

# The Housing Bust and Housing Affordability: Where do we stand?

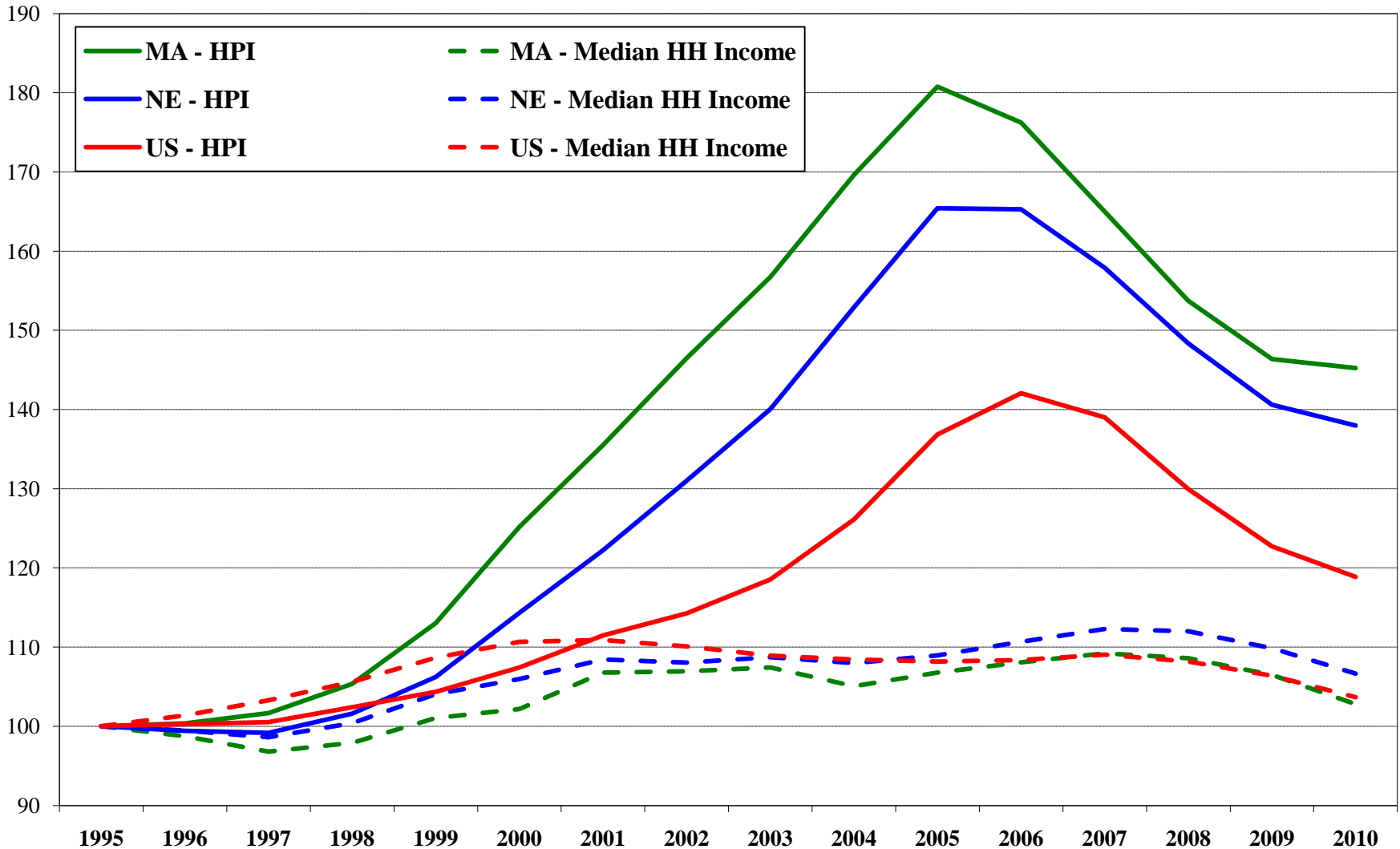
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Bringing Workers Home  
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\*The views expressed in this presentation are mine and not necessarily those of the Federal Reserve Bank of Boston or Federal Reserve System

# Real Housing Prices versus Real Household Incomes, 1995-2010

Index 1995=100



Source: Federal Housing Finance Authority Housing Price Indexes; U.S. Census Bureau, Current Population Survey; and Bureau of Labor Statistics, Consumer Price Index.

