

The Effect of Gentrification on Small Businesses

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Executive Summary

This report will outline the issues small business owners confront when gentrification introduced to their neighborhoods throughout the United States. It will address the rising rent and why this is variable has gotten worse as developers push small businesses and residents out of their communities. It will provide a wide range of examples of small companies from a barbershop located in the city of Los Angeles in the town of Harlem in the state of New York. It will measure the costs of employees losing their jobs and customers forced to make unreasonable purchases set by the new developers. Finally, the report will provide a list of solutions that include their advantages and disadvantages, complete with cost analysis, also a final recommendation or action plan.

Conclusions

Through multiple levels of analysis, we conclude that using the four solutions (Advertising, Pricing, Customer Acquisition and Neighborhood Engagement) can help deal with gentrification. The four solutions help retain customers by:

- Developing a bond between customer and business
- Create trust between customer and business
- Allow flexibility with product lines and prices

By utilizing the four solutions any small business can effectively combat the effects of gentrification,

Recommendations

The recommended course of action is based on our solution, proposal and advantages. We advise small business to implement these solutions to solve issues of gentrification:

- Advertising

- Pricing
- Customer acquisition
- Neighborhood Engagement

The Problem

The subject of our group report is that we are small business owners of a barbershop in the greater Los Angeles area dealing with gentrification. Also, we explore the direct hardships small business owners will face when dealing with gentrification. Moreover, macroeconomic factors indirectly affect small business owners. First, the main problem is due to our rent consistently increasing every month. The barbershop cannot cover the fixed cost of running a small business. The specific areas we will be covering are why the landlords are increasing the rent. How the increase in the cost of living in the area is driving our employees and customers away. We will discuss possible solutions and our recommendation based on all the evidence we have gathered to solve this problem that is crushing many other small business owners in the greater Los Angeles county.

The first and primary issue, a small business owner who operates a barbershop in the city of Los Angeles, must deal with is the increasing rent on a leased property due to gentrification. According to Merriam-Webster (1828), gentrification defined as, “the process of repairing and rebuilding homes and business in a deteriorating area (such as an urban neighborhood) accompanied by an influx of middle-class or affluent people and that often results in the displacement of earlier, poor residents or small businesses.” I believe this definition illustrates a critical point, which is how the influence of gentrification pushes out small businesses, in this case, our barbershop. Now the rising rent in the inner city of Los Angeles has been rising at a steady rate, consistently making it near impossible for not only small business to pay their rent

but also working-class families on their apartments. According to an article, *Can California boost homebuilding without supercharging gentrification?* Published by nationalmortgagenews.com (April 2019) outlines how landlords' outfit vacant apartments with newer appliances to lift rents and house flippers renovate bungalows to the sale for twice the profit. This data demonstrates why and how landlords raise the rent on households with low income to eventually force them out of the area for a new middle class to move in. Based on all the information gathered for the small business, we can conclude, there is not one single factor that will clearly define the problem of rising rent in Los Angeles. Still, instead, it is a variety of factors coming together to create a financial hardship for small business owners.

Start of the Problem

The concept that many small businesses face displacement because of gentrification commonly referred to as commercial gentrification. The small companies are typically owned by minority groups, which classified as lower middle class in the American Economic Class System. There is a large amount of data that commercial gentrification has been around for a couple of decades, but for this research paper, we will analyze one small sample size. According to, *Transformation of a city: Gentrification's Influence on the small business owners of Harlem, New York* written by Williams T. and Needham C. it stated, "in the late 1980s, gentrification occurred in the community of Harlem, New York, the number of small business owners at that had to endure this challenge was 20." The result was the collective group had to come up with multiple strategies to combat commercial gentrification to avoid being displaced by developers. Based on this sample size, we can infer that if the small business

owners had not joined to develop multiple strategies to combat the gentrification, then they would have surely failed.

There is one more example of commercial gentrification in history that we must explore, which occurred more recently at the turn of the 21st Century. According to Williams T. and Needham C. in their work *Transformation of a city: Gentrification's Influence on the small business owners of Harlem, New York* it states, “from 1990 to 2000 in the United States, nearly 15 percent of all central city tracts experienced gentrification, which caused massive demographical changes based on diminishing capital and buying power.” In other words, the author meant there was a steady increase in commercial gentrification throughout most inner cities in America. See supporting data below of gentrification affecting the U.S from the 1990 to 2000 Figure 1.

