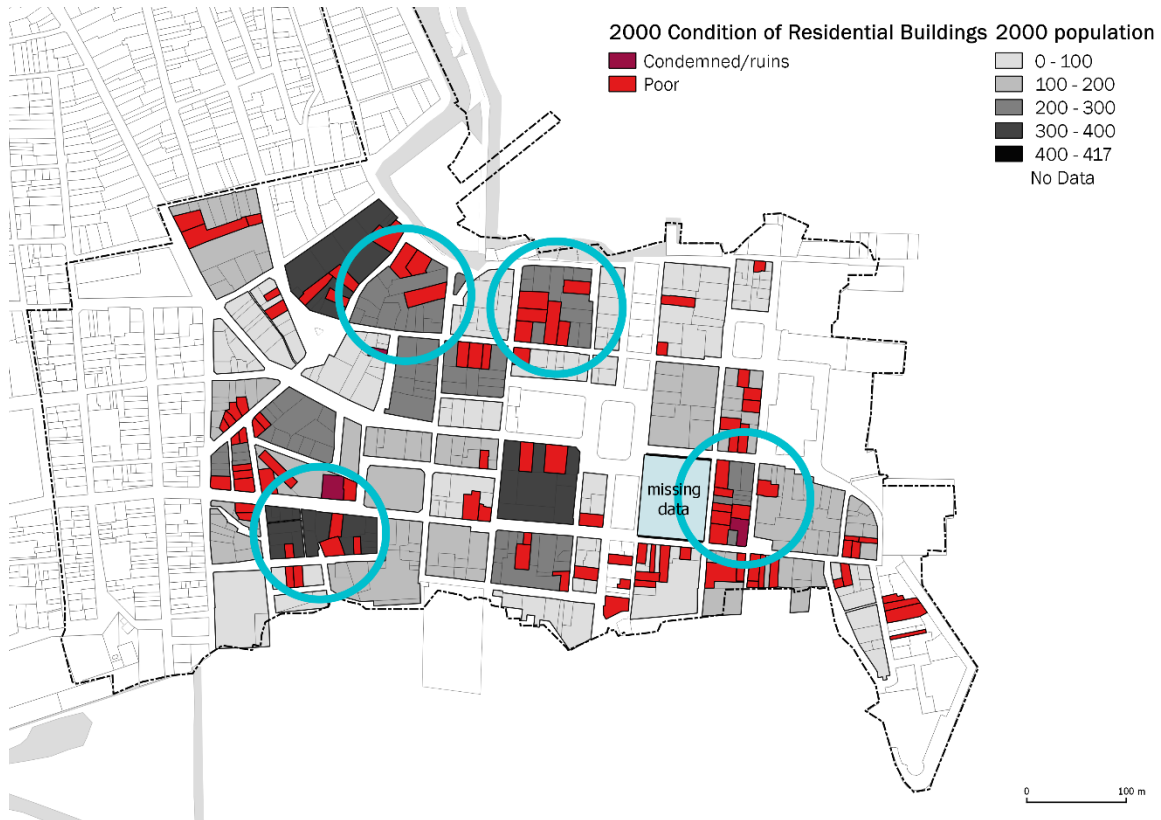
2012 Building conditions



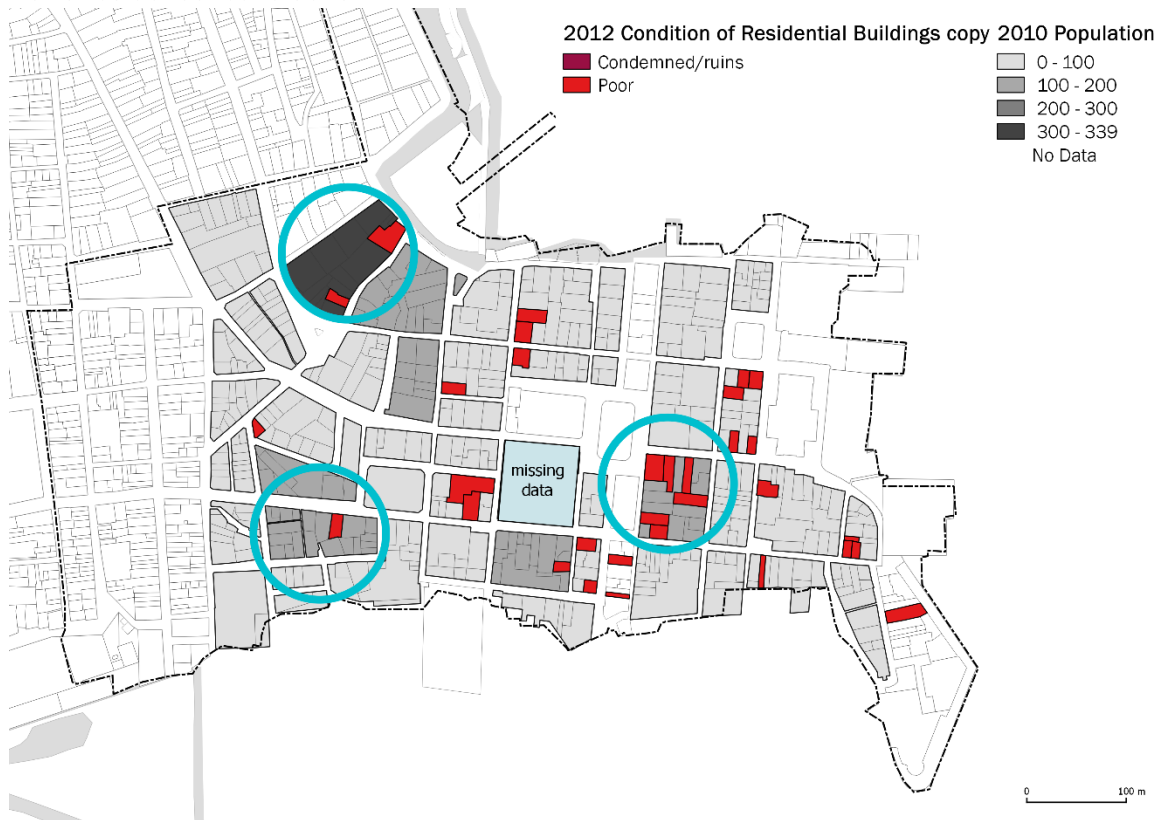
Source: by author using OCA inventario data.

Of the 146 properties in poor or condemned conditions counted by OCA in 2000, 99, or 68% we used in whole or in part as housing. By 2012, the number of properties used as residential in poor conditions had decreased by two thirds (to 32). While the improvement of living conditions is a positive development, the reality is that the improvement largely signified the replacement of those low income residents who were living in poor conditions by higher income residents. The two maps below superimpose the location of residential properties in poor condition with the total number of inhabitants per block. From 2000 to 2012, it is clear that as these properties improved, the population in those blocks decreased. The highlighted blocks show the most dramatic examples.

**Figure 2.8: Residential building restoration and block population
2000 residential conditions**



2010 residential conditions



Source: author, using census and OCA data

Photographic evidence (figures 2.9, 2.10) clearly demonstrates why building restoration is tied to population decrease. Buildings that had been abandoned for years by their owners had become tenement houses, characterized by overcrowding. As those properties were redeveloped into high end properties, the density decreased dramatically, whether they were transformed into condominiums or their use changed. Informal interviews revealed that residential buildings in poor conditions can house 30 to 40 families, while restored buildings of similar size would not include more than 8 units. The conditions in these overcrowded houses are cause for concern, and will be discussed in more detail in Chapter 4, but the changes in physical conditions documented since 2000 certainly correlate with the overall population decrease measured.

Figure 2.9:
Residential redevelopment
2000



2012



Change of use
2000



Source OCA, author (bottom right only)

2015



Figure 2.10: Occupied unrestored building in San Felipe



Source: author

This brief history describes the process that is the subject of this thesis: gentrification and the resulting displacement of in-place residents to make room for higher-income groups. This includes both direct displacement through eviction, as well as indirect effects through rising property prices. This struggle among socioeconomic classes over urban space has been documented, discussed, debated, defended and denounced all over the world. However, the case of Casco Viejo is distinct because it is being led by a socially-conscious private sector organization that seeks a win-win solution in which real estate development can flourish, along with the economic growth and opportunities it provides, without excluding in-place residents from its benefits. What follows is an introduction to the literature on gentrification, and a justification of the approach I use in this thesis to assess the relevance and viability of this alternative model.

2.1 The Process of Gentrification and its Exclusionary Effects

Few terms in urban development are as emotionally and politically loaded as “gentrification”. Its wide usage – from specialized academic scholarship to the public media – would suggest a generally accepted meaning. But its manifestation remains hotly debated. Put simply, the Brookings Institute defines it as “the migration of wealthier people into poorer neighborhoods” (Grabinsky and Butler 2015). Guerrieri, Hartley, and Hurst (2013) describe it as when “The in-migration of the richer residents (...) bid up prices in those neighborhoods causing the original

poorer residents to migrate out” (page 45). The first definition does not explicitly include the replacement of poorer residents for wealthier ones, while the latter definition does. This distinction is crucial as it represents an important debate about the social effects of gentrification. Whether gentrification inevitably leads to the displacement of poorer residents has been a key question in the literature. It is often assumed to be so, but studies that attempt to measure these effects have been ambiguous.

Conceptually, both of these definitions are clear. The problem emerges when trying to operationalize these definitions for measurement. What determines whether a neighborhood has undergone gentrification? Because gentrification is a process, the parameters used to observe it affect the ultimate measurement. For example, in a recent study, Barton (2014) finds stark differences between the number of neighborhoods that The New York Times has labeled as gentrifying and those which can be observed as gentrifying using census data. Even in the literature, there is no fixed definition of gentrification because the parameters vary by geographic scale, time period, demographic characteristics, etc. The thresholds appropriate for characterizing a process of change are malleable. Furthermore, measuring displacement is challenging because “it is difficult to find people who have been displaced” (Newman and Wyly 2006 page 27). As a result, there is a lack of documentation of how gentrification affects the social composition of neighborhoods (Freeman 2009).

Identifying and measuring gentrification in urban neighborhoods is important because it is at the heart of the conflict of interest between the socioeconomic and financial priorities of urban development. Few questions are as complex and crucial as how to generate inclusive growth. That is, growth that is not purely an extraction of value by a few real estate developers, but a generalized improvement of the quality of life of residents that still generates enough value to foster investment. This is what Newman and Wyly (2006) describe as the difference between “equitable reinvestment and polarizing displacement” (page 26), or “the use values of neighbourhood and home, versus the exchange values of real estate as a vehicle for capital accumulation” (page 31). In the United States, as well as other places, the bitter history of urban abandonment and disastrous urban renewal policies have left a mark, attaching a negative connotation to discussions of inner city revitalization. However, with the recent inflow of capital into these neighborhoods fueling their revival, the question needs to be asked again: can urban core revitalization be inclusive?

For the past ten to fifteen years, there has been a rather dichotomous debate in the literature trying to determine whether gentrification is a positive or negative phenomenon. In a series of

studies, Freeman, and Braconi use econometric methods to find that the number of displaced households in gentrifying neighborhoods in the U.S. is no greater than that in non-gentrifying ones. Additionally, Vigdor (2007) finds that the increase in residential prices is commensurate to the increased value that original residents attach to the neighborhood improvements that come from increased investment. In response to these findings, Newman and Wyly (2006) reconstruct these studies and supplement them with interviews with residents and leaders of neighborhood organizations. They conclude that Freeman and Braconi overlook some aspects of gentrification, therefore underestimating its effects. For example, they find that a majority of the poor in gentrifying areas spend much more than the standard 30% of their income on housing, and that there are other consequences, such as the breaking of social networks.

In a follow-up paper, Freeman (2009) frames the discussion in terms of social segregation. He argues that “the concentration of the poor within certain neighbourhoods, in particular, is thought to have deleterious consequences for those residents” (page 2080), particularly in terms of race, with a lack of employment opportunities in urban areas where minorities are spatially segregated. Therefore, the creation of mixed-income neighborhoods should bring positive change. When a neighborhood is experiencing gentrification, there should be a period of time when old and new residents cohabitate, so gentrifying neighborhoods should exhibit higher levels of diversity. Indeed, Freeman finds that “the evidence allows us to refute the contention that gentrification reduces neighbourhood diversity. The evidence is somewhat more mixed on the question of whether gentrification increases neighbourhood diversity. However, it does appear that gentrifying neighbourhoods are typically more diverse and that this surfeit of diversity persists over time” (page 2094).

In Latin American cities, these processes are complicated by the pervasiveness of informal housing, their colonial history, and the varying roles of government (Betancur, 2014). On informally occupied land, market mechanisms are distorted, and the process of gentrification more often involves legal maneuvers such as forced eviction or politically-charged actions such as slum clearance. Perhaps these are more akin to the urban renewal period in the U.S., but the literature labels them “gentrification” because the outcome is the replacement of one social class for another (López-Morales, 2015). In response to these more drastic measures, and a generally more Marxist approach in social sciences, Latin American literature on gentrification is typically more combative. It tends to focus on what Janoschka, Sequera and Salinas (2014) term “symbolic gentrification”: the conquest or appropriation of urban space by the elite class, and the rescuing of architectural heritage of historic downtowns.

Particularly relevant to the case of Casco Viejo is this common observation that in Latin America, gentrification is often played out most dramatically in historic districts (Janoschka et al., 2014). Delavaud (2008) describes the challenge of wanting to create a place representative of the past, but with all the amenities of the present, and without losing the current residents who are the neighborhood's "heart" (p. 56). Historic district designation can increase property values in a neighborhood by protecting desirable architectural characteristics, but it can also hinder individual property value growth by restricting the developable square footage (Been, Ellen, Gedal, Glaeser, & McCabe, 2014). At the neighborhood level, the preservation of neighborhood character can make the district more desirable, but the limit of new development, and therefore on the supply of housing, can result in further affordability problems (Been et al., 2014). These opposing forces make the effect of historic preservation policies on property values and affordability uncertain and dependent on the scale measured. Been et al. (2014) find that historic district designation in New York City decreased the number of new housing units built within the historic districts, and that property values increased most in the districts where the foregone developable area (according to in-place zoning) was lowest, as well as in the areas immediately surrounding the historic districts. In a quantile regression study of property prices in Baton Rouge, Louisiana, Zahirovic-Herbert and Chatterjee (2012) find that historic preservation has the greatest relative price impacts for properties of originally lower value, thus augmenting the impacts of preservation on lower-income groups and highlighting the need to pair preservation policies with affordable housing. Ryberg-Webster and Kinahan (2013) highlight the need for further study on "who benefits from preservation and how, who decides what to (or not to) preserve, and how resources for preservation are distributed" (page 125), including the role of the real estate industry.

To add complexity to the problem, gentrifiers tend to seek diverse and authentic neighborhoods with a sense of place and sense of community. Richard Florida's Creative City theory (2014) emphasizes these preferences among the new generation of professionals that are choosing dense, mixed-used neighborhoods over the cookie-cutter suburbs of their parents, driven by a desire for multiple options of consumption (Glaeser, Kolko, & Saiz, 2000). This "vernacular culture," or "the unique, locally rooted characteristics of the neighborhood that can attract investment" (Carr & Servon, 2008, p. 30) has become an amenity that is threatened by the very forces that crave it. Thus, sensitive developers have an incentive to foster social diversity if their investment horizons have a long enough time frame. However, mixed income neighborhoods present their own challenges. Some scholars have questioned

how genuine the desire for diversity is (Fainstein, 2005), if it is maintained over time, and whether these denser urban settings truly generate a sense of community (Talen, 1999).

Qualitative methods to study gentrification have not necessarily helped reach a more conclusive resolution about the effects of gentrification, but they have provided important insights into the way in which gentrification affects residents. For example, to his own surprise, Jeryk (2009), finds by interviewing residents in a gentrifying area that they generally supported the changes resulting from renewed interest in their neighborhood, and that most of the combative rhetoric came from community leaders. In contrast, Drew's (2012) research of an initiative in Portland to promote dialogue in a gentrifying area documents a wide range of perspectives from new and in-place residents about changes in their neighborhood, including the following comment from an African American resident:

"...when you were miles away from me, I only had to see your privileges at the job, on the news, or out in public. I knew you were living well because of racism, but it was something I just knew and did not see in my personal life. But once you moved into the neighborhood, our neighborhood, I get it shoved right in my face (...). Now I'm not free anywhere from experiencing your racism" (p 107).

These strong words illustrate the complex ways in which in-place residents may experience social mixing, calling for an approach that is sensitive to the needs and perspectives of the many actors involved in the process of neighborhood change.

2.2 Conceptual Framework

It is difficult to find an academic piece on gentrification written in the past 30 years that is not "pro" or "anti" gentrification. Those who frame gentrification as something to be fought against draw from the traditional definition of the displacement of one social class by another from an urban space, and claim injustice in the way the interests of capital have conquered over the social needs of the disadvantaged urban classes gentrification displaces. The opposing view takes gentrification as a potentially positive force, bringing needed reinvestment and quality of life improvements to abandoned urban neighborhoods and offering a more sustainable way of life to new generations that reject environmentally damaging suburban lifestyles.

Slater (2006) traces a history of gentrification literature in which only since the 1980s has the discourse shifted from fighting gentrification to applauding it: "The perception is no longer about rent increases, landlord harassment and working-class displacement, but rather street-

level spectacles, trendy bars and cafes, i-Pods, social diversity and funky clothing outlets" (p. 738). This change in perspective may well be a result of academics finding themselves in the position of gentrifiers and thus sympathizing with the lifestyle (Kohn, 2013). Yet the trend is not only academic. As Slater (2006) points out, the media has played an important role in how gentrification is perceived. A recent example from *The Economist* concludes that "[h]owever annoying they may be, hipsters help the poor. Their vintage shops and craft-beer bars generate jobs and taxes" ("Bring on the Hipsters," 2015).

However, the rise of voices heralding the potential of gentrification to improve urban conditions has not quieted its opponents. Critics view the "creative city" argument not as a sign of a healthy urban economy but as a convenient spin in support of the "neoliberal agenda" to resist addressing the social consequences of making capital a top policy priority. The negative reaction is particularly strong among those calling for more comparative approaches. Stemming from a legacy of resistance to the IMF/World Bank history of promoting privatization and other market-based policies in developing countries, these international development scholars decry gentrification-as-a-good-thing arguments as furthering this free market, anti-regulation agenda. For example, Lees (2012) describes gentrification as "the new urban colonialism" and "as mutating, as parasitic, as attaching to and living off other policies" (p. 165, 163), and equates resistance to gentrification to resistance to neoliberalism. These strong disagreements are not only academic – they play out in a very real way in cities where there have been anti-gentrification demonstrations, sometimes violent. Lees' (2012) scathing critique justifiably stems from the "mega-displacements" taking place unchecked under the guise of urban beautification in cities like Shanghai, Mumbai, and Mexico city, at a scale even larger than the urban renewal process seen in the U.S. and Europe. There is no doubt that displacement is a real crisis that has to be addressed, but scholarly critics of gentrification rarely offer alternatives to address the *ex-ante* poor living conditions, particularly in the Global South, that perhaps they would not try to protect so adamantly if they were experiencing them themselves.

The overarching approach of this thesis is to take neither a *for* or *against* perspective on gentrification, but rather to explore the nuances from multiple conceptual lenses and from the perspective of multiple stakeholders. Without ignoring the serious consequences that gentrification has had in much of the world, but also without taking an unwavering ideological stance along the lines of neoliberalism, the approach is to treat gentrification as neutral: not good or bad per se, but with positive and/or negative consequences depending on how it is

done. In his call to bring back critical perspectives, Slater (2006) concludes that “either unliveable disinvestment and decay or reinvestment and displacement is actually a false choice for low-income communities... and that progress begins when gentrification is accepted as a problem and not as a solution to urban poverty and blight” (p. 753). My approach is very much in line with the first assertion, but less so with the second. This thesis is about an example of a third option: inclusive gentrification, meaning the potential of the inflow of capital and wealthier residents into a depressed neighborhood to generate shared growth - improving the quality of life of in-place residents without full displacement - along with creating an amenity-rich mixed-income neighborhood desirable to the new residents.

Perhaps what is needed is a new term altogether, but in order to avoid derailing a discussion about values into one of terminology, I continue to use “gentrification” because the label is most frequently used in the literature. The aim is to apply evidence from Casco Viejo to the existing discourse on gentrification and related issues from many disciplines, evaluating what is relevant and enlightening while noting the conceptual gaps. With this approach I respond to various calls from gentrification scholars to advance the field in two key ways:

1. To strengthen the comparative literature by presenting a well-documented case that is not in North America or Europe, and bringing together both Global North and Global South perspectives giving them equal legitimacy where appropriate. As Lees (2012) asserts, “what gentrification researchers need to do now is to critically debate the international usefulness of the term ‘gentrification’ and to consider how comparison might take place with respect to historic gentrifications (there are plenty of new histories to be written) and contemporary processes of gentrification in the Global North and the Global South” (p 158). I test the applicability of U.S.-based literature throughout the analysis, and search for alternative perspectives where it fails, particularly when it comes to informality, which is a specific gap that Lees highlights.
2. To move beyond trying to explain the causes of gentrification and towards understanding the consequences. This requires an honest assessment of the conditions *before* gentrification as well as *after*. As Slater (2006) remarks, “there is next to nothing published on the experiences of non-gentrifying groups living in the neighbourhoods into which the much-researched cosmopolitan middle classes are arriving *en masse*” (p 743). My research in Casco Viejo provides this absent perspective. In doing so, it responds to another call by Slater (2006) to incorporate

mixed research methods into gentrification research, and cease using the methodological difficulties of measuring displacement as an excuse to not discuss it.

My analysis is certainly not unbiased. Regardless of my attempt to approach all perspectives as equally legitimate, this thesis does carry some values “baggage”. Rather than try to shed it, I expose it at the beginning because it defines the underlying criteria from which I have crafted the conceptual framework described here. The values carried forth throughout this thesis are that structural inequalities exist, and that they are both caused and exacerbated by spatial segregation in cities. Fairness and justice in urban development means a city that provides equal opportunities to all to achieve a good quality of life. The distribution of real estate investment within a city is an important factor in determining where those opportunities exist. Whether they are guided by the real estate industry itself or by the State, those investment decisions matter for social justice. Given these values, I conceptualize gentrification as a tension among the interests of: governments, developers, investors, business owners, business patrons, new residents and in-place residents. I avoid describing the relationships between these actors as antagonistic, because the case of Casco Viejo demonstrates that when they find common ground, there can be positive outcomes.

The conceptual framework I use in the following chapters aims to evaluate the changes experienced in Casco Viejo using three perspectives: land market dynamics, the social implications of neighborhood change, and legal thought on land rights. They each address different aspects of the causes and consequences of gentrification, focusing on: a) the drivers of change b) how the change is experienced by those who live it, and c) what are the conflicts that arise and how they are resolved. Combined, these three components provide as complete a picture as possible of what is happening in Casco Viejo and how adept the existing discourse is at explaining it and guiding it. The value, however, is in the combination of the three and the potential to elucidate a new perspective that is not skewed by ideology but rather grounded in a real-world example and a multidisciplinary assessment. Still, each section addresses aspects about the experience of Casco Viejo and the lessons that can be drawn about gentrification in general:

Urban Economics: how it happens. Gentrification is an urban economic phenomenon. Despite the frequent denouncement of using market-based theories to understand socially important realities, particularly in Latin America, urban economics is essential to explaining gentrification. Spatial-social segregation is intricately tied to land markets. The dynamics of neighborhood decay and then redevelopment are rooted in the change in land values that

creates an opportunity for investment. The causes of that change can be cultural, but the economic and financial response is the link to the social consequences. Taking a market-based approach does not mean that the private sector is the only decision-maker. Governments too have a stake in increasing property values, and have many means of influencing the market. Given the reality that real estate markets influence neighborhood change, understanding the drivers of real estate interests is not only necessary, but critical. I use urban economics as a descriptive lens to explain the Panama City context, because neighborhood gentrification can only be understood when looking at the city as a whole, since any neighborhood is a part of a larger urban system. I then present evidence that land markets are the primary engine of the rapid transformation of Casco Viejo.

Social implications: who it affects. While the urban economics perspective is meant to show the extent of the change in Casco Viejo, its social effects cannot be assessed without knowing the “before” situation. This perspective draws in large part from urban sociology to understand how segregation and poverty concentration impact social outcomes and exacerbate unequal access to opportunities, and to provide a portrait of who is being displaced in Casco Viejo and what their lives are like. I also explore concepts of social capital, community, and attachment to place in order to understand the deep and complex relationship between people and their neighborhood beyond as only a means for economic activity. I use quantitative and qualitative information from Casco Viejo to illustrate these concepts. This perspective raises the question of which aspects of the living conditions of the poor community in Casco Viejo need protecting, which could benefit from change, and what kind of change would be most beneficial. I argue that fighting gentrification without providing an alternative to improve living conditions in Casco Viejo does not achieve social justice outcomes.

Legal thought: what conflicts it creates. The process of gentrification, while present across the world, is shaped by local policies. These policies in turn are influenced by national ideologies. In Latin America, a more socialist political and legal foundation and the prominence of informality of tenure lead to important differences in how gentrification is manifested, experienced and perceived. Here, I draw from a rights perspective to evaluate the claim of poor communities resisting eviction and of developers demanding to exercise their property rights. The right to the city, a less absolute concept of private property, and territorial rights are all helpful concepts from different branches of legal and political thought that help evaluate the contested claims to Casco Viejo. Given the important role that UNESCO has played in the redevelopment of Casco Viejo, I also look at the World Heritage Site approach to authenticity

and the difficulty of preserving cultural value in a living neighborhood, where the past, present and future clash. I conclude that recognizing the right to not be displaced – either by market forces or evictions – is legitimate in Casco Viejo, and the option to stay in place but in improved living conditions should be an available alternative.

Together, these three perspectives provide a comprehensive framework for an evidence and theory-based analysis of the situation in Casco Viejo. They suggest that gentrification carries serious implications for the urban poor that cannot be left to market solutions alone, but that the do-nothing approach is not the socially-optimal solution either if social justice is the ultimate goal. In light of these potential pitfalls and benefits of neighborhood change, I then evaluate the existing initiatives in Casco Viejo to produce inclusive neighborhood growth and the tradeoffs involved in pursuing such a path.

2.3 Methods and Data

I draw extensively from literature from a wide range of urban-focused social science fields including economics, sociology, public policy, criminology, psychology, as well as urban planning and design. I focus on U.S.-based analyses because they are the most deeply and widely explored, and supplement as much as possible with Latin American literature. This review is enriched by the addition of Spanish-language publications, which have a markedly different tone than English papers, even those concerning Latin America as a subject. For Casco Viejo-specific analysis, I use both quantitative and qualitative data.

Quantitative data

I used Panamas' National Census and Statistics Institute (INEC by its Spanish name)'s online database to download 1990, 2000 and 2010 census data at the neighborhood level. I have also compiled information from different sources into a single geodatabase. Because each source was created by a different agency, using different scales and units, combining them required a fair amount of data processing. Each source and its use is listed below:

Figure 2.11

Database	Source	Data type and variables	Usage
2010 CascoDB	Various sources compiled by Carlos Gordon (metromapas) as part of a project by Conservatorio	Shapefiles at the block, lot and building level. Blocks include socioeconomic data from the 2010 census. Lots include data from the cadaster. Building level data was collected in the field by Gordon.	Geographic files (blocks, lots and buildings) as base maps, with their socioeconomic and cadaster variables.
2000 and 2010 census data	The INEC made available to Office of Casco Antiguo at my request	Disaggregated data on the person and household counts from the 2000 and 2010 census.	Aggregated to the block level and appended to basemap
2000 and 2012 Building inventory	Office of Casco Antiguo	Each lot has an information sheet and photos, collected in 2000 and 2012	Manually extracted relevant data (year built, restoration date, condition, use) and entered it to the cadaster database.
Transaction prices	Author, from public records website	Transaction price and dates for a sample of properties	Individually collected and manually entered to cadaster database.

Qualitative

Field work consisted of three separate trips to Casco Viejo between the summers of 2014 and 2015, for a total stay of over three months. During those months, I worked at Conservatorio and was able to observe the company, as well as perform my own field research. As a temporary resident and through 11 formal interviews (3 with professionals and 8 with residents), I was able to observe how the community functions and listen to a wide range of stakeholders about their views and experiences in the neighborhood. This ethnographic approach allowed me to obtain a first-hand perspective on some of the concepts described here that are impossible to learn from a distance, such as “sense of community”, “sense of place” and “authenticity.”

3. THE URBAN ECONOMICS OF GENTRIFICATION

The definition of the term “gentrification” is a social one, but its mechanisms are a land market phenomenon. Urban economic theory has proven a useful framework for understanding the process of neighborhood change. It uses the language of supply and demand, but it places it within a regional urban context and history that is crucial to understanding its social implications. This chapter presents an overview of the well-known history of market-based gentrification theory by tracing the cycle of neighborhood change from decline to revitalization. I then show that the urban market dynamics described in the theory are directly relatable to what has happened in Panama City.

3.1 Gentrification Theory

Gentrification is not a new concern among urban economics scholars. Smith (1979) notes that American cities were experiencing a “widespread gentrification movement” by the 1970s (p. 358), which had started in the 1950s and intensified in the 1960s. With this phenomenon came a surge of academic literature about it, initially more focused on describing its effects than examining its causes (N. Smith, 1979). By the mid-1980s, there were theories and case studies, but the field of economics was only beginning to combine the two into rigorous empirical work that could advance the available hypotheses (Ley, 1986). Aided by expanding data processing capabilities, debates about *why*, *where* and *how* intensified through the 1990s as economists attempted to test these theories (for example, Hammel, 1999). The challenge was that many of the factors that both common sense and theory identified as significant causes or results of neighborhood change were difficult to measure (Bourassa, 1993). This is an obstacle that has not been effectively overcome, being a conceptual and practical one rather than a technological one (Barton, 2014).

Despite a constant back and forth between contradicting findings and debates about methodologies, there is a rich history of literature over the past 40 years that not only reflects the evolution of the *subject* (gentrification) over this time period, but also the values that guided the analysis. In this section I review the relevant ideas that have been put forth and that together led to the accumulated economic framework we have for understanding these very complex and nuanced dynamics. I later use available data for the Panama City region to tell the story of gentrification in Casco Viejo based on this framework.

The neighborhood cycle: causes of decline

Initial attempts to understand the process of gentrification arose from the changes observed in the inner neighborhoods of American cities, particularly in the northeast (N. Smith, 1979). Thus, it is necessary to first address the context of urban change in this region. While the rate and scale of suburbanization might not have been as large in other countries as it was in the United States (N. Smith, 1979), urban deconcentration is not purely an American trend (Mieszkowski & Mills, 1993), and as will be shown later, it certainly was a factor in Panama City.