# Perceived Positive of the Housing Crisis

- Falling housing prices have resulted in record affordability:

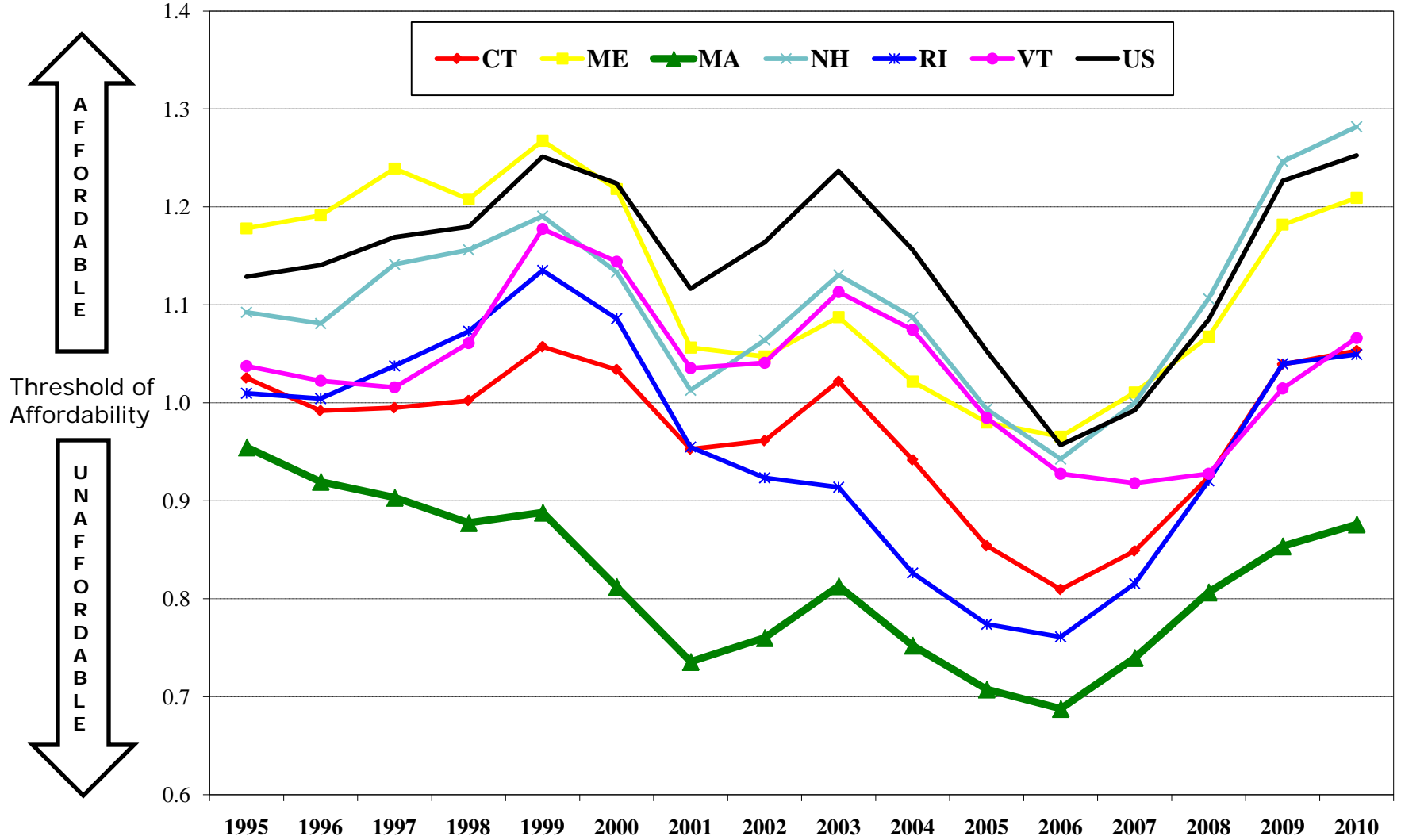
*“Houses in the United States are now more affordable than at any time in the last 40 years, when compared with personal income.” ~ New York Times, March 6, 2009.*

- In reality the improvement in affordability are closer to early 2000 levels.
- However, most households in New England and the United States entered the housing downturn facing cost burdens from housing and few are able to take advantage of declining house prices.

