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# Rent-seeking middle classes and the short-term rental business in inner-city Lima

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## Abstract

Between 2007 and 2017, Lima experienced an unprecedented growth of the construction sector and an increase in high-rise condominiums. Urban land as a strategic resource has altered the spatial configuration of Lima's central districts. This paper presents the results of a case study of Barranco, a central and emblematic district of Lima that underwent an intense real estate boom. In our assessment, we connect the recent touristification and gentrification debates to develop a new pattern of Latin American gentrification. We argue that Barranco's consolidation as a tourist destination, along with the relaxation of local construction policies, has led to the development of one-bedroom apartments in high-rise condominiums destined mainly to be rented out to tourists and other types of floating population. This urban restructuring model has created new business opportunities for what we call a rent-seeking middle class, keen to invest in real estate as an alternative means to increase their income. By way of discussion, we argue that the case of Barranco exemplifies a new trend in Latin American gentrification which is not characterised by an influx of the urban middle class into central areas, nor by a massive physical displacement of lower-income residents, but by the growing purchasing power of a wealthier middle-class group investing in the short-term rental business in combination with other enabling factors.

## Keywords

gentrification, Latin America, middle class, touristification

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## 摘要

2007年至2017年间,利马的建筑行业经历了前所未有的增长,高层公寓也有所增加。城市土地作为一种战略资源改变了利马中心区的空间配置。本文介绍了巴兰科(Barranco)案例研究的结果,巴兰科是利马的一个中心和标志性区域,经历了一场猛烈的房地产繁荣。在我们的评估中,我们将最近的旅游化和绅士化辩论联系起来,以制定一种新的拉丁美洲绅士化模式。我们认为,巴兰科作为旅游目的地的整合,以及当地建筑政策的放松,导致了高层公寓中一居室公寓的开发,这些公寓主要出租给游客和其他类型的流动人口。这种城市重组模式为所谓的“寻租中产阶级”创造了新的商业机会,他们热衷于投资房地产,以此作为增加收入的替代手段。通过讨论,我们认为巴兰科的案例体现了拉丁美洲绅士化的一种新趋势,其特征不是城市中产阶级涌入中心区,也不是低收入居民被大量驱逐,而是投资于短期租赁业务的富裕中产阶级群体的购买力不断增长以及其他有利因素。

## 关键词

绅士化、拉丁美洲、中产阶级、旅游化

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## Introduction

Gentrification theory has expanded geographically to explain urbanisation processes around the world (López-Morales, 2016a). Despite the general recognition that gentrification has become globalised, current understanding is still mainly grounded in knowledge derived from Western cities (Lees, 2014). Urban scholars from the Global South have highlighted the need to dissociate the preconceptions of gentrification based only on precedents found in Global North cities and to create new theorisations that include Global South scenarios (Betancur, 2014; Janoschka and Sequera, 2016; López-Morales, 2016a). One of the key challenges is to move away from the classic explanatory debate that focuses on the return of the middle classes to inner-city areas and the displacement of the working classes as a main precondition for gentrification (Davidson and Lees, 2005; Sigler and Wachsmuth, 2016). Instead, it is necessary to decentralise debates in order to raise new questions about who are the new gentrifier agents, what is the role of local authorities, what are the influences of global consumption

trends, and what types of dwellings are linked to the latest gentrification processes (Inzulza-Contardo, 2012).

One widely debated topic among urban scholars is the extent to which the expansion of urban tourism and short-term rental platforms can be understood as a new gentrification trajectory (Constela, 2013; Hiernaux and González, 2014; Mermert 2017). Some authors claim that short-term rental platforms allow individual households to generate additional income by renting an extra room in their homes (Oskam and Boswijk, 2016). However, studies conducted in Western and non-Western scenarios reveal that most properties offered in short-term rental platforms are not a ‘room’ but rather a complete property that is part of an investment model exploited by real estate companies, tourist agencies and large- and small-scale homeowners (Cocola-Gant, 2018; Gil and Sequera, 2018; Lee, 2016; Mermert, 2017). Other authors focus on the influence of short-term rental businesses in local housing markets. They state that the high demand for short-term rental apartments is boosting the rental and sales prices in inner-city areas, which triggers the

displacement and exclusion of lower-income sectors (Schäfer and Hirsch, 2017; Wachsmuth and Weisler, 2018).