In a well-documented phenomenon, middle-class families in post-World War II America migrated out of the cities and into the suburbs, where land was less expensive and they could afford bigger, single family houses (Kim, 2007). They were driven not only by a need or preference for more space, but the rapid expansion of the car and its infrastructure, which made commuting large distances possible, as well as other factors such as federal mortgage programs that facilitated home ownership (Mieszkowski & Mills, 1993). The result was the abandonment of the inner cities and the fall in property prices. As prices fell, they became increasingly occupied by lower-income groups, who were left with a crumbling built environment, disinvestment in public services, and a new stigma. Racist policies and practices such as zoning and redlining also contributed to widening inequalities between the urban core and the suburbs (Kenn, 2001).

According to the fundamental urban economic theory known as the bid-rent curve (Alonso, 1964), a monocentric city where economic activity is concentrated in the center will exhibit its highest residential property values closest to the center, where commuting costs are lowest. The farthest from the center, the lowest the price of land. The expansion of car ownership among middle and upper class families, causing a decline in commuting time and cost, changed the shape of their bid-rent curve to make central land less valuable to them. This decrease in the middle and upper income groups' demand for housing in inner city neighborhoods allows for low-income families to "outbid" them (Figure 3.1). Yet due to the lower ability to pay by low-income residents, the demand for housing in inner city neighborhoods "shifts" down (Figure 3.2). Furthermore, because the built environment is a durable good, housing supply is fixed in the short run, causing the price to dip more sharply (Figure 3.2).

As long as demand remains at its new low and the housing stock does not adjust, prices will remain low. This is exacerbated by the fact that housing structures deteriorate. When a house is first built, the value of the building is equal to its construction cost (N. Smith, 1996). As long as housing demand remains stable, the slow decline in value from depreciation will be offset by rents increasing at a steady rate due to urban growth (N. Smith, 1979). But when a demand shock such as suburbanization shifts the demand curve in inner cities, the physical deterioration together with changing preferences drag housing values even lower (N. Smith, 1979). Landlords who know they cannot increase the rent because there is not enough demand will have no incentive to maintain the buildings, leading to further deterioration of the housing stock (N. Smith, 1979). Even if the inhabitants are owners, if the cost of replacing the house is greater than the market value of the house as-is, they also have no rational incentive to maintain it as long as the house is livable, and will abandon it when it is not (Saiz, 2014). This cycle creates the deterioration and blight that in the U.S. led to drastic measures such as urban renewal, where entire inner city areas were wiped out.

Figure 3.1: City land values

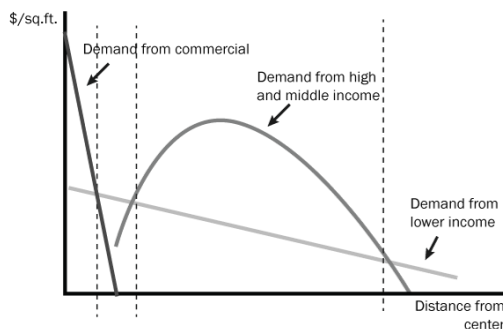
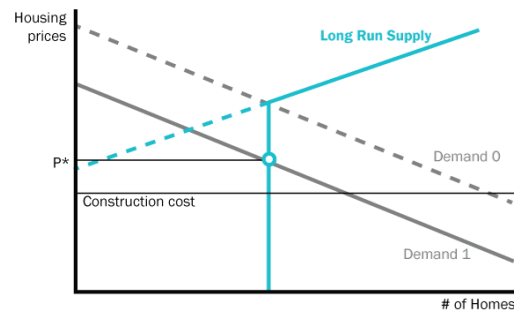


Figure 3.2: Inner city neighborhood values



Source: Reproduced and adapted from Albert Saiz lecture “The Economics of Housing Markets: a Comparative Approach Part III”, Spring 2014.

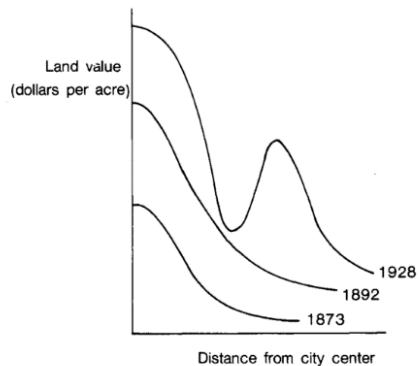
Smith (1979), building on Hoyt (1933), called these neighborhoods the “valley” (Figure 3.3): an area close to the center but where land values are depressed. The significance of “the valley” is that such a deteriorated neighborhood can, and usually does, exist in an otherwise economically healthy metropolitan area. When conditions shift, those areas that have experienced price depression might enter a process of cycle reversal.

Social segregation can also play a role in generating this divide. Schelling (1972), in a model that has been widely used since, proposed that groups with tolerance for diversity, but with even some degree of preference for living near people like them, will eventually be segregated spatially. The desirability of neighborhoods with predominantly upper-income families will bid

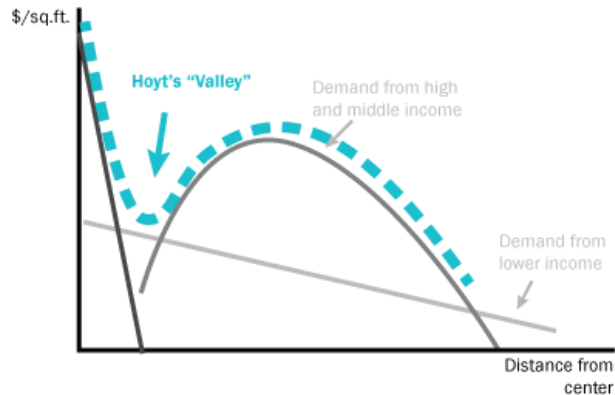
up the price of property in those neighborhoods so that only upper-income families can afford them, and simultaneously reducing prices in predominantly minority areas, creating spatial segregation endogenously (Schelling, 1972). This was certainly the case in Northeastern American cities, for example Harlem, NY as shown in Mobius (2000), deepening the valley even further.

Figure 3.3: City land values

Figure 1. The evolution of land values in Chicago (after Hoyt 1933).



Source: (N. Smith, 1979, p. 542)



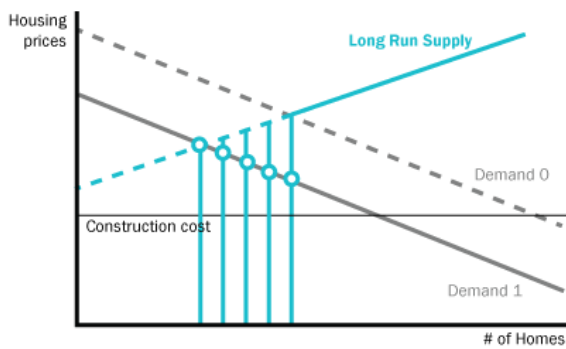
Source: Reproduced and adapted from Albert Saiz lecture “The Economics of Housing Markets: a Comparative Approach Part III”, Spring 2014. (blue line added by author)

The neighborhood cycle: causes of resurgence

There are two ways out of this vicious cycle: abandonment or redevelopment. If demand remains low, eventually the surplus housing stock will be abandoned. In the long run, abandonment or demolition makes a decrease in the housing stock possible, and prices rise back up to a stable equilibrium, even if lower than they were before the demand shock (Figure 3.4). But demolition has a cost. Short of a drastic public action such as urban renewal, individual owners or developers have to make decisions about whether it is worthwhile in each individual parcel. As long as the value of the new construction is greater than the cost of demotion and new construction plus the value of the old house, redevelopment will occur (Saiz, 2014), or said differently, the difference between the value of the new house (net of construction costs) and the value of the old house has to be at least large enough to cover the demolition costs (Wheaton, 2015).

In metropolitan areas experiencing growth, land values in central areas account for a much larger share of the total property value than the structure itself (Wheaton, 2015). The decision to redevelop in inner city areas, then, anchored by the potential value of a newly built structure, is determined by land values. Redevelopment will occur when “the price of land for new development exceeds the price of land in its current use by the cost of demolition” (Rosenthal & Helsley, 1994, p. 183). This happens when there is what Smith referred to as the land “rent gap”: “the disparity between the potential ground rent level and the actual ground rent capitalized under the present land use” (N. Smith, 1979, p. 545). In a metropolitan area that is experiencing urban development, rents will continue to increase, slowly but steadily. When structures become deteriorated or obsolete, the difference between the rent that the current use commands compared to what it could potentially command if the use was updated to better match the land potential - to its highest and best use (Geltner, Miller, Clayton, & Eichholtz, 2014) – there will be an economic incentive to redevelop (Figure 3.5). Because cities develop outwards, the older, inner areas that have not been maintained exhibit the larger gap between their current value and their “shadow” value (Wheaton, 2015) as shown in Figure 3.6.

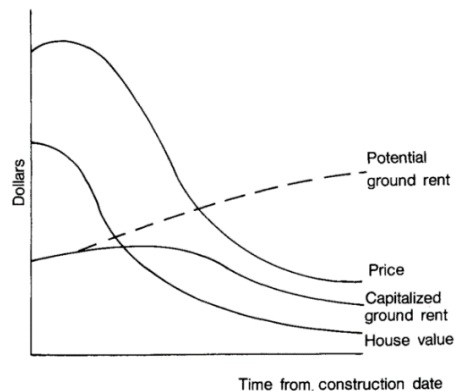
Figure 3.4: Supply readjustment



Source: Reproduced from Albert Saiz lecture “The Economics of Housing Markets: a Comparative Approach Part III”, Spring 2014.

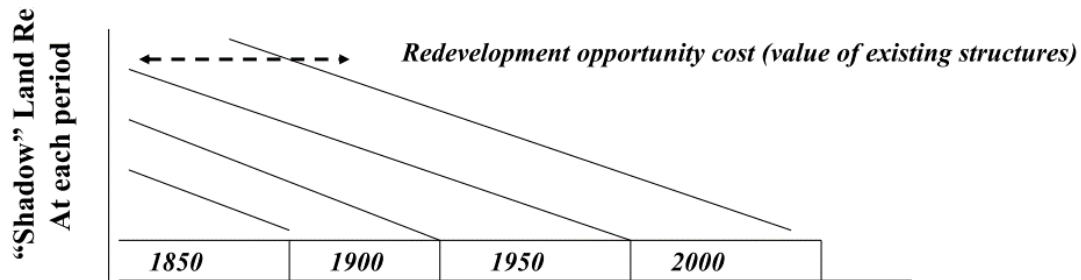
Figure 3.5: Depreciation and deviation from potential value

Figure 2. The depreciation cycle of innercity neighborhoods.



Source: (N. Smith, 1979, p. 544)

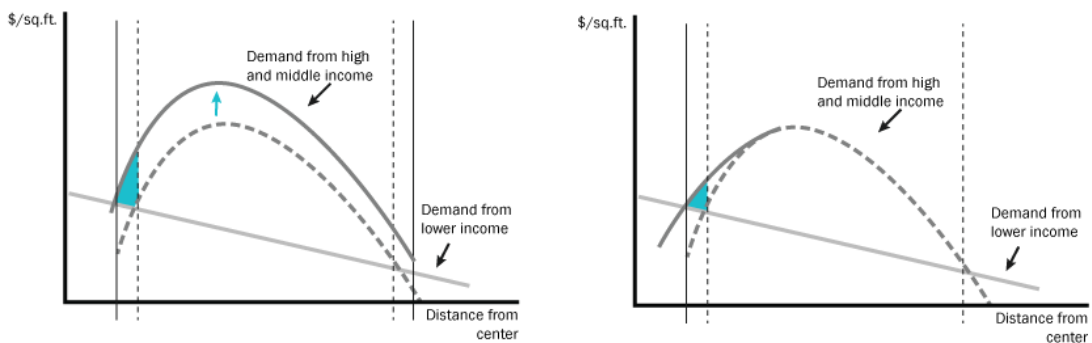
Figure 3.6: Depreciation and “shadow value”



Source: (Wheaton, 2015)

However, as explained in the previous section, land values in blighted inner city neighborhoods are depressed for macrosocial reasons, creating the valley. What spurs the cycle of gentrification is when the demand curve shifts back up, or the bid-rent curve (see Figure 3.1) for middle and upper income families changes, either a) because their income increases overall, making them willing to pay more for housing overall (Figure 3.7), or b) because due to preference or other changes, inner cities are now more desirable (Figure 3.8). This newly desirable market is what creates a rent gap large enough to make redevelopment profitable. Developers are able to buy inner city land at low cost, and by redeveloping it for a higher income segment, they close the gap and are able to realize those profits (N. Smith, 1979).

Figure 3.7: Demand shift – income increase Figure 3.8: Demand change - preferences



Source: Reproduced from Albert Saiz lecture “The Economics of Housing Markets: a Comparative Approach Part III”, Spring 2014.

The reasons for this demand shift are many, complex, and much work has gone into measuring their effects. According to Ley (1986), there are four main categories of factors. Potential demographic factors in the 1980s included population growth, smaller families needing less

space, the rise of two-income families, and urban sprawl causing congestion and increasing commuting costs (Ley, 1986). Since then, the delay of marriage and children and rising divorce rates have been added as demographic factors fueling the return to the city. Ley (1967) also identifies housing market factors, including Smith's (1979) Rent Gap theory, as well as the rising housing prices and mortgage costs in the 1970s. The two other broad categories are an increased demand for urban amenities, including a more diverse community, recreational and cultural venues, consumption opportunities, better access to jobs and high wages, and aesthetic characteristics of the urban architecture and landscape; and economic factors, mainly driven by the change from an industrial economy to a service one (Glaeser et al., 2000; Ley, 1986).

These processes of decline and resurgence are well developed in the urban economics literature. It is well documented that transportation advances and evolving needs and preferences based on changing demographic fundamentals led to the abandonment of neighborhoods in American and European cities in favor of more suburban environments. This disinvestment led to a period of deterioration and plummeting property prices in the urban core. A renewed interest in urban living has opened the opportunity for large gains from acquiring these undervalued urban properties and bringing them up to the market standard. How do these demographic, social, economic and financial dynamics apply to a developing-country context such as Panama? The next section reviews a history of Panama City and its historic districts. Despite the different macroeconomic context, the trajectory of urban development mirrors the theory described above.

3.2 The Panamanian Context

In 1993, Ward argued that the factors listed above that scholars had identified as catalysts of the inner-city revival did not apply to Latin America. While western countries were experiencing a slowdown of population growth and aging, Latin American populations were still growing at high rates. Furthermore, he noted that Latin American inner cities never followed the traditional monocentric city model that shaped American and European cities, with modern economic activity having developed in a more dispersed manner from the beginning (Ward, 1993). In addition to these contextual differences, he concluded that gentrification was "stalled" (Ward, 1993, p. 1149) in Latin America because urban planning has not been empowered enough to promote back-to-the-city policies and instill a sense of stability and investment protection, the rent gap has not been large enough to motivate the private sector

in taking the lead, and Latin America remains a classist society that shuns the type of social class mixing that is a key element of gentrification.

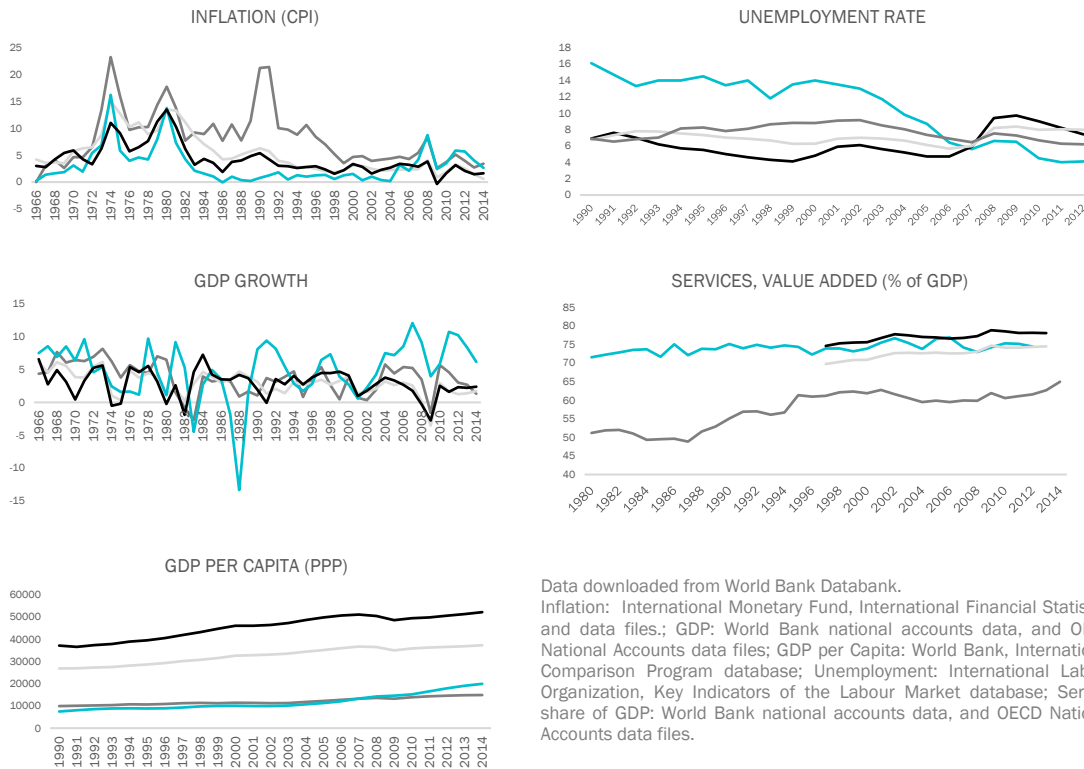
Ward's analysis suggests that the phenomenon of gentrification underway in the U.S. was not yet present in Latin America in the 1980s and 1990s. However, by the mid-2000s, the costs of sprawl and the social problems of blighted urban centers in Latin America renewed interests in policies aimed at revitalizing the urban core (for example, Rojas, 2004). Additionally, Betancur (2014) notes that "booming real estate, availability of financial capital, restructuring of land markets, and international forces" (p. 5) spurred Latin American governments, aided by the World Bank, the Inter-American Development Bank and the Organization of American States, to push for inner city redevelopment. Urban core resurgence, then, is not purely a western trend, but rather follows a different timeline in Latin America. Still, Betancur (2014) cautions that the size of the population with potential to gentrify is limited, as upper income families are still opting for gated communities, the middle class is growing but proportionally smaller in Latin America than in OECD countries, and the informal economy is much larger as a share of GDP. Therefore "gentrification has to rely principally on intellectuals, artists, architects, students, small households, and alike" (Betancur, 2014, p. 10).

Ward argues that different national development patterns influence the mode of gentrification. Therefore, the applicability of these theories to the Panamanian urban context have to be assessed in light of its unique macroeconomic conditions. Where does Panama fall in the generalized Latin America-U.S. development continuum? For better or worse, Panama's economy has long been tied to that of the U.S.. Panama has been dollarized since 1904, with its dollar-matched local currency, the Balboa, used only for small transactions (Goldfajn & Olivares, 2001). Additionally, its financial policies have attracted an inflow of foreign capital and transformed its service sector into the main economic engine (Economist Intelligence Unit, 2008). As the charts in Figure 3.9 illustrate, the share of GDP attributed to services makes the composition of Panama's economy more similar to that of the U.S. than the rest of Latin America. Inflation, measured by the consumer price index, has remained lower and more volatile than in Latin America since the 1960s. However, since the 2000s, Latin American's GDP growth has been higher than that of developed economies, as would be expected for a developing region; but Panama's has been well above both the US and Latin America as a whole, even during the recent financial crisis. The unemployment rate in Panama has taken a sharp turn for the better in recent years. It has been below that of the region, and exhibiting

similar fluctuations more similar to the U.S. since the mid-2000s. But in absolute terms, Panama's GDP per capita, measured in terms of Purchasing Power Parity (PPP with 2011 constant \$), is clearly more comparable to Latin America's than developed economies. However, this growth trend it has been deviating up since the 2000s.

Figure 3.9: Macroeconomic indicators

— Panama — OECD members — Latin America and the Caribbean — United States



In short, Panama has exhibited a strong economic situation in the past decade, beyond that of Latin America. Its financial ties to the U.S. economy bring it some stability, but it remains subject to the volatility typical of developing economies and still faces an absolute income gap compared to developed countries. These macroeconomic conditions suggest that gentrification theories from the U.S. and from Latin America could both be partially applicable to the Panamanian context, and, conversely, that the lessons learned from Panama can inform similar processes both in the U.S. and in Latin American cities. Building on the overview presented in Chapter 2, the next section will analyze in detail the process of change in Panama City. Starting with a metro-level analysis, I place the urban economic dynamics in context, and

then zoom in to establish a baseline for how gentrification manifested itself and what impacts it had physically, socially and spatially in the neighborhood.

Panama City metropolitan dynamics

The ties to the U.S. economy have a particular impact regionally. From 1903 to 1979, the U.S. controlled the 1,432 sq. km known as the Canal Zone, and the canal itself until 1999 (Economist Intelligence Unit, 2008). This fact is relevant for the metro Panama context given its location directly west of the historic district (Figure 3.10). While under U.S. control, the Canal Zone functioned as an exclusive American enclave with the living and wage standards of American suburbs – a social and spatial exclusionary legacy with stark inequality that is still present today (Sigler, 2014). Furthermore, the strength of the financial sector and its concentration in the urban core of Panama City (Economist Intelligence Unit, 2008) has shaped the way the city has expanded physically and socially in space. Figure 3.11 illustrates how the city has grown east from its historic center.

Figure 3.10: Panama Canal zone



Source: The Norton Anthology of American Literature. Available at: <http://www.wwnorton.com/college/english/naal8/section/void/maps.aspx>

Figure 3.11: History of urbanization of the Panama Metro Area



Source: Ministerio de Vivienda (MVI) plan de desarrollo urbano, Mapa 2. 1998.

U.S. investment in infrastructure in the early 1900s and the construction of national monumental buildings allowed Casco Viejo to flourish as the region’s cultural and institutional center during the first half of the 20th century (Eduardo Tejeira Davis, 2013). However, as the population grew, the Canal Zone acted as a barrier, forcing the expansion of the city eastward and leaving the historic district as peripheral (A. Espino, 2007). With the economic center shifting east and the cramped conditions in the historic core, the Panamanian elite migrated out of Casco Antiguo from the 1930s to the 1950s (Eduardo Tejeira Davis, 2013; A. Espino, 2007). By the 1960s, public and private property was severely deteriorated, as predicted by the theory presented in section 3.1. According to Casco Antiguo historian Tejeira Davis, “San Felipe had become a tenement District. In Santa Ana and El Chorrillo, the wooden barracks from the time the Panama Canal was built were largely run down, and the apartment buildings, stores and warehouses erected to replace them were for the most part strictly utilitarian” (Eduardo Tejeira Davis, 2013, p. 72).

Suburbanization continued apace with Panama’s economic growth. According a study of residential land markets in the Panama City Metropolitan Area undertaken as part of the Ministry of Housing’s Metropolitan Area Plan of 1997, the proportion of the city’s population living in Casco Viejo decreased from 40% in the 1960s to 10% in the 1990s, signaling abandonment. By the 1990s, the area of the financial district, some 2.5 miles northeast from

Casco Antiguo along the Pacific coast, was already displaying a concentration of luxury skyscrapers, with 44.2% of residential property investment (by dollar amount) but only 2.4% of the metro area's resident population (Consortio D&M/HLM/WRT/YEC/PW, 1997). The upper-middle class settled in the urban residential areas just outside the financial district, and the middle classes expanded into lower density areas north, east, and even west, leapfrogging over the Canal Zone (Consortio D&M/HLM/WRT/YEC/PW, 1997). As a result of this sprawl, by 2009, 89% of the jobs but only 25.3% of the population of the Panama metro area were located in the central district, (N. A. Espino & Gordon, 2015, p. 8). These trends parallel the suburbanization phenomenon of the U.S.

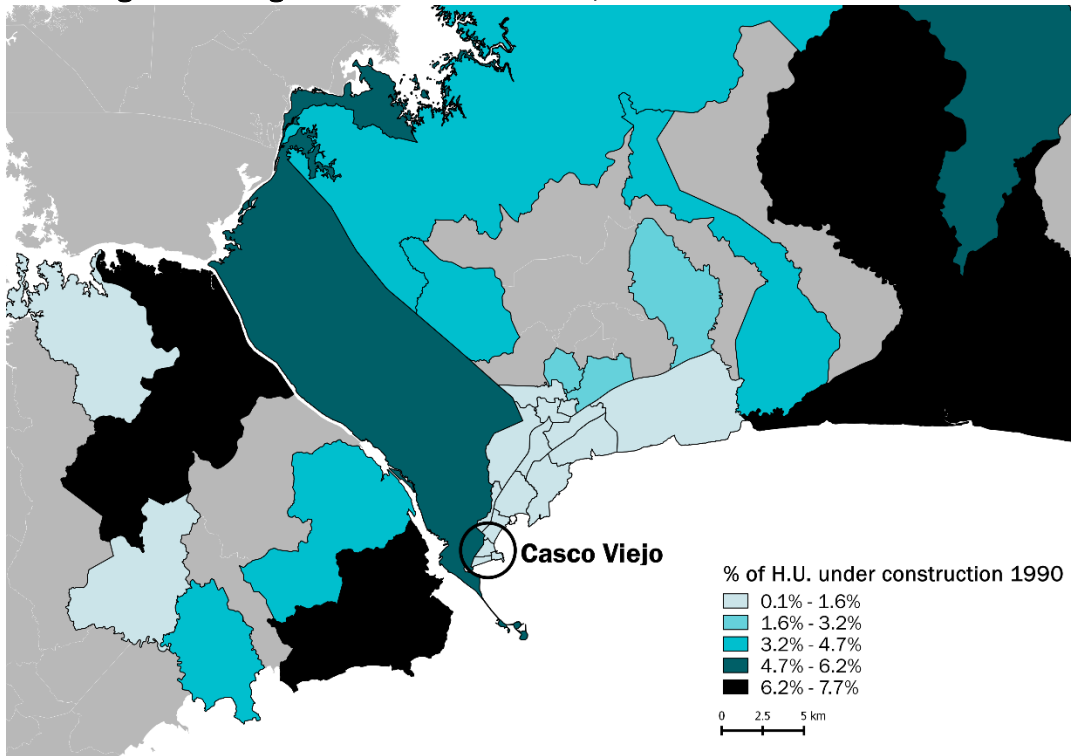
The Historic District and its surroundings remained mostly inhabited by the urban poor (A. Espino, 2007). Yet despite the city's expansion east, its proximity to the financial district and the Canal Zone meant there was value in its location, particularly as sprawl and a high local vehicle ownership rate generated serious traffic conditions for commuters. It was not until the 1990s that the tide began to change for the historic district, starting with luxury condominium redevelopment (A. Espino, 2007). Census data mapped by *corregimiento* (borough) shows very little residential construction in the inner urban areas, and a reversal of this trend in 2010, with most construction moving out to the peripheries and re-concentrating downtown, including San Felipe. These findings support the proposition that there has been renewed interest in urban living in Panama City.

Figure 3.12: Panama Metro Region (with current satellite image)

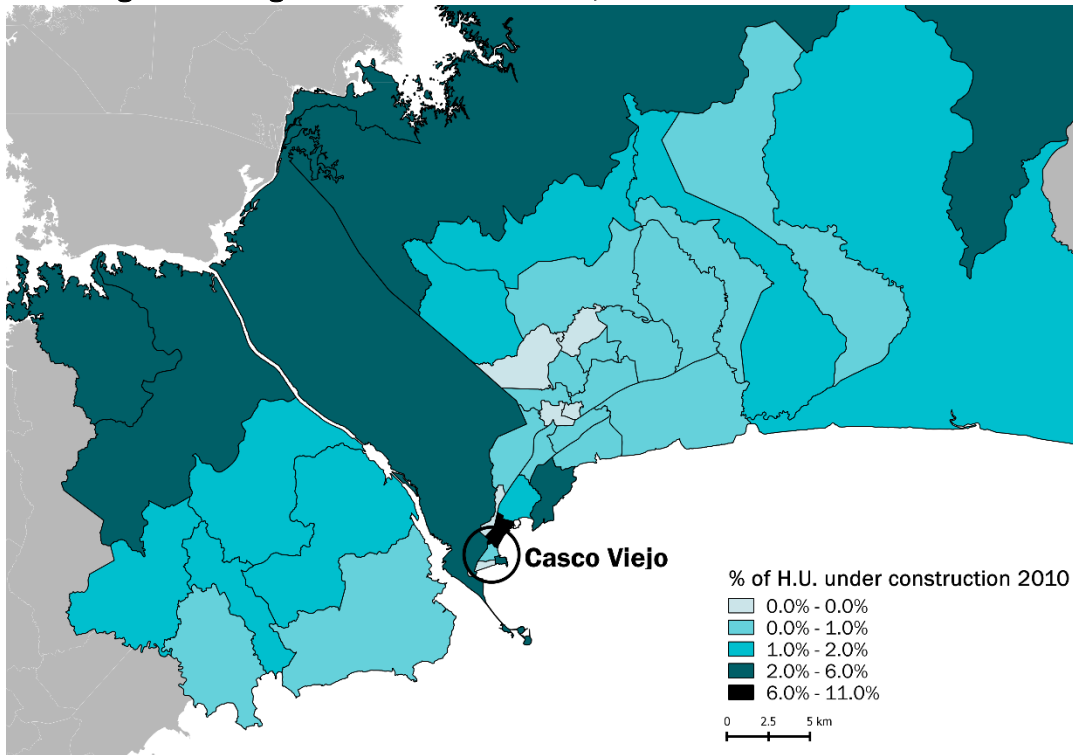


Source: Census. Satellite: Google Earth.

