

# Global flows, gentrification and displacement in Melbourne's Inner West

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# Global flows, gentrification and displacement in Melbourne's Inner West

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## Abstract

This paper explores the drivers of the rapid gentrification occurring in the Inner West of Melbourne (Australia) and its consequences for low-income households. We argue that gentrification is driven primarily by the intersection of financial market dynamics, regulatory structures at different levels of government and Melbourne's *urban* accumulation strategy since the 1990s. We present quantitative and qualitative evidence to show that in Melbourne's Inner West that gentrification is exacerbating the housing affordability crisis and excluding low-income households from the area. Our findings confirm many of Newman and Wyly's (2006) observations regarding the hidden costs of gentrification. They also raise concerns about the use of mobility and displacement rates in recent quantitative studies of gentrification-induced displacement. We conclude that the financial and immigration processes driving gentrification in Melbourne's Inner West may become increasingly important for sustaining consumption levels in other 'creative' and 'liveable' 2<sup>nd</sup> tier world cities in the coming decades.

Keywords: gentrification, housing markets, displacement, capital flows

## 1. Introduction

The paper makes three contributions to the extensive literature debating the causes of gentrification and its consequences for low-income households. First, through a case study of Melbourne's Inner West (Australia), we provide a novel explanation of the extra-local causes of gentrification. We demonstrate that gentrification in Melbourne's Inner West is driven by the intersection of regulatory structures, financial market dynamics and global and intra-urban flows of people and capital. Further, we suggest that similar processes may be increasingly important drivers of urban growth in other 2<sup>nd</sup> and 3<sup>rd</sup> tier world cities in the coming decades. Second, we present quantitative and qualitative evidence *consistent with* gentrification-induced displacement and confirm Newman and Wyly's (2006) finding that gentrification imposes various 'hidden costs' on low income households. Third, drawing on our field research, we argue that recent quantitative studies comparing mobility and displacement rates between gentrifying

and non-gentrifying neighbourhoods may be confounded by the fact that gentrification creates barriers and disincentives to mobility.

The paper comprises four remaining sections. Section 2 reviews *briefly* the debate about the causes of gentrification and its effects on low-income residents. Section 3 describes the non-local factors producing Australia's and Melbourne's housing affordability crisis. Section 4 connects these country and city-wide processes to the mobility patterns driving gentrification in Melbourne's Inner West. Section 5 describes how low-income households in Melbourne's Inner West are affected by and responding to the housing crisis and gentrification. Section 6 concludes by arguing that the macro-regulatory structures, financial market processes and Melbourne's overarching urban accumulation strategy are the primary drivers of gentrification in Melbourne's Inner West, and asks whether similar processes will become increasingly important in other 'liveable' developed world cities in the coming decades. It also raises potential problems with how displacement has been measured quantitatively in recent literature, and suggests a possibly fruitful way forward.

## **2. Literature review**

Since Glass's (1964) seminal study, there has been an ongoing academic debate over whether gentrification – the production of urban space for progressively more affluent users (Hackworth 2002) – causes the involuntary displacement of low-income residents and, to a lesser extent, exclusionary displacement' (Marcuse, 1986).

This debate was re-invigorated by Freeman and Braconi (2004), who found that lower income households living in New York are no more likely to move out of a gentrifying suburb than they are to move out of a non-gentrifying suburb. Vidgor et al (2002), Freeman (2005) and McKinnish et al (2008) produce similar results. In response, Newman and Wyly (2006) argue that the data sources used by Freeman and Braconi (2004) and others do not allow for accurate measurement of the displacement rate. Further, the quantitative methodologies employed do

not capture the 'hidden costs' of gentrification; such as people spending more on rent, overcrowding accommodation, and accepting falling housing standards in order to 'stay put'.

Academic studies of displacement feed directly into the broader political and ethical debate about whether in a market economy peoples' rights to place and community extend beyond their 'ability to pay'. Slater (2006) warns that studies like Freeman and Braconi (2004) are inappropriately cited in policymaking circles to diffuse social justice concerns about gentrification. Further, the strategic relabelling of gentrification as 'social mixing' and 'urban regeneration' aims to obfuscate the potential negative effects for low-income incumbents (Smith, 2002; Lees, 2008; Slater, 2006; Davidson, 2008).

There are three broad, but not mutually exclusive, theoretical explanations of what causes gentrification; which we label the rent-gap, cultural, and post-Fordist/world cities explanations. First, Smith (1979: 545) states that gentrification occurs when the rent gap, defined as "the disparity between the potential ground rent level and the actual ground rent capitalized under the present land use", is large enough to entice new capital back into a devalorised area. For Smith (1979, 1996) gentrification is first and foremost an expression of the capitalist process playing itself out in a context where assets are fixed in space and depreciate in a spatially clustered manner. The 'rent gap' occurs because the buildings in a neighbourhood are typically built around the same time and depreciate at a similar rate. Whilst a growing rent gap constitutes a potential profit opportunity, coordination problems prevent individuals from closing rent gaps as soon as they emerge. Large investors are best placed to address these coordination problems and, therefore, often play an important role in reversing the disinvestment cycle (Diappi and Bolchi, 2008; Porter, 2010).

Second, gentrification can be explained as a shift in middle-class consumption preferences and identities (Ley, 1996). For some, gentrification expresses a rejection of middle-class suburban identity (Caulfield, 1989). Jager (1986) sees the renovation of Victorian-era houses in Inner Melbourne as a vehicle through which the inner urban middle-class can define

its social boundaries whilst jockeying for within-group social position through demonstrations of 'good taste'. Florida (2002) and Zukin and Kosta (2004) suggest that the cultural changes associated with neighbourhood gentrification, at least in the early stages, foster a creative milieu that feeds back into local economic innovation and growth. In these analyses, the re-injection of capital into an area is preceded by, or coincides with, with its cultural revalorization.

The economic restructuring associated with post-industrialization and economic globalization is another important driver of gentrification. A shift towards CBD-centric, service sector employment has increased demand for inner city housing (Lipton, 1977; Hamnett, 2003). Gentrification is particularly marked in 'global cities' that intermediate global flows of money and information (Sassen, 1991; Hamnett, 1994).

A central argument of this paper is that the rapid gentrification of Melbourne's Inner West cannot be fully explained simply by synthesising these broad perspectives. In the following sections, we argue that gentrification in Melbourne's Inner West is driven primarily by extra-local processes such as the regulatory framework in which the Australian housing market operates and Melbourne's urban accumulation strategy since the mid-1990s, which relies heavily on inflows of financial and human capital.

### **3. Australia's Housing Crisis**

Gentrification of Western Melbourne's Inner West is intimately related to a housing affordability crisis that has emerged in Australia's largest cities since the late-1990s. This section delves into the drivers of this crisis to establish the links between regulatory frameworks, Melbourne's accumulation strategy and gentrification at the local level, which is discussed in more detail in the next section.

Since 1996, Australian house price inflation has been amongst the highest in world, outpacing even the US, whose property bubble unwound with devastating consequences in 2008. Whereas housing affordability has stabilised or improved in London and New York as a

consequence of the global financial crisis (GFC), in Melbourne it has continued to decline. It now approaches Vancouver as the world's most expensive in terms of housing (Table 1).

Table 1. Housing affordability (pre- and post-GFC) and liveability rankings, selected cities.

City (Country)	Ratio of median house price to median household income  Source: Demographia  (2006,2010)		City liveability ranking, 2010  Source: Economist Intelligence Unit  (2010)
	2005	2009	
Melbourne (Aus)	6.4	8.0	3 <sup>rd</sup>
Vancouver (Can)	6.6	9.3	1 <sup>st</sup>
London (UK)	6.9	7.1	54 <sup>th</sup>
New York (US)	7.9	7.0	56 <sup>th</sup>

Melbourne's housing crisis is shaped by regulatory frameworks operating at different levels of government. In Australia, the family home is insulated from federal and state taxation, which has contributed to high rates of home ownership. Since 2000, to improve housing affordability, both the federal and state governments have subsidised first home purchases through grants of up to \$21,000.

