

THE GLOBAL HOUSING AFFORDABILITY CHALLENGE:

A more comprehensive understanding of the housing sector



Building on the MDG methodology, modifications were introduced for SDGs to cover components of housing inadequacy and informal settlements in the measurement for target 11.1. The new SDG aspects on Informal Settlements and Inadequate Housing apply to all countries (developed and developing countries). Integrating these two aspects helps to capture the status of housing conditions in both developed and developing countries thus addressing the fundamental principle of **leaving no one behind** with regards to the right to adequate housing.

With the addition of inadequate housing component on target 11.1, decision makers and housing stakeholders agree that it is important for the global community to clearly define what constitutes inadequate housing. In addition to the components that define slums and informality, qualifiers that measure accessibility, affordability and cultural adequacy are included in defining inadequate housing. In general, many experts agree that for housing to be adequate, it must provide more than four walls and a roof.



IMPLEMENTING
THE NEW
URBAN AGENDA

The importance of measuring and defining inadequate housing

Adequate housing is a basic human need and part and parcel of the right for an adequate standard of living of all. Access to adequate and affordable housing is crucial to promote socially and economically diverse neighborhoods, in which residents have access to quality facilities, services, amenities, and employment opportunities. Inadequate housing can impact negatively on urban equity and inclusion, urban safety and livelihood opportunities, and cause negative health conditions.

The right to adequate housing is recognized in many international instruments, key among them the Universal Declaration on Human Rights (Article 25), the International Covenant on Economic, Social and Cultural Rights (Article 11), the Convention on the Rights of the Child (Article 27), the Convention on the Elimination of All Forms of Racial Discrimination (Article 5) and the Convention on the Elimination of All Forms of Discrimination Against Women (Article 14).

Today more than 100 countries have a constitutional provision on the right to adequate housing. The New Urban Agenda (2016) has prioritized the realization of this right:

“We will foster the progressive realization of the right to adequate housing as a component of the right to an adequate standard of living”

NUA Paragraph 105

The current SDG11.1.1 indicator is a continuation of the MDGs which has been expanded to include the main aspects of the term adequacy, enshrined in the Right to an Adequate Housing. In order to take the most relatable criteria from the human right, to adhere to the universality of the SDGs, adequacy is therefore measured through housing affordability.

11 SUSTAINABLE CITIES AND COMMUNITIES



Target 11.1 by 2030, ensure access for all to adequate, safe and affordable housing and basic services, and upgrade slums

Indicator 11.1.1 Proportion of urban population living in slums, informal settlements or inadequate housing



An over view of Slum Houses in Port-Au-Prince, Haiti © Julius Mwelu/UN-Habitat

Why affordable housing is key to sustainable urban development

One of the most daunting challenges of urbanization globally has been the provision of adequate housing that people can afford. Findings from the UN Global Sample of Cities show that people across all types of urban centres are not able to afford home ownership or even the cost of rental housing.

In low-income countries for example, households need to save the equivalent of nearly eight times their annual household income in order to be able to afford the price of a standard house in their town or city. If they rent, households have to commit more than 25 per cent of their monthly income to rent payments.