Please refer to the table from the *1990s to 2000s Tracts Gentrifying in the United States* above, Figure 1.

	Share of Eligible Tracts Gentrifying	Tracts Gentrifying	Did Not Gentrify	Not Eligible to Gentrify	Total Census Tracts
Since 2000	21.1%	12	45	122	179
1990-2000	6.7%	5	70	104	179

Please refer to the table from the *1990s to 2000s Tracts Gentrifying in the United States* above, Figure 1.

In closing, the general problem is small business owners and inner-city communities face is displacement when gentrification introduced to the area; there is an undeniable history of it.

Extent of the problem.

The best way to take an in-depth look at the severity of the problem that commercial gentrification creates for the small business leader, we analyze what a local vegan restaurant in the county of Los Angeles had to endure when confronted with this issue. According to an Article written by Reyes-Valarde A. published in *The Los Angeles Times* (February 2020), it stated the following, “Megill, the owner of a Vegan Joint in Silver Lake, learned that a company purchased the building housing *Flore Vegan* and another business she owned when she looked up the buyer the developer announced a mission of gentrifying communities with underutilized properties in the hottest neighborhoods of Los Angeles.” I think that the small business owner must have felt devastated when she found out about this information. The article did mention that Megill the owner had been at her location since 2007 after thirteen years, she would have no option, but to relocate her business in the year 2020. Before she relocated, she had to raise the prices on her food to keep up with rising rent, several customers who were regulars would ask why the prices are so high. Through the analysis of this Vegan restaurant, we can notice how small business owners are overwhelmed when hit with gentrification challenges that have a domino effect that affects their product to their customer base. See the image of *Flore Vegan* below.



Above you can see a picture of business owner Megill's daughter cleaning up a table at *Flore, Vegan.*

Solutions

Advertising	
Pros	Cons
<ul style="list-style-type: none"> • Word about the business can spread fast if ads are done through local papers or social media • If done through customer's word of mouth word about the business can spread for free 	<ul style="list-style-type: none"> • When doing ads through local papers or social media money may be required • If done through customer's word of mouth word negative reviews about the business can spread as well pushing customers away

Pricing	
Pros	Cons
<ul style="list-style-type: none"> Allows flexibility with product lines and the price of each goods to fit customer base Helps retain customers by keeping goods affordable for them 	<ul style="list-style-type: none"> May have to give up certain product lines to bigger businesses

Customer Acquisition	
Pros	Cons
<ul style="list-style-type: none"> Can acquire loyal customers not from the local neighborhood Customers can develop a bond to the business due to in-person interaction which can keep them returning 	<ul style="list-style-type: none"> Takes time to specialize in a certain market

Neighborhood Engagement	
Pros	Cons
<ul style="list-style-type: none"> Can easily acquire new employees through the local neighborhood Great way to develop a bond with the neighborhood 	<ul style="list-style-type: none"> Takes time to develop a bond with the neighborhood through hiring locals

Advertising

Small businesses can combat the effects of gentrification through advertising. This can be done through passing out business cards, flyers, and through advertising in local papers and social media which can spread word about the business very quickly. However, this requires funds to pay for.

Another way to advertise is through word of mouth. If a business has been in a neighborhood for a considerable amount of time, owners often rely on their customer base to spread word about their business instead of relying heavily on advertising. Many small business owners pay attention to their business' page on websites such as Yelp or Google and read reviews made by customers. Owners are aware that customers' perception can market their business for them. Good reviews can attract new customers while bad reviews will push them away. Because of this, owners often respond to the reviews, thanking the good reviews for the kind words and acknowledging the bad reviews, saying that they will investigate the issue and remedy it.

Pricing

Small businesses can combat the effects of gentrification is by keeping the prices of high-quality goods low as well. Owners learned that giving people from within their neighborhood the ability to purchase locally and at a reasonable price helped with retaining customers. This can keep a loyal customer base. Pricing can allow small businesses can be very flexible with their pricing and product lines. If a larger store can sell one good at a cheaper price than the small business then they can simply stop producing that one good and focus on another type of good that the larger business cannot produce, thus attracting more customers.