The national taxation system also creates strong incentives to invest in property. In 1989, the Labor Federal Government re-introduced a system of 'negative gearing', which allows investors to deduct accumulated losses and interest payments on investment properties from their taxable income.<sup>1</sup> Since 1999, investors have been given a 50% discount on capital gains

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<sup>1</sup> According to the Reserve Bank of Australia (2003), these negative gearing provisions are more generous than comparable concessions in other countries. Negative gearing tax concessions rose from \$600 million in the 2001-02 tax year to \$3.9 billion in 2004-05 and over \$5 billion in 2008-09 (about \$200 per week per investor), which represent 4% of national income in foregone tax (Colebatch, 2010).

earned on assets held for more than one year. Together, these tax concessions increase the incentive to borrow, invest and speculate in assets that produce their returns through capital gains. By 2010, according to the Australian Tax Office, one in every ten Australian taxpayers had become a 'negatively geared' landlord (Colebatch, 2010).

In recent years, household debt has grown rapidly as (young) households pursued the 'great Australian dream' of homeownership and borrowed to invest in property. Rising housing prices have underpinned consumption, both through 'wealth effects' and by increasing the capacity to borrow for consumption. Between 1995 and 2009, household debt increased from 54.2 percent to 138.2 percent of disposable household income (RBA, 2010). A large percentage of this credit was sourced by Australian banks from global markets. The 2004 and 2007 Federal elections were fought largely over which of the two major political parties could contain inflation and keep official interest rates low.<sup>2</sup>

It was originally envisaged that state 'subsidies', such as negative gearing and first home-owner grants, would augment supply and put downward pressure on house prices. Three broad explanations have been posited for why housing prices have continued to rise, especially in the inner areas of Australia's major cities. First, it is argued that a combination of government incentives and easy credit created a surge in demand "to which supply was inherently incapable of responding to" (Productivity Commission, 2004:18). For some commentators, the sustained increases in prices are attributable to 'irrational exuberance' in the Australian property markets (e.g. Keen, 2010). The GFC confirmed that housing market bubbles can occur independently of supply-side constraints even in advanced market economies (Cooper, 2008).

Second, other commentators focus on supply-side constraints. In Melbourne, some point to the Urban Growth Boundary in Melbourne and slow building approval processes (Demographia, 2010). Others suggest that private property developers are delaying the release

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<sup>2</sup> In Australia, the interest rate on most home loans is variable and is tightly linked to movements in the central bank's cash rate.

of land for home construction so that they can maximise profits, especially on the urban fringe (Dobbin and Dowling, 2010). Conflict over access to land is particularly intense in inner city areas. Here, property developers and the Victorian state government, which is promoting urban consolidation in Melbourne, often come into conflict with local communities and councils who resist 'inappropriate' high-density developments because they damage neighbourhood amenity and heritage.<sup>3</sup>

A third explanation for lagging supply is the high level of immigration, especially to Sydney and Melbourne; Australia's largest cities. Since the mid-1990s, Australia has depended heavily on skilled migration to address perceived skill shortages and preserve the tax base of an ageing population. From the mid-1990s until 2004, net immigration to the state of Victoria averaged around ~0.4-0.5% of total population per annum, after which it increased to a high of ~1.5% in 2009 (ABS, 2009). These net immigration rates are high by developed country standards.

Skilled immigration is intimately linked to the fortunes of the Australian education sector. Prior to gaining permanent residency in Australia, many skilled migrants study at Australian educational institutions as full-fee paying students, often in fields of study that improve the chances of gaining permanent residency (Birrell and Perry, 2009). Education is now Victoria's largest export sector, having grown nearly six-fold in terms of earnings between 2000-01 and 2008-09, with the majority of industry located in Melbourne (ABS, 2009). Foreign students are an important source of demand for apartments in Inner Melbourne, both as purchasers and renters (Fincher and Shaw, 2007; 2009). Atkinson and Easthope (2008) argue that education sector exports and continued inflows of the global 'creative class' rely heavily on the various amenities provided by Australia's large cities, particularly their inner suburbs and university areas.

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<sup>3</sup> In Melbourne, this is epitomised by the Save Our Suburbs organization ([www.saveoursuburbs.org.au](http://www.saveoursuburbs.org.au)).



We argue that the economic success of *urban* Australia since the mid 1990s cannot be explained solely as ‘creative industries’ success story, or in terms of wealth ‘spilling-over’ from the booming mining sector. Melbourne’s accumulation strategy, however, relies heavily on continued injections of foreign financial capital into urban housing markets to drive consumption growth. Most clearly, large inflows of foreign capital are intermediated by domestic banks and translate into increased household debt in the Australia’s large cities. These inflows are reflected in persistently high trade deficits and increasing levels of net foreign private debt.<sup>4</sup> Less appreciated, however, are the large capital transfers that occur when new migrants and students come to Australia, purchasing housing and financing domestic consumption through offshore wealth. Inflows of capital not only sustain high levels of urban consumption but, given supply-side constraints, help drive property prices beyond levels affordable given average local wages especially within desirable inner-city locations. At the same time, continued property price appreciation augments domestic wealth which, when combined with an strong and appreciating currency, feedbacks into an increased capacity of banks and households to borrow offshore for geared investment and consumption.

The major beneficiaries of Melbourne’s urban accumulation strategy and of the existing regulatory structures are the propertied class, including older home-owners, leveraged investors and financial institutions . Different levels of the Australian government also draw revenue from property-lined taxes. When asset prices are rising, the federal government collects more capital gains tax, the state government collects more ‘stamp duty’ on property transactions, and local governments collect more local ‘rates’, which are linked to property values.

The importance of foreign capital inflows to Australia’s urban accumulation strategy was brought into sharp focus during the GFC. Australian banks were suddenly cut off from

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<sup>4</sup> Between 1995 and 2009, despite a commodity price boom, Australia borrowed heavily offshore to cover persistent trade deficits. In this period, net foreign debt (public and private) as percentage of GDP increased from 49% to 61% (RBA, 2009). The level of capital inflows is somewhat ‘diluted’ by appreciation of the Australian dollar that has accompanied commodity price increases as well as the capital inflows themselves.

short-term foreign finance and investors feared that property prices would fall steeply as seen in the UK and US. In response to the threat of debt-deflation, the Australian government, among other things, provided a blanket guarantee to foreign depositors to ensure that domestic banks could roll over short-term foreign debts. It also reduced barriers to foreign investment in Australian real estate<sup>5</sup> and gave cash ‘hand outs’ to households to boost consumption. During the same period, net immigration rates peaked, underpinning housing demand. Concurrently, the central bank drastically cut official interest rates. In Keynesian terms, these interventions stabilised aggregate demand and asset prices. Viewed from an urban perspective, however, the government’s actions (intentional or otherwise) ensured that the necessary conditions for Australia’s *urban* accumulation strategy since the mid-1990s – foreign capital inflows, skilled and wealthy immigration, real estate price appreciation, and high levels of debt-finance consumption – were preserved by further opening Australian cities to global flows of people and capital.

#### **4. The Crisis in Melbourne’s Inner West**

Melbourne’s regulatory structures, housing market dynamics and urban accumulation strategy based on continued inflows of people and global are critical to explaining the rapid gentrification of Melbourne’s Inner West, and its uneven effects for different income groups. In this section, we explain how gentrification is unfolding in the area, highlighting how unequal outcomes for existing low-income residents are linked to city-wide processes.

For our purposes, we define the ‘Inner West’ as the municipality of Maribyrnong, which encompasses the rapidly gentrifying suburbs of Yarraville, Seddon, Kingsville and Footscray (see Figure 1). The Inner West is separated from the rest of Melbourne both physically and psychologically from the rest of Melbourne by the Yarra and Maribyrnong Rivers. For much of the 20<sup>th</sup> century, the local economy was dominated by heavy industrial activities and the nearby

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<sup>5</sup> In April 2010, the Australian government revoked these changes after widespread complaints in the electorate that offshore investors were driving up housing prices.

Port of Melbourne. The area's ageing Victorian-era workers' cottages provided cheap housing for manufacturing workers, many of whom were recent migrants that had arrived as part of Australia's post-WWII immigration boom. These localities, however, were the 'losers' of Australia's 1980s switch to an accumulation strategy based on international competitiveness, which resulted in the withdrawal of various industry supports and the shattering of manufacturing employment (Fagan and Webber, 1999; Webber et al, 1991). By this time, the much of Victorian-era housing stock was run-down. Many old houses had already been bulldozed to make way for units and 'walk-up' flats targeted at lower-income earners. These economic, social and housing stock changes reinforced the perception amongst many Melbournians that the Inner West – and Western Melbourne more broadly – was somehow separate from the rest of city, both geographically and in terms of its 'Westie' working class identity.