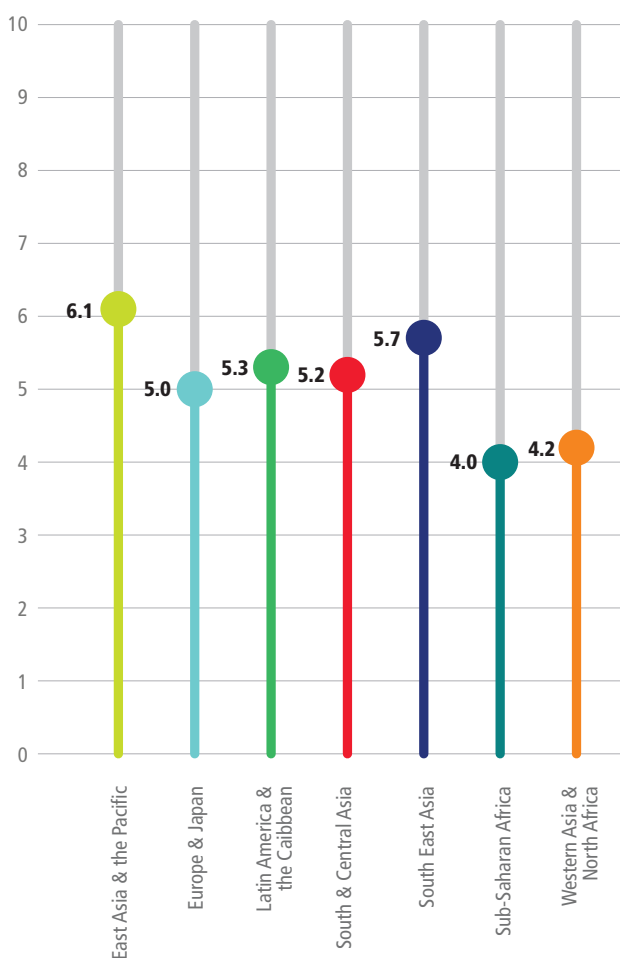


Fig. 1: Unweighted averages of occupant household affordability Price-to-Income-Ratio in the housing sector as a whole

Source: Global Urban Indicators database: Analysis from Global Sample of 200 Cities, 2015.

Affordable housing is generally defined as that which is adequate in quality and location and does not cost so much that it prohibits its occupants from meeting other basic living costs or threatens their enjoyments of the basic human rights.

Housing affordability is affected by many factors including capital variables such as land or infrastructure or building materials, etc. and occupational variables such as land leases, service costs, interest rates, etc.

However, when it comes to measuring affordability there are three common measures which fall into two components: housing costs and household income. These measures are house price-to-income ratio: which is calculated by dividing the median house price by the median household income. This measure shows the number of annual median salaries it takes to buy a median priced house. Countries with high land prices and construction costs tend to have high house price-to-income ratios, which is also prevalent low-income countries with high housing market distortions.

$$\text{House price-to-income ratio} = \frac{\text{Median house price}}{\text{Median household income}}$$

The second measure under this category is calculated by dividing the median annual rent by the median annual renter household income.

$$\text{House rent-to-income ratio} = \frac{\text{Median annual rent}}{\text{Median annual renter household income}}$$

The affordability of the housing sector -land included- is the driving force behind public and private sector engagement. The more engaged governments are in ensuring measures and policies to keep the housing sector affordable, vibrant, and healthy; the more housing construction and provision that can be created to suit the needs of everyone. Conversely, the less engaged governments are in the process, the more space that private sectors have in providing either housing which is unaffordable for the groups that need it most, and housing which is affordable for low-income groups. Moreover, these developments will remain inadequate due to its location sometimes being cut-off from employment and livelihood opportunities; or due to its durability and quality not being adequate enough, among other reasons. Affordability thus impacts directly on the form and function of the city; rendering the city more or less inclusive and sustainable.

For the SDG target 11.1, the affordability of the housing sector is being monitored as follows:

World Bank and UN-Habitat have defined a cut off point at which owner-occupied or rental housing is deemed unaffordable, which has been used for tracking housing affordability overtime as part of the Agency’s Urban Indicators Programme. **Housing is generally deemed affordable when a household spends less than 30% of their income on housing related expenses**, such as mortgage repayments (owners), rent payments (renters), and direct operational expenses such as taxes, insurance and service payments.



A family at one of the Bugesera housing project supported by UN-HABITAT and ONE UN in Rwanda (2012) © UN-Habitat /Julius Mwelu

The current status of the data

Based on data from 145 countries¹, the proportion of households without access to affordable housing is higher in SSA. On average, 55.4% of households in this region spend more than 30% of their income on housing. Australia and New Zealand have about 6% of households spending more than 30% of their income on housing (Figure 2). All sub-regions depict high variations in country-specific housing affordability. For example, unaffordability rates in Africa range from 1.5% in Mauritius to 100% in Sierra Leone, while in Europe, Malta has the lowest proportion of population without access to affordable housing (1.1%) against Greece which has the highest (40.9%).