Purchasing the building itself can help with pricing as well. By purchasing the building many small businesses avoided rising rent costs which allowed them to keep their prices low. Purchasing the building also allows more flexibility in meeting sales due to a lower overhead cost.

Customer Acquisition

Another way to deal with gentrification as a small business is to acquire new customers through understanding the needs of your customers and to adapt business practices to fill those needs. By specializing in a niche market one can compete with bigger competition such as Amazon. Developing extensive knowledge about a product can attract many different customers who will come to the business to purchase that good based on that knowledge. This gives the business a “human touch” feeling where the customer can feel that they can trust the business and the product because of the in-person interaction. A feeling that many big stores cannot provide due to their size.

Neighborhood Engagement

Small business owners noted that their connection to their neighborhood has been beneficial to their success. Not only were neighborhood individuals’ potential customers but also potential employees. Many owners saw this as a way to give back to the community for doing business with them creating a close bond between the neighborhood and the business. Because of this, the neighborhood become fiercely loyal to the small business and begin to champion small businesses. Some will even defend the business if a bigger one tries to come in the neighborhood by lobbying against it.

Proposal



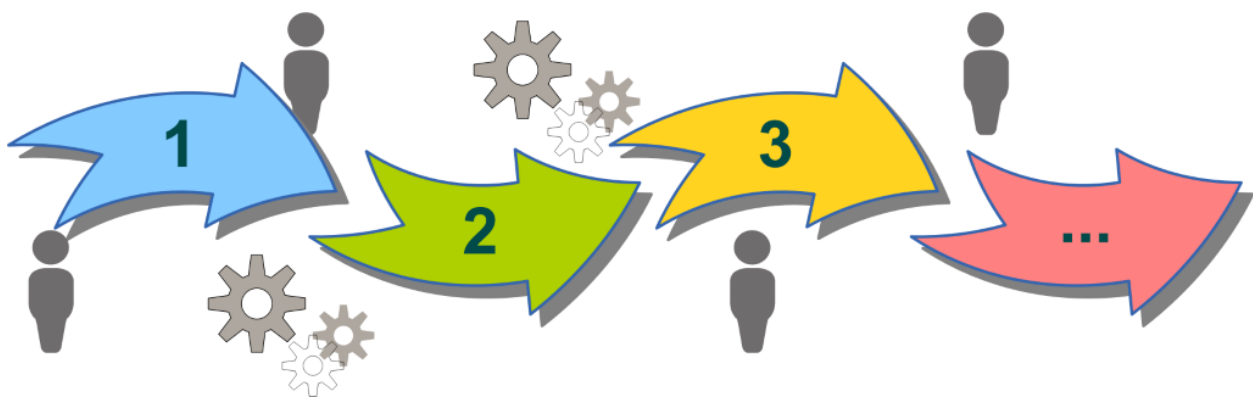
For small businesses to combat the effects of gentrification we propose that they find a way to use all four of the previous mentioned solutions, advertising, pricing, customer acquisition, and neighborhood engagement. Using all four solutions gives a business many ways to deal with the effects of gentrification in a flexible way. If one solution fails to make any changes one can simply try another one. However, the four solutions can be combined as well. For example, engaging in the neighborhood can be combined with advertising by hiring locals and having them spread word about the business without having to pay for advertisements. The four solutions should be used to combat gentrification.

Who is in charge?

There are four activities, which are Advertising, Pricing, Customer Acquisition, and Neighborhood Engagement. For advertising, you would want someone with a background in Marketing manager or Advertising manager. This is because they can help advertise your small business more efficient in acquiring multiple customers to visit your shop. In pricing, it is best to

give this activity to a consumer specialist because they would be able to find a fair price for our consumer. In customer acquisition and neighborhood engagement, you would either want an advertising or relationship management. This is because if a company wants to acquire more customers, they will find ways to advertise the store and develop relationships with the customers.

Procedure



Step 1

First a business should do some advertising when first starting. This can be done through local papers or through social media. However, this requires money to carry out. If a business can advertise through word of mouth, they should do that instead as that is free. But it requires some time to do so since a reputation must be built up first.

Step 2

Second a business should engage with the neighborhood. By hiring within the neighborhood, a business can easily get new employees while garnering loyalty with the neighborhood. This is a great way to develop a bond with the locals which will help a business gain more customers.