Three developments since the mid-1990s primed the Inner West for gentrification. First, the city's docklands development (circa 2000) was able to reclaim the underutilised land on the western side of the CBD, bringing the Inner West 'closer' to the city. Second, a number of large rail and road infrastructure projects better connected the port and the Inner West with the rest of the city. Finally, the area retained many houses with a late-Victorian aesthetic; something highly valued by the Australian middle-class (Jager, 1986; Shaw, 2004).

[Figure 1 here]

By several different measures, the pace of gentrification in the Inner West has been rapid. Between 2001 and 2006, the proportion of 15-64 year olds who held a bachelor degree increased from 16.8% to 25.0% in Maribyrnong, compared to an increase from 17.8% to 21.7% for Melbourne as a whole. Likewise, the percentage of employed residents working in managerial and professional occupations increased from 30.3% to 34.6% in Maribyrnong, compared to an increase from 33.3% to 35.0% for Melbourne as a whole (ABS, 2006). Between

2001 and 2006, median household income in Maribyrnong increased by \$275 to \$1117, whereas in Melbourne as a whole it increased by \$198 to \$1242.

Gentrification is evidenced by disproportionate increases in housing prices in the Inner West, the city-wide affordability crisis notwithstanding. Between 1996 and 2008, the Inner West's housing prices increased by 336%, compared to 277% in 'Middle and Outer Western Melbourne' and 265% in the rest of metropolitan Melbourne (Figure 2).

[Figure 2 here]

Since 2005, rental affordability<sup>6</sup> has declined rapidly in the Inner West, falling below the Melbourne average by June 2009 (Figure 3). Figure 3 demonstrates that areas further west of the CBD – i.e. the municipalities of Brimbank and Wyndham – retain significant proportions of 'affordable' rental properties.

[Figure 3 here]

To explore quantitatively whether the gentrification of the Inner West is displacing low-income households we, first, analysed changes in the number of Health Care Card holders in the Inner West. In Australia, people of working age with low-incomes or receiving welfare payments are entitled to a Health Care Card, which provides access to a range of travel and government concessions. Figure 4 shows that between 2001 and 2006, the proportion of people with Health Care Cards fell disproportionately in the inner suburbs of Melbourne, including Yarraville and Footscray. This suggests that ongoing gentrification of Inner Melbourne, and the Inner West in particular, is associated with increasing exclusion of low-income households.

[Figure 4 here]

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<sup>6</sup> In Australia, rental housing is defined as 'affordable' when households in the lower forty percent income brackets pay more than 30% of their gross income on housing.

Second, we mapped the *net* flows of persons through our 'Inner West' and other areas of Melbourne, as well as *gross* inflows of people from overseas. This was achieved using unit record data from the 2006 Australian Census that identifies where people lived 5 years ago; either elsewhere in Melbourne or overseas. To explore class dynamics, we separated the flows of persons that had completed a bachelor degree (or a higher level qualification) from those that had not.<sup>7</sup> Persons below 20 years of age, not in the labour force (i.e. including retirees) and those studying<sup>8</sup> were excluded from our analysis because of their particular mobility characteristics.

Several important points emerge from our analysis, summarised in Figure 5. First, persons that arrived in Melbourne from overseas between 2001 and 2006 demonstrate a high preference for settling in 'Inner Melbourne'. For example, 50.5% of persons living overseas in 2001 settled in 'Inner Melbourne', whereas only 34% of Melbourne's total population in 2006 lived in this area. Further, 64.1% of these overseas arrivals had a bachelor degree or higher, compared to 27.2% of all Melbourne residents and 44% of 'Inner Melbourne' residents. These inflows from overseas were augmented by inflows of university-educated persons from the rest of Melbourne's outer suburbs. Maribyrnong, our 'Inner West', also attracts a disproportionate flow of recent overseas arrivals (2.7%) relative to its share of Melbourne's 2006 population (1.7%). Of the recent arrivals to the Inner West, 54.6% held a bachelor degree or higher, compared to 34% for Melbourne as a whole. Put simply, international immigration is an important driver of gentrification in the Inner West, both in terms of direct flows to the area and in terms of 'knock on' effects from population growth in Inner Melbourne.

The Inner West is also the destination for many households leaving Inner Melbourne, both university and non-university graduates. This net *inflow* is associated with a roughly equivalent net *outflow* to Outer Western Melbourne. Importantly, 84% of those persons leaving

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<sup>7</sup> We have carried out similar analyses focussing on occupational variables (managers and professionals) and those above and below certain income thresholds. See Figures 6 -8 in Appendix 1.

<sup>8</sup> Students were removed as this group is highly mobile and is likely to reside temporarily close to universities, which are clustered in the Inner areas of Melbourne, and because many foreign students returns home after completing their course.

Maribyrnong for more affordable areas further from the CBD are not university graduates.<sup>9</sup>

Overall, Figure 5 suggests a cascading process of displacement in which the city is being reordered as net inflows to Inner Melbourne of highly educated households, especially from overseas, 'push' other groups outwards (see also van Criekingen, 2008). These mobility patterns are causally connected to Melbourne's urban accumulation strategy discussed previously.

Before progressing, it is worth noting that 55.5% of in-movers to Maribyrnong during 2001-2006 worked in 'Inner Melbourne' compared to 43.7% of incumbents. Many of these people worked in the tertiary services sector in the CBD. Thus, the gentrification of the Inner West is linked to the growth of inner city service sector and Melbourne's emergence as a world city (see Hamnett, 2003; Sassen, 1991).

## **5. The response of low-income households**

The quantitative analyses in the previous section *suggest* gentrification-induced displacement. It could be argued, however, that the disproportionate falls in the number of Health Care Card holders in the Inner West are attributable to gentrification-induced job creation. Likewise, in relation to Figure 5, it is difficult to determine to what degree out-movements were involuntary or attributable to the city-wide affordability crisis. To corroborate these quantitative analyses, we undertook eighteen interviews with social service workers involved in the provision of social housing and other material support to low-income household in Melbourne's Inner West as well as a focus group with residents living with a disability. Interviews focused on how local residents were responding to the local affordability crisis and did not canvass informants' views on gentrification directly to avoid the biasing of responses.

Before beginning, it should be noted that Australian tenancy laws mean that most low-income households rent their accommodation on initial leases of six to twelve months. The option to renew a lease is not automatic and, after the initial lease expires, many people rent on

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<sup>9</sup> These figures do not capture the fact that many university students have also moved to Maribyrnong in recent years as they have been 'exclusionarily displaced' (Marcuse, 1986) from the rental markets closest to the inner city universities.

a month-by-month basis. This gives landlords significant power to end the tenancy agreement and raise rents at short notice. This means that in Australia, low-income households in the private rental market change accommodation relatively frequently and have few legal protections to 'stay put'.

Social service providers in the Inner West reported that gentrification was obvious in the owner-occupier, semi-detached house section of the property from late 1990s and early 2000s. The main effect for low-income households was that the supply of cheap rental properties had decreased due to conversion of properties to owner-occupation.

Gentrification of the rental market was increasingly obvious from around 2006. At this time, city-wide vacancy rates were falling rapidly whilst rising interest rates were increasing costs for leveraged landlords. Apartments and walk-up flats originally targeted at low-income groups were increasingly being renovated –for example, through the re-rendering of exteriors and the installation of security gates – and leased to higher-income households. New high-rise apartments were also erected in the centre of Footscray, which provides easy rail access to the CBD. University students, especially overseas students, were identified as a growing source of local rental demand.

In addition to rising rents, interviewees identified several other exclusionary processes which they attributed to gentrification in the Inner West. Discrimination in the rental application process is a growing problem. Although hard to prove legally, landlords are increasingly favouring young professional households over low-income households, even where both have demonstrated an equal capacity to meet rental payments. It appears that the housing crisis and gentrification is redefining the notion of an 'acceptable tenant' in the Inner West (see also Dymski, 2006). Social housing providers also stated that it was increasingly difficult to

'head-lease'<sup>10</sup> properties in the Inner West. Added to this, many cheap rooming houses and other social housing options had been demolished or converted to owner-occupation.

