



exploring solutions...

www.PerformanceUrbanPlanning.org

Performance Urban Planning

8th Annual Demographia International Housing Affordability Survey

Wendell Cox (Demographia) & Hugh Pavletich (Performance Urban Planning)

Full Report at <http://www.demographia.com/dhi.pdf>

EXECUTIVE SUMMARY

Rating Housing Affordability

The 8th Annual Demographia International Housing Affordability Survey covers 325 metropolitan markets in Australia, Canada, Hong Kong, Ireland, New Zealand, the United Kingdom and the United States. The Demographia International Housing Affordability Survey employs the “Median Multiple” (median house price divided by gross [before tax] annual median household income) to rate housing affordability (Table ES-1). The Median Multiple is widely used for evaluating urban markets, and has been recommended by the World Bank and the United Nations and is used by the Harvard University Joint Center on Housing.

Table ES-1 Demographia Housing Affordability Rating Categories	
Rating	Median Multiple
Affordable	3.0 & Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 & Over

More elaborate indicators, which mix housing affordability and mortgage affordability can mask the structural elements of house pricing are often not well understood outside the financial sector. Moreover, they 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 reality is that, if house prices double or triple relative to incomes, as has occurred in many severely unaffordable markets, mortgage payments will also be double or triple, whatever the interest rate.

Historically, the Median Multiple has been remarkably similar in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States, with median house prices having generally been from 2.0 to 3.0 times median household incomes (historical data has not been identified for Hong Kong), with 3.0 being the outer bound of affordability. This affordability relationship continues in many housing markets of the United States and Canada. However, the Median Multiple has escalated sharply in the past decade in Australia, Ireland, New Zealand, and the United Kingdom and in some markets of Canada and the United States.

The *Demographia International Housing Affordability Survey* is produced to contrast the deterioration in housing affordability in some metropolitan markets with the preservation of affordability in other metropolitan areas. It is dedicated to younger generations who have right to expect they will live as well or better than their parents, but may not, in large part due to the higher cost of housing.

Housing Affordability in 2011

Housing affordability was little changed in 2011, with the most affordable markets being in the United States, Canada and Ireland. The United Kingdom, Australia and New Zealand continue to experience pervasive unaffordability.

Major Metropolitan Markets: The 325 markets include 81 major metropolitan markets (those with more than 1,000,000 population).

Among these major metropolitan markets, there were 24 affordable major markets, 20 moderately unaffordable major markets, 13 seriously unaffordable major markets and 24 severely unaffordable major markets. All of the affordable major markets were in the United States while three of the moderately unaffordable markets were in Canada and one in Ireland with the other 16 in the United States. The severely unaffordable major markets were principally in the United Kingdom (8), the United States (6), and Australia (5). Hong Kong was severely unaffordable and there were three severely unaffordable major markets in Canada and one in New Zealand (Table ES-2).

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	National Median
Australia	0	0	0	5	5	6.7
Canada	0	3	0	3	6	4.5
China (Hong Kong)	0	0	0	1	1	12.6
Ireland	0	1	0	0	1	3.4
New Zealand	0	0	0	1	1	6.4
United Kingdom	0	0	8	8	16	5.0
United States	24	16	5	6	51	3.1
TOTAL	24	20	13	24	81	

The most affordable major market was Detroit, with a Median Multiple of 1.4, below the historic range of 2.0 to 3.0. Atlanta had a Median Multiple of 1.9. The other 22 affordable major markets had Median Multiples of from 2.0 to 3.0, with the most affordable being Phoenix, Rochester, Cincinnati, Cleveland and Las Vegas. The strong growth markets of Dallas-Fort Worth, Houston, Orlando, Jacksonville, Nashville, Oklahoma City, Sacramento and Indianapolis also achieved affordable ratings.

