

DEMOGRAPHIA

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13th ANNUAL DEMOGRAPHIA INTERNATIONAL HOUSING AFFORDABILITY SURVEY

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HOW DOES YOUR CITY RATE?

406 URBAN MARKETS
OF
AUSTRALIA * CANADA
HONG KONG-CHINA * IRELAND
JAPAN * NEW ZEALAND
SINGAPORE * UNITED KINGDOM
UNITED STATES

The 2017 13th Annual Edition ...

The 13th Annual Demographia International Housing Affordability Survey covers 406 metropolitan housing markets (metropolitan areas) in nine countries (Australia, Canada, China, Ireland, Japan, New Zealand, Singapore, the United Kingdom and the United States). A total of 92 major metropolitan markets (housing markets) --- with more than 1,000,000 population --- are included, including five megacities (Tokyo-Yokohama, New York, Osaka-Kobe-Kyoto, Los Angeles, and London).

Rating Middle-Income Housing Affordability

The Demographia International Housing Affordability Survey rates middle-income housing affordability using the "Median Multiple," which is the median house price divided by the median household income. 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 Joint Center for Housing Studies, Harvard University. The Median Multiple and other price-to-income multiples (housing affordability multiples) are used to compare housing affordability between markets by

the Organization for Economic Cooperation and Development, the International Monetary Fund, *The Economist*, and other organizations.

Historically, liberally regulated markets have exhibited median house prices that are three times or less that of median household incomes, for a Median Multiple of 3.0 or less.

Demographia uses the following housing affordability ratings (Table ES-1).

| Table ES-1 <i>Demographia International Housing Affordability Survey</i> Housing Affordability Ratings | |
|--|-----------------|
| Housing Affordability 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 |
| Median multiple: Median house price divided by median household income | |

Housing Affordability in 2016

There are 11 affordable major housing markets, all in the United States. There are 29 severely unaffordable major housing markets, including all in Australia (5), New Zealand (1) and China (1). There are 13 severely unaffordable major markets in the United States, out of 54. Seven of the United Kingdom's 21 major markets are severely unaffordable and two of Canada's six.

The most affordable major housing markets in 2015 were in the United States, which had a moderately unaffordable Median Multiple of 3.9, followed by Japan (4.1), the United Kingdom (4.5), Canada (4.7), Ireland (4.7) and Singapore (4.8). Overall, the major housing markets of Australia (6.6), New Zealand (10.0) and China (18.1) were severely unaffordable.(Table ES-2).

There are 11 affordable major housing markets in 2016, all in the United States. Rochester was the most affordable, with a Median Multiple of 2.5, followed by Buffalo (2.6), Cincinnati (2.7), Cleveland (2.7), Pittsburgh (2.7), Oklahoma City (2.9), St. Louis (2.9) and four at 3.0, Detroit, Grand Rapids, Indianapolis and Kansas City.

There are 26 severely unaffordable major housing markets in 2016. Again, Hong Kong is the least affordable, with a Median Multiple of 18.1, down from 19.0 last year. Sydney is again second, at 12.2 (the same Median Multiple as last year). Vancouver is third least affordable, at 11.8, where house prices rose the equivalent of a full year's household income in only a year. Auckland is fourth least affordable, at 10.0 and San Jose has a Median Multiple of 9.6.

The least affordable 10 also includes Melbourne (9.5), Honolulu (9.4), Los Angeles (9.3), where house prices rose the equivalent of 14 months in household income in only 12 months. San Francisco has a Median Multiple of 9.2 and Bournemouth & Dorsett is 8.9.

San Diego has a Median Multiple of 8.6 and London 8.5, the same as last year. Toronto has a Median Multiple of 7.7, like Vancouver, showing a year-on-year house price increase equal to a year of household income.

| Table ES-2 Housing Affordability Ratings by Nation: Major Markets (Over 1,000,000 Population) | | | | | | |
|--|---|--|---|---|--------------|--------------------------|
| Nation | Affordable (3.0 & Under) | Moderately Unaffordable (3.1-4.0) | Seriously Unaffordable (4.1-5.0) | Severely Unaffordable (5.1 & Over) | Total | Median Market |
| Australia | 0 | 0 | 0 | 5 | 5 | 6.6 |
| Canada | 0 | 1 | 3 | 2 | 6 | 4.7 |
| China: Hong Kong | 0 | 0 | 0 | 1 | 1 | 18.1 |
| Ireland | 0 | 0 | 1 | 0 | 1 | 4.7 |
| Japan | 0 | 1 | 1 | 0 | 2 | 4.1 |
| New Zealand | 0 | 0 | 0 | 1 | 1 | 10.0 |
| Singapore | 0 | 0 | 1 | 0 | 1 | 4.8 |
| United Kingdom | 0 | 2 | 12 | 7 | 21 | 4.5 |
| United States | 11 | 22 | 8 | 13 | 54 | 3.9 |
| TOTAL | 11 | 26 | 26 | 29 | 92 | 4.2 |

There are 99 affordable housing markets of all sizes including 82 in the United States, 10 in Canada, 4 in Australia and 3 in Ireland (Table ES-3). The most affordable market is Racine (WI) in the United States, with a Median Multiple of 1.8.