The increasing presence of short-term rental apartments coincides with the consolidation of a group of middle-class highly educated young urbanites who show a preference for inner-city areas when buying their first home (Inzulza-Contardo, 2016; López-Morales, 2016b). Contreras (2011) states that the purchase of their first dwelling is considered the beginning of their 'residential career', which encourages them to increase their income towards the acquisition of a permanent residence. This phenomenon has triggered the demand for housing in inner-city areas, with an immediate effect on local housing markets (De Mattos, 2007). The central areas of Buenos Aires, Mexico City, Rio de Janeiro, Santiago de Chile and now Lima have experienced growing production of housing for young middle-income consumers, characterised by medium- and high-rise buildings with reduced apartment sizes, concentrated in previously low-income neighbourhoods (Borsdorf et al., 2007; Cummings, 2015; Delgadillo, 2010; Gaffney, 2016; López-Morales, 2016b). This urban development model has been identified by Davidson and Lees (2005) as 'new-build gentrification' in London and elsewhere in the Global North; however, it seems that the concept is even more significant in the context of inner-city areas in the Global South when compared with Western experiences (Inzulza-Contardo, 2016; López-Morales, 2016b). We address this assumption for the case of Lima.

The growing presence of medium- and high-rise buildings has resulted in several socio-spatial impacts experienced by sitting residents, such as worsening living conditions and permanent transformations in the social dynamics of neighbourhoods (Casgrain and Janoschka, 2013; López-Morales, 2016b). Moreover, several authors have identified

various forms of displacement of lower-income sectors, which correspond to classic gentrification dynamics (De Mattos, 2007; Delgadillo, 2010; Inzulza-Contardo, 2016). Some scholars argue, however, that the increasing presence of medium- and high-rise condominiums does not necessarily induce residential displacement in the short term, though they point out that the new developments do gradually affect rental and housing prices to the point that lower-income families are excluded from living in areas that they traditionally occupied (López-Morales, 2016a; Sabatini et al., 2017).

One predominant topic debated among urban scholars focusing on Global South cities is the role of middle-class groups as gentrifier agents. These scholars argue that the influence of the middle classes appears to be weaker compared with other factors, such as the increasing influence of real estate companies on the design of urban space (Lees, 2014; López-Morales, 2015, 2016b) or the growing influx of tourists with high purchasing power creating the local demand needed for housing markets to generate surplus value (Cocola-Gant, 2018). Several authors, in turn, have problematised such a clear-cut categorisation of the agents involved and their assumed roles. These scholars stress the complexity and ambivalent roles of old and new agents (Gillespie, 2016; Leitner and Sheppard, 2017; Van Noorloos et al., 2019). For example, a global trend that has been noted in Europe and in Latin America is that small-scale middle-class investors acquire properties in strategic areas – not to inhabit them but to place their money in what they consider the safest and most profitable investment option (Arreortua, 2013; Hochstenbach and Boterman, 2017). The relatively new involvement of young middle-class *Limeños* in such practices and the intertwined political and economic processes that lead to this are at the core of our analysis.

The purpose of this article is to show how gentrification in Lima involves middle-income sectors in ways that have not yet been explored in depth for Latin America. Based on a case study of Barranco, one of Lima's most unequal and segregated districts, we describe the specificities of an investment model connected to tourist platforms that drives the construction of high-rise apartment buildings for the short-term rental market. This model has created opportunities for capital accumulation that are being discovered to a large extent by middle-class groups. We argue that this model has a deep socio-spatial impact for two reasons. First, typical adobe houses are being replaced by high-rise condominiums that serve as temporary accommodation for a floating population. Second, sitting residents suffer permanent consequences for their quality of life and also experience a process of exclusionary displacement. This paper aims to shed light on current trends of Latin American gentrification, which are not characterised by the physical affluence of the urban middle classes but rather by their growing financial power.

