Andrew Gomes recent article on the rebound in the Star Advertiser reminded me how unaffordable and out of balance Hawaii's housing costs are. Using three simple data bases; Area Median Income (AMI) that is published annually, Fair Market Rents (FMR) both by the US Department of Housing and Urban development and Median sale price of existing homes by the National Associations of Realtors; I have created a few spread sheets to illustrate this point. In 2009 Honolulu ranked #1, having the most expensive median home price. It ranked #1 in fair market rents and #1 in median home prices vs. the area median income (which is calculated by dividing the median home price by the area median income). This standard is also used throughout the world to calculate affordability. Based on 2009 median housing prices and 2009 area median income, It takes 7.52 x the area median household income to afford the median home. The average American city is somewhere around 3.25 x the area median household income to afford a median home. Demographica published the same median multiplier for Australia, Canada, New Zealand, Ireland, USA and UK. Their 2010 survey which is based on 4th qtr 2009 data ranks Honolulu 5th at 8.2 which is an improvement over their 2009 survey when Honolulu was ranked 2nd with a median multiplier of 9.1. Many people argue that we don't really have an over priced housing market, but we have too low of incomes. Based upon the Dept of Housing and Urban Development's 2009 Area Median Incomes (AMI), Honolulu ranked 16th in the USA which if our median home reflected a corresponding affordability, our home prices would be equal to that of Washington/ Arlington,/Alexandria, DC which had a median home price of $309K. Our fair market rent would equal Baltimore/Townsend, Maryland where average rent was $1374 and the multiplier would be 3.78.

The article on the rebound in the Star Advertiser calls the price rebound encouraging. The question is, "Who is it encouraging to?" Using the same data, we have constructed two other ratios. One being the fair market rents vs. the Area Median Income where Honolulu ranked 2nd behind Anaheim at 31.6%. What this means is the area median family is paying the 2nd highest ratio of their income towards rent in the United States. Again, using the 16th highest (AMI) Las Vegas/Paradise, NV, it indicates that our renters should only be paying 23% of their area median income for rent. Another way to look at home prices in fair market rent is to divide the median home price by annual fair market rent which indicates on a fair value, it is better to rent in Honolulu than own. While this seems like a contradiction, with Honolulu having the highest fair market rents in the US, but when you compare that to the excessively high median home price, it is a better deal to rent that to own. This analysis is sometimes referred to the PE ratio (fair value). What does this tell you – it would take over 23 years of paying rent to purchase a home on a comparable basis. If you used the 16th most expensive housing market and the 16th most expensive fair market rent market, you would get 18.74 years. The lower the number the better it is to own vs. renting.

By all indications our home prices are double what the area median family income can afford. And based on Paul Brewbaker's latest analysis, the price will continue to increase as it has in the past. The median home in 2000 was $295,000 and it took $70,066 a year income to purchase at 5.25% interest with 10% down for 30 years. The median family income that year was $60,900, about 15% less than it took to purchase the median home. This was close, but by 2009 the median home was $596,600 and it took an income of $141,700 while the median family income was only $79,300 which equates to 79% less than is required. Median family income increased by 30% between 2000 and 2009 and they needed a 132% increase to have the same purchase parity. Or to look at it another way, they still need a 102% raise. And Paul Brewbaker's projects the gap will only widen in the future. (This is from a more detailed analysis which can be found on Hawaii Housing Alliance's website in our publication tab).

Encouraging? Not by my standing if we want to end homelessness and families and individuals living beyond their means, having to decide whether to put food on the table, pay health insurance or pay their rent or mortgage.

As an added thought, most people don't realize there is a direct correlation between the high price of homes and land values and all other costs of goods and services. The price of paradise is directly related to land costs. Every good and services you purchase whether it is clothes, cars, medical services, or food, it's high price is all related to the high cost of entitled land.

Source: See tables attached

http://www.huduser.org/portal/datasets/il/il10/index.html

http://www.huduser.org/portal/datasets/fmr.html

http://www.realtor.org/research/research/ecoindicator