Step 3

Third a business should try customer acquisition. By becoming specialists in a certain market a business can compete with bigger businesses and attract new customers outside of the neighborhood and develop a bond with them, gaining new loyal customers.

Step 4

The last step is pricing. A business should set their prices where their customers base can afford it. This should keep them coming back to the business instead of going somewhere else.

Cost Analysis**Advertising**

The average small business using Google advertising spends between \$9,000 and \$10,000 per month on their online advertising campaigns. The cost of advertising can vary greatly depending on what method a business chose. For example, online advertising costs varies greatly and use different methods for advertisements. Some use Cost Per Action (CPA) where one is charged for every specific action, such as a click or form submission. While some use Cost per thousand (CPM) where one must pay for every 1,000 impressions of their ad. And some use keywords where your ad appears in the results listing when a person uses a particular word or phrase in a search engine.

Advertising Examples

- The average cost of an advertisement on Google Ads (AdWords) is \$2.32 per click on the search network
- The average cost per action (CPA) in a Google advertising search campaign is \$59.18.

- The most expensive keywords in Google advertising and Bing Ads cost \$50 or more per click.

- The typical CPM for an Instagram ad is closer to \$5

Employees

The costs for employees vary greatly because there are numerous factors that determine the costs of employees, such as minimum wage and the Federal Insurance Contributions Act tax or FICA.

Costs of Employing Examples

Schedule for California Minimum Wage rate 2017-2023.

Date	Minimum Wage for Employers with 25 Employees or Less	Minimum Wage for Employers with 26 Employees or More
January 1, 2017	\$10.00/hour	\$10.50/hour
January 1, 2018	\$10.50/hour	\$11.00/hour
January 1, 2019	\$11.00/hour	\$12.00/hour
January 1, 2020	\$12.00/hour	\$13.00/hour
January 1, 2021	\$13.00/hour	\$14.00/hour
January 1, 2022	\$14.00/hour	\$15.00/hour
January 1, 2023	\$15.00/hour	

2020 Federal and State Payroll Taxes

Federal Taxes	Federal Unemployment (FUTA)	Social Security Tax (FICA)	Medicare Tax (FICA)	Federal Income Tax (FIT)
Employer Pays	0.6% ¹	6.2%	1.45%	
Employee Pays		6.2%	1.45% ²	Use Tables ³
Wage Limit	\$7,000	\$137,700	None	None
Form	940	941	941	941

State Taxes	Unemployment Insurance (UI)	Employment Training Tax (ETT)	State Disability Insurance (SDI)	Personal Income Tax (State Income Tax) (PIT)
Employer Pays	3.4% ⁴	0.1%		
Employee Pays			1.0%	Use Tables ⁵
Wage Limit	\$7,000	\$7,000	\$122,909	None

This table shows the percentages of the different taxes employers must pay when paying employees.

Disadvantages

When it comes to a gentrified neighborhood, a small business like "mom and pop shops" is significantly impacted by community renovation. They are affected by changes like rent increases, getting pushed out of their communities, and new development in the neighborhood.

For example, *The New York Times* published an article discussing how New York City neighborhoods have seen some of the lowest rent increases since 2010. While on the other hand, newly gentrified areas have had the biggest ones. The average increase in rent for these gentrified areas is 31 percent from 2010 to 2018. In the figure below, you can get a better understanding of the increase in monthly rent from 2010 to 2018 in New York neighborhood. Because of a rent increase, people start to look for a new neighborhood. Then look for a new neighborhood all over again because of rent increase due to gentrification.