1 36 from Sub-Saharan Africa, 22 from West Asia and North Africa, 11 from Central and Southern Asia, 13 from East and South-Eastern Asia, 19 from LAC, 42 from North America and Europe, and Australia and New Zealand

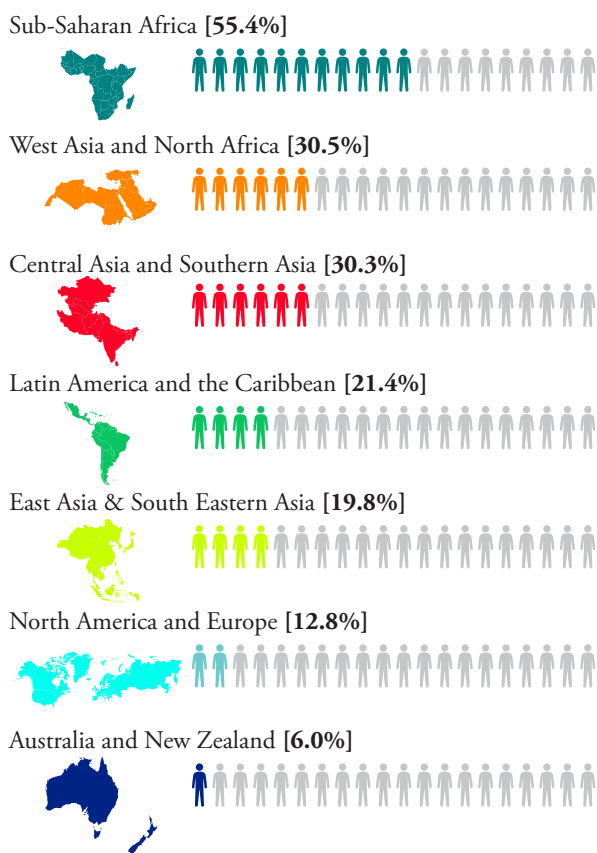


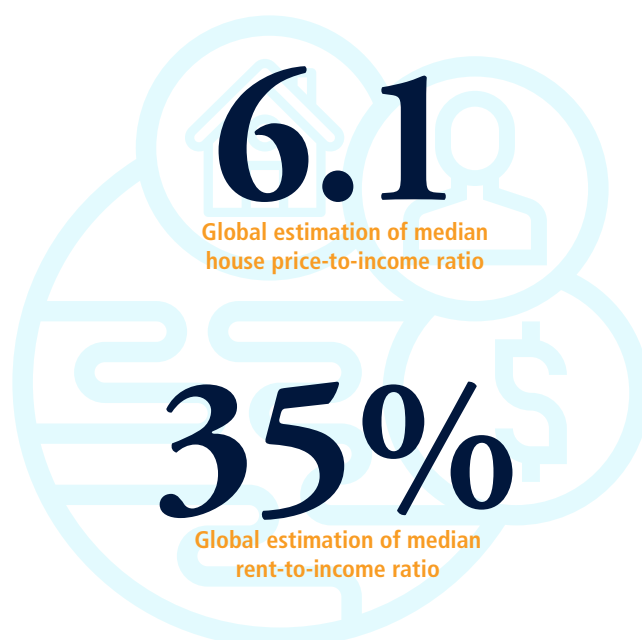
Fig. 2: Proportions (per region) of households without access to affordable housing

Source: Urban Expansion Programme, New York University, Lincoln Institute and UN-Habitat, 2016

The trends highlighted above portray high variations in inter-regional access to quality housing and inter and intra-regional levels of housing affordability, which affects populations differently. These variations are informed by factors such as the levels of country development status, infrastructure development and average national as well as household incomes.

Even within countries, housing affordability rates vary across regions and cities. In Australia, available data from 22 cities shows that house prices to income ratios range from 3.3 to 9.3. In many major capitals of the world, these statistics show increasing dwelling/house prices to income ratios². Globally, we estimate the median house price-to-income ratio to be 6.1 and the median rent-to-income ratio to be 35%. These increases, when compared to the last 30 years, are largely due to rapid growth in home prices, relatively stagnant incomes, and historically low interest rates in some regions which, by lowering the cost of obtaining a mortgage, have allowed buyers to bid up prices.

