

7th Annual Demographia International Housing Affordability Survey

Introduction

WHY AFFORDABILITY MATTERS

By Joel Kotkin

In much of the English speaking world, affordability is often conflated with cheapness and lack of economic competitiveness. Real estate developers, and the press that covers them, instead revel in driving prices to the stratosphere, identifying out of reach values with some definition of economic good.



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But what might prove a benefit to individual owners or speculators may not be so wonderful for most families or the broader society. Over the past decade, even after the housing bubble implosion, the ratio of housing prices to incomes has shown a steady increase. This process has been most evident in markets such as Los Angeles, San Francisco, New York and Boston but also occurred, particularly during the bubble, in traditional growth regions such as Phoenix, Las Vegas and across Florida.

This phenomena, as the authors of the *Demographia International Housing Affordability Survey* make clear, also extends outside the United States. Places such as greater London, Vancouver, Toronto all experience high ratios of housing cost to income. But perhaps most remarkable has been the shift in Australia, once the exemplar of modestly priced, high quality middle class housing, to now the most unaffordable housing market in the English speaking world.

The reasons for this phenomena vary, but as the authors argue convincingly, much of it has to do with regulations over land use. Over the past decade advocacy for “smart growth”, with restrictions on development on the edge of the urban fringe, has tended to drive up prices in many markets, including those, like in Australia, where land remains relatively plentiful near major cities.

This approach needs to be separated from the well-justified desire to maintain parkland around large urban centers. Parkland, held for public use, does a great service by providing urbanites with what Frederick Law Olmstead described a “a specimen of God’s handwork”.

But “smart growth” is not about sharing nature with the middle and working classes, but about limiting development along specific lines. The prevailing ideology seeks to limit “sprawl” --- that is

extended, usually affordable middle class housing – in the name of creating dense “communities” built around transit lines. Large areas which could accommodate both parks and lower-density middle class housing are essentially walled off, often left only to those wealthy enough to afford large estates and second homes.

More recently, this drive has been bolstered by claims, often specious, that high density development is better for the environment, and particularly in terms of limiting greenhouse gases. In the name of fighting climate change (aka global warming), planning advocates, politicians and their developer enablers seek to “cram” people into dense housing – even though most surveys show an overwhelming preference for less dense, single family houses.

Limits on the kind of residential living most people prefer --- in the United States this covers about 80 percent of the population --- naturally inflate the price of single family housing, particularly in desirable markets. As the *Demographia International Housing Affordability Survey* shows, the price of housing relative to income has risen to as much as five years to nearly 10 years of gross annual median income for a median priced house in certain markets. In most cases, this has taken place in wherever strong growth controls have been imposed by local authorities.

Little discussed have been the social and economic implications of such policies. Although usually thought of as “progressive” in the English speaking world, the addiction to “smart growth” can more readily be seen as socially “regressive”. In contrast to the traditional policies of left of center governments that promoted the expansion of ownership and access to the suburban “dream” for the middle class, today regressive “progressives” actually advocate the closing off of such options for potential homeowners.

Today’s “progressive”, such as the editor of the respected American planning website Planetizen, not only claim the dense urbanism is the vast preference of the next generation - a claim not supported by objective research – but also embrace the notion of renting over owning. This is a very dangerous concept, essentially promoting a form of neo-feudalism which reverses the great social achievement of dispersing property ownership.

Similarly, the economic implications of “cramming” tend to be misunderstood. To be sure there are places where high median multiples can be sustained. These include elite markets such as west and parts of central London, the upper class suburbs of that great city, Manhattan, San Francisco, parts of west Los Angeles, central Toronto and Sydney.

Such places can survive high ratios because their markets are less national and middle income, and more global and high income. In a place such as Mayfair or New York’s Upper East Side, the buying “public” is a global one, in many ways as tied to high income markets in places like the United Arab Emirates, Moscow, Shanghai, Singapore or Tokyo as to their domestic economies. Many of the owners are not full-time residents, and consider a home in such places as just another expression of their wealth and privilege.

Yet such markets are exceptional. Most homebuyers are either natives or long-term migrants to their regions. Their concerns --- particularly affordable single family dwellings – help drive migration patterns of both businesses and individuals. Over the past decade, and particularly since the crash, economic growth (outside of that related to financial sector stimulus) and increasingly migration has

concentrated in less regulated, affordable markets, notably across the large metropolitan areas of Texas.

This is also clear from migration patterns. Virtually all the fast growing places in the English speaking world in terms of domestic migrants --- Houston, Dallas, Austin, Raleigh-Durham, Calgary – have also been those with comparatively more affordable housing prices.

Of course affordability by itself is no panacea. Many of the most affordable markets in the United States, for example, are economically distressed, particularly in the industrial heartland. The ideal for regions and countries should not just be affordability alone but affordability coupled with economic growth. But it is increasingly clear that broad based middle class prosperity depends in large part on housing affordability, and may do even more so in the future.

This makes the *Demographia International Housing Affordability* an important starting point for a much needed discussion about the future of our economies and societies.

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