There are 94 severely unaffordable markets, with 36 (of 262) in the United States, 33 (of 54) in Australia, 11 (of 33) in the United Kingdom, 7 (of 40) in Canada, 6 (of 8) in New Zealand and the one market in China. Singapore, Japan and Ireland had no severely unaffordable housing markets.

The least affordable among the smaller markets is Santa Cruz (CA) in the United States, with a Median Multiple of 11.6.

| Table ES-3 Housing Affordability Ratings by Nation: All Markets | | | | | | |
|--|---|--|---|---|--------------|--------------------------|
| Nation | Affordable (3.0 & Under) | Moderately Unaffordable (3.1-4.0) | Seriously Unaffordable (4.1-5.0) | Severely Unaffordable (5.1 & Over) | Total | Median Market |
| Australia | 4 | 3 | 14 | 33 | 54 | 5.5 |
| Canada | 10 | 13 | 10 | 7 | 40 | 3.9 |
| China (Hong Kong) | 0 | 0 | 0 | 1 | 1 | 18.1 |
| Ireland | 3 | 1 | 1 | 0 | 5 | 3.4 |
| Japan | 0 | 1 | 1 | 0 | 2 | 4.1 |
| New Zealand | 0 | 0 | 2 | 6 | 8 | 5.9 |
| Singapore | 0 | 0 | 1 | 0 | 1 | 4.8 |
| United Kingdom | 0 | 4 | 18 | 11 | 33 | 4.6 |
| United States | 82 | 94 | 50 | 36 | 262 | 3.6 |
| TOTAL | 99 | 116 | 97 | 94 | 406 | 4.0 |

“Best Cities” for Middle-Income Households

Every year, “best cities” and “most livable cities” lists are produced by various organizations. Aimed at the high end of the market, these surveys virtually never evaluate housing affordability. Yet, the media often mischaracterizes the findings as relevant to the majority of households.

In fact, a city cannot be livable, nor can it be a best city to households that cannot afford to live there. Households need adequate housing.

The “best cities” for housing affordability are often better on middle-income urban outcomes than the high-end best cities that attract media attention. This is illustrated by a comparison between Dallas-Fort Worth, where housing affordability is far better than in Toronto, which was rated as the “best city” by *The Economist*. In addition to better housing affordability, traffic congestion was better and incomes were higher. This is despite the fact that Toronto employs the most favored urban strategies, which Dallas-Fort Worth does not.

Another comparison shows that Kansas City has better middle-income outcomes than all of *The Economist’s* top 10 (for which data was available) in housing affordability and traffic congestion and higher incomes than all but three.

Excessive housing regulation has been identified as having significantly reduced economic growth in the United States and inequality internationally. It has complicated the inflation controlling role of central reserve banks.

Economic uncertainty is a substantial concern for households. It is important to keep housing affordable, so that households can live a better standard of living and greater poverty can be avoided. This requires avoiding urban planning policies associated with artificially raising house prices, specifically urban containment. Failing that, housing affordability is likely to worsen further.

Paul Cheshire, Max Nathan and Henry Overman of the London School of Economics recently suggested that “... that the ultimate objective of urban policy is to improve outcomes for people rather than places” and that “... improving places is a means to an end, rather than an end in itself.”

Following that policy prescription, a number of cities (such as Dallas-Fort Worth, Kansas City) have achieved the objective of placing people over place. For most of society, middle-income households, as well as lower income households, the best cities are where government authorities have overseen local housing markets competently, evidenced by housing that is affordable, all else equal.

The perspective of the *Demographia International Housing Affordability Survey* is that domestic public policy should, first and foremost be focused on improving the standard of living and reducing poverty.

Survey Introduction

The Introduction to this year’s *Survey* is by Dr Oliver Hartwich, Executive Director of The New Zealand Initiative, a public policy research organization based in Wellington. Dr Hartwich has had a long association with the co-authors of this *Survey*, since his time with Policy Exchange in the United Kingdom

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For further information ...

Wendell Cox
Demographia
St Louis, Missouri - 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

Dr Oliver Hartwich
Executive Director
The New Zealand Initiative
www.nzinitiative.org.nz