The elderly, low-income recent migrant and people living with a disability depend heavily on the social services and community networks that cluster in Footscray; the commercial centre of our 'Inner West' (Figure 1). Footscray's commercial centre has a long tradition as a 'melting pot' for successive waves of migrants. It is a place to socialise, learn about job opportunities and access products from home countries. Further, low-income residents depend on the high density of public transport options found in the area to access jobs, social services and communities elsewhere in the city, particularly people living with a disability.

Households employ various strategies in order to 'stay put' close the amenities and communities of the Inner West (see Newman and Wyly, 2006). The most straightforward strategy is to spend an increasing proportion of income on household rent, sacrificing other expenditures. According to one housing worker:

In my experience ... all low people income will try to resist [exiting] for as long as they can. ... I was perpetually surprised to find people in their 70s and 80s who had lived all their lives in the area ... and now the rents were, like, 50% of their incomes. They didn't care. They were hanging on because that was the only place they knew. All their friends lived there, their doctors, all their other social services. It was the only place they knew their way around. What made them most fearful was "I don't want to move somewhere new now, to find my way around in a whole new suburb." I was continually surprised when I came across people who were like that ... people were who hanging on at all costs.

Low-income families were increasingly 'paying the rent first' and relying on local charities for assistance with food and household expenses.

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<sup>10</sup> Head-leasing occurs when a social housing agency leases a property for use by its clients. Typically, housing agencies commit to maintaining the property in order to secure a lease agreement.



Overcrowding is another common strategy to 'stay put'. Long-term residents who have been evicted from their accommodation are increasingly forced to 'couch hop' between families and friends. Overcrowding was a particularly important issue for low-income immigrants, especially refugees. Having arrived in Australia with limited financial resources and few social connections, many low-income immigrants move in with family members that have established themselves in the Inner West years earlier. Overcrowding breaches tenancy agreements, however, and the entire extended family group risks eviction. Housing workers, mindful of the need for people to retain a 'clean' rental history in a tightening rental market, now actively discourage practices that lead to overcrowding. Indeed, they now (somewhat reluctantly) encourage low-income households to move to cheaper accommodation further the CBD and existing social networks.

Longstanding residents sometime 'trade-down' their accommodation in order to stay in the Inner West. This has increased the demand for exploitative housing options, especially 'rooming houses' which landlords sub-let rooms on a weekly basis (see Reilly, 2009). Landlords profiteer by setting the rent for each room at a rate just affordable for welfare recipients, leaving tenants with little money for other expenses. This precarious option is often a last resort for welfare dependent households who are unable to secure increasingly scarce public housing. As a social service provider explained:

It is causing a very transitory-type existence for a lot of people, especially within the Inner suburbs. They are going to emergency housing, transitory housing, homelessness ... in and out, in and out ... they move around the inner city. That is because the cost of rooming houses these days around here are becoming exorbitant, and its becoming more so.

An alternative to rooming houses is the local caravan (trailer) park. However, this option is increasingly difficult to access because the West's local caravan parks are fully booked and have

been for some time. Housing agency workers are reluctant to send clients with families to such places due to safety concerns.

Low-income tenants in the Inner West are also becoming more compliant. Long-term tenants are aware that their rental payments are often well below the current market rate. Tenants are loathe to request repairs and maintenance for fear having their rental payments increased. As one social service worker stated:

At one stage there was some unwritten law that they couldn't raise the rent without improving the property ... but that doesn't apply anymore. If his [the landlord's] rates have tripled, someone [the tenant] is going to pay for that, not him.

Low-income households face several barriers to making a smooth transition to more affordable accommodation. First, the rent paid by long-term residents often lags the market rate by 10-20%, a benefit lost with a change of residence (see also Porter, 2010). Second, prohibitively high relocation costs create a strong disincentive to move, especially for households that 'live from week-to-week'. Tenants must have sufficient cash reserves to cover the advance rent, the security bond (one month's rent) and moving costs (e.g. transportation, connecting and disconnecting utilities). The physical challenges and search costs are particularly high for the elderly, people with a disability and those who are socially isolated. Finally, fears about increasing rental market discrimination dissuade many low-income households from re-entering the rental market. Because low-income tenants realise that securing equivalent accommodation at a lower price would require them to move some distance from their current neighbourhood, they 'hang on' as long as possible. As a result, when displacement occurs, it is often under the worst of circumstances. One long-term resident living with a disability told us:

Recently the rent went up \$10. If it stays where it is, I can just survive. My whole pension goes out to rent and we live on my wife's pension. We just get by, month-to-month. If anything happens and I've got to shift, I don't have any reserve there

now. I've used up all my reserve in paying the extra rent. ... And if I do move, where am I going to go?

Many of the households leaving the Inner West are moving to low-income areas of middle and outer Western Melbourne, to pockets of ageing and unattractive housing stock (Randolph and Holloway, 2005). A common destination is the adjacent municipality of Brimbank, which is already amongst the most disadvantaged in urban Australia. Most of interviewees expressed concerns about their clients moving to more outlying suburbs as they have a lower density of social services and public transport options than the Inner West. Further, low-income people moving to these areas risk isolation from their (ethnic) communities and job opportunities, particularly if they rely on public transport (see also Walks and Maaranen, 2008). One woman living with a mental illness described how her peer group had been affected by – and was responding to – the housing affordability crisis in the Inner West:

I have four friends, all of them have mental illnesses of different sorts. ... In the last 4 months, they have all had to leave the area because their housing closed down, their share house broke down or they couldn't afford it. And they couldn't afford to move and stay in this area. One has ended in Maidstone [an adjacent suburb further from the CBD], but that is precarious. It's a shared boarding house situation, and they are very dodgy and difficult to deal with. Another one is just camping in somebody's lounge. It's quite dire. It just means they are losing their community. Particularly if you don't work and you have a disability, your community is the people you live around ... and the services you use locally. If you have to leave the area, you get isolated so quickly.

## **6. Conclusions**

Both our qualitative and quantitative analyses produce evidence *consistent* with gentrification-induced displacement. Further, gentrification-induced changes to the Inner West's housing markets – e.g. disproportionate increases in housing costs, increased owner

occupation, and increased rental market discrimination – is causing exclusionary displacement (Marcuse, 1986). Consequently, low income residents of the Inner West who change residence, for whatever reason, have great difficulty re-establishing themselves locally. As suggested by Newman and Wyly (2006), rather than simply leaving the Inner West, many people employ costly strategies to ‘stay put’ close to highly valued communities, social services, and public transportation.

Our study gives us some pause when reflecting on recent quantitative displacement studies. If gentrification increases the relative benefits of incumbency or increases the barriers to mobility, approaches that compare overall displacement and mobility rates between ‘gentrifying’ and ‘non-gentrifying’ neighbourhoods are potentially problematic (Freeman and Braconi, 2004; Vidgor et al, 2002; Freeman, 2005; McKinnish et al, 2008) . We ask whether future displacement research might focus more fruitfully on what happens to low-income households *after* they leave a residence – for whatever complex set of reasons – and become exposed to the gentrified local housing market? Such an approach would side-step the thorny issue of operationalizing *involuntary, gentrification-induced* displacement but keep the analytic focus on the key theoretical concern; namely, whether and how gentrification modulates mobility decisions. Freeman (2005) provides some initial analysis in this direction.

Our analysis also reveals that the gentrification of Melbourne’s Inner West is driven by, and part of, broader processes that are remapping inequality within Melbourne. Many of the people moving out of the Inner West are moving to Brimbank – already one of the most disadvantaged municipalities in urban Australia – and to older areas of Outer Western Melbourne. These mobility patterns are antithetical to the goal of improved social mix, either within Inner Melbourne or city-wide. They also speak of a decreasing ability of low-income families to attach to place, an outcome which further flexibilises and segregates the city’s labour and housing markets.

