

“Houston ... we have a problem”

Quadrant

September 2005

Bob Day

When astronaut Jack Swigert uttered the words, “Houston... we have a problem,” he could not have comprehended either the gravity of the situation on board his spacecraft, nor the way in which those words, later immortalised by Tom Hanks in the film *Apollo 13*, would come into common usage as a cry for help in stressful circumstances.

Although the circumstances may be quite different, young Australians are experiencing unprecedented stress brought about by a collapse in housing affordability. Over the past ten years house prices have doubled. Yet while house construction costs have remained relatively stable, land prices have gone through the roof.

When asked about Sydney house prices and their impact on the economy the Prime Minister, John Howard, has said that he has never been accosted by angry citizens complaining that the value of their house has dramatically increased.

That may be true. But the Treasurer, Peter Costello, has been drawing our attention to the low birth rate, famously advising Australians to have one baby for each parent, and then to have one for Australia.

The fact that a couple on the median wage cannot contemplate buying a house, which in some places is now nearly 9 times their before-tax income (banks will lend no more than 4 times income), and thus provide a home of their own in which to bring up the three children the Treasurer would like them to have, seems to have escaped the attention of our political leaders and those economists within the Treasury and the Productivity Commission who ascribe the rise in metropolitan house prices to demand stimulators such as Capital Gains Tax exemptions, negative gearing and new home buyer grants. The Productivity Commission’s claim, for example that constraints on land release were not a major contributor in the house price boom is at complete odds with international evidence and basic supply/demand economics. Housing affordability – or first home ownership, is about ‘entry level’ and entry level housing happens on the urban fringe. If you restrict supply at the entry point, up goes the price and down goes the affordability.

In a major breakthrough, we can now compare housing affordability in different cities around the world using the Housing Affordability Index (HAI), developed by US based urban geographer Wendell Cox. Like all extremely useful things, this index is very easily calculated - simply divide the median house price in the city under investigation by the median household income in that city.

Historically, a multiple of three is considered to be affordable. When a house is three times the median wage, young couples can pay off a home on one income and begin a family before they turn 30. At six times the median wage they have no hope at all. Brisbane and Perth house prices are around six times annual income, Melbourne is seven times and Sydney a whopping nine times the median household income. In the USA, the HAI in Dallas, Atlanta and Houston is around 2.7. All three of these US cities are growing rapidly yet the affordability of housing in those cities is not affected by the burgeoning demand.

I went to Houston in 2005 to seek out the answer to the question: Why does Houston have affordable housing and the cities of Australia do not?

The first thing I discovered was Houston is much hated in town-planning circles throughout the western world as that city which has repeatedly rejected, at numerous referenda, proposals to introduce zoning. The zoning/no zoning debate is an interesting one, but as the comparison between Houston and Dallas (which has zoning) shows, it does not necessarily impinge upon housing affordability. The explanation for Houston's housing affordability does not lie in the absence of zoning regulations.

In Houston, growth is in, controls are out. Its citizens are proud of their city and its growing significance in State and national politics. Although 30 kms from the Gulf of Mexico, Houston has, by virtue of a large shipping channel, the busiest port in the US. It is also a city where civic philanthropy has provided an opera house, a ballet company, an internationally renowned medical precinct comprising a dozen or so large hospitals and a number of university-based research institutes, Rice University being one of the more famous.

In Houston, because there are no restrictions on development, the price ratio of land used for residential development and land used for agriculture is effectively 1:1. In Australia it is more like 10:1.

It is this fact which provides Houston with affordable housing, a fact replicated in cities such as Dallas and Atlanta which also have no barriers to urban growth or "urban sprawl". The supply of land is the key.

In Australia, urban sprawl has become a pejorative term without any serious examination of its qualities or benefits and without any critical analysis of its troubled alternative – urban consolidation, or to be more accurate, urban congestion. The notion that "Sprawl is Bad" has so infected the planning industry that any thought to the contrary is now quashed in an instant. Ironically, the case for urban consolidation has been advanced on the back of a number of arguments – namely, that it is good for the environment, that it stems the loss of agricultural land, that it encourages people on to public transport, that it leads to a reduction in motor vehicle use and that it saves on infrastructure costs for Government. None of these is true.

Pricing those on low and moderate incomes out of home ownership has serious economic and social consequences. Research confirms what we intuitively know, namely, that people who own their own homes experience better health, greater self-confidence, move less frequently, are more involved in their communities, have greater financial independence and much greater wealth than their renting peers. Their children do better at school and those children in turn are more likely to also become homeowners. Home ownership also results in a reduced cost of living on a whole of life basis and a wider range of choices in retirement. As we all know only too well, if you don't own your home by the time you retire, you're in big trouble.

The erosion of self reliance and the damage to family life that comes when people are precluded from homeownership will of course not be borne by existing home owners living comfortably within the leafy bounds of current urban growth boundaries but by those excluded from home ownership because they have been priced out of the housing market.

The significance of home ownership for a democracy was described by former Prime Minister, Robert Menzies in his famous "forgotten people" speeches:

"I do not believe that the real life of this nation is to be found either in the great luxury hotels or so-called fashionable suburbs", he said. "It is to be found in the homes of people who are nameless and unadvertised, and who, whatever their individual religious conviction, see in their children their greatest contribution to the immortality of the race. The home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole."

Bob Day is National President of the Housing Industry Association.