

More to Affordability than Meets the Eye



BCREA Chief Economist
Cameron Muir

It's no secret that Vancouver has the highest home prices in the country. At the beginning of the year, the composite Multiple Listing Service® (MLS®) Benchmark Price was \$603,000, 25 per cent higher than Toronto and 45 per cent higher than Victoria. I have little doubt that Vancouver will maintain its top five ranking in Demographia's *International Housing Affordability Survey* this year. However, before we lament Vancouver's unenviable position on this frequently reported list, it might be useful to do some scratching just below the surface.

The ratio of home prices to household income is a commonly used measure to assess relative housing affordability between cities. Unfortunately, it is a very poor indicator in and of itself. It doesn't account for variations in interest rates between countries. This can distort

relative affordability as lower home prices can mask higher carrying costs. It also ignores the level of diversity of a city's housing stock, where a median or average home price doesn't tell us much about the cost of housing in the least expensive twentieth percentile.

Demographia suggests that housing is affordable up until the cost exceeds three times household income and is severely unaffordable when housing costs are in excess of five times household income. Under this rational, the median home price in Vancouver would have to fall below \$200,000 to be affordable. Yet homes are selling at 9.5 times income in Vancouver because income and wealth are two different things. You may be surprised to learn that the average home in Shaughnessy is 24 times the income of a typical

family living there. Perhaps most telling is the fact that the least affordable ranked cities also tend to be the most liveable, have strong economies and the best infrastructure. They also tend to be global trade and transportation gateways. These so-called unaffordable cities attract many migrants and have growing populations. Cities with the lowest ratio of home prices to household income don't. The most affordable cities according to this criterion are places like Detroit and Flint Michigan.

RANK	Demographia Least Affordable Cities*	Mercer Quality of Living Survey	Mercer City Ranking Infrastructure	The Economist Liveability Ranking	Monocle Quality of Life Survey
1	HONG KONG	AUCKLAND	HONG KONG	MELBOURNE	MELBOURNE
2	VANCOUVER	VANCOUVER	LONDON	VANCOUVER	SYDNEY
3	SYDNEY	OTTAWA	SYDNEY	TORONTO	AUCKLAND
4	SAN JOSE	TORONTO	VANCOUVER	CALGARY	HONG KONG
5	SAN FRANCISCO	MELBOURNE	ATLANTA	ADELAIDE	PORTLAND
6	MELBOURNE	PERTH	MONTREAL	SYDNEY	SAN FRANCISCO
7	LONDON	MONTREAL	DALLAS	PERTH	
8	AUCKLAND	CANBERRA	TORONTO	AUCKLAND	
9	ADELAIDE	ADELAIDE	WASHINGTON DC		
10	SAN DIEGO	SAN FRANCISCO	OTTAWA		
11	NEW YORK	CALGARY	PERTH		
12	LOS ANGELES	BOSTON	CHICAGO		
13	TORONTO	DUBLIN	NEW YORK		
14	PERTH	BRISBANE	BOSTON		
15	BRISBANE	LONDON	MELBOURNE		

Note: Only cities included in the Demographia survey were included from the surveys compiled by Mercer, Monocle and The Economist.

*Cities with populations over one million.