How well do the three main theories of gentrification explain what is occurring in Melbourne's Inner West? The rise of service sector employment, associated with Melbourne's increasing integration into global circuits of capital, is clearly present (Hamnett, 1994, 2003; Sassen, 1991). However, 'cultural' explanations have somewhat limited purchase. Many of the (young) middle-class households moving to the Inner West have done so reluctantly, displaced by market forces from more preferred suburbs on the 'other side of city'. The economic processes occurring in Melbourne's Inner West correspond to those outlined in Smith's (1979) rent gap thesis. However, we cannot conclude that capital 'switched back' into the Inner West because a low point in the local rent gap cycle had been reached. Rather, capital has been re-injected into Melbourne's Inner suburbs due to the city-wide tightening of the housing market and the location preferences of skilled migrants and CBD workers. These preferences have affected the Inner West both directly and through spillover effects, as evidenced by our intra-urban mobility analysis. In effect, Smith's rent gap cycle has been 'swamped' by forces emanating from outside Inner West and, indeed, Melbourne. Put differently, if an asset bubble, population boom and shift in the Australia's national accumulation strategy had occurred 20 years earlier, so too would the Inner West's housing crisis.<sup>11</sup>

Our key argument is that gentrification of Melbourne's Inner West since the mid-1990s is driven primarily by extra-local processes, in particular, an urban accumulation strategy which depends upon global inflows of capital and people. We are not alone in linking gentrification and global capitalist processes. For example, Smith (2002:446) suggests the gentrification plays a key role in neoliberal urbanism by serving "up the central- and inner-city real estate markets as burgeoning sectors of *productive* capital investment: the globalization of productive capital embraces gentrification." Similarly, Davidson (2007) analyses the role of global capitalists (property developers, real estate agents) in transforming derelict sites into places suitable for (global) middle-class consumption. Olds (2001) demonstrates how inflows of capital,

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11 If city populations constantly grow and shrink, new technologies (the automobile, the internet) constantly redefine the optimal location for houses and jobs, and middle-class preferences constantly evolve, this raises the question of whether it is possible to empirically 'parse out' a rent-gap cycle?

entrepreneurial skill and wealthy migrants integrate cities such as Vancouver into global circuits of capital and, in doing so, create global spaces of consumption. We concur with these valuable perspectives, emphasising however that the economic fortunes of cities like Melbourne depend, in large part, on remaining attractive to the social reproduction strategies of middle- and upper-middle-class migrants, particularly from rapidly industrialising Asia. Melbourne is capitalising, quite literally through financial and housing market dynamics, on the fact that while many cities are attractive sites for productive investment and consumption, they are not necessarily the best sites for key aspects of social reproduction. Put differently, Melbourne's economic fortunes are increasingly linked to its role in the social reproduction (and production) diversification strategies of transnational middle-class families.<sup>12</sup>

It is tempting to label what is happening in Australia and Melbourne's Inner West as a 'vanilla' asset price bubble that will end when investors' expectations shift.<sup>13</sup> This interpretation, however, underplays the critical role that Australia's (inner) urban amenities play in securing continued inflows of capital, students and skilled migrants. As long as Melbourne can 'export' its various urban amenities it is difficult to predict when and, indeed, if such an urban accumulation strategy will falter. Importantly, the consequences of such an accumulation strategy can easily be misconstrued as evidence that 'global' and 'creative city' policies are working (at least for the reasons they claim). It is possible that the 'export' of urban amenity might in coming decades become an increasingly important source of economic prosperity for 2<sup>nd</sup> and 3<sup>rd</sup> tier world cities in the developed world whose 'creative industries' are unable to fully 'pay the bills', especially if economic growth in the developed world falters and

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12 Our argument provides a novel interpretation of urban Australia's economic success. The standard 'global' explanation of Australia's long economic boom posits that large net inflows of financial capital and skilled labour to Australia were required to expand production in the resource sector, whose terms of trade have continued to improve. In this narrative, Australia's urban economic miracle is rendered a spill-over effect of the mining boom (or must be explained by domestic productivity gains). This global story does not reconcile with two important points about the geographic destination of most foreign capital inflows and recent migrants. First, most skilled migrants settle in Australia's largest cities and are not employed in the booming resource sector. Second, most foreign debt is channelled via domestic banks into urban housing and consumer finance, as evidenced by rapidly growing levels of household debt.

13 This is certainly a distinct possibility if debt levels are deemed unsustainable by international markets or Chinese and Indian demand for Australian commodities falls (e.g. see Keen, 2010).

trade deficits are not resolved.<sup>14</sup> If so, housing, urban planning and population policies will need to be more tightly coordinated if we are to avoid increased income inequality and spatial polarization and falling housing standards for low income households.

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<sup>14</sup> For example, there appear to be parallels between the Australian and Canadian experiences. Both countries dependent heavily on resource exports and run persistent current account deficits and have weathered the GFC relatively well, whilst their largest cities attract high levels of skilled Asian immigration and are considered amongst the most liveable and most expensive in the world (Table 1). The patterns and drivers of gentrification and its impacts for low-income households also bear significant similarities also (see Ley, 1999; Walks and Maaranen, 2008).

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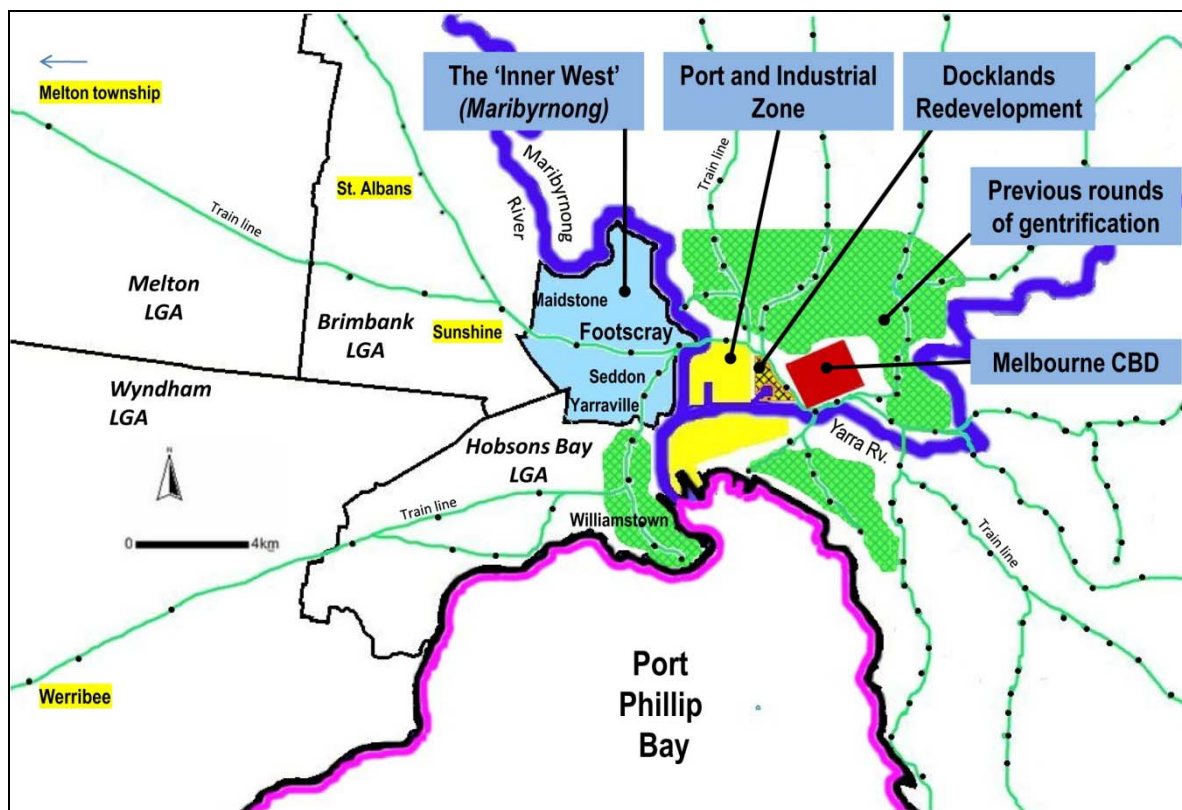


Figure 1. Map of Melbourne and the Inner West.  
 Notes: LGA=Local Government Area; CBD=Central Business District