# Measure of Affordability: Income Adequacy Ratio

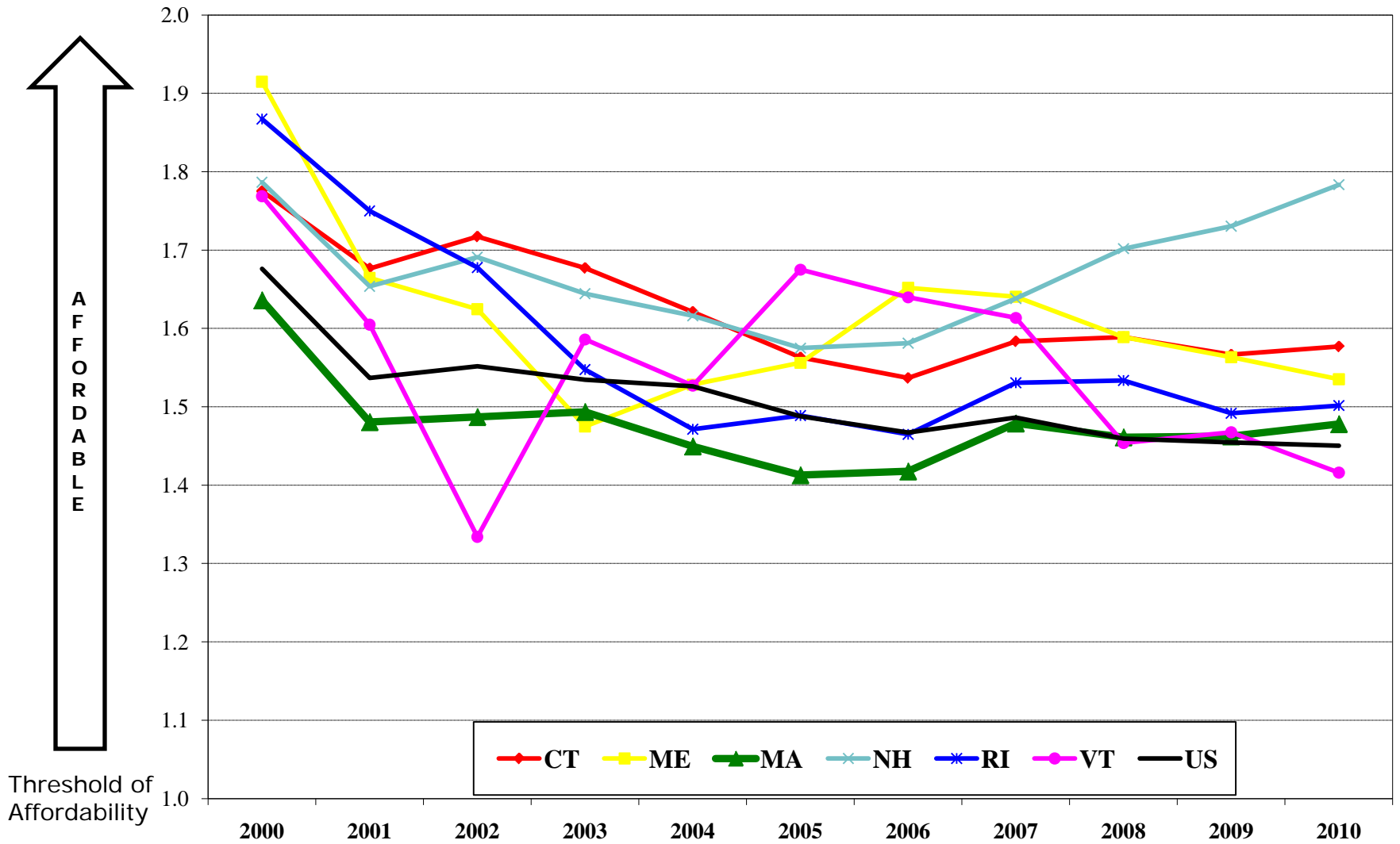
- Compares household income to income needed to afford housing. If measure is great than or equal to 1.0 the area is affordable.
- Looks beyond housing price or monthly rent:
  - For buyers: Interest rates, real estate taxes, insurance premiums, and personal mortgage insurance (for first-time homebuyers)
  - For renters: contract rent plus utilities
- Captures the state of housing affordability for those looking to buy or rent.