## Methodology

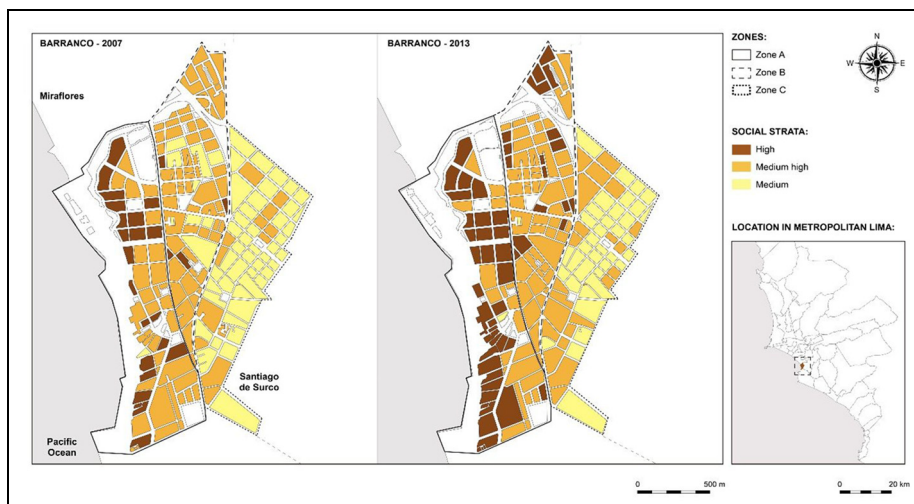
We investigated the case of Barranco spanning the period between 2007 and 2017. This period coincides with the years in which Lima experienced a real estate boom. Our research used a mixed-methods approach and was conducted in the field during three periods. We used two strategies for data collection: analysis of secondary sources and semi-structured interviews. The first strategy consisted of collecting information from four main sources: (1) population and housing censuses, which are considered the most important compilation of information about the demographic profiles of Latin American populations (Chackiel, 2002); (2) annual studies of the urban market (CAPECO), which provide statistical information on

construction activity and a detailed characterisation of housing supply and demand, by district, for Lima's metropolitan area; (3) the quantity, spatial distribution and evolution of short-term rentals offered in the most popular platforms that concentrate the supply of short-term rental apartments in Lima: Airbnb and HomeAway; and (4) we consulted other relevant sources such as official documents, press and media publications; and documents from ten real estate companies operating in Barranco.

The second strategy consisted of 48 in-depth interviews with respondents from four different groups: 'long-term residents' living in the district before the housing boom (eight interviews); 'new residents' who have been living in the district for fewer than five years (eight interviews); 'new apartment owners' who live elsewhere and use the property in Barranco for investment purposes (four interviews); and 'key informants', who either work directly in the real estate sector (ten interviews), are public employees (eight interviews) engaged in the district's urban planning, or are activists who belong to social movements and have a critical view of the growth of the short-term rental business (ten interviews). Through this mixed-methods approach, we grapple with the ways in which the dominant message of the investment portfolio is framed and we examine how the growth of the short-term rentals sector in inner-city Lima affects the quality of life of sitting residents. All interviews have been anonymised.

## Barranco: The new hub of Lima's real estate boom

Barranco is a formal Lima district with a local municipal administration. It is part of the administrative Province of Lima, which, together with the Province of Callao, makes up a metropolitan area with ten million inhabitants. To understand the causes that



**Figure 1.** Zones and social stratification in Barranco 2007, 2013.

Source: INEI (2009: 15; 2016: 19).

triggered the construction boom in Barranco, three explanatory factors need to be taken into account: Barranco's socio-spatially fragmented structure, its 'bohemian' image and the real estate boom that affected Lima's inner-city districts more broadly over the years 2007–2017.

To start with the first factor, according to INEI (2017), Barranco's population belongs to medium and high socio-economic strata.<sup>1</sup> However, income indexes in Peru seem to be insufficient to assess the complexity of differences between members of the same socio-economic stratum. In Latin America, the class composition differs from that of societies in Europe and the USA. The majority of middle-class groups in the region do not have access to a social welfare system and most of them only recently came out of poverty, making them much more vulnerable than in Western countries (Dávila, 2016; Zolezzi, 2003). Moreover, the economic distance between social strata, combined with differences related to other indicators such as the quality of housing and access to basic services, result in a greater heterogeneity

between classes. Barranco's class composition exemplifies these disparities.

The municipality of Barranco is subdivided into three zones, each with significant social and territorial characteristics (MDB, 2016). Zone A is a fringe close to the coast dominated by households from the high stratum; Zone B is dominated by the medium-high stratum; and Zone C is dominated by a population within the medium stratum (see Figure 1). Yet, within the three zones there are pronounced internal economic differences. In Zone A, for example, the areas closest to the coast contain luxury properties that are significantly more expensive than those situated immediately behind the coastal roads. Based on apartment listings obtained from *Urbania.pe* (2017), the largest Peruvian real estate portal, apartments along the coast are valued at US\$500,000 on average. According to a real estate agent, a household would have to receive an estimated monthly income of US\$5000 in order to acquire one of these properties. This is 7.5 times more than the US\$660 that is the lower limit of the highest stratum. Meanwhile

apartments behind the coastal roads are valued at US\$120,000 on average, making them more accessible to middle-class consumers (personal communication, 10 February 2019). In contrast, in Zone C the section of the population belonging to the medium stratum lives in *quintas* and *solares*,<sup>2</sup> as well as in other types of family dwellings, which face overcrowding, inadequate sanitation and poor material conditions (INEI, 2007a). During the last decade, the population of Zone B gradually changed from a predominantly medium stratum to a medium-high stratum (INEI, 2009, 2016) (see Figure 1).