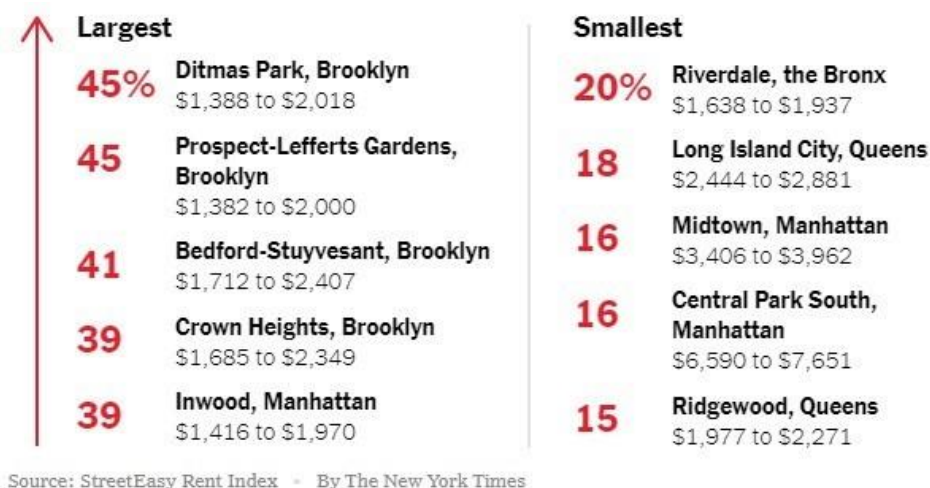


Figure Increases in Monthly Rent 2010 - 2018

An article in *PRESERVE LA* discusses more in topic how a small business owner in Los Angeles was a victim of gentrification. This small business was a family-owned automotive service called "Big O Tires". They have been operating for 17 years and received unfortunate news in late 2015 that a new development project would force "Big O Tires" to move. This event is truly heartbreaking for the fact that they are a family-owned business serving the best service for their community. Keep in mind that this is just one example. There are hundreds of small businesses like this where gentrification forces them to move from neighborhood.

The owner states, "We have been looking at other sites, but it is way out of the area. We like the Westside — it is a good neighborhood with nice people." For any small business moving to a new neighborhood is a difficult task to complete. Things that to keep in mind as a business owner is location, rent, and hiring new employees. These three points are vital, depending on the location, you will either have to pay a lot for a place you like or pay too little for a neighborhood you dislike. Also, when moving, the owner might need to find new employees for reasons like employees not wanting to commute long distances to work.

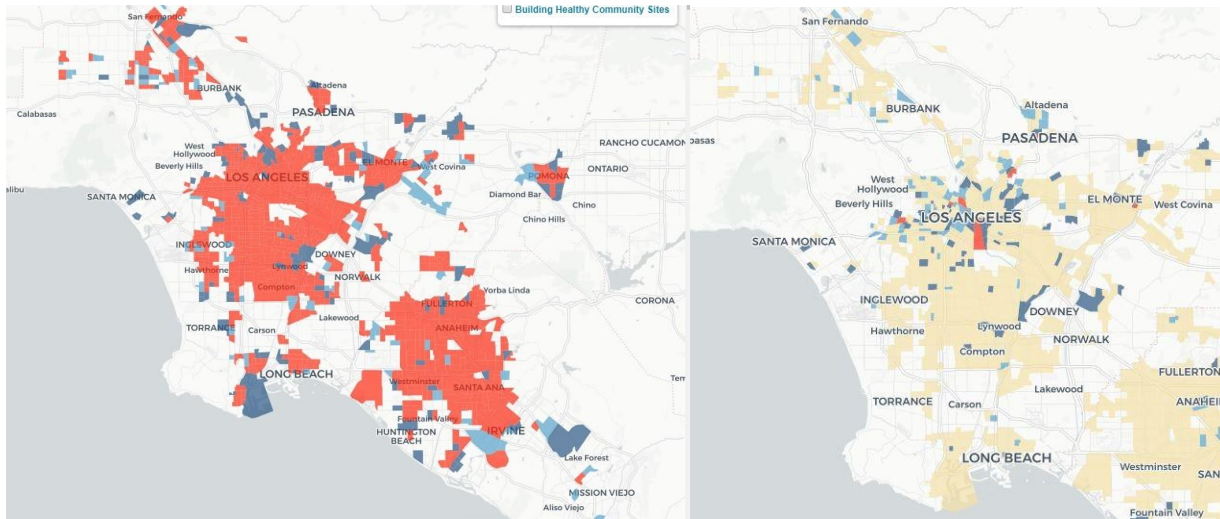


Figure Disadvantages and Figure Gentrified

The figures above give a better understanding of the gentrification in Los Angeles. Figure ... represents disadvantaged neighborhoods which, according to Urban Displacement Project “are those census tracts that are “eligible” or susceptible to gentrification.” You can see that a big chunk of Los Angeles was eligible for gentrification. Figure ... represents the gentrified neighborhood. According to Urban Displacement Project, the gentrified neighborhood is “once the census tract is determined to be “eligible, “it is considered “gentrified”.” You can now see that what was predicted to become gentrified became gentrified.