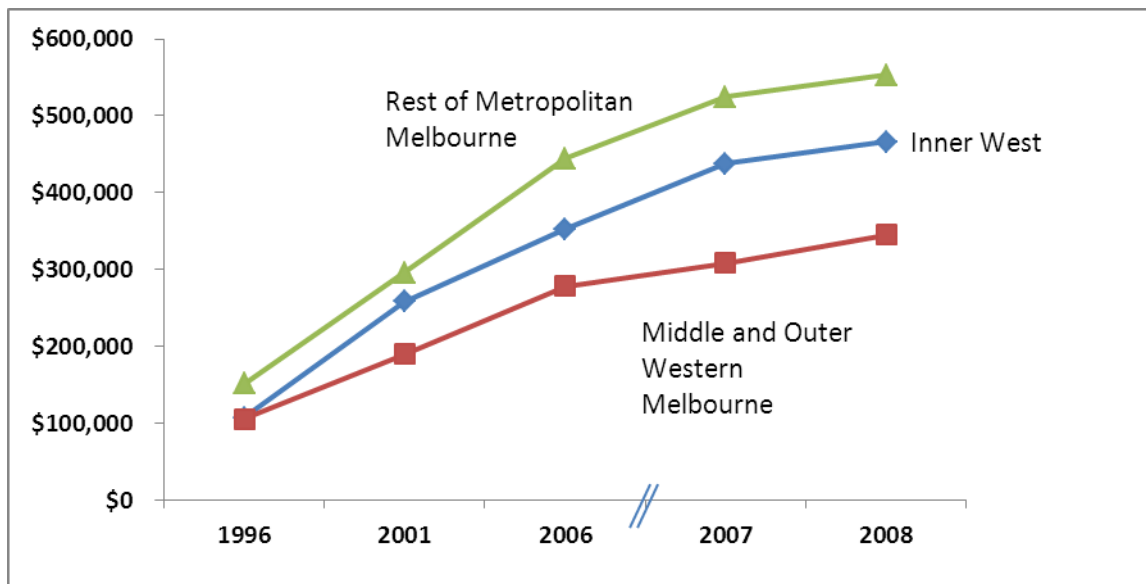


Figure 2. Melbourne Median House Prices (AU\$), 1996-2008.

Source: land.vic.gov.au (2010)

Note: Median housing prices calculated from median price, post-code level data.

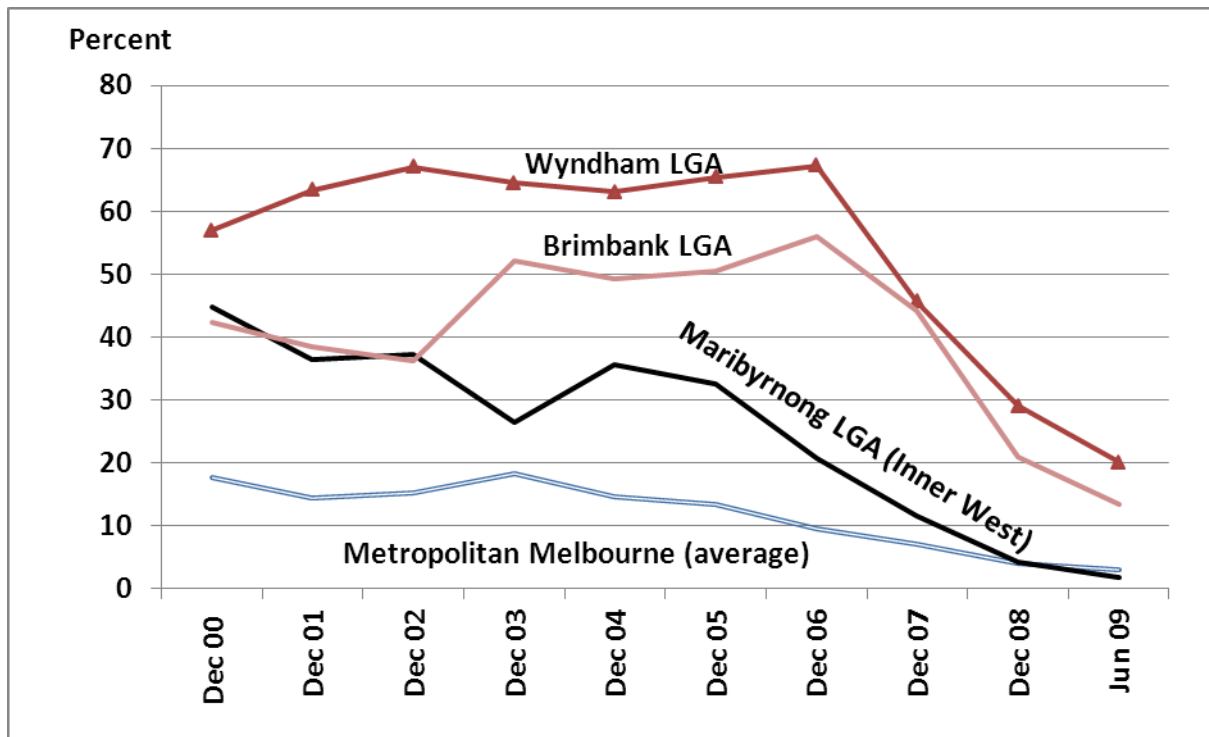


Figure 3. Percentage of newly-rented 2 bedroom flats considered 'affordable' for selected Western Melbourne municipalities (Maribyrnong, Brimbank, and Wyndham), December 2000–June 2009

Note: The affordability threshold is calculated as 30% of the income that a single parent with one child receives if living solely on government welfare payments.

Source: Derived from Victorian Office of Housing Rental Reports, 1999-2008.

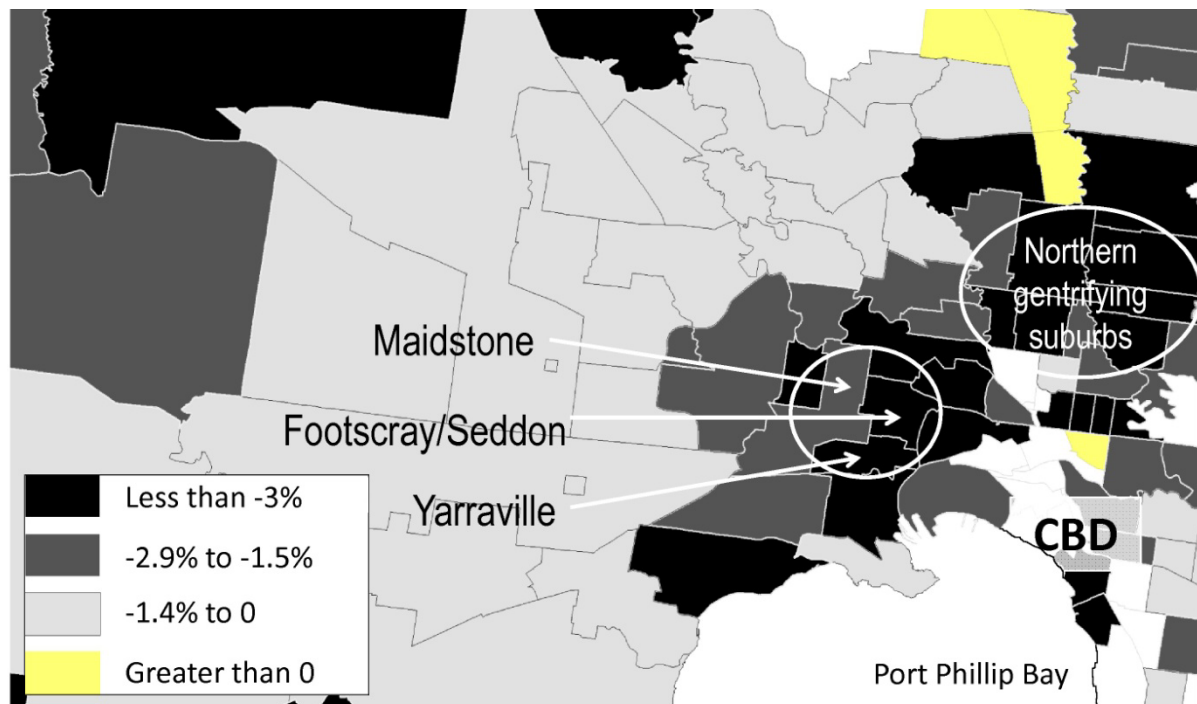


Figure 4. Change in the percentage of population (15-64 years) holding healthcare cards between 2001 and 2006, by Melbourne post-code.