The second factor in the construction boom concerns the status of Barranco as the most cultural and artistic district of Lima. The bohemian image of Barranco is an intangible value that is highly appreciated by the real estate sector and is often used in marketing strategies when selling apartments. An illustration of this is the common names given to the new high-rise buildings, such as Boem, Art & U, Atelier, Art & Barranco, etc. In fact, the municipal authorities and real estate officials stated that the particular atmosphere of the district has attracted an influx of new 'more sophisticated' social groups such as young professionals and tourists, thus creating a unique option for real estate investment (personal communications between May and July 2017). In line with Florida's (2002) creative class thesis, Mathews (2010) and Inzulza-Contardo (2016) claim that social groups attracted by a 'creative' atmosphere are becoming 'contemporary gentrifier' agents in several cities around the world.

The third factor is the housing boom that occurred in Lima between 2007 and 2017, during which period the price per square metre increased by 293% (BCRP, 2016, 2017). With a population of 11.6 million, Lima is the fifth largest metropolis in Latin America (INEI, 2017). It is distinguished by two main geographical areas: Central Lima,

which encompasses most residential areas, infrastructure and services, and Peripheral Lima, which is developed through informal occupation of land under self-construction formulas and progressive consolidation. Although the increase in the price per square metre was a universal phenomenon, prices in Central Lima grew three times more than in Peripheral Lima (CAPECO, 2008, 2017). Within the central area, a cluster of five districts (San Isidro, Miraflores, San Borja, La Molina and Barranco) known as 'Top Lima' is considered the most privileged. Top Lima houses the populations with the highest social status and the highest income levels (CAPECO, 2017). According to the general manager of the real estate company Ciudadaris, the privileged composition of the population in these five districts has transformed the real estate market from demand-based to speculation-based (*Gestión*, 2017). The pressure of speculative investment has been accompanied by an increase in prices per square metre, but also by a reduction in apartment sizes (see Table 1). Gradually, in Top Lima, the production of one-bedroom apartments has begun to dominate over three-bedroom apartments (CAPECO, 2008, 2017).

Hector Dasso, the general manager of the real estate company Octagon, stated that the reduction in apartment sizes and number of rooms in Top Lima corresponds to the demographic profile of potential clients: young professionals eligible to obtain a small mortgage. He claimed that, for many of them, it has become economically impossible to buy a two- or three-bedroom apartment. Instead, they first buy a one-bedroom apartment to rent out to tourists or international business executives and use the income from the rent to pay their mortgage (*El Peruano*, 2018).

According to some buyers of new apartments in Barranco, buying a small 'investment property' initially, with the prospect of buying a 'second larger property' is the only possible way to acquire a home large enough

**Table 1.** Prices per square metre and apartment sizes in Top Lima districts.

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average m <sup>2</sup> price	756	814	946	1067	1864	2064	2148	2156	2205	2242	2297
Average apartment size in m <sup>2</sup>	148.5	143.2	143.1	140.1	138.0	133.8	133.6	132.3	121.1	107.9	103.8

Source: CAPECO (2008, 2018).

for them to live in permanently. This two-step buying pattern can also be seen in other metropolises, where central areas have become places of transit; a first step towards a permanent residence and an ideal opportunity to profit from real estate speculation (Contreras, 2011; Davidson and Lees, 2005).

Over the last four years, the price per square metre in Barranco has exceeded that of San Isidro, the wealthiest district of Lima (CAPECO, 2017). Since 2014, prices per square metre in San Isidro have increased by 4%, while in Barranco they have increased by 22%. Today, Barranco is the most expensive district, with prices per square metre reaching US\$2581. Paradoxically, it also has the smallest apartment sizes, with an average of 53.7 m<sup>2</sup> (CAPECO, 2018). According to Urbania.pe (2017), the increase in Barranco's price per square metre was steered by the 'bohemian' appeal that the district has for artists, foreigners, young professionals and young couples.

