

5th Annual Demographia International Housing Affordability Survey

PREFACE

By Dr. Shlomo Angel

Cities grow and expand. As their population increases, their areas increase even faster. London, for example had a population of 845,000 in the year 1800 and occupied 40 square kilometers at a gross density of 211 persons per hectare. In the year 2000, it had a population of 10.3 million people and occupied 1,855 square kilometers at a gross density of 54 persons per hectare. The average density in London declined at an average rate of 0.67% per annum during this period. In a global sample of 120 cities, my colleagues and I found that the built-up area densities of cities decreased significantly between 1990 and 2000, at an average rate of 1.7% per annum [World Bank, *The Dynamics of Global Urban Expansion*, 2005]. Historical data on 30 cities that I am studying now suggest that the decline in average urban densities is almost a century old in many cities, not simply a passing phenomenon but a consequence of urban population growth in a period of rapid urbanization, improved living standards, and a host of technological innovations that have made urban transport cheap and efficient. In light of these findings, the current efforts to contain the pace of the outward expansion of cities for one reason or another are, at the very least, open to serious question.



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For cities to expand outward at their current pace — to accommodate their growing populations or the increased demand for space resulting from higher incomes — the supply of land must not be artificially constrained. Land supply bottlenecks lead to increases in land prices and, since land is a major housing input, to increases in house prices. The more stringent the restrictions, the less is the housing market able to respond to increased demand, and the more likely house prices are to increase. And when residential land is very difficult to come by, housing becomes unaffordable.

Wendell Cox and Hugh Pavletich repeatedly remind us of the causal connection between land supply restrictions and housing affordability in their annual surveys. Their *5th Annual Demographia International Housing Affordability Survey* brings together the growing body of empirical evidence that placing restrictions on urban land supplies leads to serious house price escalation. They also point out that land supply restrictions may have been at the root of the financial crisis of 2008, as financial analysts came to rely on land supply bottlenecks in their overoptimistic projections of house price inflation in all major markets. If that was indeed the case, and I, for one, suspect it was, then many



of us taxpayers will bear the burden of those restrictions by paying out our share of the massive financial bailout needed to repair the damage caused by the collapse of global financial markets.

Protecting adequate amounts of green areas surrounding our cities — be it for conserving fertile farm lands, creating public open spaces, or protecting sensitive natural habitats — is indeed a lofty and sensible goal, and environmentalists the world over should be commended for championing it. But the protection of open space is not without cost. If the selective protection of open spaces is translated into blanket *containment* policies that restrict the supply of urban land in one way or another, then land markets are affected. These effects need to become more transparent and we need to explore their impact on the efficiency, equity, and sustainability of urban development. Unfortunately, most of those chiming in on this debate reflect ideological positions of one kind or another rather than investigating the available data and exploring the causal connections in the data more rigorously.

The 5th *Annual Demographia International Housing Affordability Survey* is a major step in this direction. It provides critical and necessary evidence for a debate that is still quite resistant to rational discourse and sensible resolution despite appeals to 'smart growth' that suggest a serious application of enlightened minds to the issue of managing urban expansion. There are those who argue that high urban land prices, like high gasoline prices, are essential positive signals for the housing market to move towards higher-density living. They welcome both. The higher the cost of land and transport, they say, the more compact cities will become. Then more people will use public transport, there will be less congestion and less pollution, and cities will be more convivial places to live in. And if planning restrictions lead to higher land prices, then that is only for the common good.

There is broad political support for this agenda, at least in part because most sitting residents that already own homes welcome any planning restrictions that increase the value of their housing assets (and if that makes it impossible for their kids to live in the neighborhood, so be it...). In other words, as several authors have noted, homeowners may not care about affordable housing and may prefer housing to be unaffordable as long as they own a home that was bought *before* prices shot up. Unfortunately, those same homeowners are also resistant to densification, regardless of its trumpeted merits: more public transport use, less congestion, less pollution and all. They typically want their neighborhoods to remain exactly as they are, resisting any attempts to add rooms and extensions to existing dwellings let alone allowing the construction of multi-family dwellings in their midst. If there is to be densification, they claim, it should be elsewhere, "Not in My Back Yard". Needless to say, densification restricted to the urban fringe because of high land prices will not lead to any of the hoped for merits of a dense city. On the contrary, it is likely to increase commuting and pollution while adding nothing to making public transport more feasible.

And so, while cities need to expand to accommodate both population growth and a growing demand for larger homes and larger businesses that accompanies economic growth, there is serious resistance among policy makers *both* to their horizontal expansion — derided as sprawl — *and* to their vertical expansion through the densification of existing neighborhoods. This resistance inevitably creates the supply shortages that fuel house price inflation.



In the hundreds of cities with overpriced housing characterized in the *Survey*, first-time homeowners and renters will continue to confront exorbitant expenditures on shelter while the public debate continues on whether or not to relax the stranglehold on the supply of land for residential construction. We can only hope that by continuing to focus attention on this issue, one of the most critical issues now facing our cities, the authors of the *Survey* will continue, as they have before, to broaden the discussion and to improve the evidence necessary to arrive at the right political choices now confronting growing cities everywhere.

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