

# [Price discovery in american and british property markets](https://assignbuster.com/price-discovery-in-american-and-british-property-markets/)

Price discovery in American and British Property Markets The most appropriate way of comparing family housing costs in the two countries, given differences in income levels and floating exchange rates, is to look at housing costs as a percentage of household income. For home-owners, it appears that housing costs (mortgage payments, power and fuel bills, and property taxes) constituted a slightly higher proportion of household income in the early 1980s in the United States than in Britain. Housing costs as a percentage of household income for tenants were much higher in the United States.
We turn first to an examination of the home-ownership sector. The components of home-owners' costs varied substantially between the two countries. For home-owners with mortgages, mortgage repayment constituted a much higher proportion of housing costs in the United States than in Britain (73. 9 per cent of total costs for owners of existing housing in 1983, compared with 50. 4 per cent of total costs in Britain). On the other hand, real-estate taxes accounted for 17. 1 per cent of home-owners' housing costs in Britain in 1983, compared to only 7. 6 per cent in the United States.
These home-ownership costs provide a simple cash-flow comparison of family housing cost, but they do not take into account a variety of other important factors, including, most importantly, the impact of mortgage interest tax relief and the appreciated value of the house. The results suggest that actual cost is extremely sensitive to the rate of appreciation. However, using the average annual appreciation over the 1978-83 period, we calculate that, as a percentage of income, the real annual cost of home-ownership (excluding property tax and maintenance) was significantly lower in Britain than in the United States. Indeed, given that interest rates were lower than the rate of inflation of house prices, the real annual cost of purchasing a new home in Britain in either 1981 or 1983 was actually negative. If appreciation and opportunity costs are excluded, then annual after-tax cash flow as a percentage of income was moderately higher in the United States than in Britain.
In addition, the median price of a newly built home was lower relative to median household income in Britain than it was in the United States. In 1983 the median-priced new home was 3. 04 times median income in Britain, compared to 3. 58 times median income in the United States. By 1985, however, the median-priced new home in Britain had jumped to 3. 32 times median income, compared to 3. 57 times median income in the United States. During the latter part of the 1980s the ratio continued to increase in both countries, and the gap between the countries narrowed further: in 1987 the ratio of the median-priced new home to median household income was 3. 93 in Britain and 4. 02 in the United States.
The price of an existing home was also lower relative to national median income in Britain (2. 79 times national median income in 1985, compared to 3. 26 times in the United States). If the price of a home is compared to the median income of home-buyers rather than to national median income, the ratios drop in both countries. In Britain the ratio of median house price to median home-buyer income was 2. 55 in 1985, compared to 2. 52 in the United States. However the British ratio jumped to 2. 74 in 1987, while the American ratio only rose to 2. 58.