

FINANCIAL REVIEW

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Sydney is the world's 2nd most unaffordable city, Demographia survey finds



by [Su-Lin Tan](#)



Sydney was the second most unaffordable city in the world, after Hong Kong, to buy a home last year, according to the annual US Demographia International Housing Affordability survey.

With a median house price to wage ratio of 12 times, Sydney's ratio has worsened by 60 per cent since 2004, when it was rated 7.6.

Melbourne was number six on the list of unaffordable major housing markets, with a median house price to wage ratio of 9.5.

The Demographia index, which has been criticised in the past for [its simplification of affordability](#), uses data up to the third quarter of 2016.

It showed that in between Sydney and Melbourne, the world's other most expensive markets are Vancouver, Auckland and San Jose in the US.

All of Australia's major housing markets including Perth, were rated "severely unaffordable" but WA also boasts some of more affordable cities, albeit for the wrong reasons.

The few affordable places in Australia are Karratha, Port Hedland, Kalgoorlie in WA and Gladstone in Queensland, but it was the mining downturn which had forced down house prices there.

"Germany is probably the country with the most boring housing market in the world," said executive director of the The New Zealand Initiative Oliver Hartwich, who wrote the foreword of the report.

"German house prices remain stable, and if it had not been for the euro crisis and negative interest rates, the Germans would probably still be able to buy houses for the same prices in real terms that they paid twenty or thirty years ago."

"The story for other countries like Australia, New Zealand, the United Kingdom and large parts of the United States is a different one. There, house prices have gone through the (now unaffordable) roof."

Mr Hartwich provided an insight into why Australia, and other unaffordable places failed to fix affordability.

"In a nutshell, the answer to this question has a lot to do with the way councils are funded," he said.

"In jurisdictions where local decision-makers stand to gain from new development, they will be much more eager to make it happen."

In countries like Germany and Switzerland, council budgets depended on their ability to attract new residents and taxpayers, allowing councils to be more responsive and flexible to housing supply, resulting in lower house prices in the long run, Mr Harwich said.

This policy is being tested in New Zealand, where affordability is also poor.

"Of course, planning reform and liberalisation remain both important and desirable. But without a financial framework that encourages and incentivises development, we will always struggle to deliver the houses we need," Mr Hartwich added.

The survey came on the day Australia's most expensive state NSW's new premier Gladys Berejiklian vowed she would tackle housing affordability as a priority, but did not provide details of exact policies that would be undertaken.

Just after being elected on Monday, [Ms Berejiklian declared housing affordability](#) as one of her three key priorities, alongside infrastructure and a strong economy and said while she was still a staunch believer in housing supply as the answer to affordability, the NSW government would need "to do more".

The 2017 Demographia survey warns politicians rarely made housing a priority.

"Indeed, as is shown by the data in this survey, in many housing markets, governments have implemented public policies that do the opposite - by severely reducing housing affordability. There has been no shortage of rhetorical concern, but serious initiatives have been absent," the report said.

"There are notable exceptions, such as Singapore's half-century institutional initiative to keep housing affordable and the recent New Zealand government initiatives."

"However, there has been little serious attention to the problem of severely unaffordable housing elsewhere, as governments have stood idly by as house prices doubled and tripled relative to incomes."

Additionally, a city cannot be livable - Melbourne was last year ranked the world's most liveable city by the Economist Intelligence Unit but is number six on the unaffordable list - nor can it be a best city to middle-income households who cannot afford to live there.

"Especially at a time when there is a growing threat of populism to Western democracies, there is a social imperative for making housing more affordable. We should not accept extreme price levels in our housing markets," Mr Hartwich said.

The most affordable housing markets are all in the US, mainly Rochester, Buffalo, Cincinnati, Cleveland and Pittsburgh, according to the report which focuses on middle-income housing affordability as opposed to low-income affordable housing.