The intensification of real estate projects in Barranco corresponds with one additional factor. The municipality of Lima lacks an urban development master plan, which would be necessary to manage and regulate real estate projects (Fernández, 2015). As a result, district municipalities freely negotiate with the private sector on building regulations. This has enabled the municipality of Barranco to relax building regulations to attract project developers. Until 2017 Barranco had the most flexible building

regulations of the Top Lima districts. On average, the legally required minimum area for a one-bedroom apartment in Top Lima was 76 m<sup>2</sup>, while in Barranco it was 25 m<sup>2</sup>. Moreover, until 2017, Barranco had no legal framework to secure a minimum size for housing units. One former official of the municipality explained that through this lack of a legal framework, zoning regulations in Barranco non-committally referred to the broad guidelines issued by the overarching rules of the Ministry of Housing (personal communication, 25 July 2017). This was an advantage for real estate companies: they could build smaller apartments to drive up prices per square metre. Senior officials of real estate companies stated that the flexible construction parameters in Barranco have been highly attractive for project development, turning it into the 'most competitive district' in Lima (*Semana Económica*, 2015). This pattern, whereby construction regulations are strategically relaxed with the aim of attracting real estate investors, has also been described for Santiago de Chile, Mexico City and São Paulo (De Mattos, 2007; Delgadillo, 2010; López-Morales, 2016b). Lima can be added to the list of Latin American metropolitan areas that manifest such an urban extractive pattern.

One senior official from the municipality stated that relaxing construction permits has brought new developments that have improved derelict areas and produced new employment opportunities (personal



**Table 2.** Housing types in Barranco in 2007 and 2017.

Type of dwelling/year	2007	2017
Independent house	5646	4832
Dwelling in a 'quinta'	1872	1387
Dwelling in a 'solar'	401	302
Apartment in building	2456	6961
Others	64	82
Total	10,439	13,564

Source: INEI (2007b, 2017).

communication, 5 June 2018). Similarly, Hector Cerpa, a former municipal official of Barranco, stated that the district's 'bohemian spirit' has attracted real estate investments that revitalised some areas formerly considered crime hotspots and dangerous for tourists (*Semana Económica*, 2016). In other words, the narrative of the local authority stresses how the intensification of private investment in so-called 'deteriorated areas' helps to reduce crime rates and improve the overall image of Barranco.

We follow Davidson and Lees (2005: 1186) who state that gentrification is considered by politicians and urban planners as a 'panacea' to solve social, environmental, economic and even educational and health problems in cities. This argument is particularly significant for Global South scenarios, where the private sector is expected to replace the role of inefficient public administrations. Ironically, several studies reveal that gentrification has generated new urban conflicts, intensified social inequalities and accentuated spatial segregation in both Global North and Global South scenarios (Arreortua, 2013; Leitner and Sheppard, 2017).

### The role of rent-seeking middle classes

As stated in the introduction, the scholarly debate has shown that in Latin America

gentrification is not necessarily driven by the desire of middle-income consumers to move to a certain part of the city. The desire to find the best investment possibility for family savings is an explanatory factor that merits more attention. In our case, the intertwined economic and political processes evidence a pattern in which the involvement of tourists, the middle classes and real estate agents have turned into a catalyst for gentrification. This new pattern redefines the roles of gentrifier subjects in new ways.

The relaxation of the construction policies in Barranco resulted in the verticalisation and densification of the district. The construction of medium- and high-rise condominiums replaced the existing adobe family houses (see Table 2). The new developments contain between 50 and 200 one-bedroom apartments built under a condominium regime, with horizontal property rights and collective private services such as swimming pools, gymnasiums, barbecue areas and games rooms. The common amenities are a substitute for the lack of space in the dwellings which, because of their small size, predominantly serve the purpose of sleeping:

[Our] projects are designed under a concept of housing where common areas are prioritised to give the impression of a hotel (...) intended for people who are away during the day and come home at night (...). (Real estate agent, personal communication, 8 July 2017)

The apartments aim to attract young single professionals or childless couples looking for their first house. This target group influences the changing meaning of 'buying your first house' from a more traditional Latin American idea of setting up one's own individual household to postponing the acquisition of a family home in order to earn money through speculation. Consequently, apartments are considered more of an investment possibility than a house to live in, as they are too small to be used as permanent residences. What motivates their acquisition is therefore not the residential qualities of the housing units, but the high return on investment compared with bank savings. A person's first property acquisition serves as a financial catalyst in order to be able to buy a larger residence in the future; they can easily make a down-payment of 10% of the property value, but they do not have enough capital to buy a larger property (senior official of a real estate company, personal communication, 24 June 2017). This two-step process has changed housing production in Barranco from demand-based project development to speculation-based real estate development driven by affluent middle-income groups.