Source: derived from Centrelink (2008), ABS (2001 & 2006).

NB. Some post-codes were merged to ensure unchanging boundaries between 2001 and 2006. Those post-codes that could not be merged were excluded and left blank.

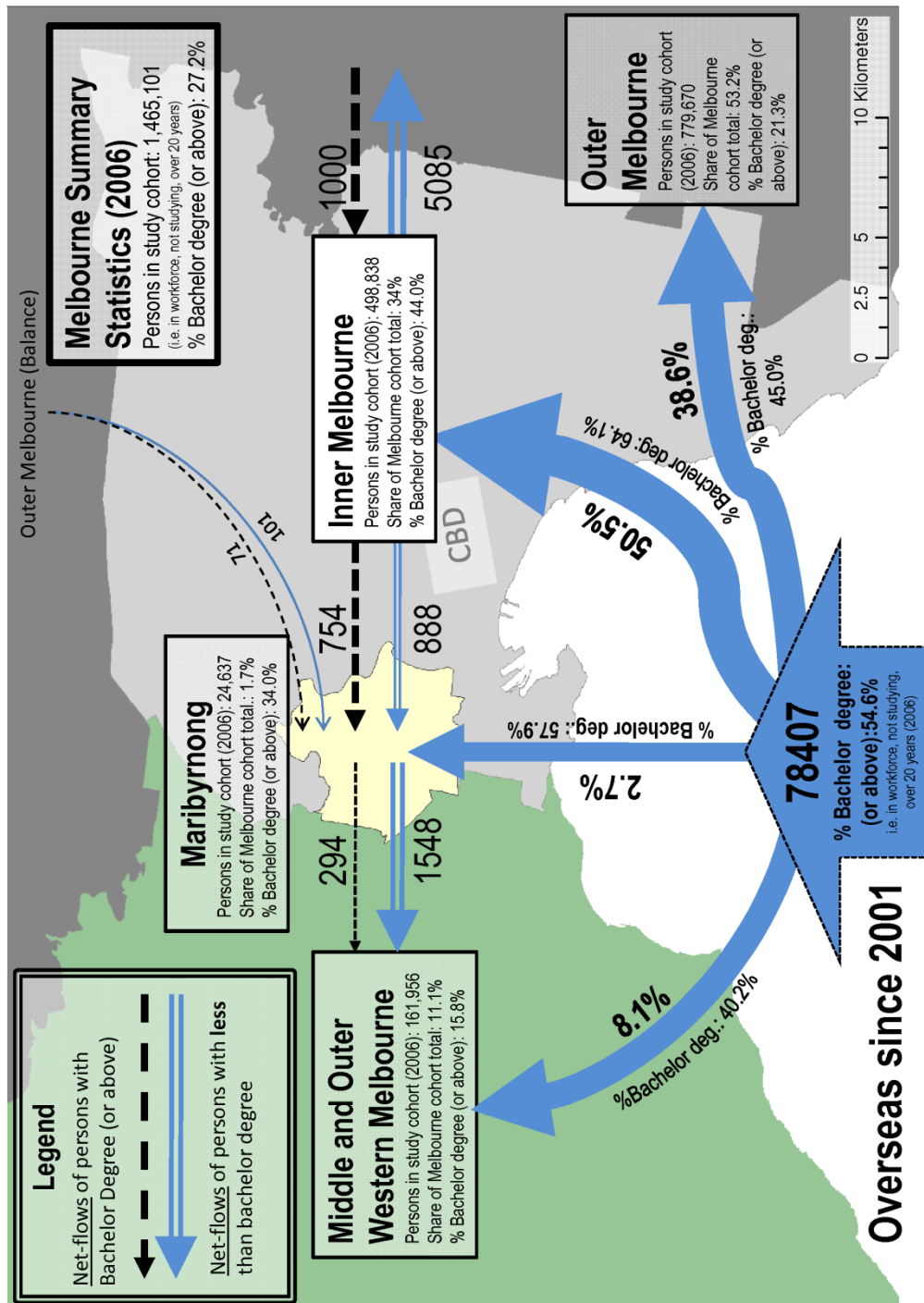


Figure 5. Flows of university graduates (or above) and non-graduates (>20 years old, in labour force and not studying), synthetic areas of Melbourne, 2001-2006.

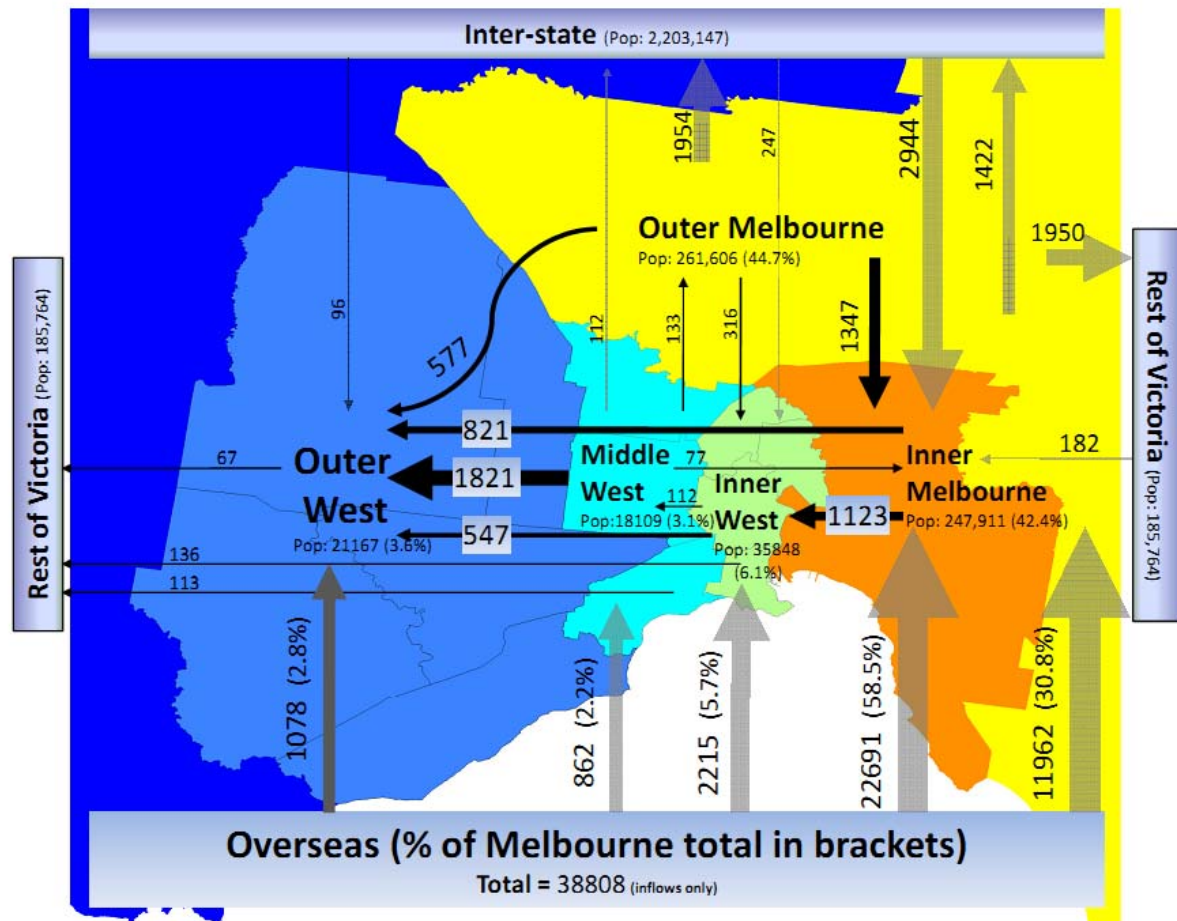
Notes: 1. Education and population figures as recorded in recorded for individuals in 2006 Census. 2. Overseas flows are those who stated they were overseas in 2001 (immigrants and returnees). Emigration flows are not accounted for. 3. The 'Inner West' is comprised of Maribyrnong LGA; the Middle and Outer West is comprised of Brimbank, Wyndham and Melton LGAs and the SLA of Hobsons Bay-Altona; 'Inner Melbourne' is comprised of Banyule, Bayside, Boroondara, Darebin, Glen Eira, Melbourne, Moreland, Port Phillip, Stonnington, Yarra and Moonee Valley LGAs and the SLA of Hobson's Bay-Williamstown. Outer Melbourne is comprised of all other Melbourne Statistical District LGAs.

