DEMOGRAPHIA

Housing Affordability Rating Categories

Housing Affordability Rating Categories	
Rating	Median Multiple
Severely Unaffordable	5.1 & Over
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 & Under

Discussion

The *Demographia International Housing Affordability Survey* uses the "Median Multiple" (median house price divided by gross annual median household income)[1] to assess housing affordability. The Median Multiple is widely used for evaluating urban markets, and has been recommended by the World Bank[2] and the United Nations and is used by the Harvard University Joint Center on Housing.[3]

More elaborate indicators, which often mix housing affordability and mortgage affordability can mask the structural elements of house pricing, are often not well understood outside the financial sector. The mixed indicators provide only a "snapshot," because interest rates can vary over the term of a mortgage; however the price paid for the house does not.

The Median Multiple is a reliable, easily understood and essential structural indicator for measuring the health of residential markets and facilitates meaningful and transparent comparisons of housing affordability. Further to this, the Median Multiple provides a solid foundation for the consideration of structural policy options for restoring and maintaining housing affordability in local markets.

Historical International Consistency

Historically, the Median Multiple has been remarkably similar among six of the nations surveyed for the stock of homes included in principal national reports. Reserve Bank of Australia research has shown that the price to income ratio was at or below 3.0 in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States until the late 1980s or late 1990s, depending on the nation (See Section 5). This historic affordability relationship of a Median Multiple in the range of from 2.0 to 3.0, with 3.0 as the outer bound of affordability continues in many housing markets of the United States and Canada.[4] The 3.0 standard was noted in research by Arthur C. Grimes, of Motu Economics and Policy Research and Chair of the Board of the Reserve Bank of New Zealand.

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[1] Also called the price to income ratio.
[2] *The Housing Indicators Program*, http://siteresources.worldbank.org/INTURBANDEVELOPMENT/Resources/336387-1169578899171/rd-hs7.htm. Also see Shlomo Angel, *Housing Policy Matters: A Global Analysis.* Oxford University Press, 2000.
[3] *Indicators of Sustainable Development: House Price to Income Ratio*: http://esl.jrc.it/envind/un_meths/UN_ME050.htm.
[4] A value below 2.0 is affordable, but may indicate depressed economic conditions.