Figure 3.13:
 Percentage of housing units under construction, 1990



Percentage of housing units under construction, 2010



Source: author, using census data

Figure 3.14: View of the Panama Skyline from Casco Viejo



Source: author

Figure 3.15: Suburban Expansion toward the northeast

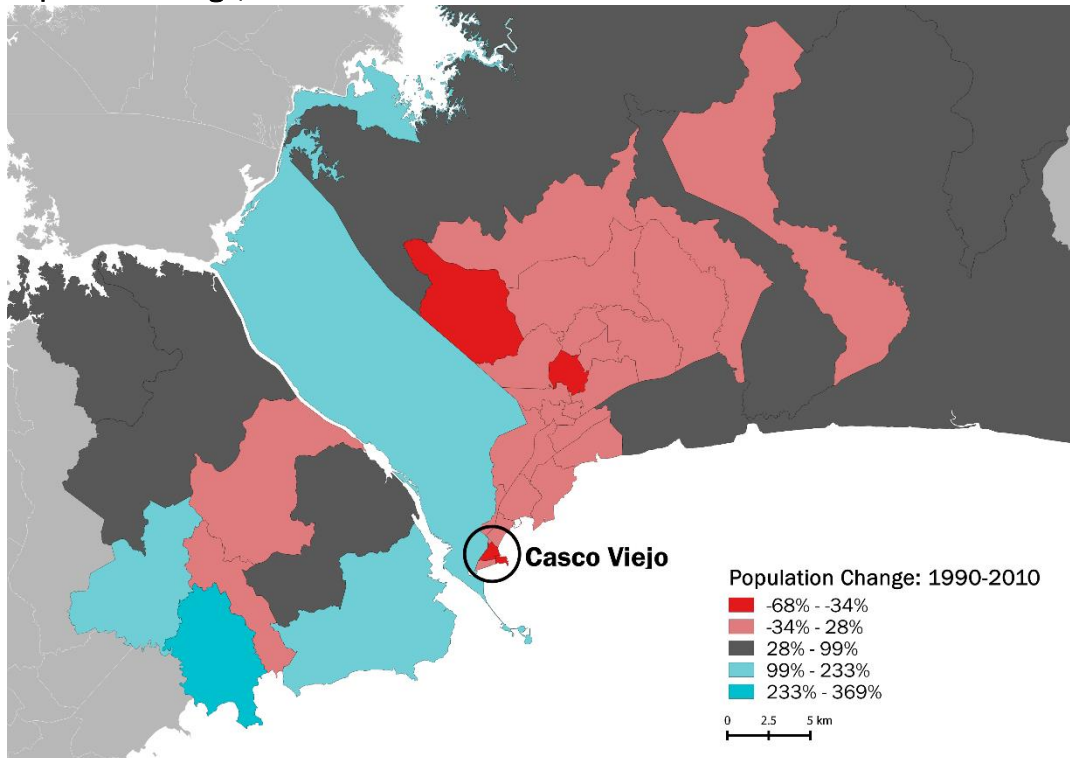


Source: Available at <http://www.tuamigodemexico.com/photos/picture.php?/476/category/16>

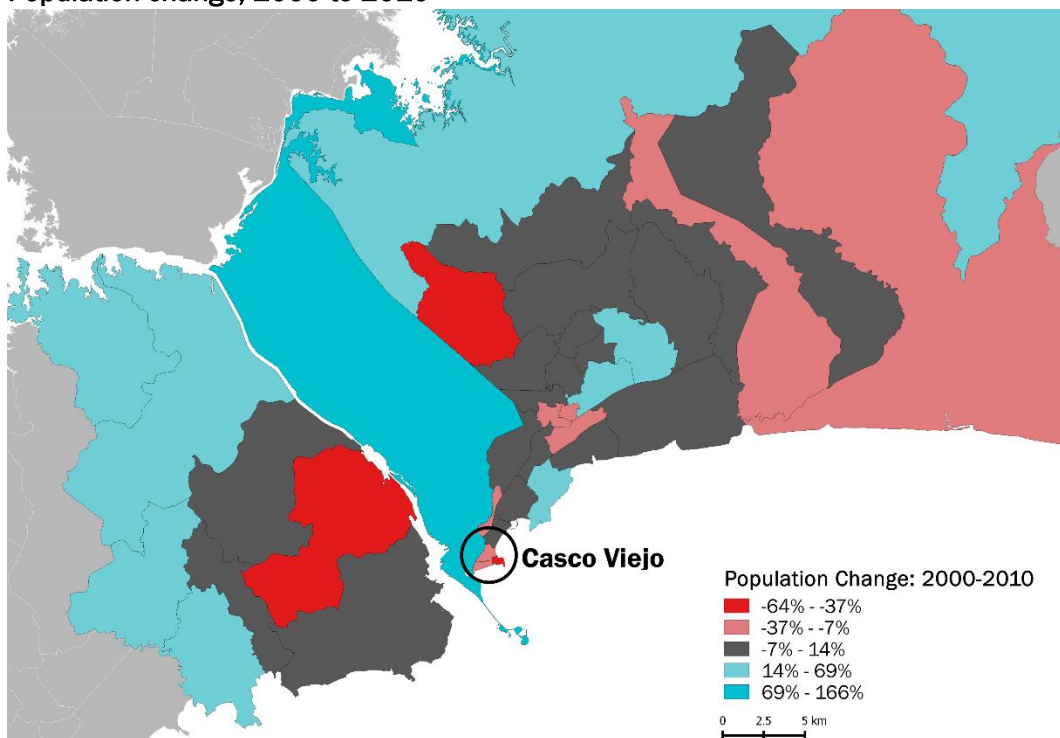
3.3 Casco Viejo Resurgence

An analysis of census data of the Panama metro region from the past three censuses evidences a noticeable change in the demographic and socioeconomic composition of the *corregimiento* of San Felipe relative to the rest of the area. Figures 3.16 and 3.17 show the percentage change in population by *corregimiento*, first from 1990 to 2010 and then from 2000 to 2010. San Felipe's decline in population has been drastic. While El Chorrillo lost 10.7% of its population from 1990 to 2010 and Santa Ana 34.2%, San Felipe lost 68.3%. These numbers probably underestimate the real volume of population change because they do not take into account population replacement of low income for higher income households. As Figure 3.18 illustrates, the average monthly personal income increased in San Felipe over this time period by a relatively large percentage compared to the metro area, and the difference is most dramatic since 2000. As the frequency distribution in Figure 3.19 shows, the share of people earning less than \$400 a month has decreased since 1990 and the average has shifted towards the higher income brackets, with the appearance of the very high income population and sharp decrease in lowest brackets – indications of gentrification.

Figure 3.16:
Population change, 1990 to 2010

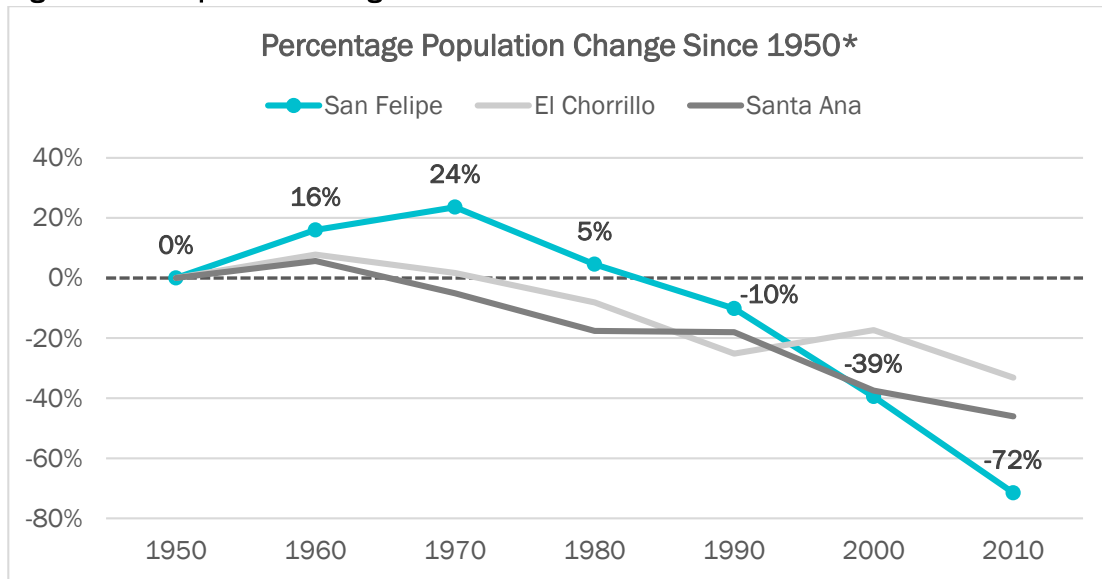


Population change, 2000 to 2010



Source: author, from census

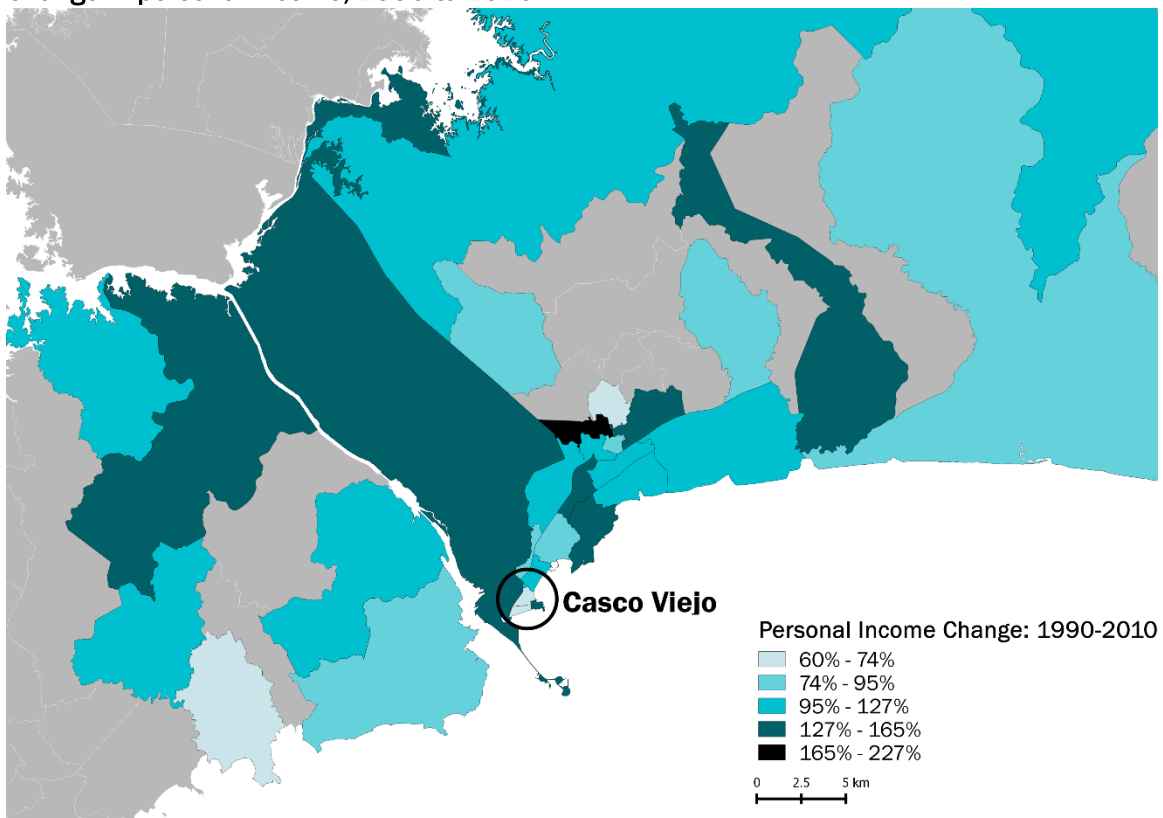
Figure 3.17: Population change over time



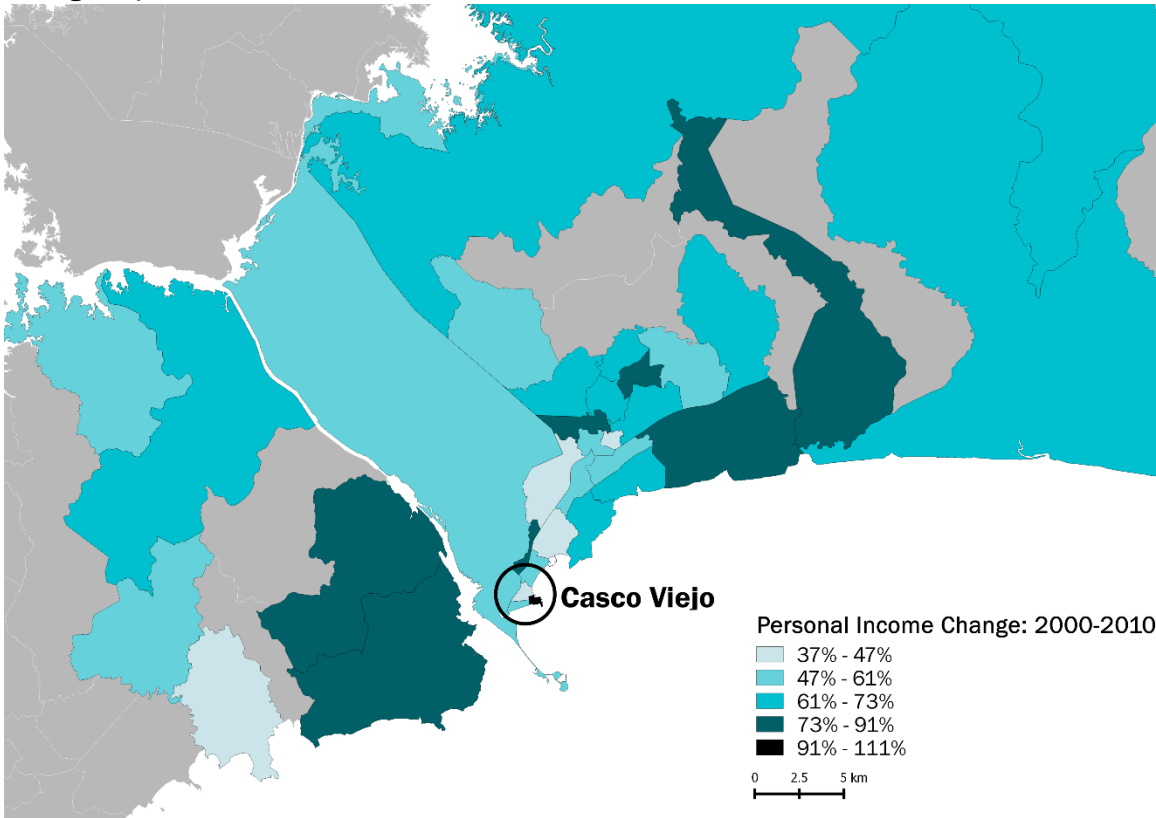
*Indexed from 1950

Source: Census and (Tejeira Davis, 2007, p. 21)

Figure 3.18:
Change in personal income, 1990 to 2010

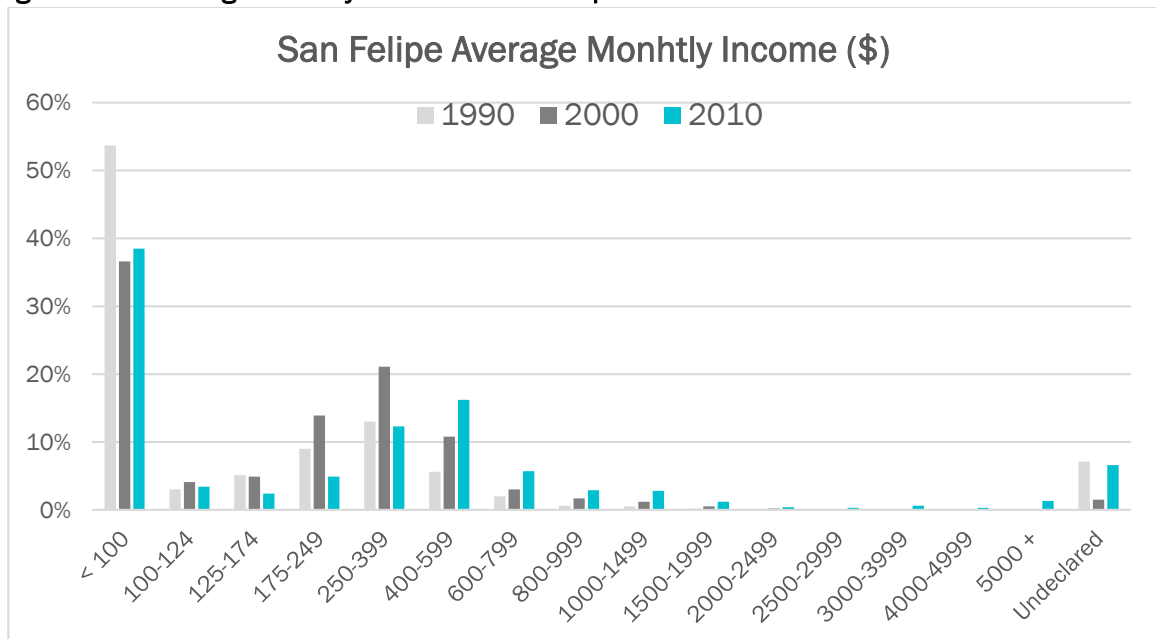


Change in personal income, 2000 to 2010



Source: author, from census

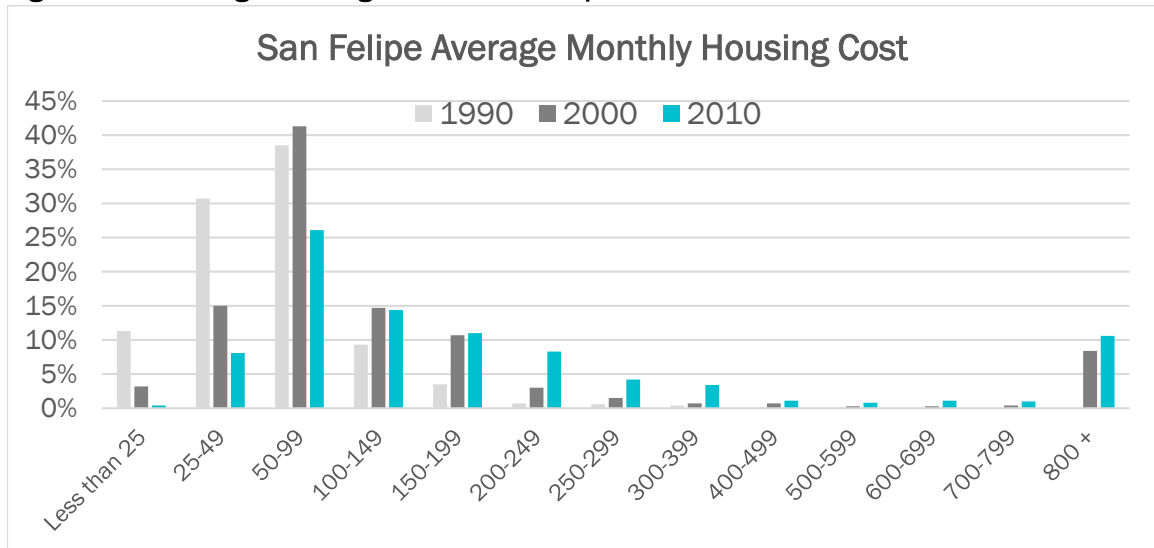
Figure 3.19: Average Monthly Income in San Felipe



Source: census

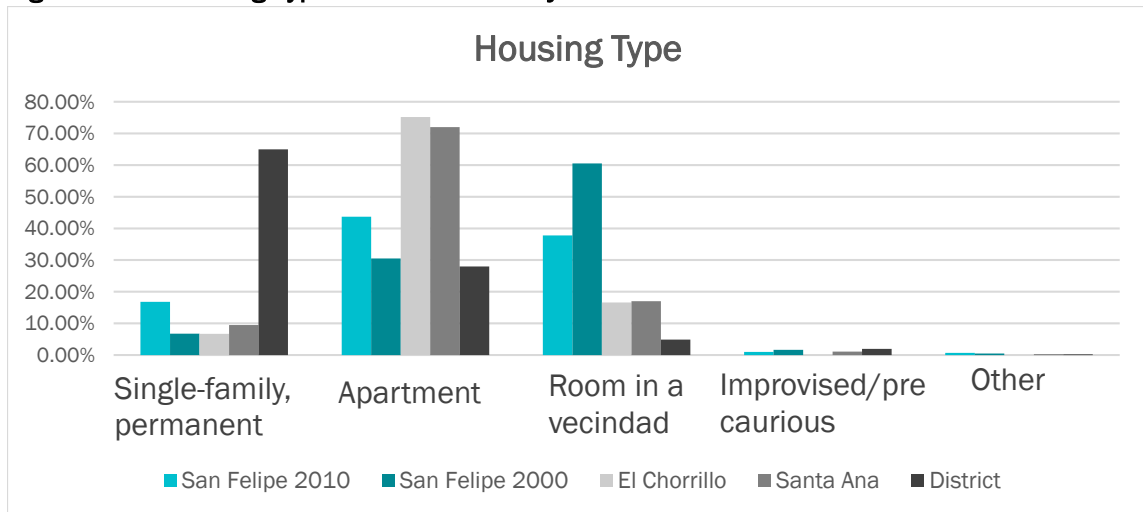
Similarly, the distribution of monthly cost of housing per family, whether as a mortgage or rent, has shifted up from 1990 to 2010, while the average household size has decreased from 3.13 to 2.2. Interestingly, San Felipe stands out along with the financial district with noticeably lower rates of homeownership, and a much smaller share of owner-occupied units (Figure 3.22). Together these trends point to a unique situation in Casco Antiguo, which has followed a housing tenure pattern that is quite different from the rest of the city. In tandem with the sharp decrease in population, there has been an inflow of wealthier residents, smaller households, and renters – all of which are comparable to the U.S. literature on gentrification.

Figure 3.20: Average Housing Costs in San Felipe



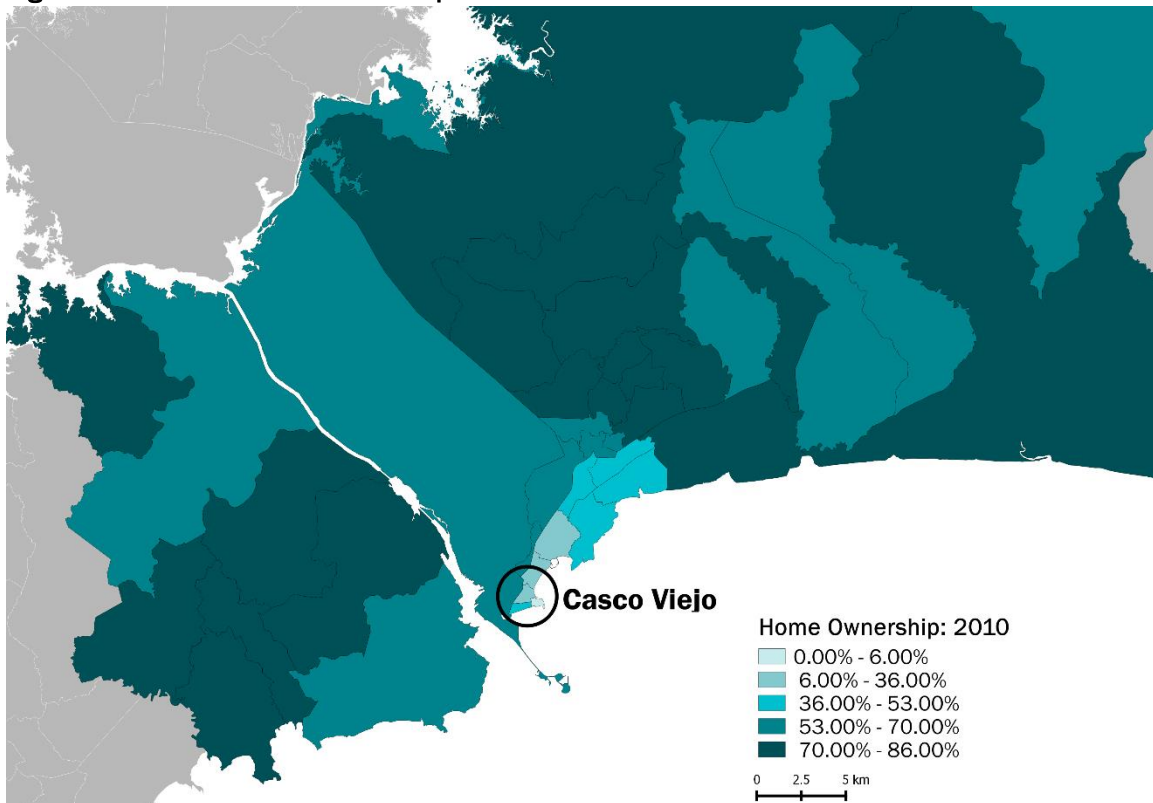
Source: census

Figure 3.21: Housing Types in the Casco Viejo Area



Source: census

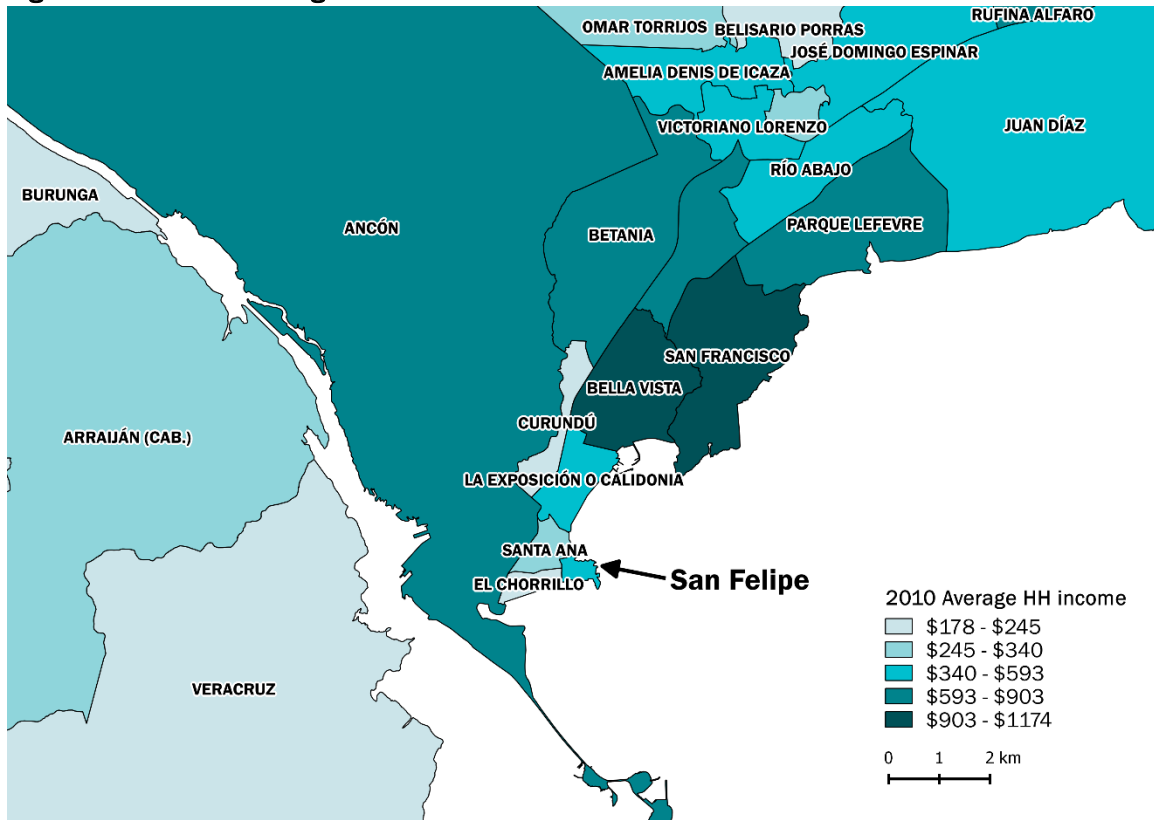
Figure 3.22: 2010 Home Ownership



Source: author, from census data

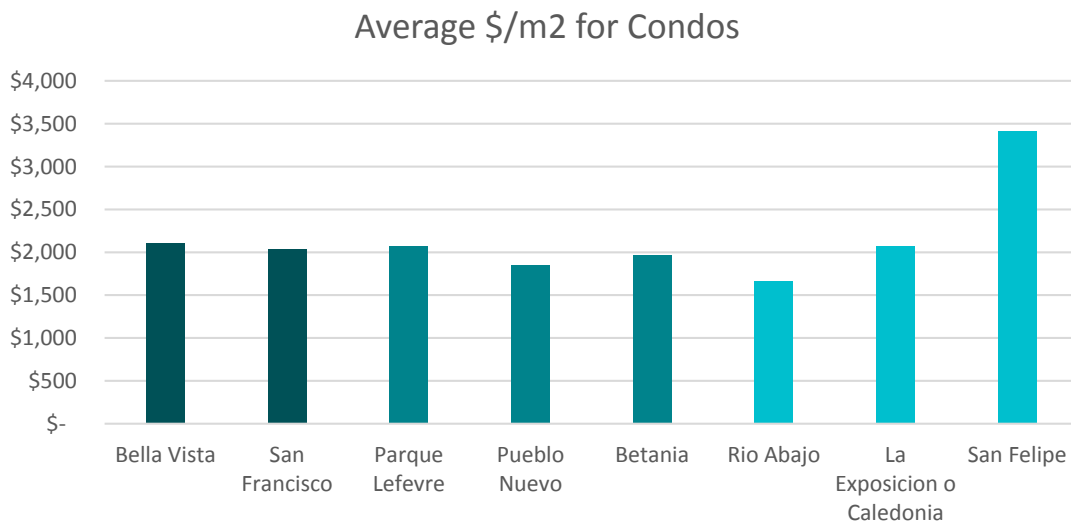
Property prices in San Felipe for redeveloped units have risen to surpass those of new units in the upper-middle class neighborhoods throughout the city. Numbers from a recent Condo Expo event in Panama City show that new residential construction in areas such as San Francisco and Bella Vista, which have the highest monthly income averages among urban neighborhoods were listed at \$2000 per m², while listings for redeveloped condos in San Felipe published on one of the largest local real estate brokerage firms' website averaged \$3,400. These numbers certainly show the wellbeing of the high-end residential market in San Felipe today.

Figure 3.23: 2010 Average Household Income



Source: author, from census

Figure 3.24: Average listed prices



Source: compiled from Expo vivienda 2015 brochure (may 2015) and Arco Property Listings (collected from website on 9/26/2015)

This price surge is relatively recent, and suggests that developers have been taking advantage of the rent gap. In order to estimate how much property values have increased over the past 10 years, I collected transaction data from public records dating back to 1999 for a semi-random sample of 110 lots. To ensure the neighborhood was evenly covered geographically, I divided the cadaster into three roughly equal sections (to Calle 4, 8, and 12), and drew a random sample of 50 lots in each. Since not all lots contained information in the public record, the result was a weighted random sample of 70 lots. I also included information from 26 Conservatorio-owned properties and 14 from additional data collected in the field. Of these 110 properties, only 35 had repeat sales records. I aggregated the sample by block and calculated the average price per land m2 per block and the average year of the sale. Figure 3.25 shows a concentration of more recent sales towards the west.