Some current figures exemplify this process. In Barranco, three national real estate companies control 40% of the real estate market (Edifica, 2017). From 2014 to 2019, the most important company operating in the district built 850 apartments. The average price per square metre per unit is US\$2500 and the average size is 40 m<sup>2</sup>. According to a company official, 67% of the apartment buyers were young middle-class investors with well-paid jobs making their first-time real estate investment. Only one-third of the new apartments were acquired to be used as housing (personal communication, 24 February 2018). A colleague from the same company stated:

Our business formula is not aimed at the highest income [...] it is aimed at the large number of young professionals who can easily raise US\$20,000 and who wish to buy their first home in order to become independent or to improve their income in the long term. (Personal communication, 5 February 2019)

The new apartment buyers do not place their properties on the regular rental market; rather, they offer them on short-term rental platforms such as Airbnb and Home Away. They claim that there are several advantages to having temporary occupants over permanent tenants. One of these concerns the reduced risk of having long-term tenants who fail to pay rent, as these temporary platforms offer an automatic payment method, while permanent tenants sometimes incur delays that can lead to tedious court proceedings. Another advantage is related to the savings that these platforms represent in terms of administrative and legal procedures (notary expenses, rental taxes, real estate agent fees, etc.). Finally, the most important advantage concerns higher rents compared with the regular rental market. While a permanent tenant pays a fixed monthly rent, the prices of short-term rentals vary according to the season, and at peak times of the year a total of one month's rent can be obtained in just a few days (personal communications, January and February 2019).

The explosion of the short-term rental business in Barranco is triggered by the great demand for temporary accommodation that is not being met by the current hotel infrastructure. The district receives an average of 250,000 tourists per year. To accommodate these tourists, an average of 4000 rooms would be needed (MDB, 2013). However, according to a municipal official, the district's hostel industry supplies only 820 places, covering less than 20.5% of the current demand. In her view, this is because, despite its touristic attractions, Barranco has

always been considered an unsafe district and the quality of its urban infrastructure is far below that of adjacent districts such as San Isidro and Miraflores (personal communication, 5 June 2017). As a result, those districts concentrate most of the hotel supply, while in Barranco the hotel supply is considerably smaller (MINCETUR, 2016). According to the commercial manager of the real estate company Edifica, although the district's hotel industry is growing, the poor hotel infrastructure in Barranco has been the trigger for the short-term rental business which is gradually replacing it (*El Comercio*, 2016).

The increase in the number of apartments advertised in Home Away and Airbnb corroborates this trend. Between 2016 and 2019, the number of advertisements increased from 243 to 882. From the total advertisements offered, 62% are one-bedroom apartments and 53% are properties that are available all year round (AIRDNA, 2019). Although the majority of the accommodation is in Zone A (45%), the growth of accommodation in Zone B is remarkable, rising from 17% in 2014 to 35% in 2019. This is also paired with the overall upgrade in the social composition of this zone (see Figure 1).

Noticing a growing demand among Lima's urban middle classes for such investments, realtors have expanded their products to incorporate a new option, creating an advanced investment portfolio. The companies now offer package deals that contain a rental management option for a fixed monthly payment to new owners. To do this, the realtors have created subsidiary firms with a different line of business: hotel management. Under these firms, real estate agents advertise on short-term rental platforms the apartments they have previously sold to investors. In this way, realtors capture twice the ground rent: on the one hand, from the properties sold, and on the other, from tourists who request accommodation

in Barranco. According to Juan Carlos Tassara, executive director of the real estate company Edifica, this formula is very beneficial for the owners of the apartments, since it allows them to disassociate themselves from the responsibility of the property at the same time that they obtain benefits from it (*El Comercio*, 2016). Within the scholarly debate, such advanced investment portfolios can be considered as drivers of a specific form of gentrification, which is relatively new in Latin America. In these scenarios, the verticalisation of inner-city districts is paralleled by an increase in a floating population and the involvement of absentee owners from the local middle class.

### **Socio-spatial effects of short-term rentals**

Over the past decade, Barranco, a neighbourhood that was once appreciated for its picturesque streets, has become a high-density area with a predominantly floating population of tourists and newcomers. The ongoing construction works of new apartment buildings have had several socio-spatial effects, mainly affecting sitting residents of lower-income strata. The first one concerns the demolition of traditional adobe houses, to be replaced by medium- and high-rise buildings. Inzulza-Contardo (2016: 1203) refers to this process as a 'new typified gentrification' caused by the displacement of low-density houses. Along the same lines Janoschka and Sequera (2016) and Delgado (2010) state that the landscape of medium- and high-rise buildings is a contemporary expression of gentrification in Latin America and is found in several Latin American inner-city areas.

