INTRODUCTION

The 2011 7th Annual Demographia International Housing Affordability Survey (data 3rd Qtr 2010) has been expanded to 325 urban markets of Australia (32 urban markets); Canada (35); Hong Kong, China (1); Ireland (5); New Zealand (8) United Kingdom (33) and the United States (211).

This Annual Survey has been called the “gold standard” for assessing housing affordability of the urban markets it covers – and will be expanded to other markets going forward, as more robust data on house prices and household incomes become available.

HOUSING SHOULD NOT EXCEED 3.0 TIMES_MEDIAN GROSS ANNUAL HOUSEHOLD INCOME

For housing markets to rate as “affordable”, housing should not exceed three times gross annual household income (the Median Multiple). If this “affordability threshold” is breached, it indicates local political impediments to the provision of affordable housing that need to be dealt with.
Housing markets are rated as “affordable” at or below 3 times gross annual household income (Median Multiple), “moderately unaffordable” at or below 4 times income, “seriously unaffordable” at or below 5 times income and above 5, rated “severely unaffordable”.

HONG KONG MOST SEVERELY UNAFFORDABLE METROPOLITAN AREA
AUSTRALIA MOST SEVERELY UNAFFORDABLE COUNTRY

Hong Kong has the most unaffordable housing of the 325 urban markets surveyed, with housing at 11.4 times household income, followed by Sydney, Australia at 9.6 and Vancouver, Canada at 9.5

Of the countries surveyed, Australia (32 urban markets) has the most intense housing stress with housing prices at 6.1 times household incomes, followed by New Zealand (8) at 5.3 times, United Kingdom (33) at 5.2, Ireland (4) at 4.0, Canada (35) 3.4 and the United States (211) with overall the most affordable housing at 3.0 times gross annual household incomes.

There are 115 affordable housing markets (all in the United States and Canada), 94 moderately unaffordable markets, 42 seriously unaffordable markets and 74 severely unaffordable markets.

27 of the 32 Australian housing markets are severely unaffordable, with the remaining 5 seriously unaffordable.

MAJOR URBAN MARKETS – ONE MILLION POPULATION +

For the first time, the Annual Demographia International Housing Affordability Survey additionally separates the 82 major urban markets with populations exceeding one million. There are 20 affordable major urban markets, with 25 moderately unaffordable, 13 severely unaffordable and 24 severely unaffordable markets.

The fast growing Atlanta, Georgia, USA is the most affordable of the 82 major metros, with housing prices at 2.3 times household income. Being an “open market”, Atlanta over produced market priced housing, but did not bubble. "Scarcity" triggers housing bubbles - finance is simply the "fuel".

SURVEY INTRODUCTION – ACCLAIMED AUTHOR JOEL KOTKIN

Joel Kotkin, a California based writer on urban issues and executive editor of New Geography, contributed the Introduction “Why Affordability Matters” stating –

“Little discussed have been the social and economic implications of such policies (strangling urban expansion). 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 the 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.”

“……..It is a very dangerous concept, essentially promoting a form of neo feudalism which reverses the great social achievement of dispersing property ownership.”

“……But perhaps most remarkable has been the shift in Australia, once the exemplar of moderately priced, high quality middle class housing, to now the most unaffordable housing market in the English speaking world.”
AFFORDABLE HOUSING MARKET DEFINED

Hugh Pavletich of Performance Urban Planning, the initiator and co-author of the Annual Demographia International Housing Affordability Survey's, provides a concise version of an affordable housing market within this year’s Survey –

“For metropolitan areas to rate as “affordable” and ensure that housing bubbles are not triggered, housing prices should not exceed 3.0 times gross annual household earnings. To allow this to occur, new starter housing of an acceptable quality to the purchasers, with associated commercial and industrial development, must be allowed to be provided on the urban fringes at 2.5 times the gross annual median household income of that urban market (refer Demographia Survey Schedules for guidance).”

“The critically important Development Ratios for this new fringe starter housing should be 17 – 23% serviced lot – the balance the actual housing construction.”

The fringe is the only supply / inflation vent of an urban market.”

There is a truism, well understood by responsible developers and real estate financiers internationally -

“If you get the land price wrong – everything else is wrong.”

Due to unnecessary politically inflated land costs, housing markets are “very wrong” in Hong Kong, Australia, New Zealand, the United Kingdom, Ireland and some parts of Canada and the United States.

RESTORING HOUSING AFFORDABILITY – RELEARNING HISTORY

Soon after World War 11, during the era of Democrat President Harry S. Truman and the earlier enactment of the G I Bill, the great American construction industry entrepreneur William (Bill) Levitt, “the father of suburbia” (1950 Time magazine “Man of the Year” refer HOUSING: Up from the Potato Fields - TIME) transformed the cosseted and antiquated “horse and buggy” construction industry to the modern, disciplined and competitive production one we know today.

As the horrific World War 11 drew to a close, political authorities internationally were acutely aware of the political costs following the conclusion of World War 1, when social conditions were neglected. This led to social disruption in the United States, the spawning of fascism in Germany and this is turn led to World War 11. In the United States, the political authorities ensured the political and commercial barriers to the provision of affordable housing were effectively dealt with. In 1944 housing starts were just 114,000. By 1950 they were 1.7 million (refer The GI Bill of Rights - Changing the social, economic landscape of the United States).

The disciplined and consumer focused Levitt methods of construction spread quickly throughout the United States and other countries, including France (refer France: A Lesson from Levitt - TIME). The 1965 Time magazine article states –
“Postwar prosperity has enabled Western Europe to catch up with the US standard of living in such basic human needs as food and clothing. When it comes to housing, though, most of the Continent still lags decades behind.”

“New European housing often looks elegant from the outside, but much of it is backwards in kitchen equipment, bathroom layout, floor plans, heating, plumbing and lighting – the innards that make the shell truly livable.”

“Thus it is not surprising that the French have enthusiastically greeted an invasion by Long Island’s William J Levitt, the US’s biggest homebuilder. More than 60,000 Frenchmen have poured out of Paris to gape at Levitt’s recently opened American style subdivision in suburban Le Mesnil-Saint – Denis…”

“So desperate is France’s need for more housing that even Levitt’s French competitors cheer his venture – the first such in Europe by a US builder. ‘He’s helping to fill the need,’ says Builder Jacques Boulais ‘and he’s giving French contractors a good lesson in the modern way to build a house’.”

In large part – restoring housing affordability requires relearning history. And learning from the growing affordable housing markets identified within the Annual Demographia International Housing Affordability Survey. Particularly Texas – with its open land markets, appropriate financing of infrastructure with the bond financed Municipal Utility District model and sensible Mortgage Consumer Protection Law.

Check out what they pay for housing in Houston (refer Houston Association of Realtors with its latest Monthly Report) - and ask – “why aren’t I paying the same price in my own city?”.

For further information, communicate with the Survey co authors –

Wendell Cox
Demographia
St Louis, Illinois, USA
Email: demographia2@earthlink.net
Tel +1.618.632.8507 United States

Hugh Pavletich
Performance Urban Planning
Christchurch
Email: hugh.pavletich@xtra.co.nz
Tel +64 3 343 9944 New Zealand