Figure 3.25: Average year of transaction

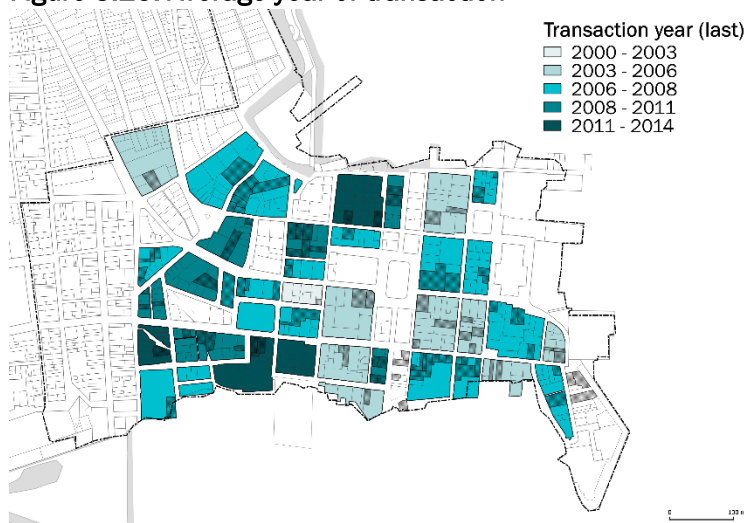
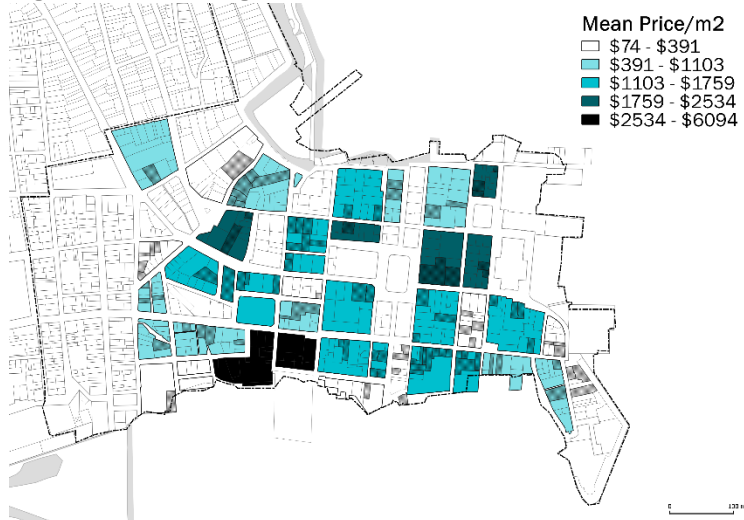


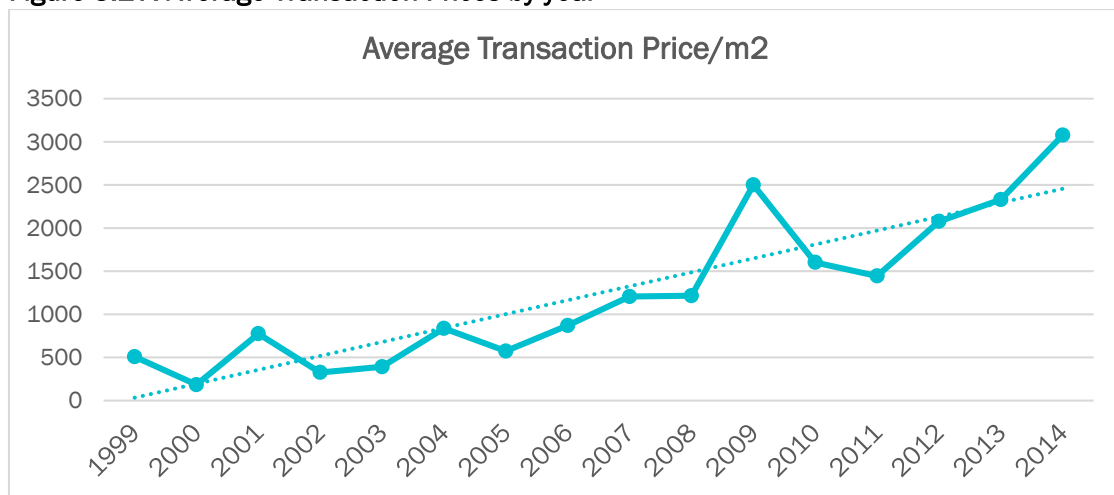
Figure 3.26: Average price/m2



Source: CascoDB (base), author (price data)

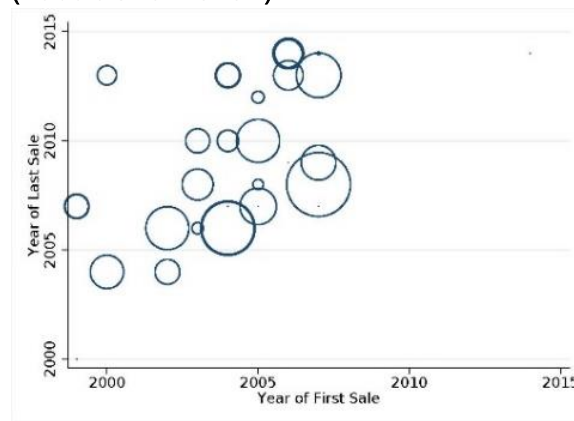
The average transaction price per land square meter increased from 1999 to 2014 on average 36% per year (over 500% in total), or 12.8% as compound annual growth rate. Of the 35 properties with repeat sales, the average price per m2 increase from the first to the last transaction was 284%, or in average 9.8% per year. Plotting the annual growth rate of the value of each property according to the year in which it was first and last sold suggests that properties that were bought and sold within the second half of the 2000s enjoyed the greatest appreciation. Presumably properties bought after this period were already facing high values, and therefore faced less of a difference between the first and last sales price. The greatest growth rates would be expected among properties that were bought early and sold latest, but there are too few such cases in this sample to support that claim.

Figure 3.27: Average Transaction Prices by year



Source: author

Figure 3.28: Repeat sales and appreciation (Bubble size = CAGR)



Source: author

To better understand these price dynamics, I performed a modest regression analysis (on the random sample only) with the purpose of determining how prices were affected by:

- The year of sale: as evidenced in the graph above, as time went on, I expected the price per m² to increase
- Year built: I expected older, more historic buildings to fetch higher values
- Lot m²: I expected larger lots to command a size premium
- Whether the property was in fair or good condition in 2000 (dummy variable): I expected this to have a positive effects on prices since it would assume lower rehabilitation costs, or the possibility of earning some temporary income before restoration
- Whether the property was vacant in 2000 (dummy variable): I expected vacancy to command a premium since it eliminated the problem of eviction and relocation payments.
- Rehabilitated before sale (dummy): using OCA inventory data, I expected that if the building had been rehabilitated prior to the sale, the value would be greater
- Block average income: I expected that properties located in blocks with higher average household incomes in 2010 would command a higher value.

The dependent variable was the price per m² on the only or last sale of each property. The results of this regression model are presented in Figure 3.29. Only the year of the sale was a statistically significant factor. Having tested for a variety of models and combinations with the same outcome, I conclude that the price increase over the years in San Felipe, as far as I can determine with available information, is driven by demand for the neighborhood itself. Characteristics of supply such as the historic value, conditions, or size of the property are not driving the price increase, but rather increased demand over time for the *location* of Casco Antiguo. The price dynamics are subject to regional land market changes such as those proposed in Section 3.1. These demand factors have created a large enough rent gap to attract new investment in the neighborhood.

Figure 3.29: Regression results

Control Variable	Coefficient	Std. Error	t	P	95% confidence interval	
Year of sale	147.45	31.36	4.70	0.00	84.63	210.27
Year built	-3.27	3.57	-0.92	0.36	-10.42	3.88
lot m2	-0.22	0.45	-0.49	0.63	-1.11	0.67
fair or good condition in 2000 (dummy)	27.82	266.27	0.10	0.92	-505.58	561.22
Vacant in 2000 (Dummy)	404.20	325.51	1.24	0.22	-247.86	1056.27
Rehabilitated before sale (dummy)	-187.25	269.98	-0.69	0.49	-728.08	353.59
Block average HH income (2010)	0.03	0.05	0.59	0.56	-0.06	0.12
Constant	-288579	64023	-4.51	0.00	-416833	-160325
Observations: 64; R ² : 35.74%; Adjusted R ² : 27.71%						

Conclusion

The metropolitan changes in Panama City and the transformation of San Felipe in the past 20 years fit with the urban economic theories of gentrification, despite their U.S. and European focus. These theories proposition that demand-side factors that affect the housing market, such as transportation advancements, demographic fundamentals, and changing tastes among middle-income groups cause first an abandonment of the inner cities, leading to disinvestment and deterioration of the housing stock. Population and construction indicators of Panama City over the past 20 years displayed a similar trend out of Casco Viejo. More recently, a renewed interest in the historic core increased the potential value of the land and created a large enough gap between the current deteriorated value and the future potential value, allowing for large enough returns to induce revitalization. The property price changes and sociodemographic indicators observed in the Casco Viejo area confirm this return of capital. In short, this chapter has demonstrated that the market forces of gentrification as defined by urban economic theory are present in Casco Viejo. The next chapter profiles the in-place residents that are affected by these changes and to what degree these changes can be positive or negative forces in their lives. However, understanding the role of real estate interests and the land market dynamics they respond to is essential to any effort to mitigate their social impact.

4. THE SOCIAL DIMENSIONS OF NEIGHBORHOOD CHANGE

The need for developing models of inclusive growth in gentrifying areas is not only rooted in economic concerns. Displacement is a real problem with serious social consequences, but the often sub-standard conditions of in-place residents in these areas before the return of capital, during the “depressed” phase, should not be idealized in an attempt to protect their interests. As Chapter 3 demonstrates, Casco Viejo is transforming from a depressed neighborhood to a gentrifying neighborhood. In order to judge the impact that this change has had on its in-place residents, it is important to establish the conditions *before* the change. While there is limited data on the social situation in Casco Viejo before reinvestment, we can look at surrounding areas which share many physical conditions with Casco Viejo to understand the challenges and needs faced by these communities, as well as existing resources. This section presents information on the physical, economic and social characteristics of these low-income areas. I base the analysis on a literature review including insights from urban studies, sociology, psychology and social work, adjusted for Panama-specific conditions. This comprehensive framework serves as a lens to analyze the social conditions in San Felipe and surrounding neighborhoods as sensitively as possible. I use a mix of quantitative and qualitative information to assess the extent to which in-place residents’ quality of life could be improved or harmed by gentrification with the goal of establishing a theory and fact-based understanding of the social needs that an inclusive growth model would need to address.

The Living Conditions of Casco’s Poor Community

The following sections will explore in depth the many social and economic indicators that are relevant to assess quality of life within a neighborhood. While helpful in providing an objective perspective, the numbers do not do justice to the qualitative situation on the ground. In order to understand the living conditions of low income families in these areas, I conducted a set of site visits and informal interviews with nine residents of San Felipe, as well as the Santa Ana and El Chorrillo neighborhoods, which abut San Felipe (see Figure 4.6) and, according to local insights, are a good reflection of the conditions in San Felipe before redevelopment. In fact, these areas are now experiencing similar development pressures. Local development firms have already purchased a large number of parcels, although development has yet to break ground. Therefore, it can provide a representative “before” profile of the quality of life and concerns of Panamanian residents facing gentrification.

It is difficult to know how representative this small interview sample is, and it does not allow me to perform very rigorous analysis, but their profiles help form an image of the day-to-day life of residents of these neighborhoods. In addition to the interviews, my temporary residence in the neighborhood for a total of three months allowed me to observe how people live, and that insight also informs this profile. I visited families who were living under varying tenure arrangements, and found that the more secure their tenure, the better the living conditions. I will explore housing tenure and informality in Chapter 5, but here I will only note that between 11 and 12% of housing units in El Chorrillo and Santa Ana are condemned (Figure 4.1), compared to 1.2% in the Panama District overall. The rest of the housing units consist of rented and inherited units, with a much lower ownership rate than the rest of the District.

Figure 4.1: Tenure

Tenure	San Felipe 2000	San Felipe 2010	El Chorrillo	Santa Ana	District
Mortgaged	1.90%	2.70%	20.10%	10.30%	22.6%
Rented	47.00%	47.60%	24.50%	51.80%	21.5%
Owned	2.80%	6.20%	33.70%	22.40%	50.8%
“Cedida”	1.00%	3.50%	9.50%	4.60%	3.7%
Condemned	43.40%	39.80%	12.10%	10.80%	1.2%
Other	3.90%	0.30%	0.10%	0.10%	0.3%
Source: census					

Figure 4.2: Overcrowding

Overcrowded housing units	definition: people per sleeping room	San Felipe	El Chorrillo	Santa Ana	District
Moderate	at least 2 adults and 1 child or 3 adults	4.9%	2.7%	3.7%	1.7%
Critical	4-8 people	7.4%	3.7%	5%	3.2%
Very Critical	more than 8	0.6%	0.2%	0.4%	0.2%
Total		12.9%	6.6%	9.1%	5.1%
Source: (Almanza G., 2010)					

Having heard the history of these houses, as well as looked at records from the Office of Casco Antiguo, I can piece together the typical story of the houses where low income people now live. Most houses were built in the late 19th century, either as single family homes or as tenement houses, without proper water and sanitation connections as was normal at the time. In the 1920s, owners installed sanitary facilities – usually one per house, and made incremental improvements since then. As the owners abandoned the houses, residents continued to build improvements such as by adding precarious walls to partition the interior or by splitting the interior vertically, creating a second level (Figure 4.3a), in order to fit more people. As a result of this process, in 2010 13% of housing units in San Felipe were overcrowded (Figure 4.2).

Figure 4.3a: Informal vertical partition

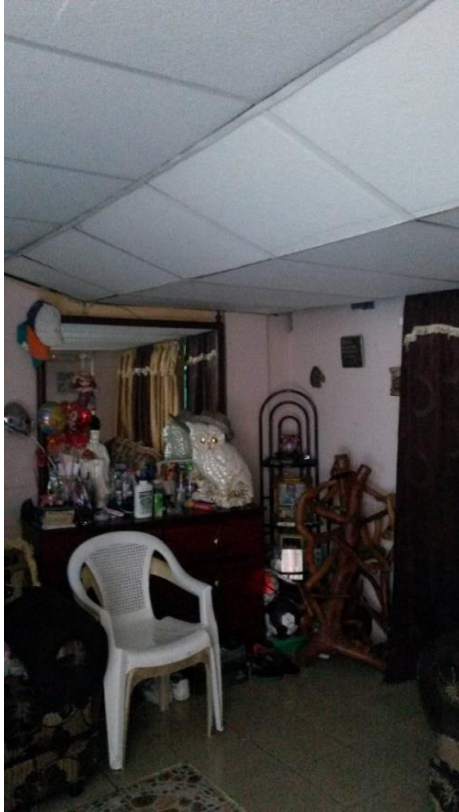


Figure 4.3b: Shared bathroom



Figure 4.3c: Waste inside courtyard



Figure 4.3d: Precarious stairs



Source: author

Additional bathrooms were never added, so the 10 to 30 families living in these buildings have to share (Figure 4.3b). Most houses organize systems for cleaning and maintenance, but others do not. Additionally, because of the inconvenience of not having in-unit sanitation, the interior courtyard can sometimes become the de-facto waste dump for both trash and human waste. I saw this both in an informally occupied house (Figure 4.3c) and in a public housing building. Furthermore, the structures are often in crumbles, with staircases barely standing (Figure 4.3d). They are also very susceptible to fires (figure 4.4). These poor physical conditions are a result of the dynamics of decline described in Chapter 3: while the values are depressed, owners have no incentive to maintain the buildings in good physical conditions, leading to a vicious cycle of decline. The stock of vacant houses is shrinking as redevelopment is picking up, and the few that are left are the ones in worst conditions. As houses burn down, residents are forced to move into progressively worse structures. Despite these unacceptable living conditions, the price is hard to beat: those in the worst residences do not pay rent or utilities.

Figure 4.4: Fire on January 2013



Source: youtube video screenshot. Available at <https://www.youtube.com/watch?v=wwHEqz4YKP8>

This introduction serves only to put statistics in the context of what life is like in these neighborhoods. Given Panama's strong economy, commonly used indicators such as unemployment and monthly income might not paint a picture of deprivation, but in Casco Viejo strong economic indicators do not necessarily translate into the quality of life those statistics suggest, and those inequalities are spatially distributed. Since the 1980s, scholars have delved into the relationship between neighborhood, concentration of poverty, and social outcomes. Rather than relying on the notion that places with depressed property values attract

lower-income groups who bring with them a host of social problems, including crime, unemployment, substance abuse and other health issues, this branch of the literature aims to understand to what extent the concentration of such conditions within a neighborhood creates or exacerbates these problems, particularly in new generations. If this link is sufficiently established, then there is an argument for policies that promote mixed-income communities.

The remainder of this chapter delves into the complex dynamics between social, economic and neighborhood characteristics, with an eye towards identifying the positive and negative influences with which gentrification might interact, for better or worse. It is divided into two sections: first, I follow academic work to the origins of the idea of concentration of poverty as a problem, summarize the well-accepted and more controversial findings, and then present a set of social and economic indicators for San Felipe and surroundings. Second, I investigate the *processes* by which these social outcomes are tied to place, including literature on social capital, social control and civic life. A discussion of the role of social networks and norms in enabling or inhibiting certain behaviors leads to the question of what is a community, concluding with a summary of my interviews with Casco residents about these topics.

4.1 The Structural Dimensions of Neighborhood Disadvantage

The title of this section is a direct quote from Sampson, Morenoff, & Gannon-Rowley (2002, p. 445) in their description of the 1987 book that set off the discussion of concentration of poverty in cities. The body of work that followed attempted to establish a causal relationship between the segregation of lower income groups - along racial lines in the U.S. - and negative social outcomes. That is, to statistically show that living in neighborhoods that are exclusively poor results in a series of social problems for individuals. This is different but not incompatible with the urban economic framework described in Chapter 3. Urban economic theory of neighborhood decline relates property prices to the income groups that can afford them, creating a vicious cycle of price depression. But it stops short of exploring the endogenous relationship between the aggregate neighborhood conditions of individuals' low income status, and the social issues that are correlated with that status. This is what is meant by "structural": the contributors to social difficulties that are built into the system - beyond the individual's control.

Quillian (2012) provides a thorough overview of the history of segregation and poverty concentration scholarship in sociology. He traces William Wilson's seminal book The Truly Disadvantaged (1987) as the publication that opened the conversation about causes of

persistent concentrated poverty. Echoing the theories of urban economics relating to the changing economic base from industry to services (e.g. Ley, 1986), Wilson determined that the deindustrialization of city centers brought about a spatial mismatch: the replacement of blue collar with white collar jobs in downtown areas left much of the low skill labor force living in the urban core unemployed, while higher skilled workers commuted in from the suburbs. Additionally, he argues that as racial segregation was outlawed in the U.S., middle-income African Americans moved out of these neighborhoods, leaving behind enclaves of poor blacks, facing widespread unemployment and other social problems.

Massey and Denton (1993) responded in their book, American Apartheid, and built on Wilson's theory by placing racial segregation at the center of the analysis. They argue that as high-income racial groups separate from low-income racial groups, poverty becomes more and more concentrated, leading to the extremes we observe in cities, or, as Quillian summarizes it, "segregation and group poverty intensify each other's effects in producing spatially concentrated poverty in minority communities" (2012, p. 347). In other words, they argue that the economic forces that Wilson identifies would not have such extreme effects if it were not for racial segregation (Quillian, 2012). This explanation shares much in common with Schelling's model (1972) mentioned in Chapter 3, by which even groups with moderate tolerance for diversity will eventually self-select into segregated neighborhoods.

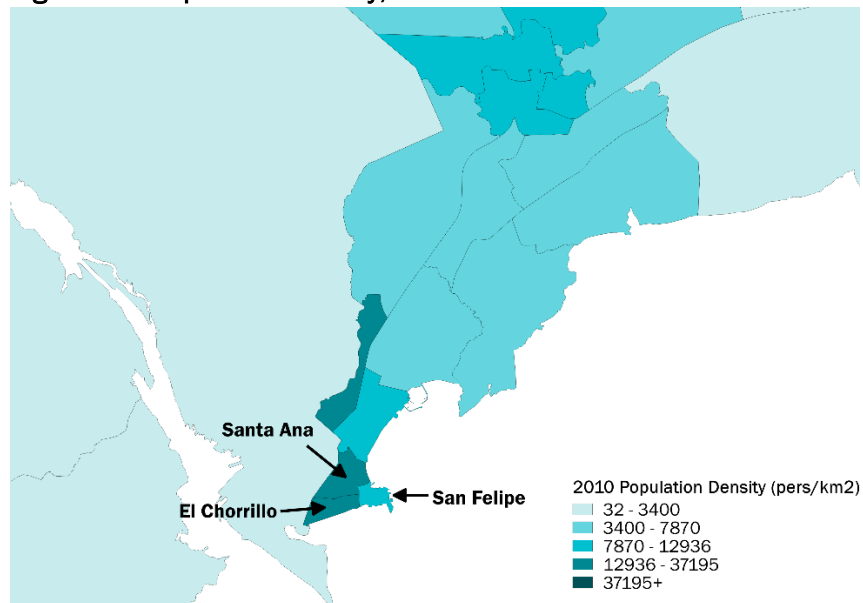
It should be noted that in much of this literature, "poverty" is used as a compound term, referring not only to income below a certain level, but rather to a set of undesirable social conditions. Much work has been done in identifying and measuring that bundle of conditions associated to poverty and determining how the neighborhood context interacts with those conditions. Using a longitudinal sample that includes data from 1968 to 1992, Elliot (1999) finds that growing up in neighborhoods with higher poverty rates, lower average income, higher percentage of households on welfare, higher unemployment rates, and lower percentage of professionals have less labor income, lower wages and a lower family income-to-needs ratio. For example, "growing up in neighborhoods with the fewest executives and professionals and the highest level of poverty decreased labor income from 18 percent to 21 percent and decreased wages by 14-18 percent relative to the highest category for these categorical variables", and "those who grew up in the poorest neighborhoods work 162 fewer annual hours than those who grew up in the least-poor neighborhoods" (Elliott, 1999, p. 161). More recently, Chetty, Hendren and Katz (2015), find that children originally from high-poverty neighborhoods who moved to lower-poverty neighborhoods before the age of 13 were more

likely to attend college than those who did not, and had 31% higher annual incomes as adults. Brooks-gunn, Duncan, Klebanoc, & Sealand (1993) find statistically significant effects of living in low income neighborhoods on the IQ and behavioral progress of 3-year old children, and on the likelihood of dropping out of high school and having an out of wedlock child among adolescents. Almgren et al. (1998), using data from 1970 to 1990s in Chicago, find a link between violent deaths and joblessness and family disruption and conclude that “urban violence is an outcome of concentrated economic disadvantage rather than racial isolation” (p. 1489).

While concentration of poverty is a persisting problem in Latin American cities, longitudinal spatial-empirical studies that tie neighborhood-level indicators to individual lifelong outcomes are less common in a developing country context, giving us little guidance on how these dynamics take shape in non-Western contexts. In order to explore the socioeconomic situation of Casco Viejo’s poor community, I base the analysis loosely on Jargowsky’s (1997) selection of variables to measure neighborhood conditions in his study of the relationship between poverty and place, adjusted for the Panama context and the availability of data. Using mostly census information, the following description aims to demonstrate the concentration of poverty-related factors prevalent in Casco Viejo, with the purpose of establishing a baseline for assessing the change brought about by its revitalization.

Concentration of Poverty in Panama City

Figure 4.5: Population density, 2010



Source: author, with census data

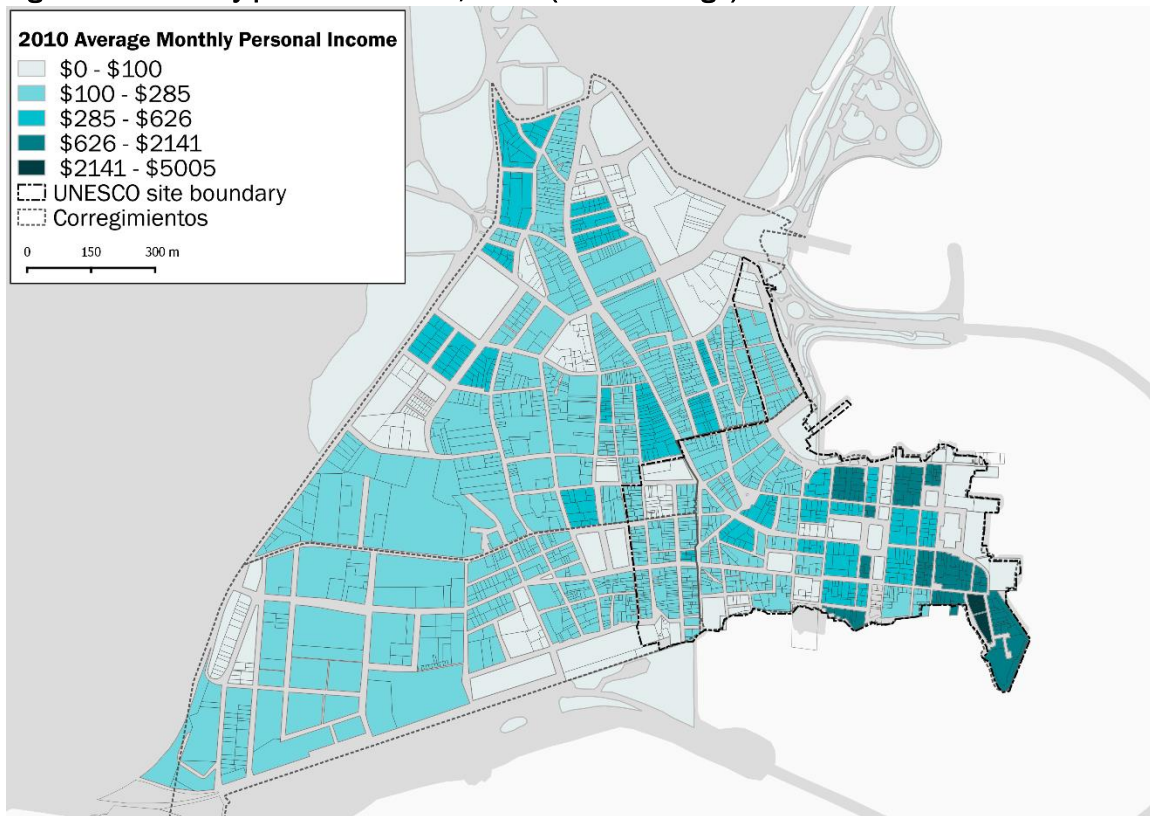
Figure 4.6: The three *Corregimientos* of Casco Viejo



Source: CascoDB

San Felipe is enclosed by the boroughs of Santa Ana and El Chorrillo. Together, these neighborhoods make up one of the densest and lowest income urban areas within the Panama Metropolitan Region (Figure 4.5). The physical character of these surrounding areas resembles that of San Felipe. In fact, the UNESCO World Heritage district boundary extends to parts of El Chorrillo and Santa Ana. Beyond the UNESCO boundary and towards the west, both El Chorrillo and Santa Ana have sections of public housing as evidenced by the larger blocks (Figure 4.6). The economic growth of San Felipe has not yet extended to El Chorrillo, and only partially to Santa Ana. In 2010, El Chorrillo had the fourth lowest average personal income within the District of Panama, and Santa Ana the 11th out of 23. San Felipe improved from the 9th lowest in 2000 (above Santa Ana) to the 16th in 2010 (according to census data). As Figure 4.7 shows, in 2010 the higher income population was concentrated in the east-most blocks of San Felipe.

Figure 4.7: Monthly personal income, 2010 (block average)

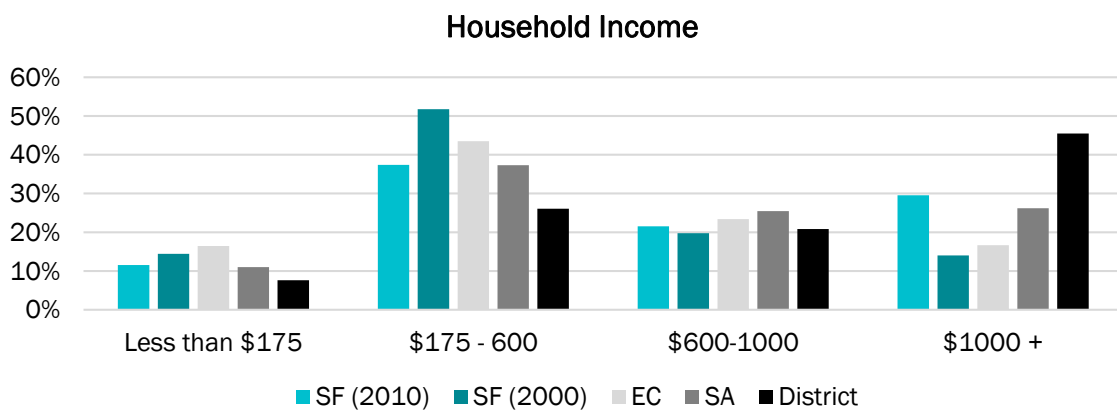


Source: CascoDB

Panama's Ministry of Economy and Finance updated the official poverty line in 2011 (Alvarado & Di, 2011). For the District of Panama, it defined poverty in 2010 as earning less than \$122.95 a month (Alvarado & Di, 2011), which for the district that includes Panama City, this represented a poverty rate of 16.8%. While there are no current reliable data on the poverty levels by borough, the distribution of average household income by borough and compared to the District of Panama as a whole suggests that households in these areas have a greater incidence of low income. 45% of households in the District earned over \$1000 per month in 2010. For El Chorrillo, the proportion was 17% and for Santa Ana 26%. San Felipe has been catching up to the district average, with 30% of households earning over \$1000 a month in 2010. However, in 2000, only 14% of San Felipe's households earned more than \$1000 (Figure 3.8). This change cannot be attributed to inflation alone given that the district-level percentage in 2000 was twice as much, and the other two neighborhoods were well below that then as well.

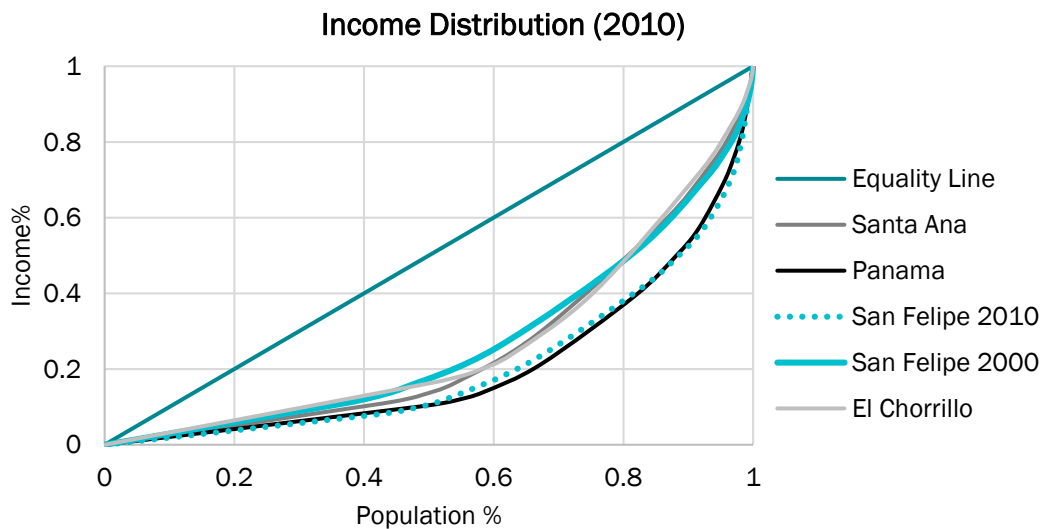
A rough plotting of the personal income distribution as a Lorenz curve (Figure 4.9) using personal income groups suggests that by 2010, the distribution of income in San Felipe was similar to that of the city as a whole, while San Felipe in 2000 was similar to Santa Ana and El Chorrillo in 2010. The curves show these last three as less unequal, presumably because of the absence of higher income people and conversely the concentration of lower-income people. The similarity between income figures for San Felipe in 2000 and Santa Ana and El Chorrillo in 2010 support the assumption underlying the remainder of this chapter that Santa Ana and El Chorrillo can be seen as representative of San Felipe before gentrification.