The second concerns the degradation in the quality of Barranco's urban environment. Several residents complained of diminished views, loss of daylight, sidewalk

blockages and road congestion (personal communications, May to June 2017). The most serious complaints are related to cases where the construction process has damaged the infrastructure of properties adjacent to the new developments. A heritage architect and district activist claimed that the foundations of modern buildings exert such force on the surrounding terrain that they cause cracks in the walls of old adobe houses, which in some cases do not even have columns and therefore are not prepared to support the weight of the large neighbouring masses of concrete (personal communication, 10 July 2017). Although the real estate companies have assumed part of the responsibility for the repairs, the residents have had to cope with the daily hassles of the reconstruction and have also had to initiate long-lasting claim processes in order to be compensated for the damage.

The worsening of Barranco's living conditions has also come to the attention of the media. The 2017 news report 'Barranco in emergency by a predatory real estate boom' collected testimonies from residents living near new buildings, which revealed the effects that these developments have had on their quality of life (Gastelumendi, 2017). In addition, the new developments have also changed the dynamics of interactions between residents. Since most apartments are built to accommodate a temporary population, the nature of the connections between owners, residents and the local community has changed. Moreover, as most condominiums offer private indoor leisure facilities, the need to use public space is reduced and spontaneous street encounters between neighbours have become less frequent, transforming new residents into unknown subjects.

The third effect concerns the change in the residential profile that the district is experiencing. Census data show that between 2007 and 2017 the population of children

(aged 0–15 years) and older adults (aged 70 years and over) declined significantly (19%), to make way for highly educated young adults aged 25–39 years, who became the predominant population group (35%) (INEI, 2007b, 2017). Carbajal (2013) associates this population change with an increasing housing demand and cost of living (habitability conditions). In other words, the changes in the social fabric of Barranco are related to the way in which the housing market is produced. Most of the newly built spaces are small apartments used for the short-term rental business, which implies that other types of housing are excluded from the residential market. This results in a housing market produced solely to capture rent from floating populations, which translates into a systematic increase in prices for new residents while the size of living space decreases. This pattern of housing production thus excludes lower-income strata from obtaining cheap housing in the district. As a consequence, Barranco's gentrification process is causing forms of exclusionary displacement similar to other urban areas experiencing an expansion of short-term rental platforms (Cocola-Gant, 2016; Gil and Sequera, 2018). Accordingly, understanding the pressures generated by this type of investment portfolio implies understanding the experiences lived by residents before direct displacement occurs (Gil and Sequera, 2018).

## Discussion

The empirical findings from Lima's central districts are aligned with the broader debate about gentrification in Latin America. The process that Betancur (2014) describes as a 'lag' in gentrification in metropolitan Latin America (which he equates with a lag in research on gentrification in Latin America) seems to be catching up in Lima. Several dimensions discussed in the academic literature apply to our findings. The first

dimension is what Betancur (2014: 5) calls the ‘classing’ of central areas through a nostalgic representation of a republican past as part of architectural heritage (Betancur, 2014; Bromley and Mackie, 2009; Middleton, 2003; Scarpaci, 2005). In Barranco, local authorities and real estate agents eagerly evoke the ‘bohemian spirit’, albeit only in words and not in the type of renovation activities that have been described for Ecuadorian and Mexican cities (Jones and Varley, 1999; Klaufus et al., 2017; Steel et al., 2017). We consider this political discourse to be part of the enabling circumstances of gentrification in Lima.

The second dimension of gentrification in Lima is a tendency towards verticalisation through the construction of medium- and high-rise condominiums. Inzulza-Contardo (2016) and López-Morales (2016b) interpret similar developments in Santiago de Chile as ‘new-build gentrification’. Lima, however, deviates from the Santiago model also described by Borsdorf et al. (2007) and Janoschka and Hidalgo (2014), in the sense that building vertically and building condominiums are paired, on the one hand, with a new type of participation of the local middle class as investors and non-residential owners and, on the other hand, with the influx of tourists and other floating populations. Moreover, instead of a greater repopulation through verticalisation, the increase in the number of apartments between 2007 and 2017 by 283% (see Table 2) was not accompanied by a proportional increase in the population, which only grew from 33,903 to 34,378 inhabitants (INEI, 2007b, 2017). This points to the increase in a temporary population who are the gentrifiers and to their consumption patterns that stimulate ‘cultural dispossession’ (Janoschka and Sequera, 2016). In this sense, the role of the local middle class as investors differentiates Lima’s gentrification process from most other Latin American cities.