Advantages

An article called Does Gentrification Help or Harm Small business by Chad Otar explains that yes, because of gentrification, rent increases. Which makes it impossible for small businesses to make a profit and continue to do business in the neighborhood. However, during his research, he found a study by Rachel Meltzer that the majority of the small business that was affected by gentrification continued to operate. The figure below gives you a better understanding that most businesses stay in place.

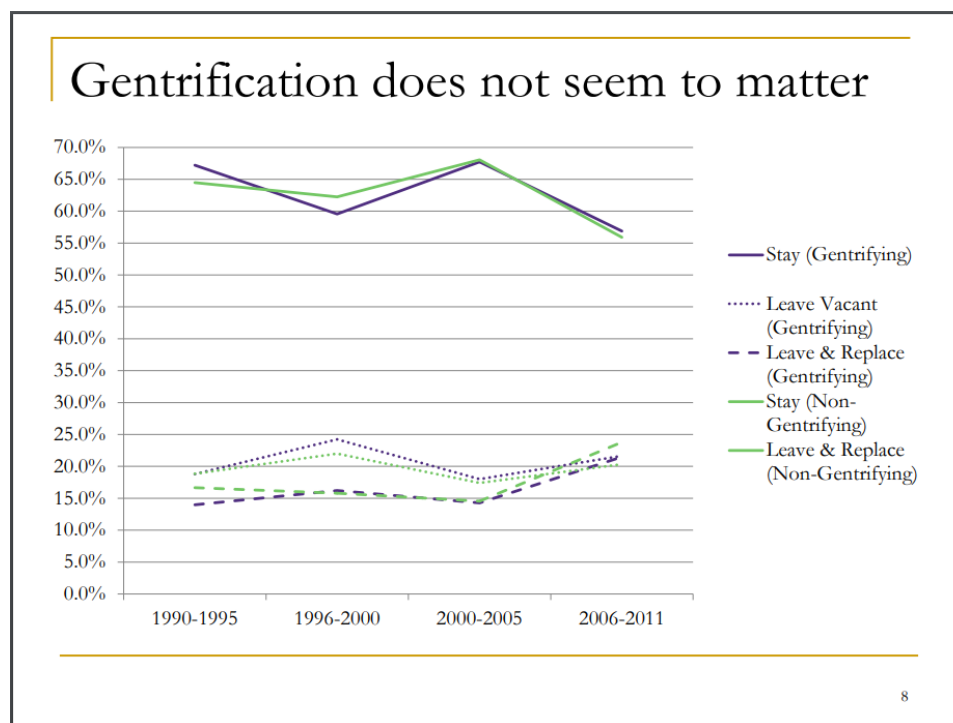


Figure Gentrification does not seem to matter

You can see in the figure above that roughly around 60 to 65 percent stay when the neighborhood is gentrified. So now you wonder why small businesses are staying. Well, this is because they are most commonly in an area where there isn't that much demand for space. For example, Big O Tires was a small business that was affected by gentrification due to its location being next to the Expo line. If there were in a different location, they could have probably avoided this issue. The reason why I state "probably" is that the impact of gentrification on small business is actually quite more complicated.

Action Plan

If the owner has the option to stay, meaning that they are not getting kicked out, they should try to stay. This is because people with higher incomes are willing to spend higher prices for an apartment due to gentrification. This leads to residents in a gentrified community to shop

locally instead of traveling far. Because of this, a small business can profit from the new renovation in the neighborhood.

Another option for a small business to stay is by raising prices. Generally, this should not be your first option because not all small businesses can maintain this type of service. For example, if you are a small grocery store, it would not make sense to raise prices for products like milk, vegetables, or meat. The consumer would instead commute to a different store because of lower prices. While there can be an argument that depending on the person, people are willing to pay more due to laziness.

Finally, maintaining a unique style of business can help in a gentrified neighborhood. In the article *Does Gentrification Help or Harm Small Business* published by Forbes explain that keeping your business original and charming along with gentrification will give the company a financial advantage. For example, a barbershop can be authentic by having a product, giving a special haircut, or even providing service to all genders. The barbershop can also be authentic by providing unbeatable service to the customers. In the case of being charming, the shop appealing by having a oldies and modern look to the store.

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