Figure 4.8: Average household income, 2010



Source: census

Figure 4.9: Lorenz curve of income distribution

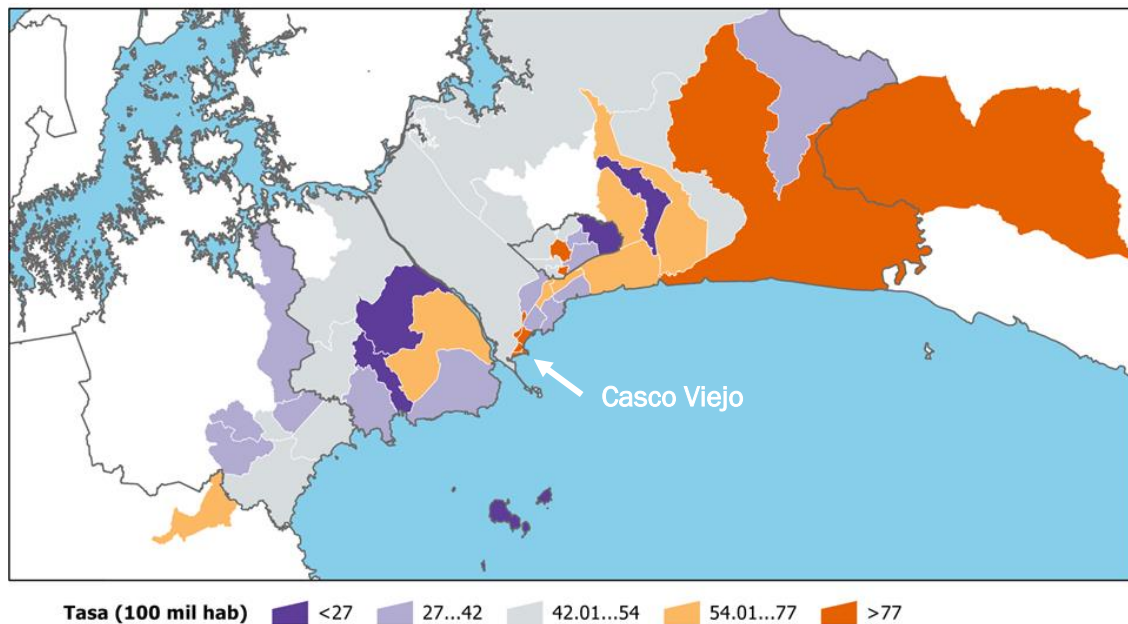


Source: author, from census data

Health and Crime

Drawing on the wealth of literature on crime and poverty concentration, I aim to establish whether there are greater incidences of crime in the study areas. Data compiled from 2001 to 2011 on death from external causes (accidents, homicides and suicides) showed that San Felipe and surroundings had very high mortality rates compared to the rest of the metro area (Figure 4.10). In 2011 (excluding December), the homicide rate in El Chorrillo was 90.1 per 100,000 people, and 43.9 in Santa Ana according to national crime statistics (SIEC, 2012). In comparison, the homicide rate for the District was 30.5 per 100,000 persons (SIEC, 2012). The rate of correctional cases per capita in San Felipe and El Chorrillo also exceeded the District at a rate of 3 to 1 in 2010 (SIEC, 2010). Domestic violence cases represented more than 60% of the total in El Chorrillo and Santa Ana, closer to the district level which was over 75%. Only in San Felipe was domestic violence closer to one third of all cases. The area continues to have gang presence, however the situation of violence has changed during that period, particularly in San Felipe, where the number of incidences has decreased dramatically in areas where there have been gang reintegration programs (Landau, 2015). Those programs are led and supported by San Felipe residents, and are described in more detail in Chapter 6.

Figure 4.10: Gross mortality rate from external causes by Corregimiento. Panama metropolitan area, 2001-2011 (rate per 100,000 persons)

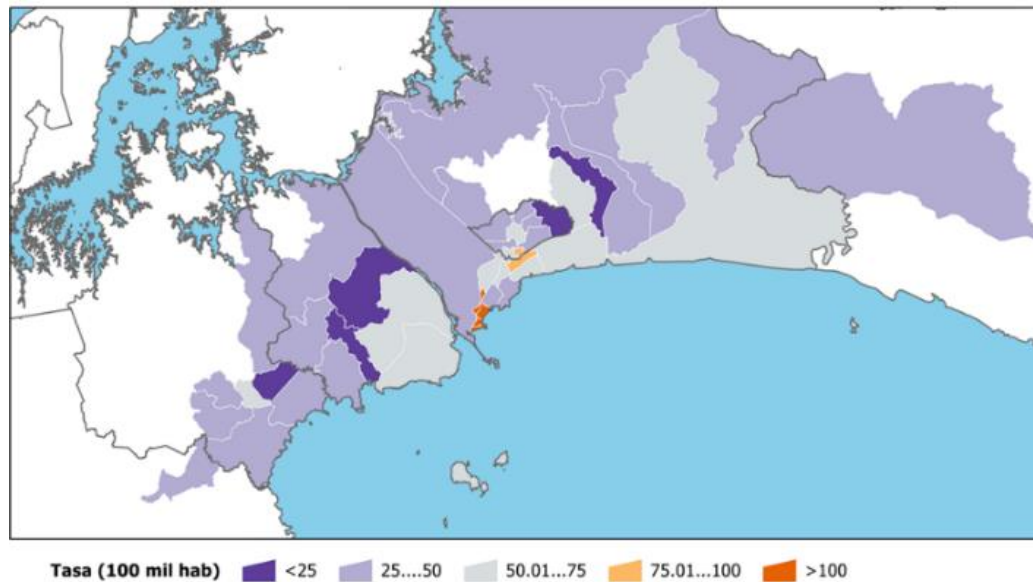


Fuente: INEC
Preparado por: Carlos Gordón

Source: (Gordon, 2015)

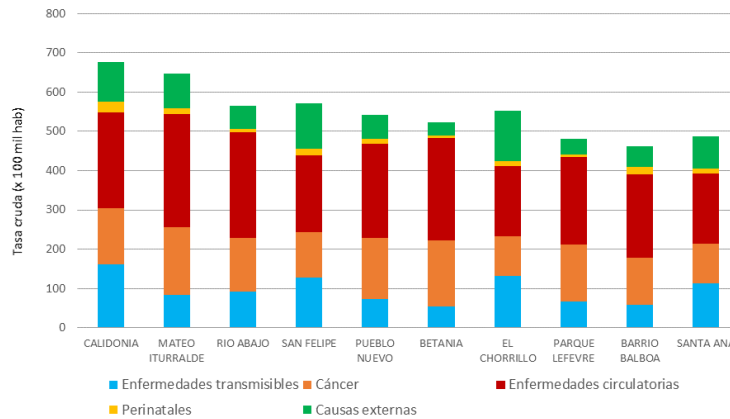
San Felipe and surroundings have the highest mortality rates for communicable diseases (such as HIV) within the metro area (Figure 4.11). Between 2001 and 2011, San Felipe, El Chorrillo, Santa Ana, and the adjacent Caledonia were the only boroughs in the district with mortality rates of over 100 per 100,000 persons caused by communicable diseases (Gordon, 2015). Studies also report higher rates of alcohol consumption in these neighborhoods compared to other boroughs in the district (Panama Ministry of Health, 2013). Mortality rates from other causes such as cancer and circulatory diseases, as well as perinatal complications, do not seem to be concentrated in the Casco area (Gordon, 2015). One community leader did mention in an informal interview that children living in the conditions described at the beginning of this chapter are very susceptible to water-borne diseases.

Figure 4.11: Gross mortality rate from communicable diseases by *Corregimiento*. Panama Metro Area, 2001-2011. (rate per 100,000 persons)



Fuente: INEC
Preparado por: Carlos Gordón
Source: (Gordon, 2015)

Figure 4.12: Corregimientos with the highest gross mortality rates in the Panama Metro Area, 2001-2011



Fuente: INEC
Preparado por: Carlos Gordón

Source: (Gordon, 2015)

Household and Family Structure

Literature on the negative outcomes associated with poor neighborhoods focus much of their explanatory analysis on family structure and household characteristics (for example Briggs, Popkin, & Goering, 2010). The argument is that teenage pregnancy, larger families, single motherhood, and absentee fathers are both causes and effects of vulnerability, as they drain family resources and negatively affect child development. The teenage pregnancy rates of El Chorrillo and Santa Ana do not differ from the District average (Varela, 2010), and the average household size is somewhat lower, according to census data. However, a distribution of households by size shows that while San Felipe has always had a greater share of single-family households, which could be skewing the averages, it has also had a larger share of households with 5 or more persons, as has El Chorrillo (Figure 4.13). Looking at the average number of children per household and average number of persons per housing unit by block in 2010 (Figures 4.14 and 4.15) distinctly shows the prevalence of larger families in El Chorrillo and Santa Ana compared to San Felipe. Overall, all three neighborhoods have a smaller share of nuclear family households than the District as a whole, and a greater share of single-family households (Figure 4.16). The most drastic difference in terms of household structure between these neighborhoods and the District is in single female-headed households. While in the district in 2010 23% of household heads were single women, in El Chorrillo and Santa Ana, the figures are 30% and 27% respectively. San Felipe, was also higher at 26% in 2000, but has now moved closer to the District level (Figure 4.17).

Figure 4.13: Average number of people per household, 2010

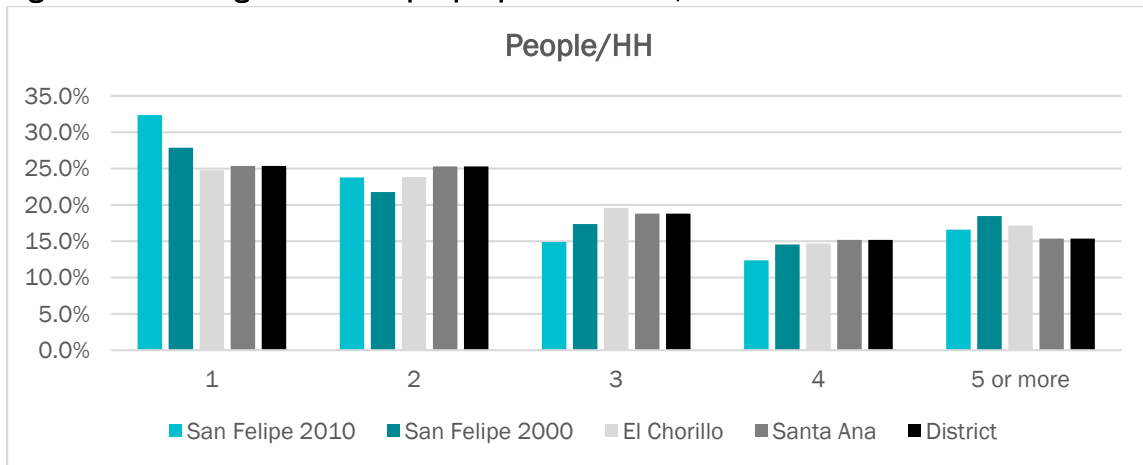
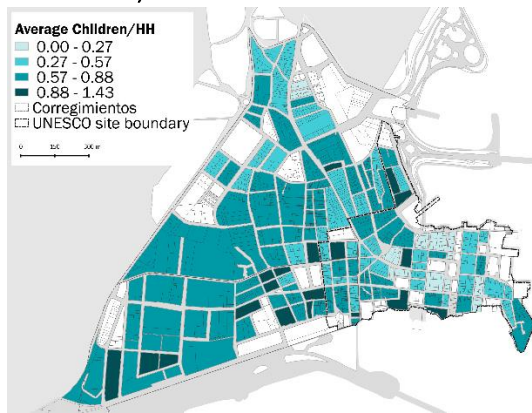
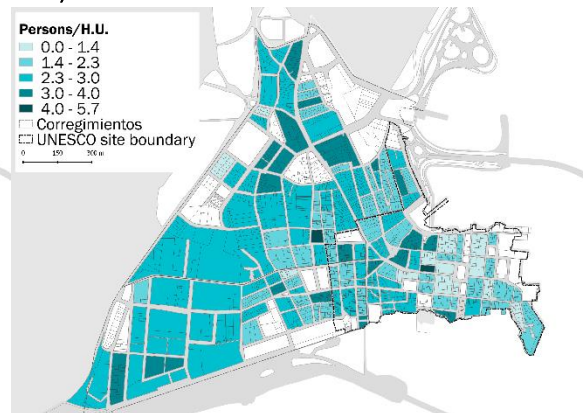


Figure 4.14: Average number of children per household, 2010



Source: CascoDB

Figure 4.15: Average persons per housing unit, 2010



Source: CascoDB

Figure 4.16: Household types

Type of HH	San Felipe 2000	San Felipe 2010	El Chorrillo	Santa Ana	District
Single person	32.0%	28.1%	25.0%	25.6%	16.0%
Nuclear family	35.0%	37.2%	46.2%	40.6%	50.5%
Extensive family	21.3%	25.1%	23.4%	25.6%	24.9%
Compound/collective	11.7%	9.6%	5.4%	8.2%	8.6%

Source: census

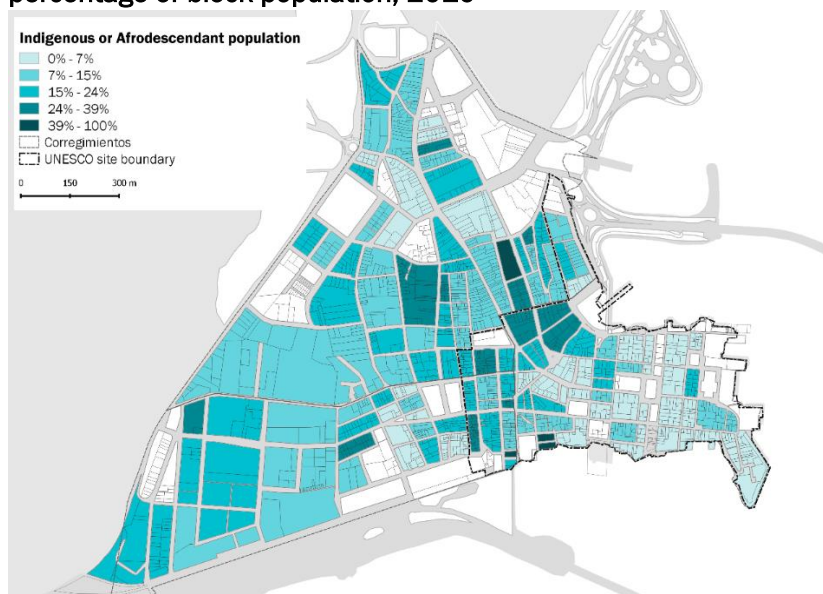
Figure 4.17: Female heads of household

Corregimiento	% of Heads of HH that are single women
San Felipe 2010	24%
San Felipe 2000	26%
El Chorrillo	30%
Santa Ana	27%
District	23%
Source: calculated from census	

Race and Ethnicity

According to census data, Santa Ana has a slightly larger share of Indigenous people than the District as a whole (7% vs 4%), and El Chorrillo has a larger share of Afro-descendants (16% vs 12%). Race and ethnicity is an important component of Panama’s society, although its dynamics are different from U.S. racial-spatial conditions. Still, Figure 4.18 shows a distinct spatial distribution of the non-white population, with few non-white residents in San Felipe except for a few blocks. Although there is limited data to show it, both non-white groups generally live in precarious conditions, particularly in San Felipe (see Figure 4.19). Compared to the rest of the population, a greater number of people of African descent live in condemned houses and they exhibit higher rates of unemployment in urban areas, although in most other socioeconomic indicators the Afro population fares better than the Indigenous population (Rojas Hernandez, 2010). Youth unemployment is a significant problem for both groups (Rojas Hernandez, 2010).

Figure 4.18: Indigenous or Afro-descendant population as a percentage of block population, 2010



Source: CascoDB

Figure 4.19: Non-white population and living conditions of Afro-descendant population, 2010

Descent	San Felipe 2010	El Chorrillo	Santa Ana	District
Indigenous	6%	2%	7%	4%
Afro	11%	16%	10%	12%
% of Afro population living in condemned houses	43%	8%	11%	

Source: census, Rojas Hernandez, 2010

Educational Attainment, Employment, Occupation

Overall, there are no pronounced differences in the levels of educational attainment of the focus neighborhoods compared to the District (Figure 4.20). Most relevant is the lower share of people with college or an advanced degree in 2000 San Felipe and 2010 El Chorrillo and Santa Ana, and the increase in 2010 San Felipe to District-wide levels. Again, this is more likely due to the inflow of higher-educated residents than the attainment of advanced degree between census years. Panama’s low national unemployment rate (see Section 3.2), persists at the district level, although the focus neighborhoods have a slightly higher rate (Figure 4.21). 2000 San Felipe and 2010 Santa Ana and El Chorrillo were between 6% and 8%, compared to 4% for the district and San Felipe in 2010.

Figure 4.20: Educational attainment

	San Felipe 2000	San Felipe 2010	El Chorrillo	Santa Ana	District
No high school diploma	54.50%	48.40%	57.30%	47.70%	53.33%
Completed High school	24.00%	25.80%	26.40%	29.10%	20.70%
Vocational/Technical	6.20%	3.80%	5.20%	4.90%	3.67%
College	12.90%	16.30%	9.50%	15.30%	17.59%
Advanced degree	1.20%	3.20%	0.50%	1.10%	3.75%

Source: census

Figure 4.21: Employment status

work status	San Felipe 2000	San Felipe 2010	El Chorrillo	Santa Ana	District
Employed	54.20%	57.60%	50.00%	53.60%	55%
Unemployed (looking and not looking)	8.00%	3.90%	7.80%	6.30%	4%
Retired/Pension/Disabled	10.40%	5.80%	9.10%	9.80%	8%
Housewife	12.00%	12.30%	12.40%	12.10%	12%
Student	22.30%	23.70%	18.10%	15.00%	18%
Other	21.30%	22.60%	2.60%	3.20%	4%

Source: census

In 2010, the most represented economic sectors in the focus neighborhoods were commerce and public service, which is not surprising given the location of many government facilities in Casco Viejo. Also not surprising is the higher share of hotel and restaurant employment in San Felipe (Figure 4.22). In terms of occupation (Figure 4.23) sales and service workers were a much larger share of the focus neighborhoods than the District overall. Santa Ana and El Chorrillo have a smaller proportion of professionals and managers compared the district and San Felipe. Unfortunately, these figures cannot be compared to 2000 occupation breakdowns because the reported census categories changed, but they point to a more unskilled labor force in Santa Ana and El Chorrillo, with incomes perhaps supported by the availability of retail and hospitality jobs.

Figure 4.22: Reported economic sectors of employment, 2010

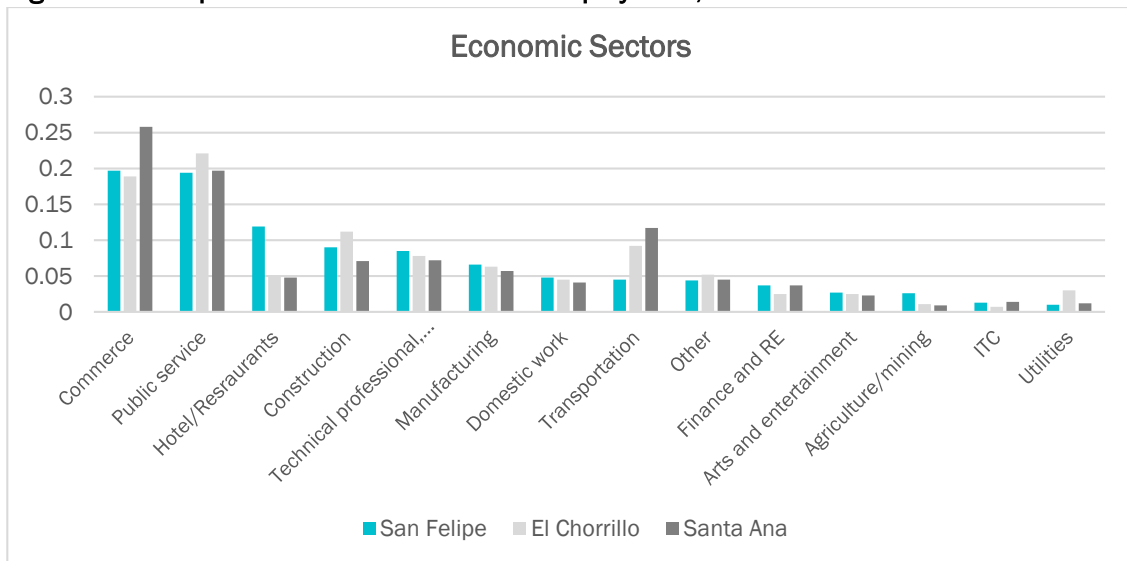
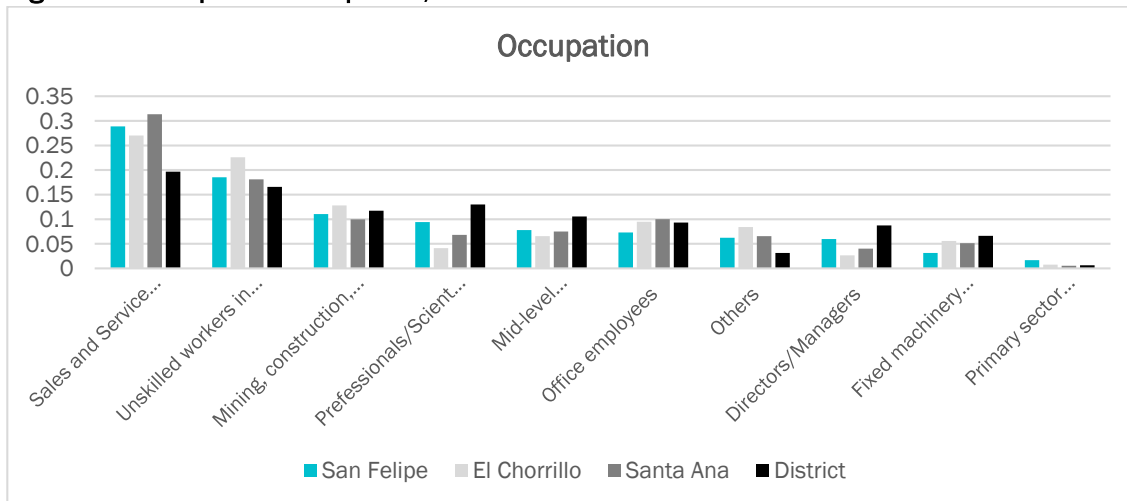


Figure 4.23: Reported occupation, 2010

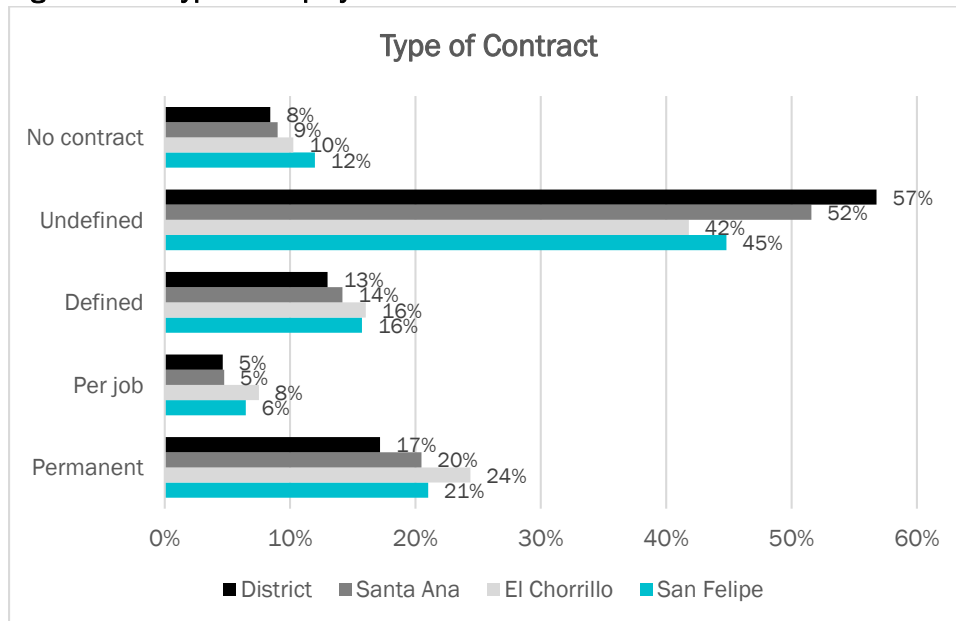


Source: census

Employment informality is an important aspect of economic life in Panama, particularly for low income households (N. A. Espino & Gordon, 2015). A recent study estimates that most of the households earning less than \$400 a month in the District of Panama work in the informal sector (N. A. Espino & Gordon, 2015). Still, 2010 census data indicates that employment is more stable in the focus neighborhoods compared to the District (Figure 4.24). Defined and permanent contracts are more common in the focus areas than in the District, although having no contract was also more likely. Contracts of undefined timeframes were the most common overall, but far less so in El Chorrillo and San Felipe.

Another way to assess the difference in types of work and to infer the stability and quality of work is to look at average monthly income from a fixed salary, which implies more stable employment. Figure 4.25 shows a much more drastic personal monthly income gap between El Chorrillo and Santa Ana on the one hand versus the district overall. Across areas, income from a fixed salary is about twice as much as the average income overall, but for El Chorrillo and Santa Ana, this represents \$400-\$500 less a month on average per person for those with a fixed salary. The percentage of people who have a fixed salary income is also slightly lower in these neighborhoods compared to the district (Figure 4.26).

Figure 4.24: Type of employment contract



Source: census

Figure 4.25

	Average \$/Month			
	San Felipe	El Chorrillo	Santa Ana	District
Total Income	439.62	219.15	287.87	451.55
from fixed salary (among those who have it)	846.58	486.76	549.46	931.53
Source: census				

Income from pensions or other government programs are an important component of El Chorrillo and Santa Ana’s residents’ incomes. The numbers in figures 4.26 and 4.27 do match the information gathered in the field through informal interviews with residents. Reported incomes from work ranged from \$880 a month in construction to \$400-500 as a driver and \$500 as a security guard (personal communication). Most families I talked to only had one income earner per household, but they supplemented their income with \$100-\$200 monthly from pensions – either from retirement and disability, or as child support.

Figure 4.26: Sources of income, 2010

% who receive:	San Felipe	El Chorrillo	Santa Ana	Panama
Monetary assistance	2.9%	2.4%	2.2%	2.4%
accident pension	1.1%	1.5%	1.2%	1.0%
independent income	13.8%	11.0%	13.3%	9.9%
rent, interest etc.	0.4%	0.2%	0.5%	0.7%
retirement	6.6%	5.7%	7.2%	6.4%
Salary	38.7%	33.3%	36.4%	37.9%
Source: census				

Figure 4.27: Disabilities, 2010

Disability	San Felipe	El Chorrillo	Santa Ana	Panama
Physical	2.0%	2.9%	2.1%	1.7%
Mental	0.4%	0.8%	0.5%	0.5%
Other	0.2%	0.2%	0.2%	0.3%
Total	2.6%	3.9%	2.8%	2.4%
Source: census				

Summary

This overview highlights the risk factors that accompany low income status in Casco Viejo. These include health risks, higher crime rates, overcrowding, fractured family structures, and less stable work. The co-existence of these factors in poor neighborhoods is not a coincidence, as the literature at the beginning of the section argues. Yet the evidence presented here is of *outcomes* of concentrated poverty on individuals. It does not explain the *processes* by which these outcomes are generated. What are the social dynamics that transfer the neighborhood

characteristics to particular individual conditions? There is a breadth of literature on the role that social networks play in pervading these conditions in high-poverty neighborhoods, but also alleviating them. Do mixed income communities help break the cycle of poverty or do they break an essential social safety net? The following section presents an overview of these explanatory theories and then evaluates them in the context of Casco Viejo's poor community.

4.2 Social Capital in Poor Neighborhoods

Interest in the role of social processes in determining economic outcomes has escalated in the past two decades. Sampson et al. (2002) find that the number of academic papers per year on this topic doubled between the mid-1990s and 2000, reaching 100 per year. In Latin American development studies, social capital has also surged as a promising concept to approach poverty reduction (Ordóñez Barba & Ruiz Ochoa, 2015). Earlier literature focuses on a set of alternative explanations for neighborhood effects differentiating between the isolation hypothesis and epidemic theory (e.g. Brooks-gunn et al., 1993; Vartanian, 1999). The isolation hypothesis refers to the lack of role models and supportive institutions leading to worse economic outcomes (Vartanian, 1999). The epidemic theory further specifies that the relationship is nonlinear - that the negative outcomes appear in the most extreme neighborhood conditions, when a certain threshold is passed (Brooks-gunn et al., 1993).

These two alternatives mostly provide guidance on empirical methods for measuring the relationships between neighborhood effects and individual outcomes. Still, there is more territory to explore in order to understand which social elements within a neighborhood enable or inhibit these outcomes, because at its core, the neighborhood refers not only to geographical boundary but also to the people and activities that an individual is most exposed to. I will use the broad term of social capital to refer to these set of social characteristics within a neighborhood. The concept can be defined simply as “networks, norms and trust” (Farr, 2004, p. 8; Putnam, 1993), and expanded to refer to the relationships between people as well as the potential for those relationships to be channeled towards collective action (“What is Social Capital,” n.d.). Roughly following this definition and the classification presented by Sampson et al. (2002), I will introduce key concepts along the lines of: the role of social networks, social norms, expectations and control, and institutions and civic life.