All major markets in Australia and New Zealand, as well as Hong Kong were severely unaffordable. Hong Kong was the least affordable major market (ranked 81st), with a median multiple of 12.6. Vancouver was second most unaffordable, at a Median Multiple of 10.6 (ranked 80th), which is even more severely unaffordable than last year. Sydney was the third most unaffordable, at 9.2 (ranked 79th). Melbourne and Plymouth & Devon all had Median Multiples of more than 7.0.

All Markets: Among all 325 markets surveyed, there were 128 affordable markets, 117 in the United States, 9 in Canada and 2 in Ireland. There were 87 moderately unaffordable markets, 64 in the United States, 19 in Canada, 3 in Ireland and 1 in the United Kingdom. There were 39 seriously unaffordable markets and 71 severely unaffordable markets. Australia had 25 severely unaffordable markets, followed by the United

Kingdom with 20 and the United States with 14. Canada had 6 severely unaffordable markets, while New Zealand had 5. China's one included market, Hong Kong, was also severely unaffordable (Table ES-3). Honolulu and Bournemouth & Dorset were the most unaffordable markets outside the major metropolitan markets, with a Median Multiple of 8.7.

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	National Median
Australia	0	0	7	25	32	5.6
Canada	9	19	1	6	35	3.5
China (Hong Kong)	0	0	0	1	1	12.6
Ireland	2	3	0	0	5	3.3
New Zealand	0	0	3	5	8	5.2
United Kingdom	0	1	12	20	33	5.1
United States	117	64	16	14	211	3.0
TOTAL	128	87	39	71	325	

Housing Affordability: Incompatible with Restrictive Regulation

The deterioration of housing affordability in many of the markets rated in the *Demographia International Housing Affordability Survey* is unprecedented based upon the available historical data. Australia and New Zealand, for example, which had legendary housing affordability from after World War II to the 1980s and 1990s have seen house prices reach levels that are nearly double even nearly triple their historic ratio to household incomes.

The economic evidence indicates that this trend is strongly related to the implementation of more restrictive land use regulations, especially measures that create scarcity in land for housing. In creating scarcity, more restrictive land regulation increases land prices, which increases house prices. In considering this process, economist Anthony Downs, of The Brookings Institution in Washington, D.C., has indicated the importance of maintaining the "principle of competitive land supply." This is particularly important because one of the most favored more restrictive land use policies is the "urban growth boundary," which prohibits development on considerable amounts of land that would otherwise be developable, resulting in artificial and unnecessary scarcity values. The escalation of house prices relative to incomes, from Sydney and Vancouver to London and across California testify to the failure of planning to maintain a competitive land supply. The record shows that smart growth (urban consolidation and compact cities policies) is incompatible with housing affordability.

More restrictive regulation has led to situations where "across the road" values per hectare of raw, developable land vary by more than 10 times in Auckland and Portland, based upon whether they are inside or outside the urban growth boundary. And these "urban echo values" at these locations (pricing in anticipation of future urban zoning) are generally substantially higher than the true rural values, further out from the urban growth boundary. Even larger differences have been documented in the United Kingdom's Barker Report and researchers at the London School of Economics.

Further, economic analyses have indicated that metropolitan areas with more restrictive land use regulation tend to perform less well economically than would have been otherwise expected.

Preserving the "Ideal of a Property Owning Democracy"

One of the principal accomplishments of high-income world societies has been the expansion of property ownership and home ownership to the majority of the population. At the same time, there are dark economic clouds on the horizon. Governments in high income nations are faced with some of the most challenging times in their history. In this environment, the property owning middle-class seems likely to have to face significant challenges in the longer run. Housing represents the largest share of household budgets and thus, housing affordability is a major determinant of both the cost of living and the standard of living.

There are important positive signs. The state of Florida repealed its more restrictive regulations ("smart growth" law) in 2011. A major report released in December 2011 in New Zealand documented the importance of a competitive land supply in restoring housing affordability to that nation.

These are important first steps. There are serious social risks to more restrictive regulation and unnecessarily denying households the opportunity to own their own homes. In writing on the issue 40 years ago, urbanologist Peter Hall expressed concern about the effect of such policies on the "ideal of a property owning democracy."