

BERNARD SALT

## Housing affordability crisis: social divide affects a generation



Even though the affordability issue is worst in Sydney it is present in other large Australian cities. Picture: Liam Kidston.

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Men and women of Australia, we have a problem.

That problem is housing affordability and the exclusion that this issue delivers to part of the community in our biggest cities. You will recall my October column in *The Weekend Australian Magazine* [parodying the middle-aged tut-tutting of the spending priorities of the millennial generation](#). Perhaps it's time to look at some of the facts behind the affordability crisis.

The best measure of housing affordability at a global level is a series of reports by the US-based consultancy Demographia. The 2017 report released in January looked at 92 cities with more than one million residents across nine countries comparing the median cost of housing with median household income. Sydney ranks second on this list after Hong Kong with a median multiple of 12.2, meaning that it takes more than 12 years of household income to buy a median house in the harbour city.

Melbourne ranks sixth with a median multiple of 9.5 while Adelaide, Brisbane and Perth all rank within the top 20 commanding median multiples of between 6.1 and 6.6. What gives this dataset impact is its global comparison and the common sense of its data. The median house price in Sydney is now \$1.077 million and the median household income in Sydney is \$88,000. On these figures alone it is apparent the average household cannot afford to buy an average house in Sydney without parental or some other form of support.

## Sky high housing

### Top 20 least affordable cities to buy a house in 2017

Rank	City	Median Multiple 2017	Median Multiple 2012	Median House Price (AUD)	Median Household Income (AUD)
1	Hong Kong	18.1	12.6	922,000	51,000
2	Sydney	12.2	9.2	1,077,000	88,000
3	Vancouver	11.8	10.6	838,000	71,000
4	Auckland	10.0	6.4	798,000	80,000
5	San Jose	9.6	6.9	1,320,000	137,000
6	Melbourne	9.5	8.4	740,000	78,000
7	Honolulu	9.4	8.7	984,000	104,000
8	Los Angeles	9.3	5.7	784,000	84,000
9	San Francisco - Oakland	9.2	6.7	1,103,000	119,000
10	Bournemouth & Dorset	8.9	8.7	440,000	50,000
11	San Diego	8.6	6.1	778,000	91,000
12	London (GLA)	8.5	6.9	730,000	86,000
13	Toronto	7.7	5.5	622,000	80,000
14	Plymouth & Devon	7.1	7.4	357,000	50,000
15	London Exurbs (E & SE)	7.1	6.4	473,000	67,000
16	Adelaide	6.6	6.7	435,000	66,000
17	Bristol - Bath	6.2	5.8	423,000	68,000
18	Brisbane	6.2	6.0	495,000	79,000
19	Perth	6.1	5.7	528,000	87,000
20	Miami	6.1	4.1	416,000	68,000
21	Greater NYC (NY, NJ, PA)	5.7	6.2	525,000	93,000

Rank	City	Median Multiple 2017	Median Multiple 2012	Median House Price (AUD)	Median Household Income (AUD)
22	Riverside - San Bernardino	5.6	3.2	421,000	76,000
23	Seattle	5.5	4.5	557,000	102,000
24	Portland	5.5	4.2	473,000	86,000
25	Denver	5.4	4.0	511,000	95,000
26	Boston	5.4	5.3	575,000	106,000
27	Warrington & Cheshire	5.1	6.4	307,000	60,000
28	Sacramento	5.1	2.9	432,000	85,000
29	Liverpool & Merseyside	5.1	5.2	228,000	45,000
30	Leicester & Leistershire	5.0	5.1	291,000	58,000
31	Stoke on Trent & Staffordshire	4.8	5.1	256,000	53,000
32	Singapore	4.8	unranked	384,000	79,000
33	Montreal	4.8	5.1	288,000	60,000
34	Birmingham & West Midlands	4.8	4.9	256,000	54,000
35	Tokyo - Yokohama	4.7	unranked	379,000	81,000
36	Dublin	4.7	3.4	392,000	83,000
37	Calgary	4.6	3.9	432,000	94,000
38	Providence	4.5	4.3	361,000	79,000
39	Manchester & Greater Manchester	4.5	4.8	241,000	54,000
40	Las Vegas	4.5	2.4	312,000	69,000