Social Networks

At the individual level, social relationships can be a resource. Coleman (1988) identifies different types of social capital, among which are reciprocal relationships between people,

where one person does something for someone else because there is enough trust that the action will be reciprocated. These relationships can exist within close networks such as family and close friends, but also exist among acquaintances, for example neighbors, who can lend a hand such as by looking after children during an errand run (Briggs et al., 2010). However, as Sampson (1996) points out, the ability to turn those relationships into beneficial economic outcomes varies by neighborhood, because “[i]ncome, education, housing stock—the bedrock of physical and human capital—are distributed unevenly across geographical space, often in conjunction with ascribed characteristics such as racial composition” (p. 247). This possibility can be lacking in high poverty concentration neighborhoods.

Granovetter (1973) distinguishes between strong ties and weak ties. The difference depends on the frequency of contact, the depth of the emotional connections, and intimacy (Granovetter, 1973). The literature on social network has adopted these terms to refer to the nuclear family, relatives and close friends as “strong ties” and casual relationships with neighbors and acquaintances as “weak ties”. Strong ties can provide much of the support needed for “survival” – either day to day or in emergencies, but they can also negatively impact a family’s capacity to take advantage of opportunities for social mobility when these relationships become a drain on time and resources, or their reciprocal nature brings more burdens than benefits (Briggs et al., 2010).

Another common aspects of the importance of networks is access to information on job opportunities and education. “Networks... shape access to information, endorsements, and support that connect job seekers to particular niches of the labor marker”, but the networks of the poor tend to be more limited and thus provide fewer opportunities (Briggs et al., 2010, p. 198). Weak ties in particular, more than strong family ties, can lead to these productive connections (Robert J. Sampson et al., 2002). Yet, Smith (2005) contends that it is not just the availability of these networks but the activation of those connections into reciprocal relationships that unlocks the positive outcomes. Neighborhoods with concentrated poverty and crime breed a degree of distrust and individualistic behavior that makes it more difficult to act on these ties (S. S. Smith, 2005).

Social norms and control

Scholars have also argued that there may be cultural aspects enforced within communities – for better or for worse. A culture of hard work, staying in school, staying out of trouble, can be absent in certain high-poverty areas, and this is particularly influential on young people,

especially when there are no mentors or role models to look up to (Briggs et al., 2010). At the neighborhood level, there is also a general consensus that the absence of community trust and a dense network of acquaintances is associated with greater crime risk and problematic youth behavior (Robert J Sampson, 1996). Much of the literature on the link between poverty concentration and crime relies on social disorganization theory, which contends that well-functioning informal social networks reduce crime in a neighborhood by enforcing order and control (Bellair, 1997; Pattillo-McCoy, 2000). In neighborhoods with stronger social networks, “the residents are more likely to engage in informal surveillance, to develop movement-governing rules, and to intervene in disturbances” and to have “a greater capacity to supervise social activity within the neighborhood and to socialize children and other residents toward conventional values” (Bellair, 1997, p. 683).

The assumption is that poor neighborhoods lack these self-controlling social dynamics, because, according to this theory, higher-income residents “are expected to be more likely to exert normative pressure to maintain order and safety in their neighborhood, to enforce rules and protect their investment” (Chaskin & Joseph, 2013, p. 483). This is not only a U.S. centric assumption: in Mexico, for example, low levels of a complex measure of social capital developed by the study authors is found to be correlated with higher concentrations of poverty (Ordóñez Barba & Ruiz Ochoa, 2015). Bellair (1997) finds evidence that both weak and strong ties in a neighborhood, measured by frequency of interaction, are linked to lower rates of property crime. However, scholars have also cautioned that strong social networks can be drivers of both positive and negative outcomes. As Pattillo-McCoy explains, “the flaw in social organization theory lies in the assumption that dense networks always work *against* crime. An alternative formulation might be that stable neighborhoods can more easily develop organized crime subcultures because of the very fact that neighborhood familiarity is high” (2000, p. 69).

Empirical studies using advanced social network models have had limited success identifying the social mechanisms at play in gang structure, with stronger evidence supporting the social and spatial dimensions of inter-gang violence than the intra-gang dynamics (see Papachristos, Hureau, & Braga, 2013). More qualitative studies, however, support the theory that social ties can exacerbate gang violence. For example, based on in-depth interviews with black and Latino male youth in Los Angeles, Rendon (2014) concludes that the threat of violence leads teenage boys to seek protection from peers, drawing them into reciprocal relationships with obligations that can eventually take priority over other responsibilities, resulting in dropping out of school.

Collective Efficacy

In short, the ability of a neighborhood to exert social control and impose norms may be hampered by specific types of relationships. These conditions together form what Sampson et al. (1997) call “collective efficacy” – a term that has since then been widely used to refer to “the combination of social cohesion and a willingness on the part of neighbors to intervene for the common good” (Chaskin & Joseph, 2013, p. 482). Trust and shared expectations within a community are key ingredients of collective efficacy (Robert J. Sampson et al., 2002), and when they function well, they can be elevated to form formal or informal social intuitions that provide crucial community services. These refer not only to the presence of schools and libraries, but also organized recreational activities, family support and employment services, etc. (Robert J. Sampson et al., 2002).

Participation in civic life, such as through voluntary social organizations, has received much attention since the publication of Robert Putnam’s Bowling Alone (2000). Skogan (1986) documents how fear in areas with higher crime rates leads to withdrawal from public life and lower levels of community organizing. Not only does this withdrawal limit the provision of needed public goods and services within the neighborhood, but it can also weaken the community’s ability to command the attention of city-wide decision-makers and mobilize in defense of their shared interests (Skogan, 1986). Again, the evidence of the influence of embeddedness of local institutions in neighborhood outcomes in controlled statistical studies is weak (for example Sampson et al. 1997), but many studies have supported the inverse relationship between levels of organizational participation in a neighborhood and problematic conditions such as crime, particularly when viewed as mediators of the social control mechanisms described above (see a review of evidence in Morenoff, Sampson, & Raudenbush, 2001). The view that social capital can lead to social economic advancement in poor communities has been heavily promoted in Latin America by international development organizations such as the World Bank and the Inter-American Development Bank, and has been a component of their programs since the 2000s (Capdevielle, 2014).

Defining Community

These processes are relevant in order to understand the mechanisms by which individual and neighborhood characteristics affect each other. They help explain why concentration of poverty can contribute to its persistence as such. But they also highlight the social aspects of economic development, which are crucial to discussions about neighborhood change and proposals to address it. So far, the terms “neighborhood” and “community” have been used

interchangeably. However, there is great debate about the distinction between these two concepts. The literature on “neighborhood effects” reviewed above focuses on geographically bounded areas because its subject is precisely the spatial concentration of poverty. However, “community” may not be bounded by geographic boundaries (Briggs et al., 2010). For example, the literature on the importance of social networks has long begun to question the effects of technology on the frequency of face-to-face interaction. One of Putnam’s main theses in Bowling Alone (2000) was that the decline in civic participation was in part due to television and the internet increasingly keeping people inside their houses and diminishing the amount of time they spend socializing. Yet much of the reaction to this claim emphasized the existence of online communities as legitimate ways of social interaction (for example Antoci, Sabatini, & Sodini, 2014; Scott & Johnson, 2005). For this analysis, the relevant definition - which is not mutually exclusive with others - is that of place-based community, or where the physical neighborhood and community overlap.

The operational definition of neighborhood can significantly influence the results of empirical studies. The degree of homogeneity among residents necessary to draw neighborhood boundaries can be debated along among many lines, most typically economic class, race and ethnicity (Jargowsky, 1997). Most of these studies use census tract boundaries to define neighborhoods, although these can be an imperfect way to delineate the areas where social dynamics influence individual outcomes (Robert J. Sampson et al., 2002). Tuan (1990) suggests that the concept of neighborhood is useful for planners and social workers but is not always relevant to the urban reality. In sociology, the neighborhood is seen as a framework to understand urban ecology, with each neighborhood unit being part of the city “mosaic” (Robert J Sampson, 1996), generally understood as a series of nested units (Abramson, Manzo, & Hou, 2006). More complex approaches have attempted to define neighborhoods according to the spatial distribution of social networks or street patterns, for example (Robert J. Sampson et al., 2002).

The social interactions described in the previous section assume physical proximity and shared public spaces, consistent with the overlapping neighborhood and community approach. However, results from a longitudinal study on the experimental program *Moving to Opportunity* in the U.S. suggest that when poor families relocate away from their high-poverty areas, their strong social ties persist: they either continue to visit relatives and friends in other neighborhoods, they transplant the center of social interaction to their new place of residence but with the same people, or they purposely cut ties with relatives and friends who are a bad

influence (Briggs et al., 2010). A similar experiment in India, in which volunteer slum-dwellers were entered into a lottery for subsidized housing in the urban periphery, only one third of the winners remained in the new neighborhood after 14 years; the most common reason given for moving back was the difficulty of being isolated from social networks (Barnhardt, Field, & Pande, 2015). Both studies suggest that families who relocated had a difficult time (or no interest) in re-constructing supporting social networks at the new locations. Only in some specific instances did weak ties provide the potential benefits mentioned previously (Briggs et al., 2010)².

Another relevant question for this discussion is whether there are aspects of a place-based community beyond the facilitation of productive or destructive social interactions that are important to consider when evaluating the relationship between people and their surroundings. What attachment do residents feel towards a neighborhood, and when is it stronger or weaker? A useful term is Tuan's (1990) "Topophilia", which he defines as "the affective bond between people and place or setting", which he admits is "[d]iffuse as a concept, [but] vivid and concrete as personal experience" (p. 4). He identifies several complementary ways to understand it: as a feeling of home and belonging, as property as an extension of identity, and as comfort in the familiar (Tuan, 1990). In his book, he provides many interesting insights into what constitutes that feeling, in particular the distinction between socioeconomic classes and their identification to a neighborhood. While upper income groups may enforce neighborhood boundaries due to a desire for exclusivity (for example in Boston's Beacon Hill), lower income groups attach to a neighborhood as a defense mechanism – because they feel threatened or unwelcome elsewhere (Tuan, 1990). This psychological difference in the formation of distinct neighborhoods - of want versus need - is important in the discussion about the impacts of residential displacement.

The role of Community in Casco

The evidence provided in this chapter provokes mixed feelings about the changes brought about by increased investment in Casco Viejo. While displacement of people from their homes, either forcibly or through market forces, is disruptive, the living conditions in many of the houses in this area cannot be considered acceptable. Still, the discussion of social capital and Topophilia reveals that there are social and psychological factors at play that also have to be considered. Before launching into discussions of the most beneficial and socially fair

² Only the U.S. case consisted in income mixing.

responses to gentrification, it is worth delving deeper into residents' perspectives and feelings towards their neighborhoods and the prospect of change. Much of the activism in Panama and elsewhere is against gentrification and displacement, but qualitative studies based on interviews and surveys have found that, although they feel excluded, residents do not always resist the changes completely, particularly the improvements to the physical environment that positively affect their quality of life (Huyser & Meerman, 2014; Jerzyk, 2009; Sullivan, 2008). My interviews with low income residents in San Felipe, Santa Ana and El Chorrillo help to tease out the motivations behind these conflicting feelings.

Between my first visit to Casco Antiguo in the summer of 2014 and my last one a year later, one of the most noticeable changes was the appearance of anti-displacement banners hung from the balconies of occupied properties that have not yet been redeveloped. These banners use strong rhetoric, such as: "Our sin was being born and lived in San Felipe. Now we are intruders" and "San Felipe today experiences ethnic, social and economic cleansing" (Figure 4.29). These banners are hung by the Association of San Felipe Dwellers ("Moradores"), who, according to one of its members, meet once a week and organize demonstrations against the threat of eviction (Figure 4.28). Their presence alone is an obvious indication that residents have a preference to remain in San Felipe. When I asked interviewees why they wanted to stay, common answers were "I've always been here" and "I'm from here". Rather than mentioning proximity to economic opportunity or reduced commuting time, as argued by Glaeser (2008), their answers were mostly tied to the sentiment of attachment to the familiar. One interviewee quoted the famous Panamanian musician Ruben Blades's song "Everyone returns to the land where they were born", to illustrate how embedded the loyalty to the place of origin is in their culture. For two other interviewees, the reasons were related to safety: the division of territory among street gangs meant that the lives of their sons would be in danger if they moved somewhere else.

After asking them about their living conditions and the reasons for living in these neighborhoods, I asked "if you had the option of living in another neighborhood where you could have a better house but you had to pay more for it, would you go?" To my surprise, the answer was often "of course", especially among those who lived in the worst conditions. One person said "no one wants to live the way we are living". In fact, most of the people I interviewed who were currently living in poor conditions told me they were on the list to receive social housing in other neighborhoods, some of them on the outskirts of the city. They were content with the payment options the Ministry of Housing was offering them, particularly

because of the possibility of owning their home. Their willingness to move voluntarily suggests that given the choice between poor living conditions in the community where they belong and a better housing option elsewhere, they had chosen the latter. Whether it was really a choice or they were in any way coerced cannot be discerned from my interviews, although none of the people who were waiting for social housing had been directly threatened with eviction.

The interviews included questions aimed at revealing the degree to which residents rely on their community – family, friends and neighbors – when they need help. I expected them to mention closeness to family when explaining why they wanted to live in their neighborhood, but it was not mentioned specifically. I also asked them about their coping mechanisms when they cannot make ends meet or have a problem. Again, no one mentioned family and friends. The most common line of response was: “it’s hard – you have to make do” and “you have to balance”. One person mentioned borrowing money, but it was not clear from whom. One person’s story provided evidence for “the weakness of strong ties”: he was currently in a precarious living situation because he had lent money to his son-in-law, who stopped paying him back and he fell behind on his rent, so we was evicted. The only story which could support the existence of a productive social network was one man, who, having lost his apartment in a fire, heard from a friend about the planned invasion of a vacant house nearby, and was invited by the leader to participate.

Overall, I found only weak evidence of attachment to the neighborhood other than familiarity. A few interviewees had moved elsewhere over the course of their lives, but had moved back to Santa Ana/El Chorrillo when it no longer worked out. Benefits from the central location and avoiding long commutes to work were only mentioned after prodding. One person mentioned she liked being able to walk everywhere as a positive aspect of her neighborhood. My sample was small, so it is likely that it did not capture all the views and perspectives. However, my goal was to interview people living under a range of tenure and conditions, and it was clear that those in the most precarious living conditions were the most willing to move elsewhere. They were there not by choice, but because it was the only option they felt they had.

Figure 4.28: Anti-eviction demonstration



Source: Moradores movement facebook page

Figure 4.29: Anti-eviction signs



Source: author

Conclusion

The detailed accounts of the relationship between poverty and community in inner urban neighborhoods in general and Casco Viejo in particular allows us to make three main points. First, poverty concentration is the outcome of a history of market dynamics and deliberate discriminatory segregation, but today it persists in part because the concentration engenders further lack of opportunities and makes it difficult for residents to escape it. The result is a confluence of social and economic problems that are described in the U.S. literature and observed in Casco Viejo's poor areas to different degrees. A takeaway from this point is that, while gentrification in Casco Viejo introduced the threat of displacement and exclusion, the no-change option is not socially viable either. A closer look at who is being displaced in Casco Viejo reveals serious deficiencies in living conditions that cannot be ignored. Those concerned with displacement should avoid the trap of romanticizing poverty in the name of fighting exclusion.

Second, social relationships can be a source of support, particularly when they provide connections to job opportunities or access to information, but in high poverty neighborhoods, access to people with that knowledge is limited. The literature seems to support that exposure to acquaintances from other income groups can expand the range of opportunities for economic advancement. Although this might seem overly dependent on serendipity in this context, the value of personal interactions aided by physical proximity is well documented in the field of economies of agglomeration. Prominent urban economists such as Florida (2014), Porter (1998), Glaeser & Gottlieb (2009) have for years lauded the benefits of "knowledge spillovers" that result from sharing urban space. They use these concepts to explain the proliferation of innovative and creative industries in urban centers, but the same principle can apply here. In fact, I saw it at play in Casco Viejo. An essential aspect of the employment training and gang rehabilitation programs (described in more detail in Chapter 6) is that the newer, higher income residents involved in those programs help connect low-income residents to jobs and vouch for them. Mixed income neighborhoods, therefore, could help break the cycle of poverty.

Third, the ability of a community to act collectively towards achieving a common goal can lead to material benefits, but the insecurity typically prevalent in poor areas erodes that social cohesiveness. The sense of community and attachment to the neighborhood seems weak in my interviews with low-income residents, although this could be a result of the poor living conditions: why be attached to a place where life is not good? There are mixed perspectives

on the degree to which social mixing helps promote a sense of community and fosters tolerance. Fainstein (2005) contends that while exposure to other groups can create better understanding and empathy, it can also exacerbate prejudice if there are lifestyle clashes. While Casco Viejo has seen some of those clashes, mainly around noise and littering, there have been multiple instances where both new and in-place residents come together to clean up a public space, or for cultural events.

The aim of this analysis was to provide as full a profile as possible about who is at risk of displacement in order to genuinely assess the impact of possible outcomes. The extreme alternatives are a) leave the neighborhood as-is, or b) complete gentrification with displacement. Of course, none of these is optimal. Expecting the public sector to lead the improvement of living conditions and economic opportunities to a large enough scale is unrealistic given the already limited involvement of government entities in Casco Viejo. Another option, then, arises: a socially mixed neighborhood with inclusive opportunities. To achieve this, the private sector has to play a role, albeit a regulated one. *How* regulated is an open question. It is unclear where to draw the line: how much responsibility do developers (and governments) have towards the in-place residents they are displacing directly or indirectly? The next section addresses this by drawing from legal thought and rights-centered discourse.

5. THE IMPLICATIONS OF INFORMALITY

This chapter draws from legal thought and international policy to bridge the gap between economic theories of gentrification and informality. In the case of Panama - and much of the world - the question of how the economic costs and benefits of gentrification are and should be shared is complicated by the contested claims to land, which are in part legally recognized. Furthermore, Casco Viejo's designation as a World Heritage Site begs the question: what is the intangible cultural heritage that should be protected, and to what extent is minimizing the displacement of current in-place residents part of that mission?

Starting with a review of the housing tenure conditions in Casco Viejo and how they differ from gentrifying neighborhoods in the Global North, this chapter presents a perspective not commonly used in gentrification discussions, grounded on the center-left literature that has emerged in Latin America as a result of the challenges of urban informality. Given the informal tenure condition of many of Casco's residents prior to redevelopment, the redevelopment incentive policies and their treatment of evictions play an important role. In Panama, the history of these policies, reviewed in this chapter, reflects the evolving approach to sorting the contested claims to Casco Viejo's properties. Drawing from right to the city arguments, territorial rights, group rights, and the legitimacy of cultural heritage and authenticity as something to be protected, this chapter presents a range of social justice insights to unpack this complex legal and ethical context.

5.1 Gentrification Theory and Alternative Forms of Tenure

The analysis in Chapters 3 and 4 omits one important link between the social and economic theories of gentrification: home ownership. Smith (1979) had identified changes in owner occupancy as both a symptom and a cause of neighborhood decline. He argued that once a neighborhood starts to decline, home owners will choose to sell and move to neighborhoods where their investment is more secure, and that the new owners are more likely to rent the properties than live in them. Landlords, according to Smith, have weaker incentives to maintain the properties as long as they continue to command rent, furthering the physical decline of the built environment. In Western literature, low home ownership rates are usually included in the vector of variables that identify poverty-concentrated neighborhoods (Robert J Sampson, 1996). Residential instability is associated with the other socioeconomic disadvantages that characterize poor neighborhoods, particularly in U.S.-centered studies

where the “American dream” of homeownership is the ultimate measure of personal success (Brown & Webb, 2012).

Social capital studies with an economic bent have also relied on lower home ownership rates as explanatory variables for lower levels of social efficacy. Using rational economic choice theory, they make the case that renters have no financial interest in the quality of the neighborhood, therefore will be less concerned with neighborhood vitality (Grinstein-Weiss et al., 2013). Neighborhoods where home ownership is more common, on the other hand, will have a greater interest in maintaining the safety and wellbeing of the neighborhood since it is intricately tied to the value of their investment. Therefore, studies hypothesize that lower home ownership rates are associated with higher levels of collective efficacy and social control, or use them as control variables to establish other effects (for example R J Sampson, Raudenbush, & Earls, 1997).

Home ownership is important when assessing the impact of gentrification on in-place residents and the vulnerability to displacement. Homeowners in gentrifying neighborhoods, even if they feel economically pressured to sell, have something to gain financially from increasing property prices (Freeman, 2006). As mentioned above, however, communities in blighted neighborhoods tend to have lower rates of home ownership, which in the U.S. is tied to a history of discriminatory home loan policies (Glick, 2008). Therefore, market-driven policies aimed at alleviating the threat of displacement focus on property rights since, legally, “while renters whose lease terms change may wish to remain, the interests of the fee simple holders in the gentrifying neighborhood are the only interests that matter” (Godsiv, 2006, p. 321). Yet it is precisely at the property ownership issue where Western gentrification theory ceases to be applicable to the rest of the world, because when it comes to legal tenure, informality dominates the discussion in the Global South, and is mostly absent in market-based Western literature.

The key difference between the U.S. experience with gentrification and Panama’s is that the original flight of investment from Casco Viejo did not coincide with the legal abandonment of property. The country’s elite families which owned much of the property fled the neighborhood but continued to own the buildings. Anecdotally, there were then two possible paths: in many cases, ownership of inherited estates fractured from one to many, as all heirs have a percentage claim to the estate, and each party has to approve any sale. The complexity of this arrangement eventually eroded any one person’s responsibility for the property and dissuaded potential sales, so they were abandoned and occupied by informal dwellers. In other cases,

property owners continued to collect rent from tenants for a certain time, but eventually stopped. One person in San Felipe explained his situation as follows:

The building is only occupied by him and his next-door neighbor on the ground floor. He has been there for 30 years and his neighbor since 1987. He grew up in Casco Viejo. She is a refugee from Cuba whose U.S. visa never came through. She now works as a seamstress from her home.

The upper floor used to be occupied by the owners: 3 sisters. He and his neighbor paid them \$140 a month in rent. When the sisters died, they left the property to a granddaughter, who moved to the U.S. four years ago. Since then, there has been no one to collect rent. The building has been purchased by various buyers in the last few years. When asked, he did not say he had been given a date by which he has to vacate his home.

Now he is very involved in the Moradores (San Felipe Dwellers) movement. He would be happy to move somewhere else in the neighborhood and resume paying rent (he would go up to \$200 a month), if the government or the private sector built social housing. "What we want is housing. What we have we would be happy to pay [in rent]." He does not have the "purchasing power" to buy a house on his own. He is retired (and possible receives remittances from family in the U.S.). He says that moving to another neighborhood would be "death" to senior people like him, who have only known this neighborhood their whole lives. "I'm from here." He spreads his arms to signal his apartment and says "this isn't the Taj Mahal, but I love it". However, he separates himself from people who have more recently illegally invaded buildings when they were evicted from somewhere else and never intended to pay rent for them.

How does U.S.-based gentrification literature explain this process, in which gentrification is happening but cannot be enforced through increased rents because in-place residents do not pay to live in someone else's property? It does not. As the phenomenon of gentrification is being observed all over the world, international scholars have attempted to transplant the theories to less developed contexts, and the conclusion is that "gentrification theory's greatest flaw is its property-centrism, or its presumption that private property is already the exclusive, or predominant, form of tenure in the places it seeks to describe" (Ghertner, 2015, p. 553). This conclusion has led scholars, like Betacur (2014), to dismiss economic gentrification

theory for understanding urban changes and inequality in the Global South. However, another branch of the field continues to embrace rent gap theory by expanding it (López-Morales, 2015).

Scholars recognize that the greater variety of tenure conditions in the Global South and the different role of the State require different definitions of gentrification as a tool for understanding urban inequality, with an emphasis of gentrification as a political process as well as an economic one (López-Morales, 2015). In their review of gentrification literature on Latin America, Janoschka, Sequera, & Salinas (2014) identify a type of gentrification practiced by Latin American governments: "symbolic gentrification", meaning "rescuing" or "cleansing" the city centers in preparation for the elite moving back in. Lopez-Morales, alluding to slum redevelopment and the change in land use resulting from the change in tenure, defines gentrification as "the superimposition by the dominant strata of market rules in spaces where other, alternative social structures pre-exist them" (2015, p. 564). Still a socio-spatial inequality issue, these definitions place a greater emphasis on the political clout of the "gentry", because in these cities, a change in social class occupancy means a change in the rules and regulations governing land use. The State is given a more prominent role in these discussions, because for the most part, the case studies of gentrification outside the U.S. are driven by State-led slum redevelopment projects. The case of Casco Viejo presents an interesting hybrid in that gentrification was mostly a private sector-led process, but the adaptation of gentrification theories to the region still applies because it involved informality.

From a legal perspective, the situation of the Casco Viejo resident described at the beginning of this chapter is complex. It is the perfect example of what a local lawyer who specializes in negotiating evictions described as a conflict between two fundamental rights: the right to property and the right to dignified housing (A. Sucre, personal communication, August 26, 2015). On the one hand, the property owner has an interest in redeveloping the building in order to capitalize on the rent gap. As the legal owner holding property rights to the building, he should be able to do so. On the other hand, the resident, who has occupied the property without paying rent not because he refused to but because there was no one to collect it, may have, according to Panamanian Law, a legitimate claim as well. His current options are forced eviction and compensation. Panamanian law has attempted to regulate these options, but these efforts have been less than effective in their conceptualization as well as applicability and enforcement.

5.2 Redevelopment and Informality: The Casco Viejo Legal Framework

The history of the regulatory framework for restoring Casco Viejo reflects the changing social concerns that accompanied the physical process. Initial policies aimed at providing financial incentives for the restoration of the architectural heritage. It was not until the early 2000s that they began to address the social aspect. There are two strands of policies that approached the topic of displacement differently. The planning and oversight documents incorporated social inclusion objectives in 2004, however these documents had no legal power. The legal framework incorporated compensation guidelines for the first time in 2002, but they continue to be a source of contention, particularly after a 2013 update to the law. At the time of my last field visit in the summer of 2015, evictions had been halted as a result of this conflict.

The Historic District of Casco Antiguo was first legally recognized as such in Law 91 of 1976, which delineated the boundaries of the district, provided property tax exceptions, and charged the Panamanian Institute of Tourism with its care (UNDP, 2009). In 1982, Law 14 transferred the responsibility of conservation and oversight to the National Institute of Culture (INAC) through its National Commission of Archeology and Historic Monuments (UNDP, 2009). The Panama Municipality's 1995 Plan for the Revitalization of Casco Viejo, financed by the Inter-American Development Bank, and an update to the 1976 law set the framework for its 1997 inscription as a UNESCO World Heritage Site (UNDP, 2009). The creation of the Office of Casco Antiguo (OCA) in 1998 was a direct result of this designation, since it required the creation of a multi-disciplinary planning and oversight institution (UNDP, 2009). However, OCA has always been more of a research office, with no legal power. Instead, it advises the National Directorate of Historic Heritage which is part of INAC, and which actually grants the permits for structural restoration (K. Osorio, Deputy Director of the Cultural Heritage Directorate in Panama, personal communication, August 26, 2015).

Law 9 of 1997 expanded the boundary of the district into Santa Ana and outlined new fiscal and financial incentives. Its title made its purpose clear: "by which a special incentives regimen is established for the restoration and valorization of the Historic Monumental Cluster of Casco Antiguan de Panama". "Valorization" was added after 1976, and it set the priority for the law as primarily encouraging private investment. By providing a legal path for vacating the buildings, it aimed to facilitate investment in Casco Viejo. The law recognized the claim of long-term residents of occupied buildings in Casco Viejo, but in practice made it very difficult to honor that claim, complicating the process for both residents and property owners. Chapter V (Law, 1997) established that application for eviction or vacancy of occupied properties (with

or without rental contract) should be submitted by property owners to the Ministry of Housing. If approved, the renter would have a minimum of one month, with the addition of one month per year of having lived there, to move out. The owner would be required to pay the equivalent of one-month's rent per year of non-delinquent occupancy (i.e. having received every rent payment), up to 6 months, with the right to discount the amount not paid during the vacancy process period. The owner was subject to a fine if the restoration did not start after a year of the clearing of the building. The law made no specific mention of informally-occupied buildings.

These articles were amended in a 2002 decree (Law 4, 2002), which changed the compensation structure to a graduated scale. The new scheme ranged from 2,000 Balboas for up to 10 years of occupancy to 5,000 for 40 or more years. For the first time, it specified that this schedule was to be "favorably applied to delinquent tenants" living in Casco since before 1997, although the compensation could be reduced by the amount of the accumulated debt (Ley 4 de 2002, article 5). The amendment further required that the land owned by the National Mortgage Bank located within the district be developed into social housing by the Ministry of Housing, unless the same Ministry approved a different use³.

These regulations were problematic in practice. According to the director of the Office of Casco Antiguo from 2004 to 2009 (A. Espino, 2007), there were several shortcomings. Enforcement was essentially non-existent. Many of the vacated properties were used for speculation and not redeveloped for many years, but the government did not enforce the penalty clause for seven years. By 2004, 15% of the historic buildings were vacant and undeveloped. Additionally, the Ministry of Housing, which according to the law was responsible for administering eviction permits, performing a census of the affected families to establish their compensation, and enforcing the process, failed to perform its duties in a timely manner. The process was too costly and complicated for developers to follow, and the government was not inclined to be involved in mass evictions for political reasons. It was easier for developers to negotiate with tenants outside the law, directly or through lawyers. Furthermore, because of the informal condition of most of the residents, very few families were technically entitled to compensation according to the law. Still, the very mention of the right to compensation in the law gave weight to the residents' claim in these informal negotiations where neither party was following the regulations (A. Espino, 2007).

³ The affordable housing program on publicly owned land was launched in 2004. By 2007 it had added 52 affordable units and 34 in the pipeline for local families (A. Espino, 2007).

However, a new amendment passed at the end of 2013 curtailed the residents' informal claim to compensation by specifying that only those with a rental contract, proof of payment, or other document showing legal occupation are entitled to compensation, and among those, only persons who: "1. Are currently living, for reasons of social interest, in the Historic District of Casco Antiguo. 2. Have signed rental contracts before the year 2008. 3. Have paid a fee according to the rental contract no greater than 75.00 Balboas a month. 4. Are currently not considered intruders or squatters." (Law, 2013, Chapter V, Article 26). For those who qualify, the compensation amount was increased to 5,000 balboas for those with 5 to 10 years of residence to 12,000 for those with more than 40 years of residence. As with previous decrees, developers could receive a fiscal reimbursement for these payments.