## Ratio of Real Annual Median Households Income to Real Annual Income Needed to Purchase the Median-Priced House: All Households



Source: NEPPC Calculations.

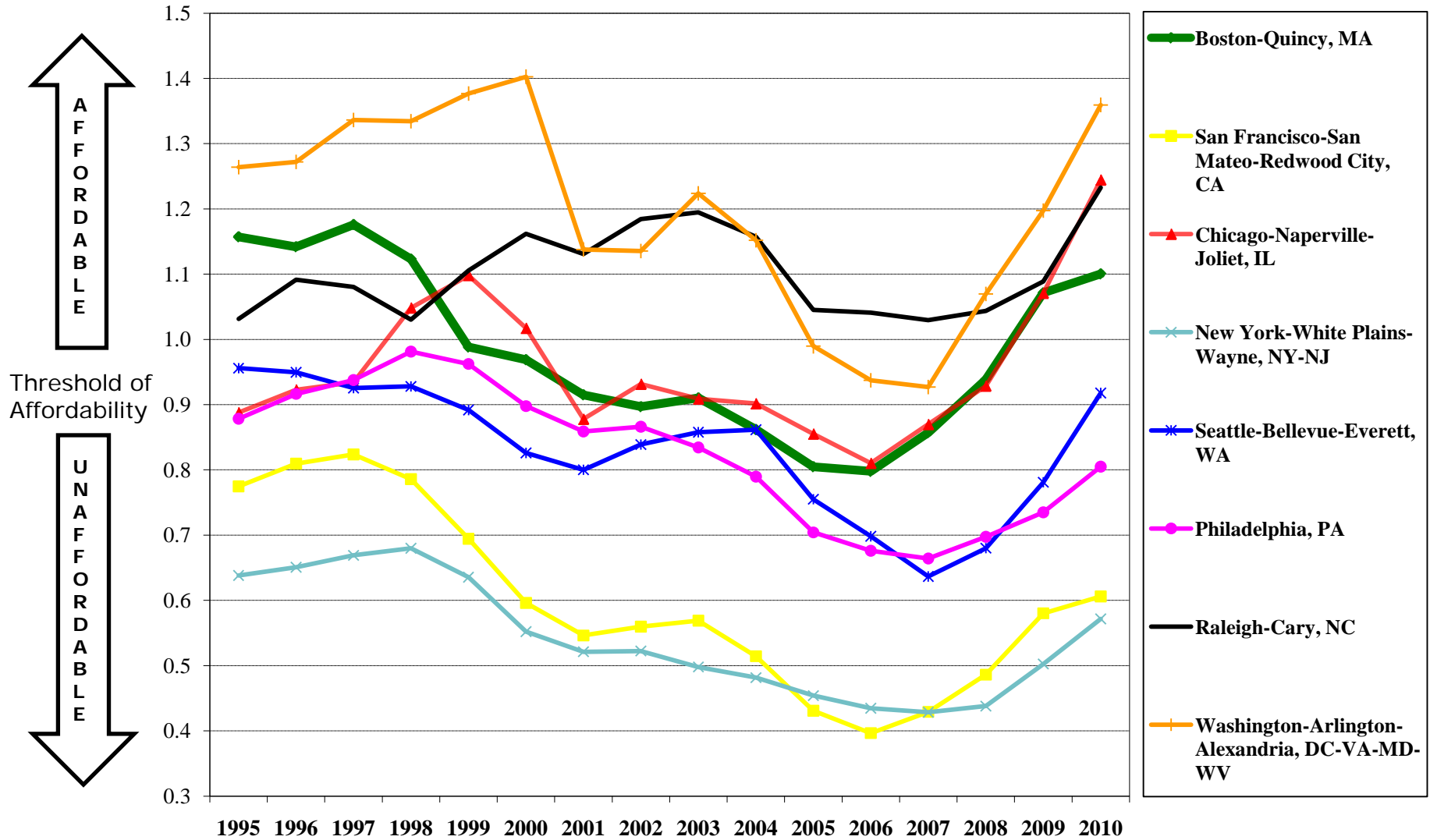
# Ratio of Real Annual Median Household Income to Real Annual Income Needed to Afford the Gross Rent: All Households



Source: NEPPC Calculations.