Source: Demographia 2017; KPMG Demographics

**THE AUSTRALIAN** 

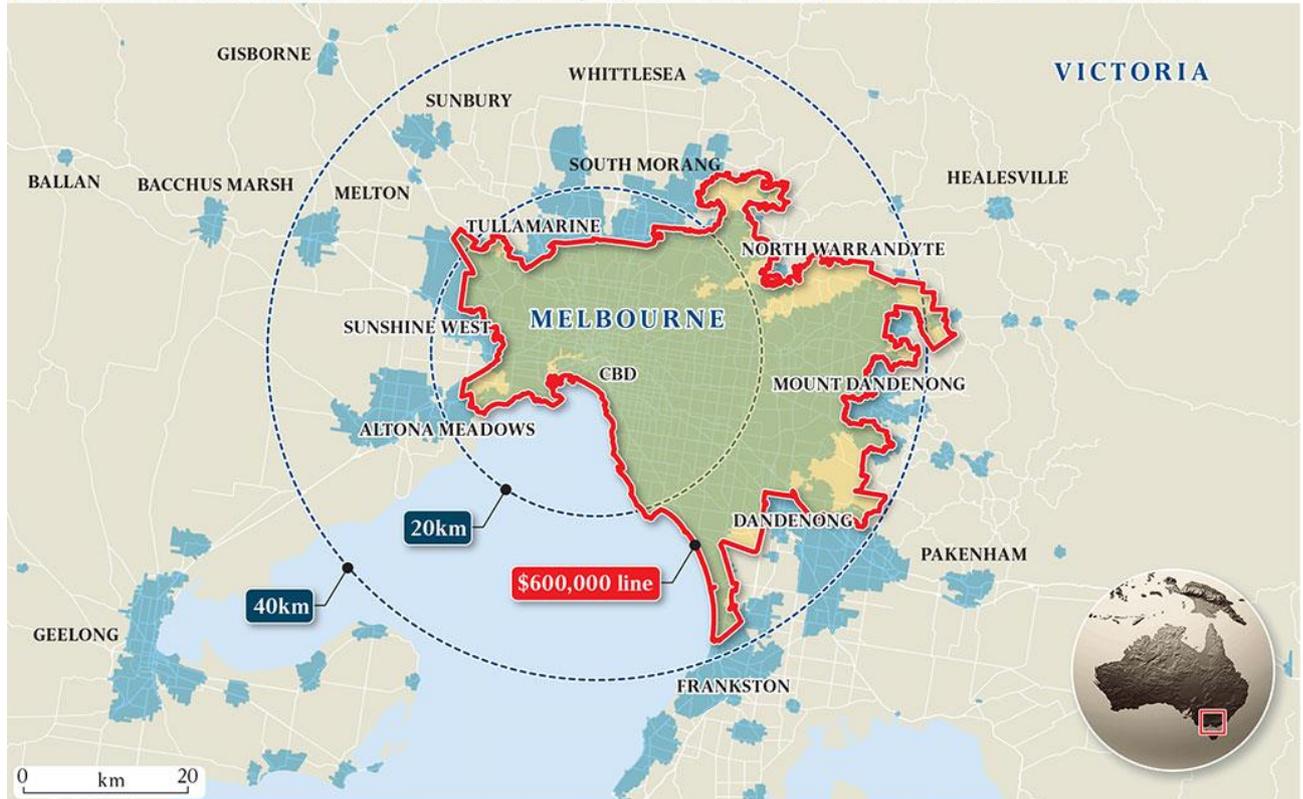
Five years earlier in 2012, at the peak of the mining boom, the Sydney multiple was 9.2 while the Melbourne multiple was 8.4. In the last five years household income in Sydney has increased by \$9000 while median house prices have increased by \$439,000. Sydney's post-tax income growth since 2012 does not cover house price growth even with today's low interest rates. House prices are sprinting away from Middle Australia in Sydney and to a lesser extent in Melbourne and in other capitals.

As concerning as this issue is for our nation, and especially for the capital cities that drive the Australian economy, there is another aspect to the Demographia dataset that I find compelling. Maybe Sydney and Melbourne are simply joining the ranks of elite global cities that have always struggled to deliver affordable housing?

How does the cost of housing in Sydney and Melbourne compare with housing costs in global cities like London, New York and Tokyo? The area of Greater London say within the orbital M25 contains over eight million residents in an urban mass that is 60km in diameter.

London is a global financial centre. The city has six international airports that connect with 350 global cities. London's richest suburbs like Belgravia and Mayfair attract buyers from the Middle East and Russia. And yet the London housing multiple of 8.5 is less than that of - Melbourne let alone of Sydney. London delivers better affordability than Australia's biggest cities.

