

DEMOGRAPHIA

AUSTIN'S 11-YEAR AFFORDABILITY ADVANTAGE OVER PERTH

*Excerpt from the
3rd Annual Demographia International Housing Affordability Survey (2007)*

Perth (Australia) and Austin (the capital of Texas) are the second fastest growing metropolitan areas in their respective countries with more than 1,000,000 population. Both have approximately 1.5 million residents, with Perth slightly larger than Austin. Austin is the faster growing; having added 14.9 percent (3.0 percent average annual rate) to its population between 2000 and 2005, nearly double Perth's 7.6 percent (1.5 percent annual rate). In the latest year, Austin's two to one growth advantage has been maintained, despite Western Australia's resource boom (Figure 1). Residents tend to be proud of their communities and each metropolitan area is considered among the better places to live in their respective nations.

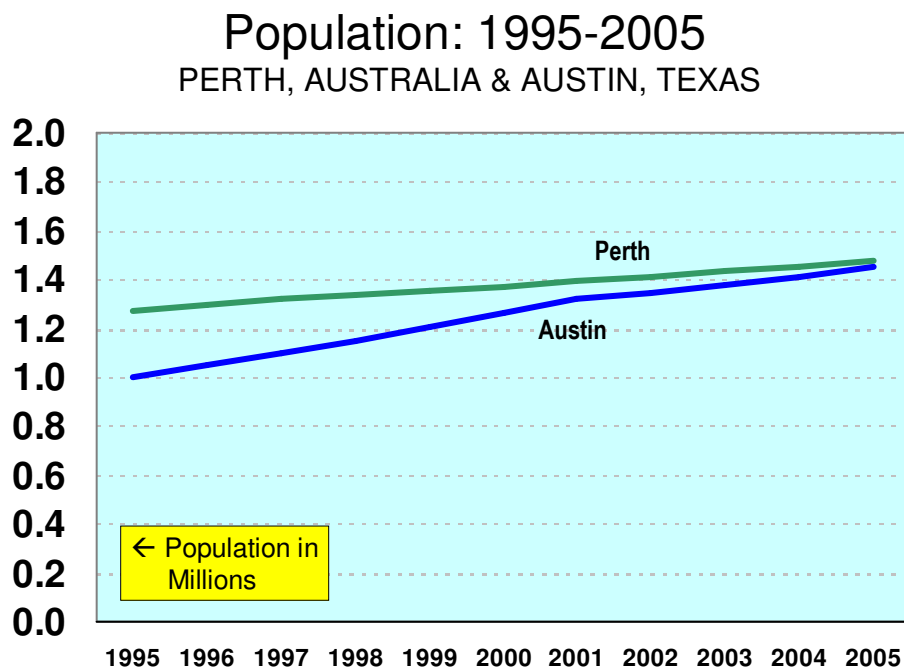


Figure 1

However, while the size and demographic trends in the two metropolitan areas are similar, trends in housing affordability could hardly be more different (Figure 2). In just the last year, the Perth median house price has risen 40 percent, while the Austin median house price rose five (5) percent.

- Housing affordability has been seriously eroded in Perth. Between 1996 and 2006, Perth's Median Multiple (median house price divided by median household income) rose from 3.7 to 8.0. The price of residential land in Perth has inflated from \$115,000 to \$265,000 per lot

(block) in just one year.ⁱ As a result, the median house in 2006 is approximately \$575,000 more costly than in 1996, including mortgage interest (adjusted for income growth and current interest rates). This additional cost is equal to 11 years of gross income for a household with the median income (above).

- Housing remains affordable in Austin. Between 1996 and 2006, Austin’s Median Multiple improved from 3.2 to 3.1, reflecting a housing affordability gain.

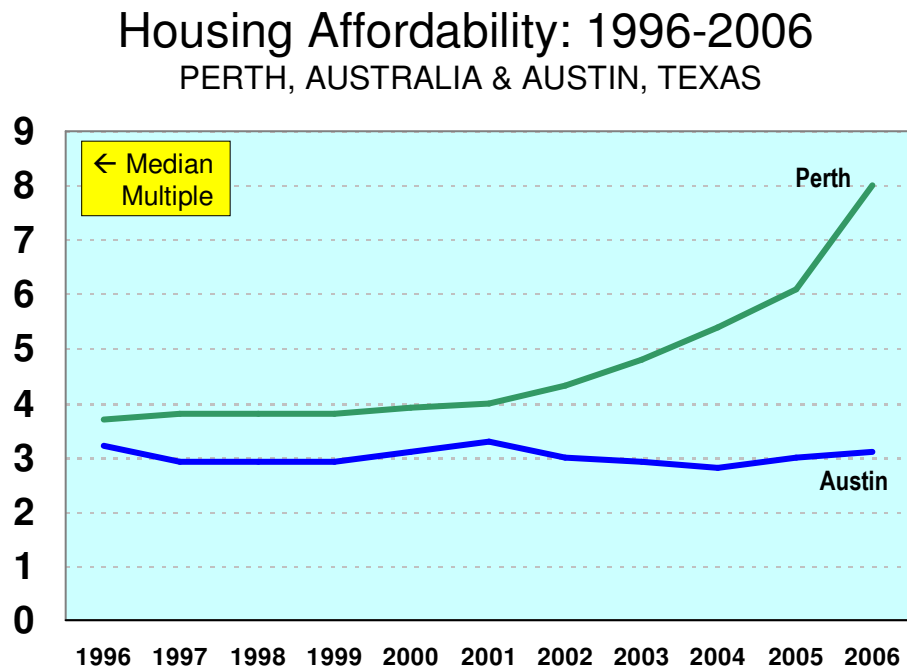


Figure 2

The land use policies and practices in the two metropolitan areas are just as different.

- Land use in Perth is centrally regulated by the state government of Western Australia. Residential developments must wait for government “land releases.” Slow land releases have been so slow that the price of land has skyrocketed. The state government has noted its recognition of this problem, however serious reforms have not been undertaken.
- Land use in Austin is generally lightly regulated by individual units of local government. The largest such jurisdiction, the city (local authority) of Austin, often labels its policies as “smart growth,” and seeks to significantly limit development on its west side, an environmentally sensitive area on the eastern edge of the Texas hill country. However, the city of Austin allows comparatively free development on the less environmentally sensitive east side of the city. There are more than 30 other local authorities in the metropolitan area that are responsible for their own land use and are generally liberal in their approach. Finally, land outside the jurisdiction of the cities is regulated by the five county governments in the metropolitan area. County governments in Texas have limited land use regulation authority,

largely limited to sanitary and traffic issues. County jurisdiction applies to nearly one third of the central county (Travis) and nearly 90 percent of the metropolitan area. This comparatively light regulatory regime has been instrumental in maintaining housing affordability in Austin.

In Perth, the home building industry is permitted to build only as many houses as are allowed by the state government, which has been considerably less than the demand. In Austin, builders are free to build as many houses as the market requires.

Thus, while Perth and Austin are similar in some ways, their land use governance has produced very different results. Already filtering through the Perth economy is an 11 year income loss for purchasing households from housing cost inflation, built up in only 10 years. In contrast, housing affordability is slightly better today in Austin than it was 10 years ago. The Austin household buying the median priced house does so with 11 years less income. This is a considerable competitive advantage.

ⁱ Louise Staley and Alan Moran, Fixing the Crisis: A fair deal for homebuyers in WA, Institute of Public Affairs, http://ipa.org.au/files/STALEY&MORAN_WAHousing_DEC06.pdf.