Figure 5.1: "Law 136: nefarious law approved at dawn on December 31, 2013. 'tremendous New Years gift to the people of San Felipe'"

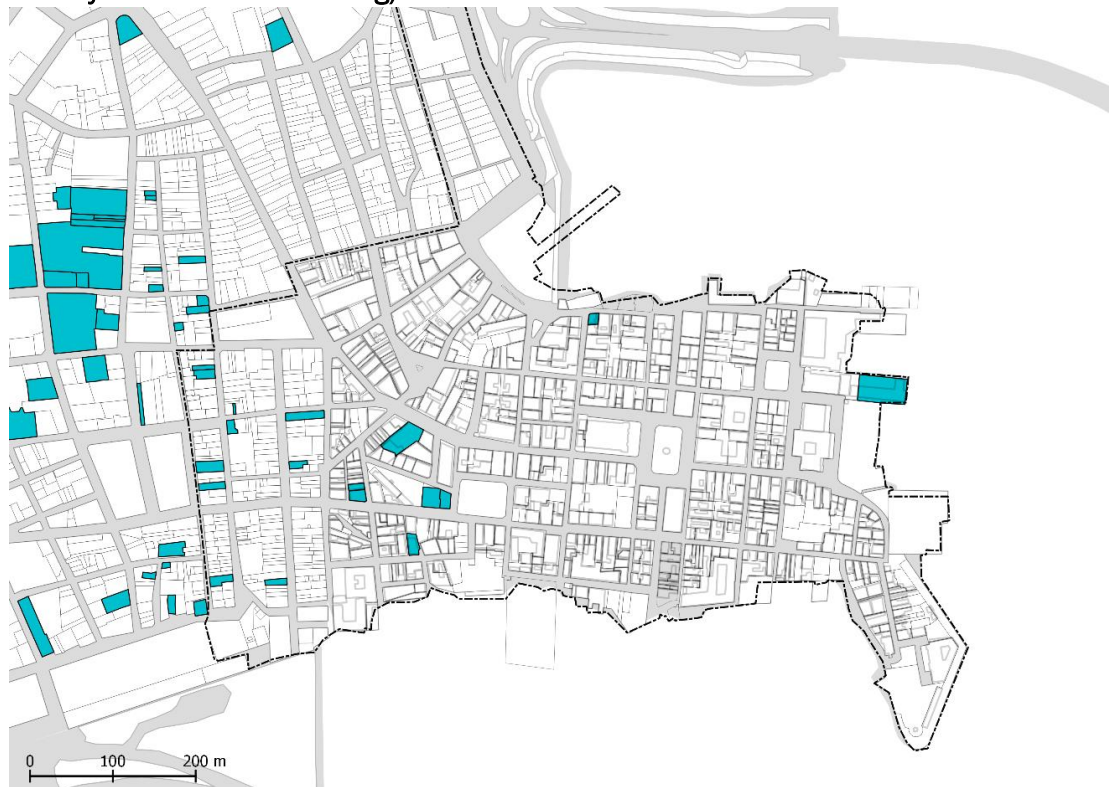


Source: author

Rather than facilitate the process by better defining the regulations governing it, this amendment had the opposite effect. By eliminating the ambiguity that had enabled informal negotiations in the past, and making the new qualification rules almost impossible to be fulfilled, forced eviction became the only option (A. Sucre, personal communication, August 26, 2015), and residents have organized against this law (see Figure 5.1). To make matters

worse, new regulations about the institutions responsible for approving and administering eviction permits created a bureaucratic knot. According to a specialized lawyer (A. Sucre, personal communication, August 26, 2015), the 2013 law assigned a special agency within the Ministry of Housing, the DGA (Dirección General de Arrendamiento), the responsibility of conflicts due to delinquent rental housing contracts in restoration or rehabilitation cases in Casco Antiguo. This agency claims competence only in these specific cases, which do not include commercial contracts, cases in properties that are not slated for restoration, or the very common cases where there is no contract at all. However, the Ordinary Courts refuse to hear these cases with the argument that there is a special law that governs Casco Antiguo. The result is a legal void, with no agency willing to hear most of the legal cases in Casco Antiguo (A. Sucre, personal communication, August 26, 2015). Even if those permits are granted, the local magistrate responsible for actually carrying out the evictions has not been issuing eviction dates because it is politically disadvantageous (A. Sucre, personal communication, August 26, 2015).

Figure 5.3: Parcels in the Casco Viejo area owned by the National Mortgage Bank (some already used as social housing)



Source: Elaborated by author from CascoDB

Ghertner (2015) suggests that one of the reasons why governments might support residents' claim to informal occupation is for lack of institutional alternatives (or will) to house the evicted. During my interviews, people frequently told me that they had been approved for one of the Ministry of Housing's social housing projects, which would allocate them a house at mortgage rates they considered accessible. At the time of the interviews, they were waiting to be told their houses were ready, but they had no precise moving date. Assuming that the homes are eventually delivered, this new housing solution might not be as satisfactory as the beneficiaries hope. Many interviewees had been assigned housing in La Chorrera – 16.5 miles (26.5 km) west of Casco Viejo. For households whose income activities are located in Casco, or even the financial district, this distance may not be a sustainable commute. In a recent experiment in India, only 34% of slum-dwellers randomly assigned to a new social housing project in the periphery remained there 14 years later (Barnhardt et al., 2015). A

lthough this is a widely different context and a different continent, the intuition that the poor cannot sustain a livelihood when they move far away from the centers of economic activity is still applicable. However, this is a common scenario in most cities. Limited by caps on cost per new house unit, local housing authorities have to seek low-value land to provide good-quality housing. Figure 5.2 shows the location of the five housing projects currently listed in the Ministry of Housing's social housing webpage, as well the project mentioned by interviewees. The closest one to Casco Viejo is still 9 miles (14.5 km) away. The Ministry of Housing also has a housing voucher program that grants up to \$10,000 per family to purchase a new house of a sales value no greater than \$50,000 and minimum of 50m² (\$1000 per m²). For comparison, Conservatorio's affordable housing units, at break-even values, are priced at \$2,300 per m² and tend to be between 35 and 50 m². Given these conditions, it is very difficult for the government to provide social housing within Casco. As mentioned previously, the National Mortgage Banks owns lots in Casco Viejo, which by law are to be converted to social housing. The previous administration had not taken steps towards this commitment, but the prospects for the new administration are more positive, with two large parcels recently identified as potential projects (Saldaña, 2014).

Figure 5.2: Location of Public Housing Projects



Source: Elaborated by author from: Satellite image - Google Earth. Location of projects - Proyecto Techos de Esperanza, MIVIOT (http://www.miviot.gob.pa/?page_id=12358)

Without viable public housing options, this tense situation had reached a critical point by the time of my last visit. The conflict of interest for the government between the need to respond to the claims of local residents facing the threat of displacement, at least for political if not ethnical reasons, and the economic need to continue to support investment in the district has come to the forefront. In their 2015 Financial Report, one of the largest Real Estate Developers in Casco Viejo called the relocation of families "the main challenge that private investors have had to overcome in carrying projects forward," and that by halting the eviction process, government administrations were "attacking legal certainty and the property rights of property owners" (2015 *Asamblea General de Accionistas*, 2015, p. 17). What is the fair resolution? In order to answer that question, there is a complex web of rights and claims to be sorted and assigned legitimacy. The following section provides an overview of how the pertinent literature has approached these conflicting claims from a social, economic and legal perspective.

5.3 Contested Claims on Land: A Rights Approach

The rent gap theory is powerful as an explanatory framework for describing neighborhood revitalization. However, as a normative economic theory, it is not very useful for assessing the social aspects of spatial inequality. As a positive microeconomic theory, it is based on the concept that those who are willing to pay the most for land are the ones who should live in it. However, there is large and rigorous body of work that challenges that assumption. At the core

of the debate is the distinction between the use value and exchange value of land and housing: one person's valuation of a particular house in a particular place may include intangible and unquantifiable aspects, which "reflect a mix of social needs and requirements, personal idiosyncrasies, cultural habits, life-cycle habits, and the like" (Harvey, 2009, p. 160). Microeconomics relies on the assumption that use value and exchange value of commodities – the market price- are the same in a utility-maximizing model. However, because of the particular aspects of land and housing, in reality this is hardly ever the case, therefore the market solution might not be the socially-fair price (Harvey, 2009). The potential for unfairness that arises from these market inefficiencies has opened up a "deep intellectual challenge for scholarship and practice alike in seeking to understand where a socially just balance between use and exchange values might lie" (Ferrari, 2012, p. 274).

The "right to the city" movement, attributed to Henri Lefebvre, refers to the idea that because urban living is becoming the most important form of life, the rules that regulate it need to be broader than land ownership, expanded to entail access, use and enjoyment of urban benefits (Chaskin & Joseph, 2013; Harvey, 2008). Harvey (2008, 2009) ties together the concept of urban living as including the *experience* of the city, such as the opportunities it provides and the social interactions that characterize it, with the gaps between the use value of urban land and the exchange values that urban land commands in the market. As Lopes-Morales summarizes, "it is about the loss of use value in space as well as the denegation of the right to use certain land for social reproduction for the many at the bottom of society as soon as the exchange value of that land increases to the point that any other value consideration becomes irrelevant for those who make unilateral decisions about urban redevelopment" (2015, p. 565). According to this framework, then, they are being denied their right to the city, therefore urban policies that give priority to the highest bidder are socially unjust (Attoh, 2011).

For whom and to what the right to the city refers is widely debated. Attoh (2011) identifies the many strands in the literature, mainly the right to a bundle of socioeconomic rights (housing, transportation, access to jobs), and the right to "a democratic right to the management of urban resources" (2011, p. 676). By emphasizing the right of urban dwellers to participate in decisions that affect urban life, Purcell (2002) opened a political argument, which has taken a strong hold in Latin America, especially in Brazil (Janoschka et al., 2014). One legal application of the framework has been the inclusion of the concept of the social function of property in the constitutions of several Latin American countries, including Panama. In contrast to the classical liberal concept of private property, in which an owner has the exclusive right to

do as he pleases as long as he does not infringe on the rights of others, this alternative definition contends that an owner has the obligation to make use of his land in a productive way which serves the needs and goals of the community (Foster & Bonilla, 2011).

These trends in the field of land rights in Latin America suggest that with the encroachment on private property by alternative claims on land in gentrifying informal areas, exclusive and individual property rights are less absolute than they are in the U.S.. Counter-theories such as De Soto's *The Mystery of Capital* (2000), which claim that unsecure property rights hinder economic development and investment, have not been supported empirically in countries where the social function of property is legalized (for example, Papachristos, Hureau, & Braga, 2013). In Panama, real estate investment cannot be said to have been adversely impacted by the social function of property provision, which was included in its Constitution for the first time in 1947 (Ankersen & Ruppert, 2006), as evidenced by the many skyscrapers that characterize the skyline since the 1990s. However, the recent escalation of the conflict between property owners and residents over eviction laws brings this issue to the forefront.

As more Latin American central urban districts face the pressures of gentrification, the treatment of the rights of urban dwellers versus investment interests are becoming a crucial topic that has yet to be resolved. Informality can be seen as both a blessing and a curse. Informal residents are extremely vulnerable to forced displacement without the legal recourse to resist it. Furthermore, the elimination of alternative modes of tenure in central urban areas is a social cost itself for those with no means for formal tenure (Ghertner, 2015). However, the presence of forces other than the market in these more socialist national contexts mean that rising rents may not be enough to cause displacement.

In Panama, this has resulted in an impasse, evidencing the importance of this matter. Yet the case of Casco Viejo also demonstrates that the interests of the residents and of the developers do not necessarily contradict each other. In my interviews with residents, lawyers and developers, it was clear that residents did not have a conflict with the development itself, but rather with the approach of a *subgroup* of developers which treated them as an obstacle to be removed in the most cost-efficient way possible. Other developers were sensitive to the needs of residents and took measures to minimize displacements. The reason for this common ground lies in large part in a particular aspect of gentrifying historic urban districts: the mandate to preserve human heritage. The following section introduces the heritage perspective and combines it with the concept of territorial rights of cultural groups to introduce a new perspective on claims to land.

Group Rights and Cultural Heritage

In my formal and informal conversations with various stakeholders, a common concern among those committed to restoring Casco Viejo in a way that honors not only its architectural value but also its human heritage, was the need to maintain the site's "authenticity". This was one pretext by which various groups justified their efforts in minimizing the displacement of in-place residents. There is a genuine concern among developers, the public sector agencies, and new residents in avoiding the complete "musealization and touristification" (Janoschka et al., 2014, p. 1248) that has accompanied UNESCO World Heritage designations in many other Latin American Cities. As one interviewee told me: "if everyone who has lived here now for 40, 50 years is gone, who will tell the story of this place?" (A. Sucre, personal communication, August 26, 2015).

The question, however, is: which story? As the history of demographic change in the Casco Viejo area described in the previous chapters shows, the current residents who have lived in the neighborhood during its period of abandonment by the elite classes are not necessarily the ones who know the story of the late 1800s- early 1900s architecture and the "exceptional and probably unique example 17th-century colonial town planning in the Americas" that the UNESCO Designation protects (UNESCO, 1997). According to the Deputy Director of the Cultural Heritage Directorate in Panama (K. Osorio, personal communication, August 26, 2015), when UNESCO expanded its definition of World Heritage to include intangible as well as tangible aspects, it opened up a debate about change over time, and what constitutes authenticity in a dynamic site such as a city center. In her view, World Heritage is not only about the building or structure itself, but about the people that built it and the context or circumstances at that particular time that caused them to build it in that way. This context includes the process by which it was built, and also, arguably, how it changes over time. The issue of change is most relevant to the discussion of Casco Viejo today because, under this framework, its cycle of decline and resurgence is part of its heritage, as are the people who stayed to experience it.

While the purpose of the UNESCO World Heritage List is to help preserve sites that are believed to be of value to humanity, protecting them from change is particularly complex in urban sites, both practically and because of a "need to get away from thinking of cities as monuments and... to see cities as first and foremost places where people live" (Pendlebury, Short, & While, 2009, p. 354). UNESCO has been grappling with the meaning of "authenticity", which is a criterion by which sites are admitted on the list. In its 1994 Nara Conference on Authenticity,

UNESCO concluded that each culture has its own understanding of authenticity, and therefore it has to be judged according to the context (Alberts & Hazen, 2010). The 2008 ICOMOS Quebec Declaration aimed to further specify the meaning of authenticity in urban contexts by incorporating into UNESCO preservation policies the concept of “spirit of place”, or the “physical and the spiritual elements that give meaning, value, emotion and mystery to place” considering tangible and intangible heritage as parts of a whole (UNESCO, 2008). However, deciding what is authentic and what is not is a struggle for legitimacy that carries political and social weight (Alberts & Hazen, 2010). The “layers of development and habitation” that make up cities, and their “in-built assumption of dynamism, redevelopment and change” (Pendlebury et al., 2009, pp. 350–351) make it difficult to define what is authentic. In Casco Viejo and other Latin American city centers where redevelopment has been catalyzed by the UNESCO designation (Janoschka et al., 2014), where that line is drawn can have important impacts on the lives of residents.

A similar debate about the relationship between a place, a people, and the passage of time exists in the legal literature on territorial rights. Stemming from the philosophical conceptualization of a State’s right to govern a defined territory, this branch of the literature asks: who has the right to a particular place? Whether these rights persist from one generation to the next when, for reasons outside the control of the group, the group has to move or share the territory with another and has adapted accordingly, is an open question (for example, Ypi, 2013). Miller (2012) explores the argument that a group of people have the right to a specific territory when it has material and symbolic value to them: “It is materially valuable because it has been improved in a way that reflects their needs and cultural values, and it is symbolically valuable because of the meaning that members of the group now attach to particular features of the land in question. Moreover this value is something that can only be enjoyed by the group so long as it remains in possession of the territory” (p 258). According to Kohn (2013), the legal argument does not hold when applied to groups within a city and their right to govern a neighborhood as “a people”. Still, the description of material value is reminiscent of the conceptualization discussed above of the forces of change as part of the urban heritage, and the description of symbolic value resonates with the Topophilia discussion in chapter 4. This framework gives more weight to the argument that, given the circumstances, in-place residents may have a legitimate claim to Casco Viejo as part of its living heritage and because it has become a part of their way of life.

Conclusion

This chapter has made the case that the economic and social factors of gentrification have different dynamics in Latin America than in the Global North because of informality. In Latin American cities, displacement means not only the loss of affordability, but also the loss of an alternative form of tenure which might be the only viable option for the urban poor. This does not mean that Western gentrification theories are not applicable. The market forces described in Chapter 3 still exist, but they operate under different rules. Policies in Panama have not addressed this issue effectively. While the law in principle recognizes informal tenure arrangements as legitimate, in practice – whether deliberately or not – it prioritizes development interests over “the right to the city”. The right of people to not be displaced from Casco Viejo is legitimate as evidenced by doctrines present in Latin America including the right to the city, the social function of property, and the UNESCO framework of authenticity. What is not clear is whether the residents of Casco Viejo genuinely prefer to stay there.

My interviews of residents (summarized in Chapter 4), do not show much of an attachment to the neighborhood itself. When asked, they say would take a payment to move out if they could live better elsewhere, even if far away. While the question itself might be misleading (who would say they do *not* want to live better?), I expected a stronger expression of a sense of identity tied to the neighborhood. In some of my other interviews, those more sympathetic to the situation of developers argued that residents do not want to stay for emotional reasons: they know they can get cash out of the situation, so they negotiate. They conclude, then, that when they get paid off to move out, it is a win-win situation. But even if residents are satisfied with their compensation, is an ethical outcome? What could make it unethical, given the legitimacy of their right to stay, is if they are not given the third option: relocation within the same neighborhood. As Godsiv (2006) explains, “[t]he problem... is that gentrification currently causes nonconsensual exit—and, as such, threatens the autonomy of the displaced in a way that is unlike a choice to move” (p. 323). To restore that autonomy, all the options have to be on the table. Then, if residents choose a payout to move to a different neighborhood, it was because they preferred it and not because it was the only means to achieve a better standard of living, and hopefully the outcome will be better than if there had been no gentrification at all.

6. THE DEMAND FOR DIVERSITY

Conservatorio in their own words:

“We take a holistic approach to development that emphasizes five elements: community, culture, commerce, social progress and environmental sustainability. While many “successful” revitalizations rely solely on the interplay of culture and commerce, we believe ignoring community and social progress ultimately causes the devaluation of the neighborhood’s most valuable asset: its character. Our view is that leveraging the district’s cultural appeal and economic activity to foster community and create opportunities for the indigenous population will reward the neighborhood with an authenticity and resiliency that ultimately inures to our investors’ benefit by reducing risk and creating more sustainable economic growth over the long term.”

“Without the conditions described above it will be difficult for any district to not eventually suffer from too much of a good thing and find itself losing the appeal that brought people back to it in the first place because the temptation is too great for individual land owners to maximize rents at the expense of investments in people and businesses that maintain the neighborhood’s cultural capital.”

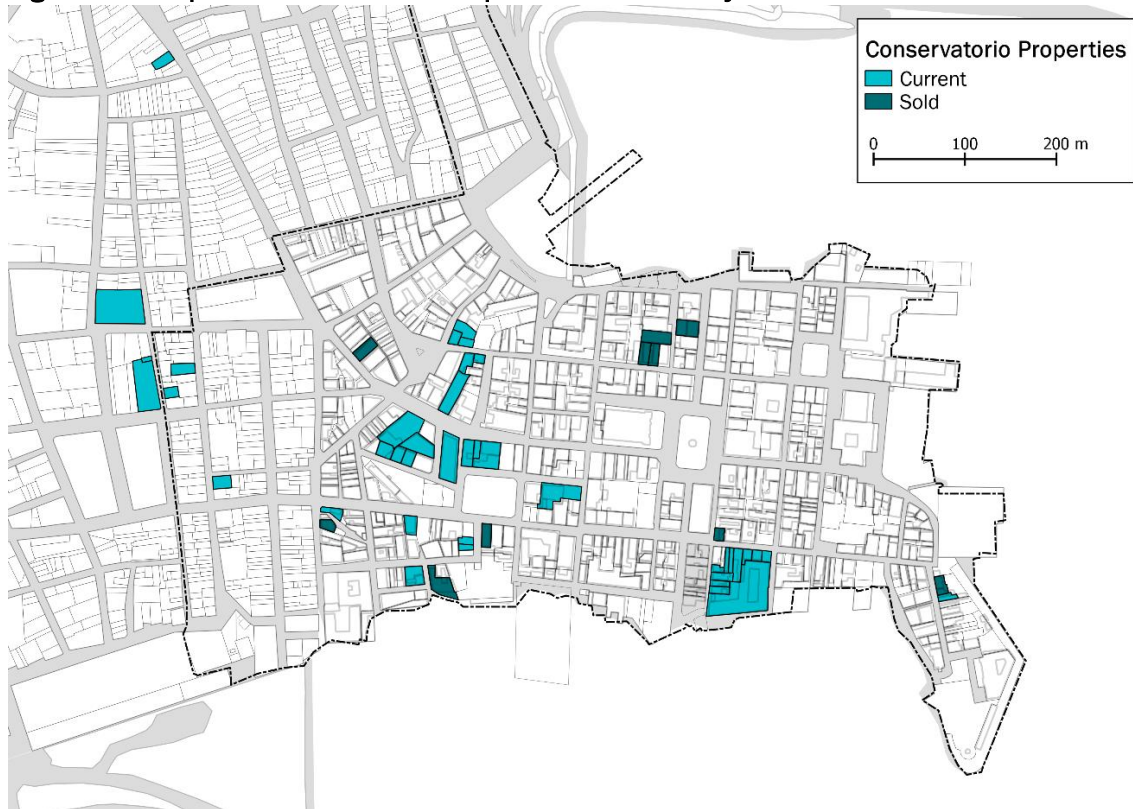
“We are conscious of the fundamental tension of our approach: we must work as hard to hold the neighborhood back as we do to push it forward, but typically we find that a healthy solution eventually emerges with sufficient passion, thoughtfulness and creativity.”

“Conservatorio and Its Approach”, 2014

Conservatorio has been investing in the revitalization of Casco Viejo since 2004. It develops and manages mixed-use residential, office, retail and hotel properties exclusively in Casco Viejo and surroundings, reaching over \$60 million in assets by 2014 (Conservatorio, 2014). From the beginning, it has taken a long-term investing horizon, which created a challenge: how does a development company with no geographical diversification hedge long-term risks tied to real estate cycles? The answer is that their long-term financial performance is tied to the health of Casco Viejo, therefore they have an incentive to invest in maintaining the attractiveness and vibrancy of the neighborhood. Another way to frame it is that their

investment is *the neighborhood* – not the individual properties. Their product is not only a high-end asset, but an experience. This is not unlike other developers in up-and-coming inner-city neighborhoods, where they bet on the positive externalities of neighborhood amenities to compensate for smaller properties, less parking, and other inconveniences of dense urban areas.

Figure 6.1: Map of Conservatorio's Properties in Casco Viejo



Source: author, from information collected from Conservatorio's financial material and map base from CascoDB

The dependence on those externalities is accentuated by their long-term approach. The rise of property values due to investment in real estate and the gentrification it generates can lead to self-attrition of the portfolio. The value is derived from the neighborhood “charm” and cultural capital, making its human heritage a key asset. Once the communities that provide this localized experience are displaced out of the neighborhood due to rising prices, the investments lose part of their value. Therefore, Conservatorio has a strategic business interest in creating a socially-inclusive neighborhood where old and new residents can cohabitate. As such, they have invested time and funds in promoting the local culture and running social programs to help the low income households in the neighborhood share in the economic growth and enable them to stay in the neighborhood. They see creating a stable mixed-income

neighborhood within their area of investment as a form of long-run risk reduction that protects their property values. In fact, it is part of their business model.

This is a case worth studying because it aligns the interests of developers with that of the community in important ways. If the approach is better understood and can be replicated, it opens the possibility that gentrification does not have to be a zero-sum game. It is not a model of “trickle down” economics, where neighborhood growth is expected to spill over to all residents. Rather, it requires the active participation of developers and direct transfer of resources to achieve more inclusive benefits. In this chapter, I delve into Conservatorio’s “holistic” approach. Its two major aspects are: 1. the belief that there is a premium to dense, walkable, diverse neighborhoods, and that the authenticity of the neighborhood is a sought-after amenity; and 2. the long-term investments view, seeking slow but stable growth, which makes the potential erosion of authenticity a risk, rather than a speculative but risky “buy low, sell high” approach. I describe the steps they have taken to mitigate those risks while remaining financially successful.

6.1 Urban Amenities as Externalities

The branch of the literature that examines the question: “who gentrifies?” often draws from the French sociologist Pierre Bourdieu’s concept of “habitus” to define the subset of the middle class that opts for the particular qualities of gentrifying inner cities (for example, Drew, 2012; Zukin, 1987). *Habitus* refers to the combination of a person’s character traits that are both personal and socialized through an individual’s upbringing or social condition such as socioeconomic class (Fraser, 2013). The concept is useful because it allows scholars to combine generalized characteristics of groups with particular personality traits. In urban sociology, it helps explain choice of neighborhood as a socially-determined *and* personal lifestyle preference (Benson, 2014). There is a history of terms used to describe the groups whose lifestyle preferences drive them to inner cities, including “yuppies” and “hipsters” (Brown-saracino & Rumpf, 2011). More recently, “millennials” has made the distinction generational, but the general qualities remain: young, childless (but dog-full), economically secure, and valuing experiences and urban amenities over material measures of wealth, such as apartment size. “Consumption” is the operating word for these groups, so the value driver is the availability of a variety of goods and services (Glaeser et al., 2000). Empty nesters also have similar preferences (Myers & Gearin, 2001). Dense, diverse neighborhoods provide the ideal context for this type of lifestyle, and urban developers are catering to these groups.

The types of neighborhoods these groups are drawn too is precisely the type of urban form that first Jane Jacobs (1961) and then the Congress for New Urbanism prescribes for the highest quality of life and sustainability. According to its charter, New Urbanism promotes neighborhoods that are “compact, pedestrian friendly, and mixed-use,” where daily activities are within walking distance of each other, and where “a broad range of housing types and price levels can bring people of diverse ages, races, and incomes into daily interaction, strengthening the personal and civic bonds essential to an authentic community” (“The Charter of the New Urbanism,” n.d.). The prominence of this movement has spurred an attempt to value empirically these New Urbanist neighborhood externalities. Are residents paying a premium to live in places with the amenities of density, walkability, the fleeting “authenticity,” and diversity of uses *and* people? Conservatorio’s model, like many others, counts on the attractiveness of these factors because, as described in Chapter 3, Casco Viejo stands out from the rest of Panama City in this regard.

Using hedonic price analysis with data from Portland, Oregon, Knaap and Song (2003) find that street networks with good connectivity, smaller blocks, pedestrian access to commercial areas, mixed land uses and proximity to public transit were capitalized into residential value premiums, while population density and proximity to multifamily and commercial uses reduced prices. Importantly, they find that overall, houses in New Urbanist neighborhoods have a net price premium, and that this premium “more than compensates for the severe price discount for the small size of new urbanists lots” (2003, p. 236). In Seattle, Matthews and Turnbull (2007) find mixed results depending on methods used, but conclude that “a greater mix of nonresidential land uses in gridiron-type neighborhoods tends to increase house value regardless of the method used...” (2007, p. 136). Also using Portland, Dong (2014) finds that values of single-family houses closer to the city center were more resilient during the recent economic downturn, suggesting a less elastic demand for centrality. The evidence is more mixed in a Koster and Rouwendal (2012) paper, which finds that “a more diversified environment is positively correlated with house prices. A one standard deviation increase in diversity leads to an increase in house prices of 1.00–4.25 percent. Households put value on diversity, but dislike high household densities” (page 22). Studies of this type are few in the U.S., let alone in Latin America – with the exception of studies looking at the property price impact of public transit. While important given the common elements between New Urbanism and Transit Oriented Development, they are less relevant to Casco Viejo since gentrifiers in Casco continue to be car-dependent. Yet in the U.S. literature, the consensus is that New Urbanism commands a residential premium (Talen, 2010).

Regarding commercial real estate, a report by Smart Growth America (Leinberger & Lynch, 2014) finds that office rents in the urban centers of the U.S.'s largest metro areas command a 74% premium compared to their respective suburban office areas, and 44% in the smaller metros. While these findings could be a correlation better explained by the benefits of urban centrality described in Chapter 3, other studies have found further evidence of the positive effect of New Urbanism qualities on the financial performance of commercial Real Estate. Pivo and Fisher (2011) use the walkability score from walkscore.com and data from NCREIF to measure the impact of location walkability on a range of financial performance metrics. They find that each additional point on the walkability scale increased office NOI (rent proxy) by 0.7%. Kelly et al. (2013) compare cities with Central Business Districts (CBDs) that are dominated by office uses, which they call 9-to-5 districts, to cities with 24-hour CBDs, meaning they have a greater mix of retail and residential. They find positive effects of mixed use on various financial metrics, including higher and more resilient office rents, lower operating expenses, and return premiums of 2.65% per year.

Less common are studies measuring the value effects of *social* diversity. Richard Florida's work (2014) brought the "creative class" concept to the mainstream, and he argued that the creative class seeks diversity as a productivity stimulant, although as Feinstein (2005) points out, it may be a diversity still limited to certain elites. Despite a lack of empirical studies, it is generally accepted in the literature that gentrifiers seek exposure to a variety of cultures, races and ethnicities (Lees, 2008), albeit for changing reasons over time. De Oliver (2015) relates the evolution of types of gentrification in the U.S. to changing attitudes about cultural (read: ethnic) diversity – from a social justice moral need in the 1960s, to an amenity to be consumed in the 2000s. Although Ward observed in 1993 that this type of desire for diversity was lacking in Latin America, where "society continues to be strongly classist and racists" (p. 1151), Yashar (2015) argues this sentiment has decreased in recent years, and social equality along racial and class lines has gained legitimacy as a policy issue. However, the subject of this discussion is not society at large, but a unique subset of the population with distinct interests. At least in Panama, their presence is known, and they include both expats and nationals. In a survey of current residents of Casco Viejo, Ji (2014) found that Panamanians ranked "charm", "identity" and "walkability" as the top three reasons (in that order) for moving to Casco, while foreigners ranked "charm", "walkability" and "sense of community" highest. Whether "charm" refers to aesthetic/architectural elements or social diversity cannot be determined from these results. How much the desire for authenticity is driven by architectural photogenic-ness and how much is a genuine desire for interaction with a diverse community is an important open question,

especially as we consider the paradox that the success of new urbanism, despite its efforts to maintain affordability, ends up eroding it (Talen, Menozzi, & Schaefer, 2015).

Conservatorio is responding to this assumed demand for diversity by actively creating affordable housing opportunities for in-place residents. As mentioned in Chapter 5, there is a mandate for publicly owned land in Casco to be used for social housing, but the majority of public social housing projects are located far from Casco, and many of the residents I spoke with who were planning to relocate had been assigned housing in the urban periphery. To counteract some of this impact, Conservatorio has a self-imposed policy of developing one affordable housing unit for every luxury residential unit. According to Conservatorio's leadership, the large majority of their properties were vacant at the time of development, so it has not been involved in evictions or other direct displacements. Still, the general increase in property prices related to their activities causes indirect effects on the community, which it seeks to remedy. It has recently finished its first affordable housing project, and as of August of 2015 had an additional five lots in Santa Ana for its affordable housing pipeline. The projects together will add 111 affordable units to the area. These units are slated for affordable ownership, so that beneficiaries can participate in the property value growth. They are valued at 45% of market-rate units, which results in a mortgage payment of \$200 a month (Conservatorio, 2014). Unit prices in the most recently completed project (Figure 6.2) ranged from \$57,000 to \$120,000. By selling or renting ground floor retail and some units at market rates if needed, they cross-subsidize the affordable units and break even on these projects.