2 Income here is typically the annual household income of occupants.



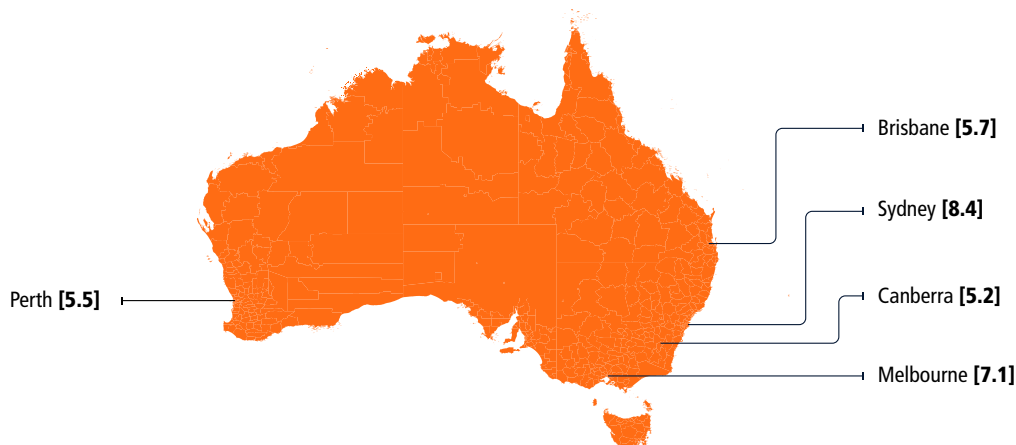


Fig. 3: Dwelling price-to-income ratio in selected Australian cities

Source: Global Urban Indicators Database 2019. (With original data downloaded from <https://smart-cities.dashboard.gov.au/all-cities/housing#sc-housing-affordability>).

The growing urgency to provide adequate and affordable housing to millions of households and the need to do so in ways that guarantee a sustainable future for cities call for a paradigm shift in housing policy and practice. UN-Habitat proposes that this shift, referred to as “Housing at the Centre”, come to reposition housing as a priority in the public debate around urbanisation, integrated within the framework of national urban policies and urban planning. UN-Habitat is therefore re-establishing the important role of housing in development, stimulating the economy, reducing poverty, and promoting inclusion in cities.

Housing is not affordable if it costs more than 3 annual household incomes to buy or more than 30% of monthly income to rent. With current statistics, there is a global housing affordability crisis that the formal private housing market alone is failing to confront.

The affordability crisis cannot be addressed unless it considers all segments of the housing stock—including public housing and informal housing that are now the only housing affordable to large segments of the urban population—while creating conditions for the private housing sector to reach further down-market.

While the most common problem is the shortage of adequate housing, other important challenges lay in the poor quality and location of the housing stock – usually far from jobs and livelihood opportunities –, the lack of accessibility and services, unaffordable costs, and insecurity of tenure. Some countries have managed to provide affordable housing at scale, yet often by repeating mass housing schemes, built on cheap and peripheral land, where people have limited access to services, jobs and opportunities. From slums to gated communities, from overcrowding to sprawl, from homelessness to vacant houses, there is much evidence that housing is shaping cities worldwide despite regional, demographic, socioeconomic, and cultural specificities.



Housing complex in Hong Kong © Nigen / Flickr.

Key emerging messages on housing affordability

Affordable housing policies should be integrated into urban development policies

Housing policies and strategies at national and local levels should be integrated into urban development policies and orchestrated in coordination with economic and social policies. Only then can housing make a substantial and prolonged contribution to socioeconomic development of people and cities. While housing provision is important for improving livelihoods, standards of living and welfare, it also accounts for a significant share of wealth and resources that can be an important source of economic growth, employment generation and a major component of the economic development agenda.



National and local authorities should take a role in responding to housing affordability constraints

National and local authorities should re-assume a leading role in responding to housing needs and affordability constraints especially of the poorest segments of the population, being at the helm of formulating, regulating, implementing and monitoring policies.



Investments in sustainable energy and resource efficient housing construction can drive affordability with a long term vision

Investing in sustainable energy production systems and a resource-efficient housing sector will pave the way for a sustainable city. Furthermore, making sustainable building practices the norm for social housing should allow household utility costs to decrease in the long-term, making housing affordable. Furthermore, the impact of the housing sector on our environment and vice-versa should be considered in order to make cities resilient to climate change and disaster.



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