The third dimension concerns the narratives used by local authorities to relax municipal zoning regulations in order to allow the real estate market to penetrate Barranco. Similar to other cases found in Buenos Aires, Mexico City and Santiago de Chile, gentrification in Lima is understood as the remedy to solve urban problems, though this obscures its real consequences (Arreortua, 2013; López-Morales, 2016b). The increasing presence of medium- and high-rise condominiums has caused permanent negative impacts on the urban fabric of the district, mostly affecting lower-income residents. Davidson and Lees (2005) and Sequera (2013) argue that gentrification and revitalisation narratives are frequently used to justify neoliberal urban restructuring processes and other exclusionary urban development models. Arguably, a difference between Lima and other Latin American cities is the role of local authorities in the gentrification process. Whereas the local administration in Santiago de Chile deliberately developed a strategy to attract investors (Betancur, 2014: 8), Lima’s district administrations are individually too weak to steer metropolitan planning (Fernández, 2015). This local political weakness could be considered another enabling factor of gentrification in Lima, one from which the large real estate developers and the middle-class investors benefit most.

## Conclusions

Since 2007, Lima has experienced an intense urban renewal process paired with a real estate boom. This process has not affected all urban areas in the city equally. The new housing production has targeted the central areas for speculative purposes. Our focus on the district of Barranco demonstrates that the lack of an overarching urban planning strategy has generated a local setting that has triggered the construction of medium- and large-scale condominiums – with enclosed

recreational facilities and small, yet expensive, studio apartments – which are highly profitable for real estate companies. Although some buyers acquire apartments for their own temporary housing needs, most are rent-seeking middle-class investors purchasing a property for speculative reasons.

The increasing construction of new developments has triggered the displacement of typical adobe houses and has led to several other impacts in the social and physical fabric of the district. The lack of hotel infrastructure in Barranco has generated a scenario in which most of the living space is offered on short-term rental platforms. The real estate companies, through subsidiary firms aimed at administering short-term rental properties, offer convenient package deals aimed at young middle-class investors. These business deals are convenient for such investors, as they relieve them of the responsibility of managing their properties while allowing them to earn high revenues.

Although we found some isolated cases of evictions, the densification and condominiumisation in Barranco has not yet revealed major classic processes of direct displacement of low-income residents, as evidenced in other Latin American cities. In this regard, the relationship between gentrification and displacement seems to be as blurry as in other examples of ‘new-build gentrification’. Therefore, the definition of López-Morales (2015), which emphasises that gentrification focuses on unequal ground rent dispossession whether or not there is a process of direct displacement, seems to be more appropriate to describe the gentrification dynamics taking place in Global South cities such as Lima.


The Barranco case shows that in cities governed by entrepreneurial administrations, small-scale investors play a crucial role in processes of gentrification. Although real estate companies profit most from the rent gap, local middle-class investors sustain the

model. Diverging from scholars who deem the local middle class in Latin American cities to be too passive and weak to be called gentrifiers, we argue that in Lima these groups explain the persistence of the gentrification wave. Our case strengthens debates about the socio-spatial changes occurring in central areas, which are triggered by the complexities of real estate speculation. The Barranco case supports scholarship that solicits a finer, more qualitative line of research in order to establish the exact relationship between new investment formulas and gentrification processes. This is particularly critical in Latin America, where stratification categories are insufficient to determine urban inequalities. Finally, it is essential to understand how the four gentrifying agents referred to in this paper – middle classes, tourists, local authorities and real estate companies – can trigger new and unprecedented urban dynamics that are paradigmatic for the study of gentrification.

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### Notes

1. To determine social classes, Peru uses a division of five socioeconomic strata (low, medium-low, medium, medium-high and high). We concentrate on the three upper strata, since the other categories are almost non-existent in Barranco. The medium stratum earns a monthly income of between US\$270 and US\$400, the medium-high stratum earns a monthly income of between US\$400 and US\$660, while the high stratum earns a monthly income starting at US\$660 (INEI, 2016).

2. *Quintas* and *solares* are small one-storey dwellings made of adobe organised around a patio. *Quintas* consist of multiple small houses of approximately 30 m<sup>2</sup>. *Solares* are multiple small rooms of approximately 12 m<sup>2</sup> (INEI, 2007a).

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