Figure 6.2: Conservatorio Affordable Housing Project



Photo: Felipe Fierro

Anecdotally, one of the most difficult aspects of this program is reaching the intended beneficiaries. Mortgage banks have been reluctant to give loans to those who they consider riskier lenders. Most applicants have informal sector jobs, other outstanding debts, or monthly incomes that are simply too low - factors that automatically disqualify them from traditional bank mortgages. The result has been that in Conservatorio's most recent project, the beneficiaries were mostly low-middle class employees of Conservatorio or other people well known to the company. In order to expand the pool of potential beneficiaries, Conservatorio is negotiating an arrangement with the mortgage banks in which they (the company) act as guarantors for loans given to families who would otherwise not qualify. Although the lending requirements will be less exclusionary, familiarity with applicants will continue to play a role on the selection process, since knowing the beneficiaries well is a form of risk reduction.

As highlighted in Kohn (2013), one visible outcome of gentrification is commercial displacement, either because of rising rents or because businesses lose their consumer base as traditional residents move out. This process has important implications for the charm and authenticity described above, as well as the "touristification" effect mentioned in Chapter 5. To retain the small local businesses that provide diversity and uniqueness to the street, Conservatorio carefully curates its retail tenants, even if it means turning away the highest bidders. It also has a practice of renting space at fully or partially subsidized rates to local startups, small businesses, NGOs and community uses such as school, daycare and gym in habitable buildings that are in the pipeline for development. In one telling example, Conservatorio purchased a large building of 41,500 sf and the surrounding parcels in 2006 for over \$4 million total to be developed into a luxury mixed use project valued by at over \$10.5 million. However, in the years between the purchase and the upcoming redevelopment, Conservatorio has been using the large building as community center and the surrounding houses as heavily subsidized retail space. This is a win-win situation since it brings in some income to the company from pipeline properties while engendering a sense of community for both new and original residents. Now that the project is scheduled to break ground, Conservatorio has purchased a \$3-million similar building in Santa Ana to move the community center. The plan is for the tenants to become equity holders in the new building.

With an annual donation equivalent to 2% of the company's overhead costs, as well as periodic sponsorship of fundraising events, Conservatorio supports the local Neighborhood Association and a non-profit foundation dedicated to providing job training and placement that facilitates local women's access to jobs created by the new developments, such as in hotels and

restaurants, as well as in Conservatorio's own offices. Since 2005, they have graduated 576 women, of which 76% are currently working in hotels and other industries ("CAPTA," 2014). They also run a performance arts-focused afterschool program, and a gang member rehabilitation and reintegration program. The gang program is another example of a strategic social investment that also generates benefits to the company. When petty crime and conflicts between local gangs threatened the success of Conservatorio's brand new hotel, they created a program in which gangs could volunteer as a group to participate in an eight-week intensive program that required a commitment to abandon violence as a way to solve problems, formal job training and placement in local businesses, and seed funding for business startups. The resulting businesses include a bar/recording studio (located in one of Conservatorio's above-mentioned subsidized commercial spaces), a guided tour business, and food delivery. They have done well financially, and have attracted significant media attention for both the program and the company, including from NPR, The Huffington Post, The New York Times, Al Jazeera English, among others (ESVC, 2015).

Arts and culture have been an important component of Conservatorio's social outreach initiatives, although these are more common for developers trying to support cultural programming that attracts businesses and residents. Catering to the artists and bohemian pioneers that typically begin the gentrification process, Conservatorio's first project was the redevelopment of an eponymous music conservatory into studio space and artists' lofts. The Danilo Perez Foundation, a jazz school for neighborhood children, has been located there since. Its founder, an internationally famous Jazz musician from Casco, now runs a Jazz club located inside Conservatorio's new luxury American Trade Hotel. This is yet another example of a program that benefits the local community while generating revenue and press for the neighborhood and the company (Figure 6.3).

Figure 6.3: Example of Press Coverage



Source: New York Times website screenshot. Ryzik, 2015

Having started as mostly a series of ad-hoc initiatives as needs arose, the company does not yet have a system to measure the success of its programs in achieving the social outcomes it strives for. While there are many stories of individual success, it is unclear how these programs are leading to systematic improvements. Despite its relatively large footprint and prominence within the neighborhood, Conservatorio, as a single actor, can only have limited impact. Looking at Casco Viejo today and the variety of indicators presented in previous chapters, it is clear that large-scale displacement has not been avoided. Additionally, because of the focus on these programs as investments rather than charity, there is a lower boundary to their reach, particularly in its affordable housing initiative. The poorest subgroup of residents continues to be disenfranchised. Conservatorio consciously draws a line up to where it is willing to intervene. That line goes beyond what is legally required, but the company continues to struggle with defining its moral requirement. One criteria is to compensate for the externalities that arise from its investment activities, but defining the direct and indirect ripple effects is a challenge. As the company matures, it is investing internal resources to establish impact

measurement mechanisms for both its own costs, since it provides in-cash support or subsidized space for its programs but also significant staff time and effort, as well as the benefits to the community and the company.

Conservatorio is not alone in attempting to measure its social impact. There have been recent attempts to incorporate the social consequences of development such as displacement and exclusion into existing real estate sustainability standards. One of the leading standards, GRESB (The Global Real Estate Sustainability Benchmark), has taken steps in this direction by including three out of 42 questions about community engagement in its main survey (and a similar set of questions on its new construction supplement):

- *“Does the organization have a community engagement program in place that includes sustainability-specific issues? (Sustainability education program, Health and well-being program, Sustainability enhancement programs for public spaces, Employment creation in local communities, Research and network activities, Supporting charities and community groups, Effective communication and process to address community concerns, Resilience, including assistance or support in case of disaster, Other)*
- *Does the organization monitor its impact on the community? (y/n, Impact on crime levels, Local income generated, Local residents’ well-being)*
- *Does the organization have a monitoring process for the community engagement program in place? (y/n)” (GRESB, 2015).*

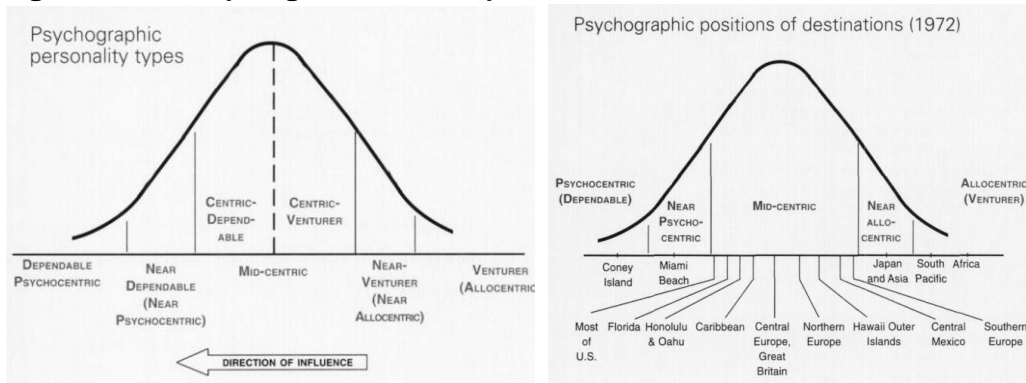
One of the difficulties in realizing these types of impact measurement studies and the return on investment to the company is separating the neighborhood effects from the property effects. While an office buildings’ LEED certificate can directly result in higher rents to that building, the effects of community engagement programs on property values is more indirect. One development company’s community efforts can be diffused and improve the situation for all other properties in the area. Similarly, another developers’ harmful practices could depress values for all others. This creates a game theory situation typical of public goods in which only coordinated action can result in true social benefit. However, communicating these outcomes to investors in a measurable way has been a major challenge for Conservatorio. Rather than seeing these initiatives as charity or corporate social responsibly, they are considered an integral part of the business model, since their role is to mitigate the risks associated with a long-term investment horizon. The next section examines why this is important.

6.2 A Long-Term Approach and the Risk of Neighborhood Re-decline

Jerzyk (2009) summarizes the commonly understood phases of gentrification as follows: it starts when “risk-oblivious pioneers” such as artists and students who can afford higher income neighborhoods but, seeking a more bohemian lifestyle, move in to a depressed area. Without much physical change, their presence changes the *perception* of the area, from blighted and dangerous to edgy and interesting. “Risk aware fixer uppers” come next, and with sweat equity and connections catalyze development and create a critical mass for generalized appeal. This is what opens the door to businesses that cater to the “risk averse”, finalizing the conversion of the area from alternative to mainstream. The description ends there, but what happens in the long-term? If the neighborhood reaches a steady state, it implies that the rent gap has disappeared and thus there is no more opportunity for investment. It may reach a plateau once the diversity and authenticity that originally drew the middle class to the neighborhood becomes homogenized, and those consumers move on to the next trendy neighborhood.

Stanley Plog’s (1974) classic psychographic description of the lifecycle of tourism destinations suggests just that. His model (Figure 6.4), which has directly informed Conservatorio’s approach, traces a trajectory in which too much development in an area starts to attract masses of people, but decreases the appeal for the pioneer visitors whose presence made the place attractive in the first place. There is peak popularity when “Venturers” (akin to pioneers) still find the place interesting, but it has acquired the services and accommodations needed to attract the general population (mid-centrics), who follow Venturers as a signal of what is worth the trip. However, past a critical point of popularity, Ventures feel there is nothing left to “discover” and move on to other locations, followed by mid-centrics, leaving behind the “dependables” who only go to places they know are a safe bet. Because the dependables are fewer, travel less and spend less, this destination suffers a decline. The parallels to the process of gentrification are almost complete: the urban charm or uniqueness of inner neighborhoods can erode as it transforms into just another high-middle income neighborhood. Once the pioneering gentrifiers move on to the next new district, the original investment is put at risk.

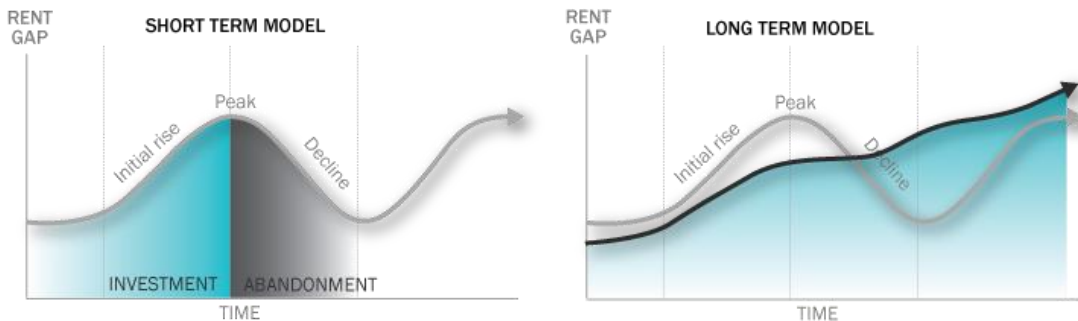
Figure 6.4: Stanley Plog's destination cycle model



Source: (Plog, 1974)

The risk of stymied growth is a serious threat to Conservatorio. While most developers with a short time frame benefit from this cycle by investing when the values are low and exiting their properties at the cycle peak, Conservatorio's long-term approach exposes them to post-gentrification plateau, which results in a loss of growth opportunities once the rent gap closes. Therefore, rather than promote rapid development and economic growth, they seek a slower but steady growth trajectory for the neighborhood property values (Figure 6.5). This means that they sacrifice a short-term gain in exchange for long-term stability. There is an opportunity cost to, for example, locking in \$1.6 million in a break-even affordable housing project, but it has the long-term benefit of helping to sustain the diversity and authenticity that underlies property values in Casco Viejo. With a long-term approach, Conservatorio has to take into account the long term effect of every investment decision, and find the right trade-off between short term gain and long term sustainability.

Figure 6.5: Conservatorio's model of sustainable urban revitalization



(source: Conservatorio, author)

Another way to explain this approach is in terms of discount rates. The investment risk/return profile measured by the discount rate is a measure of patience, or preference for benefits sooner rather than later. The more speculative the investment, the higher the discount rate, because, although risky, the potential return is high. Real estate development can be a risky endeavor, particularly in the speculative revitalization cases discussed here where developers buy land while values are still depressed, betting on market resurgence to sell at the highest point. When it pays off, the returns can be significant. However, speculative real estate investment creates a conflict with community goals not only because the value generated is usually reinvestment elsewhere, but also because the time horizon is mismatched.

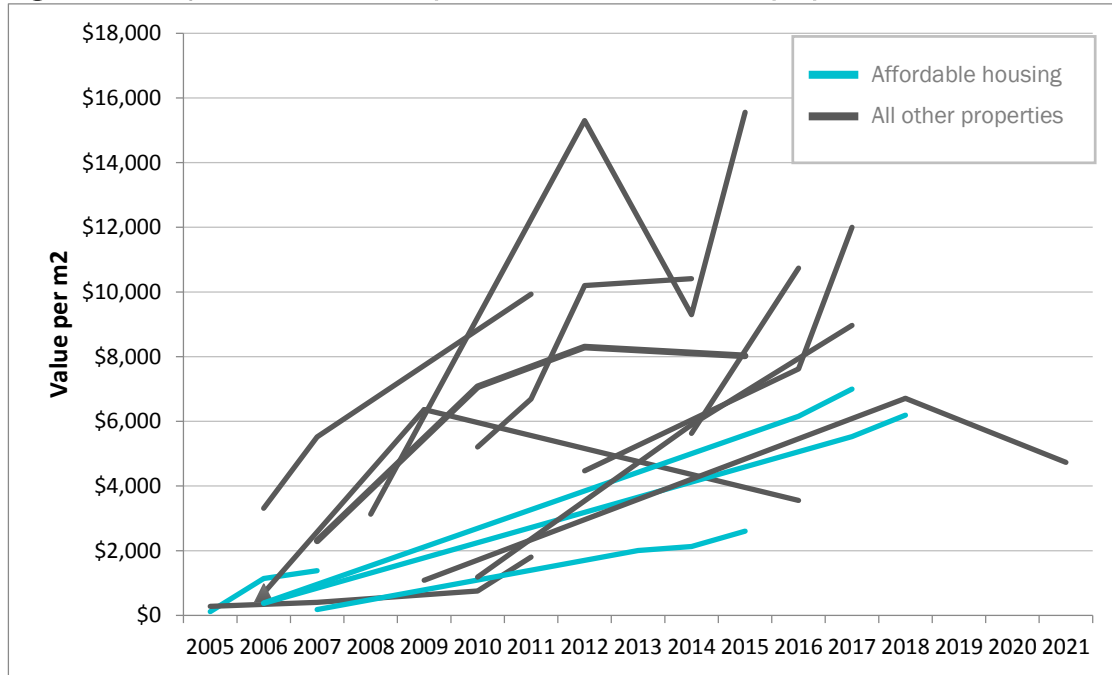
In welfare economics, the discount rate used to value social benefits is lower than generally-accepted individual rates (Kovacs & Larson, 2008). This is because it is understood that the social benefits of projects, such as job creation, can take a long time to materialize but are worth waiting for (Loveridge, Bokemeier, Kakela, & Satriawan, 2010). Furthermore, some studies have shown that the poor have lower individual discount rates, presumably because they “rely more heavily on community support mechanisms for survival in tough times than the wealthy” (Loveridge et al., 2010, p. 867), so they are more patient. By adopting a longer term model with a lower discount and expected return rate, Conservatorio is more in line with the community time frame, where stability is more important than quick but fleeting gains. To match its slow but steady return profile, Conservatorio seeks patient capital that is looking for low-risk returns, while the short-term model attracts more speculative equity. This is why it is in the process of changing its capital structure into a REIT that can deliver a steady dividend over a 30-year period instead of having to return invested capital every 10 years.

Conclusion

It is important to note that Conservatorio is still financially successful in the short-run. Because of the large rent gap, investment returns are very high in Casco Viejo, thus the short term sacrifice does not mean unprofitability. There is enough of a margin to accommodate the postponement of some capitalization while generating enough return in the near-term. For example, recent market projects have yielded returns in the range of 42% unlevered and 63% levered and the company aims for a 8-10% annual return to stockholders, according to Conservatorio’s financial reports, suggesting that the financial sacrifices that Conservatorio is making are not threatening its financial health in the short term. Figure 6.6 plots the projected value added of each Conservatorio property per m² as it advances through development stages (acquisition, development, operation, and exit). The lines in blue depict the affordable

housing projects. Their growth is not as drastic as the other properties, but it is sufficient to cover their costs and allow Conservatorio to continue expanding its affordable housing supply. Still, there is an opportunity cost to the capital invested in those properties..

Figure 6.6: Projected value added per m2 for Conservatorio's properties



Source: Conservatorio's financials, developed by author and Ariana Salazar as part of a forthcoming MIT case study.

This chapter explained the reasoning behind Conservatorio's decision to forgo this potential additional value. Because its model depends on a set of amenities that are eroded by their very attractiveness, Conservatorio needs to keep its own value appreciation in check in the short term in order to achieve sustainability in the long term. A common theme in all of Conservatorio's social programs is that they are admittedly, and explicitly, self-serving. Providing affordable housing protects their investments from the risk of eventual homogenization of the neighborhood and reduced attractiveness. Crime reduction is a direct boost to its marketing efforts. Employment training programs ensure a more loyal and dedicated work force in its hotels and other related businesses. Sustainable neighborhood redevelopment, then, is a risk-hedging strategy.

Conservatorio's activities have only made a dent in solving the displacement problem in the neighborhood, but the economic basis of the model makes replicability a viable prospect so that coordinated action between multiple actors can achieve a larger scale of impact. Previous

chapters have made the case that a mixed income neighborhood is the most desirable outcome given the pressures of gentrification. The value of this real estate model is that it seeks the same goal. With the neighborhood interests aligned with real estate interests, there is genuine potential for inclusive neighborhood growth. How can local policy promote this type of real estate model? The concluding section addresses this question.

7. CONCLUSION

Describing the situation in Casco Viejo, a Panamanian who is one of the most influential individual forces in the neighborhood leading the charge of inclusive revitalization summarized the situation with the perfect metaphor: Casco Viejo is a mirror. For a long time, the mirror was forgotten, but now that the dust has cleared, the mirror reflects back to society its deepest-rooted problems that can no longer be ignored. In an attempt to restore it to its former glory, the neighborhood brings to light the social inequalities that were invisible when each social group stayed in its isolated corners. Now, Panamanians come face to face with the inequality and injustice their national economic growth created, and how they approach it will reflect whether their commitment to social justice is genuine or superficial. Gentrification itself creates injustices, but we cannot forget that inequality predates it.

While not all gentrifying neighborhoods start from a dysfunctional state, there have to be some deficiencies that create the enabling condition of under-valued urban land. In most cases, it is a history of structural discrimination and stigma that leads to an abandonment of the area and devaluation of public goods and government attention available in more privileged locations. In the U.S., it has been racial. In Latin America, it manifests as informal settlements where often basic services such as clean water and sanitation are not available. In either case, our unjust cities, where access to opportunities are so unequal, have become so because they are segregated along these socio-economic lines. Gentrification exposes inequality as it erases the geographic lines that separate these groups. Gentrification, if unchecked, can exacerbate inequality, but by exposing it, it also creates the opportunity to reduce it.

The contentious tone of much of the scholarly writing on this topic has obscured this potential. Overcome by the constant debate about whether gentrification is positive or negative, the importance of the fact that there is a debate at all is overlooked, and alternatives are seldom discussed. In any case, it is a false dichotomy. Like with most topics worth writing about in urban development, reality is more complex, with both positive and negative aspects influencing each other. Trying to determine the net effect is an academic exercise whose result depends mostly on methodological decisions. Critical thinking and introspection is healthy and important for any field, but when 30 years of debate yield few practical conclusions for real cities experiencing these changes, it is time for a new approach. This thesis has attempted a multi-perspective analysis of gentrification applied to a specific case in order to get beyond the

good/bad debate and to move towards finding where the opportunities to improve the living conditions of the urban poor lie.

The argument presented here is that Casco Viejo demonstrates an instance where the aligned interests of the community and developers created an opportunity for shared growth for at least some of the groups who are excluded in traditional gentrification models. The analysis of land markets demonstrates that real estate developers are key actors in the gentrification process. Their search for margins between current and potential value of land attracts them to depressed areas, and their investment is what overturns the tide of abandonment. Evidence of increasing property values in Casco Viejo support the proposition that Casco Viejo is subject to these market forces. A qualitative and quantitative exploration of the living conditions of the poor community in Casco Viejo reveals a precariousness that has to be addressed. Research and evidence on the value of social relationships suggests that concentrated poverty exacerbates these conditions, and supports the view that some degree of social mixing can help break the cycle of deprivation. Purely economic measures such as job creation are not enough if the social networks and support systems that can facilitate access to economic opportunities are dysfunctional.

The condition of informality that distinguishes Latin American cities from those in the U.S. presents an additional complexity. When the potential for developers to capitalize on the rent gap is blocked by non-paying tenants, the law has to be involved. This raises questions about where the right to the city ends and property rights begin. Legal thought suggests that residents who have made a home of these spaces during the years of abandonment have a legitimate claim against new owners expecting them to leave when the area is once again *en vogue*. Casco Viejo regulation theoretically recognizes this claim by requiring monetary compensation, but in practice its many loopholes make it futile. Still, compensation might not be the fair resolution when it requires families to move far away because they can no longer afford their neighborhood. In order to fully recognize their right, all options have to be made available, including affordable housing within the neighborhood.

These arguments lead to the conclusion that inclusive gentrification means making in situ affordable housing a realistic option for the local community. The case of Conservatorio, a developer in Casco Viejo, reveals that the private sector can also share this interest. The demand-side explanation for gentrification is the desire of a subset of the middle class for diverse neighborhoods. Developers who revitalize inner city neighborhoods are catering to this demand. Therefore, the loss of social diversity can be a long-term risk to the value of their

portfolio. Because of Conservatorio's long-term investment horizon, mitigating this risk, such as by building affordable housing, becomes a strategic business need. The public sector cannot be expected to have the resources and management capacity to provide all the needed housing in rapidly appreciating land markets. However, when developers contribute to the pool of affordable housing on their own volition, sufficient affordability in gentrifying neighborhoods becomes a real possibility.

Of course, a single developer will never be able to meet all the demand for affordable housing either, but if each developer contributes its share, the collective effort may prove sufficient to avoid the eventual homogenization and decline of the neighborhood. The result can be a more optimal situation for the neighborhood as a whole. The classical bid-rent land curve described in Chapter 3 by design leads to the mono-cultivation of land uses and occupiers. Gentrification means that the neighborhood becomes more attractive to groups who can pay more for the land than the in-place low income residents. Because they can bid more for the land, they take over the space. However, if this subset of the higher-income group would be willing to pay a premium for social diversity, the separation of classes and therefore the loss of that premium leads to a suboptimal social outcome in the economic sense: there is some land value that is lost. Studies referenced in Chapter 3 demonstrate that even groups who have a partial preference for diversity will sort themselves into segregated areas. But what this simple model suggests is that with regulation that promotes mixed-income neighborhoods, there can be a better social equilibrium.

To illustrate this model in very simple terms, let us assume that the inner area of a city, Neighborhood C, is currently undesirable to higher income groups (H), and is occupied by a low income community (L). Figure 7.1 represents the starting land bid-rent curve of this city. Because of changing preferences and contexts, a subset of the higher income group, the gentrifiers (G), changes to wanting to live in neighborhood C. Given their higher income, they can outbid group L, and group L is displaced to the edge of the city, as illustrated in figure 7.2. Assuming that Gs' preferences include social diversity, and they are willing to pay a premium for it, their bid for land could be even greater if the neighborhood was mixed (Figure 7.3). Capturing part of this value increase and transferring it to enable a portion of the low-income group to remain neighborhood C creates a social gain and reduces displacement (figure 7.4). Not that all displacement will be avoided; some Ls, mostly likely the poorest, will still be displaced to the periphery in this model, but those who are able to stay in Neighborhood C are better off, and the overall pool that the government has to find housing solutions for is reduced.

Figure 7.1

Starting bid-rent curve. A low income group (L) resides in Neighborhood C, and high income groups (H), reside outside the city core.

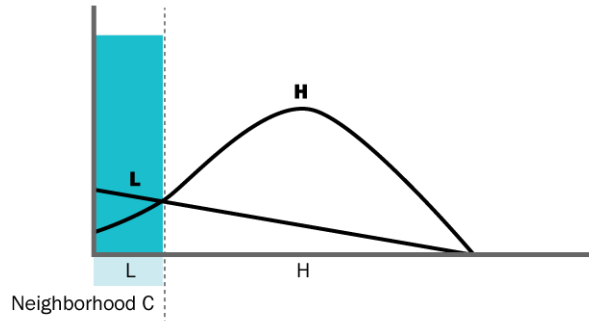


Figure 7.2

Due to a change in preferences for a subgroup of the high income group – the gentrifiers (G), move into Neighborhood C and displace the Low income group (L), to the periphery.

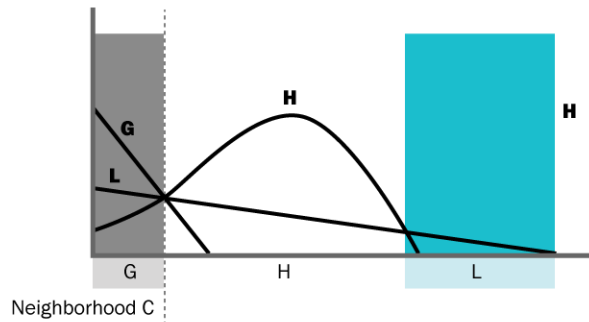


Figure 7.3

Gentrifiers (G), would pay a rent premium if some Ls remained, making the neighborhood diverse.

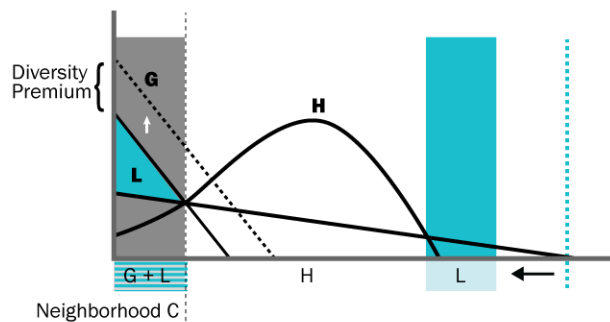
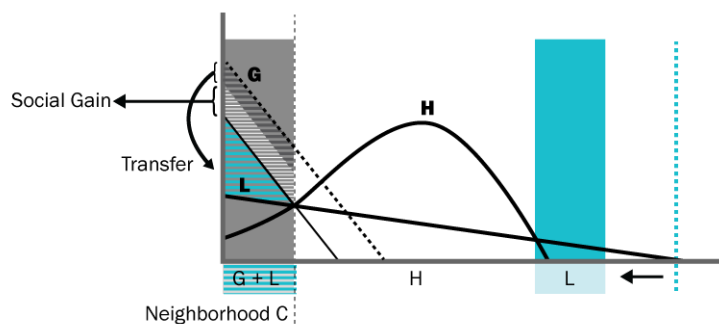


Figure 7.4

Part of that rent premium is captured and transferred to enable Ls to stay in neighborhood C, thus reducing (but not eliminating) the amount of displacement of Ls to the periphery. The rest of the diversity premium is a social gain – value that would not exit if the neighborhood was homogeneous (figure 7.2).



Source: author

A similar concept is widely used in the retail sector. The mix and distribution of tenants within a shopping center is closely studied, and diversification of retail categories and sizes within a shopping mall is considered to increase total rents (Rosiers, Thériault, & Lavoie, 2009). One distinction, of course, is that shopping malls are centrally planned. The simple model presented above suggests that neighborhoods can benefit from social diversity, but the level of control that the public sector has to achieve this type of coordination is much more reduced. What is needed is policies that induce socially inclusive development by providing incentives to the developers, like Conservatorio, who have the same goals, and disincentives those who do not. In this way, by supporting the private sector actors with aligned social goals, local governments can influence the private sector towards achieving a shared diversity objective that results in better outcomes for the community and developers.

This recommendation is a policy strategy, but the types of programs and policies that can achieve this are varied and depend on the context. In a neighborhood like Casco Viejo, it could be a time-triggered adjustment to the fiscal incentives regime. The tax exemptions given to developers who invest in the neighborhood could be a blanket incentive for the first 5 years, after which it becomes limited to those developers who commit to specific affordable housing targets. In this way, the incentives help to catalyze the revitalization, but once their critical mass is reached, it becomes more targeted to specific social goals. Alternatively, a pool of value capture transfers in the form of subsidies could be administered by a local NGO or neighborhood association, who would select the receiving developers depending on their good standing with the community. Local governments, because of the election cycle, tend to have a shorter-term viewpoint, so a well-established community organization would have long-term interests more in line with the model presented here. With the appropriate monitoring mechanisms, this could provide an additional financial incentive to attract social sustainability-minded developers. The challenge will be finding the balance between providing policy carrots to the desired developers without inhibiting investment overall, particularly at the early stages of revitalization when the risk is highest and some speculation might be needed to start the process.

Areas for future research:

There is much more to learn about the social impacts of gentrification, including direct and indirect effects. The gaps in knowledge are not for lack of interest in the field, but rather methodological difficulties. This thesis has been able to advance the discussion despite these technical challenges, and revealed some areas of further study that could continue to build on

the arguments explored. The model presented in this chapter is purely conceptual, but it lends itself to a more rigorous analysis of the size of the diversity premium in gentrifying neighborhoods, which would allow the estimation of the necessary subsidy needed. Another area for further study is the level of diversity needed to unlock this diversity premium. Current research on diversity preferences and segregation tipping points referenced in Chapter 3 have not looked at gentrifying areas in particular, which, as argued in Chapter 6, might attract a group with unique diversity preferences.

This thesis has not looked at the municipal tax impacts of mixed income neighborhoods because in Panama the distribution of tax benefits is not as decentralized as in the U.S.. However, there may still be implications relating to how public resources are distributed among sub-local entities such as Panama's *corregimientos* (boroughs) depending on the income group distribution. Lastly, a financial analysis of the performance of long-term vs short term developers would be a key contribution to the promotion of inclusive development, as it would give weight to the argument in favor of the type of approach argued for here. Investors and developers could benefit from a rigorous analysis of the risks, losses and gains related to this development model when making a decision to adopt it.

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