

PRESS RELEASE

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OECD CITES “SMART GROWTH” POLICIES IN HOUSE PRICE INCREASES Findings Consistent with Demographia International Housing Report

St. Louis (USA) and Christchurch (NZ), 5 December 2005: A new report by the Organization for Economic Cooperation and Development (OECD) provides further evidence that stringent land use regulations (often called “smart growth.”) inordinately raise the price of houses. The report is a Chapter in the latest issue of *OECD Economic Outlook Number 78* (“Recent House Price Developments: the Role of Fundamentals,” available at <http://www.oecd.org/dataoecd/41/56/35756053.pdf>). The OECD notes that

“House prices can also be affected by other features that are particular to this market. Of note are restrictions on the availability of land for residential housing development that can constrain the responsiveness of supply. These would include tough zoning rules, cumbersome building regulations, slow administrative procedures, all of which would restrict the amount of developable land.” (page 210).

Overall, the OECD finds that that housing costs relative to incomes are highest in Australia at approximately 160 compared to a historical ratio (base) of 100. The United Kingdom and New Zealand are at approximately 150. The United States and Canada each has a ratio of approximately 120, which is the lowest among the five largely English speaking nations.

In the United Kingdom, complex and inefficient local zoning regulations and a slow authorisation process are among the reasons for the rigidity of housing supply, underlying both the trend rise of house prices and their high variability. (Page 210)

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The OECD findings are consistent with the housing affordability multiples reported in the first annual Demographia International Housing Affordability Ratings and Rankings (<http://www.demographia.com/dhi-ix.htm>), which noted particular housing affordability problems in Australia, New Zealand and some US markets (principally California, the Northeast, Oregon and Colorado).

Further, the OECD notes the substantial differences in housing affordability between US markets (Box III.2, Page 211). The OECD notes housing land regulation related affordability problems in California, New Jersey, Massachusetts, New Hampshire and the Washington DC area. The OECD also shows Texas as having superior housing affordability. Consistent with this finding, the First Annual Demographia International Housing Affordability Ratings and Ranking found that Dallas-Fort Worth, Houston and Atlanta, (in Georgia), which are the three fastest growing large urban areas in the high-income world, had both superior housing affordability and only necessary rather than excessive land regulation.

The United States might be thought of as two nations in terms of housing affordability. The first is most states, where there sufficient land is made available for residential construction. The second is the states that have residential land shortages, principally due to excessive land use regulations (“land rationing,” such as urban growth boundaries, high impact fees and large lot suburban zoning). Applying the present house cost to the OECD index of 120 for the US, the states without land shortages would have an index of approximately 110 compared to the historic 100 house price to income ratio. The states with excessive land regulation (land rationing) would have an overall index of 180 (higher than Australia)

Wendell Cox, principal of Demographia characterized the OECD findings as “important, but not at all surprising to anyone who understands the economic principle that the wages of rationing is higher prices.” Hugh Pavletich, of Pavletich Properties, a partner in the Demographia International Housing Affordability Ratings and Rankings said “ This highlights the urgent need for regulatory authorities to start getting phased Housing Affordability Targets in to place, to bring their urban areas in to line with international best practice”.

The OECD report also included other measures of housing affordability and concluded that Australia has the most overvalued housing among the nations surveyed.

The OECD is considered one of the world’s premier economic organizations. Its members include most present and future members of the European Union, Australia, Canada, Iceland, Japan, Korea, Mexico, New Zealand, Norway, Switzerland and the United States. The second annual Demographia Housing Affordability Ratings and Rankings will be released early in 2006.

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