## Boston versus Competitor MSAs

Ratio of Real Annual Median Households Income to Real Annual Income Needed to Purchase the Median-Priced House:  
All Households



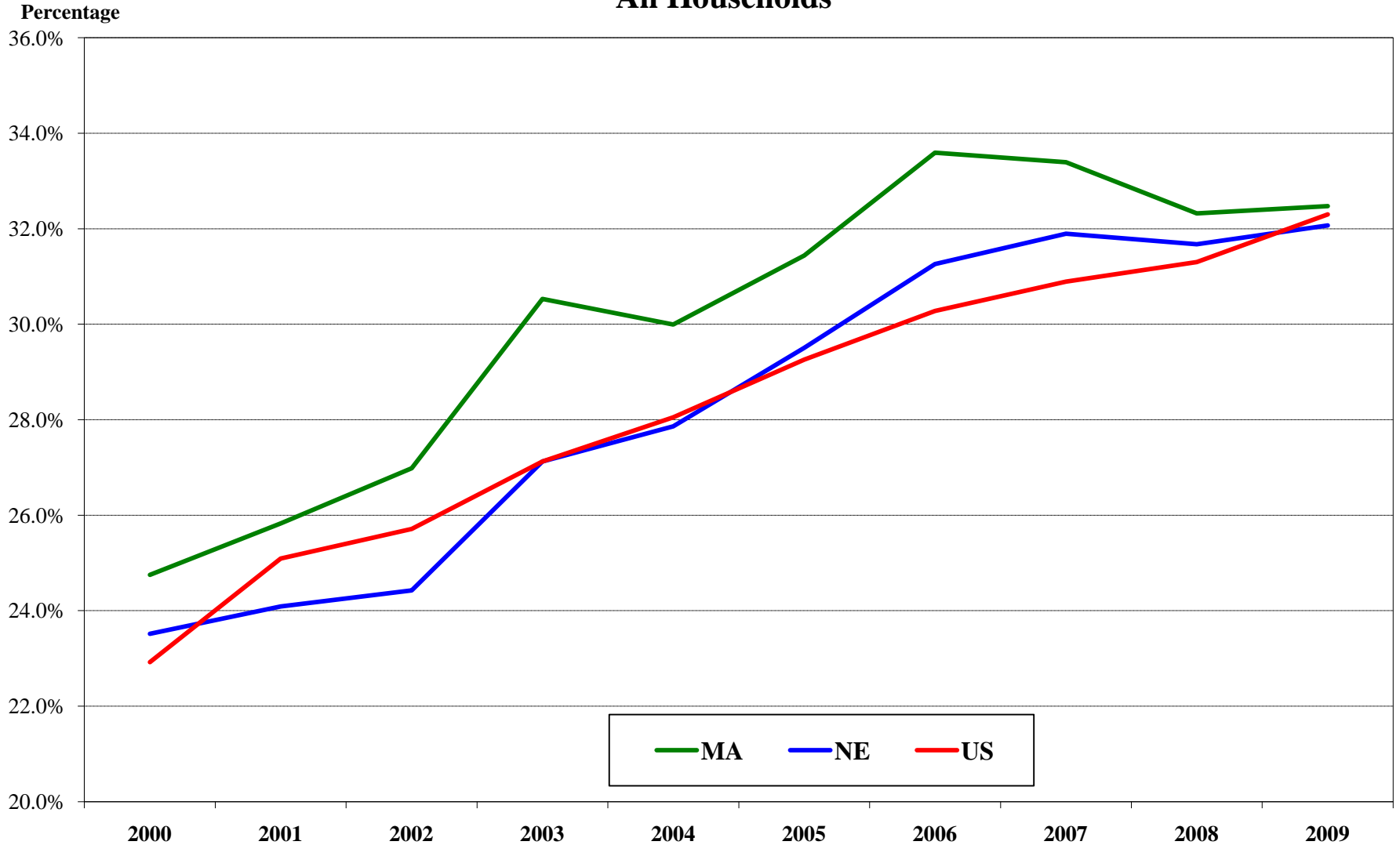
Source: NEPPC Calculations.