### SPREADING THE PAIN: MELBOURNE'S \$600K HOUSE PRICE AFFORDABILITY LINE



Maybe that's a quirk of the figures. Let's look at what some might say is the most powerful city on earth, greater New York. Here is the world's undisputed financial centre. Wall Street, for good or ill, delivers wealth to some of its players on a stratospheric scale. And yet the housing multiple for this city is 5.7, which makes it more affordable than Adelaide at 6.6. The greater New York that this multiple applies to covers a vast metropolis of 24 million extending into New Jersey, Connecticut and Pennsylvania. Ritzy Manhattan has less than 10 per cent of the population of greater New York.

I get it that it's expensive to buy a property on Manhattan Island but New Yorkers as well as Londoners can get access to cheaper housing if they are prepared to commute. And these are not unreasonable intercity commutes; anything within London's M25 is doable; anything from New Jersey or Connecticut is acceptable. But again, perhaps these comparisons with Sydney and Melbourne aren't entirely fair. How do our cities compare with the greatest single demographic force on earth, Tokyo-Yokohama?

Let's compare affordability in Australia's biggest cities with the Japanese behemoth which has 38 million residents spread across an area twice the footprint of urban Sydney. The median house price in Tokyo-Yokohama is 32 million yen (\$379,000) whereas average household income is seven million yen (\$81,000) which delivers a housing multiple of 4.7. How is it that Tokyo can deliver housing affordability but Sydney cannot?

It's a simple but fair question that the Australian people have a right to ask. And especially Australians in their 20s and 30s given that the affordability issue has deteriorated at a time when they are entering the first homebuyer stage of the life cycle.

It is true that housing affordability is better in regional Australia and for some this may well be a solution. But this does not address the fundamental problem of why Australia struggles to deliver affordability in big cities. The accompanying map shows what I call Melbourne's affordability line; it delineates median house prices above and below the \$600,000-mark. Housing affordability as defined starts at Thomastown (\$478,000) to the north, St Albans (\$519,000) to the west and at Altona Meadows (\$523,000) to the southwest. But this also means that housing unaffordability in Melbourne (with the median exceeding \$600,000) extends across 60 unrelenting kilometres between Caroline Springs in the west and Belgrave in the east. We Australians cannot or will not deliver housing affordability across an extended urban plain whereas it can be delivered across a similar area in suburban New York, London and Tokyo. These cities may deliver higher housing peaks but they also deliver more affordable base-load housing.

At least in Melbourne there is a measure of affordability between 20km and 40km to the west and north of the CBD. However, housing affordability is exacerbated in Sydney by the city's awkward configuration that extends 70km between Bondi and Penrith. The city's highest-paying jobs are clustered around the harbour at the eastern end; the cheapest housing fans out at the western end.

This raises important issues. How is it that London, New York and Tokyo can deliver more affordable suburban housing than Sydney? Is this the result of housing policies that we can copy or adapt? Or is our inability to deliver affordable housing a product of greater societal and planning issues unique to Australia? The former promises a quick solution; the latter would require time — decades, even — to bring about a favourable outcome.

Sydney should have been developed as a multi-nucleated city from the 1970s onwards with multiple CBDs. Or perhaps Sydney could replicate the Dallas-Fort Worth bi-nodal model in which CBD jobs are relocated to Parramatta, allowing new residential land to be opened up in, say, Wollondilly. This would require Sydney to accept a suburban growth narrative for the foreseeable future. Over time this would give Sydney a residential development front not unlike Melbourne's west, which delivers sub-\$600,000 median house prices in Sunshine West, 15km from the CBD. Sydney's current strategic plan broadly follows this principle but the promised dividend of cheaper housing is still a generation away.

Even though the affordability issue is worst in Sydney it is present in other large Australian cities. Is this because capital-city housing is uniquely loaded with taxes and charges? Is it because the standard of the average suburban house in Australia is far superior (and therefore costlier) to equivalent housing in suburban London, New York and Tokyo? Or is it because Australian society delivers a bigger, richer middle class than other nations?

The housing affordability issue is not subsiding. To have an entire generation affected by a shift in the social contract of reasonable access to capital-city housing diminishes our nation's social cohesion. This is an issue that will beset politicians of all persuasions for years to come. Perhaps what is required is a nonpartisan royal commission into housing affordability where the recommendations are accepted and applied by whatever party is in office.

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