Source: ABS, 2006.



## APPENDIX 1

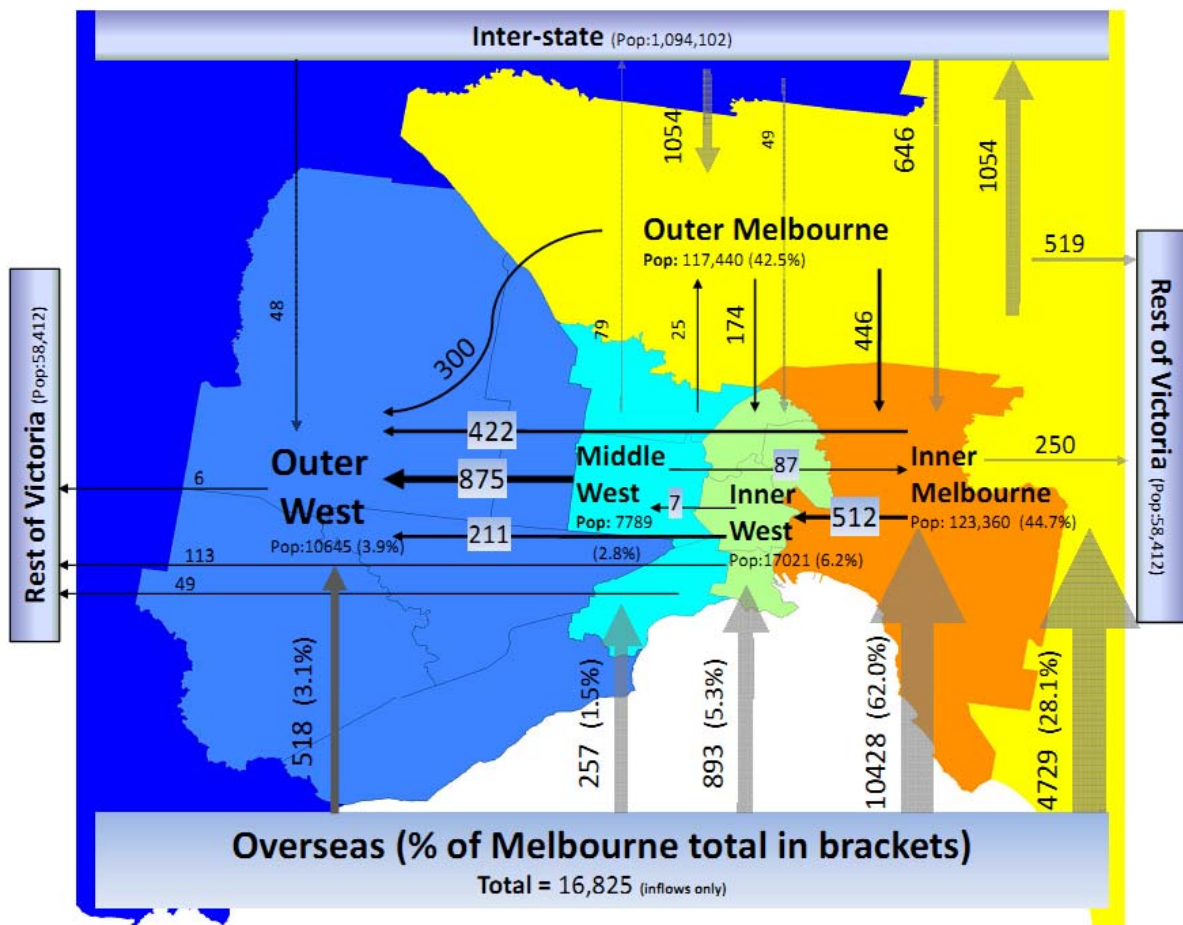
Figure 6 .Net flows of managers and professionals, (>20 years old, in labour force and not studying), synthetic areas of Melbourne, 2001-2006.



Notes: See Figure 5.

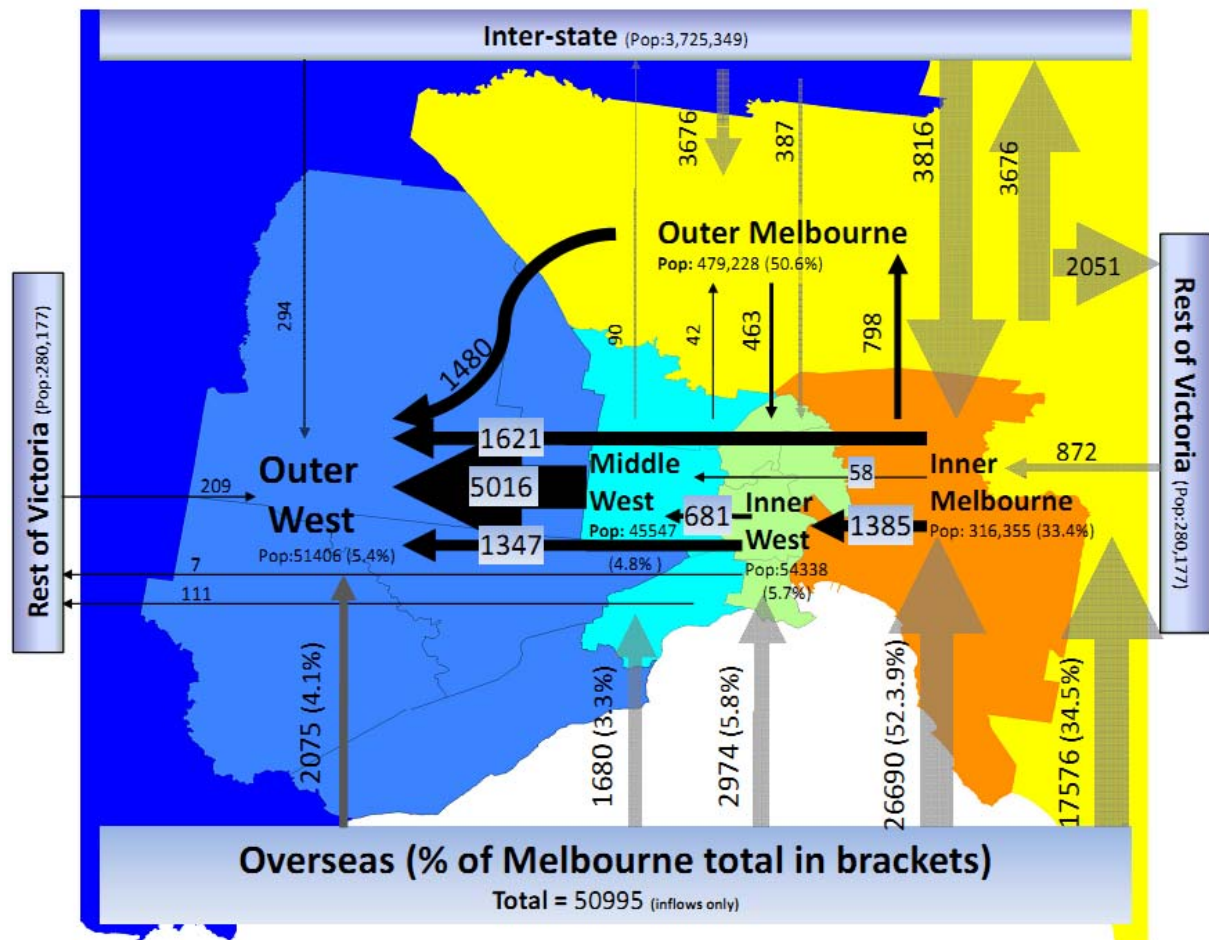
Source: ABS, 2006.

Figure 7 .Flows of persons earning more than \$1300 pw (>20 years old, in labour force and not studying), synthetic areas of Melbourne, 2001-2006.



Notes: See Figure 5.  
Source: ABS, 2006.

Figure 8. Flows of persons earning less than \$600 pw (>20 years old, in labour force and not studying), synthetic areas of Melbourne, 2001-2006.



Notes: See Figure 5.

Source: ABS, 2006.