# Measure of Affordability: Housing Burden

- Calculates the actual percentage of income that households spend on housing costs
- Tracks similar data to income adequacy ratio but is based on survey data. Captures the experience of those currently owning and renting.
- Households are categorized as experiencing a housing burden if housing costs exceed 30 percent of household income.  
Severely burdened if costs exceed 50 percent.

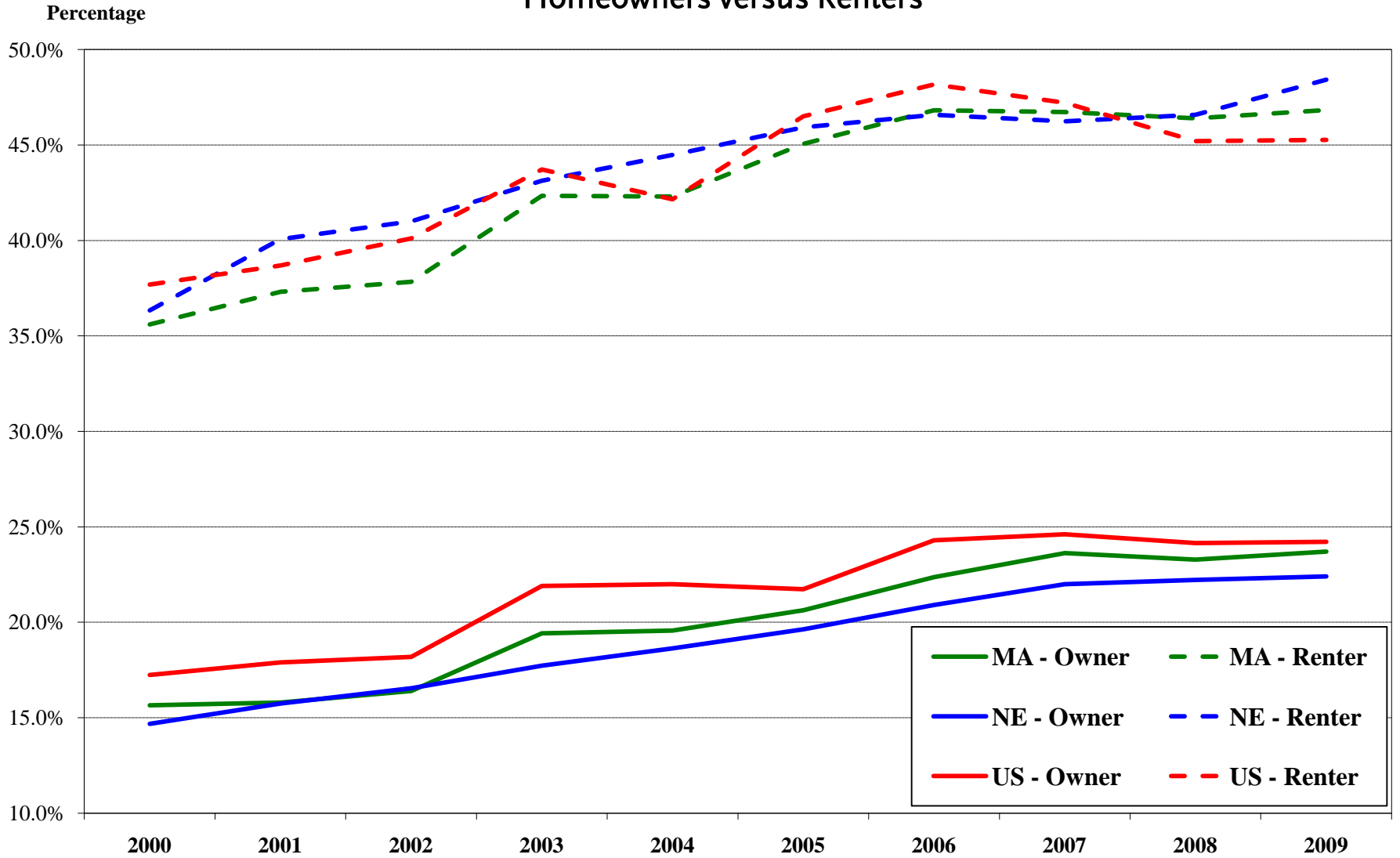


# Percentage of Households Experiencing Moderate or Severe Burdens All Households



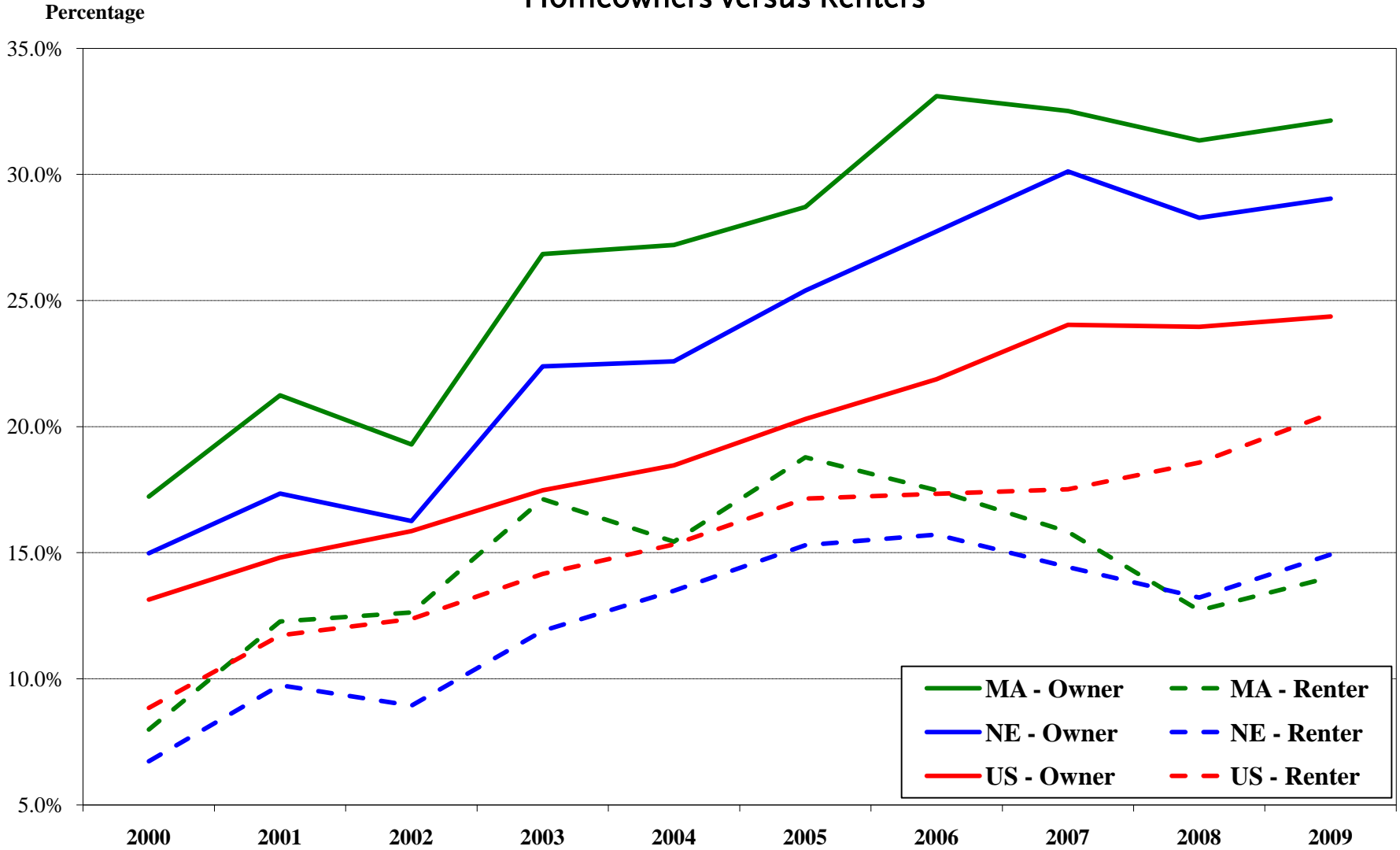
Source: NEPPC calculation using U.S. Census Bureau Census and American Community Survey.

# Percentage of Households Experiencing Moderate or Severe Housing Burden: Homeowners versus Renters



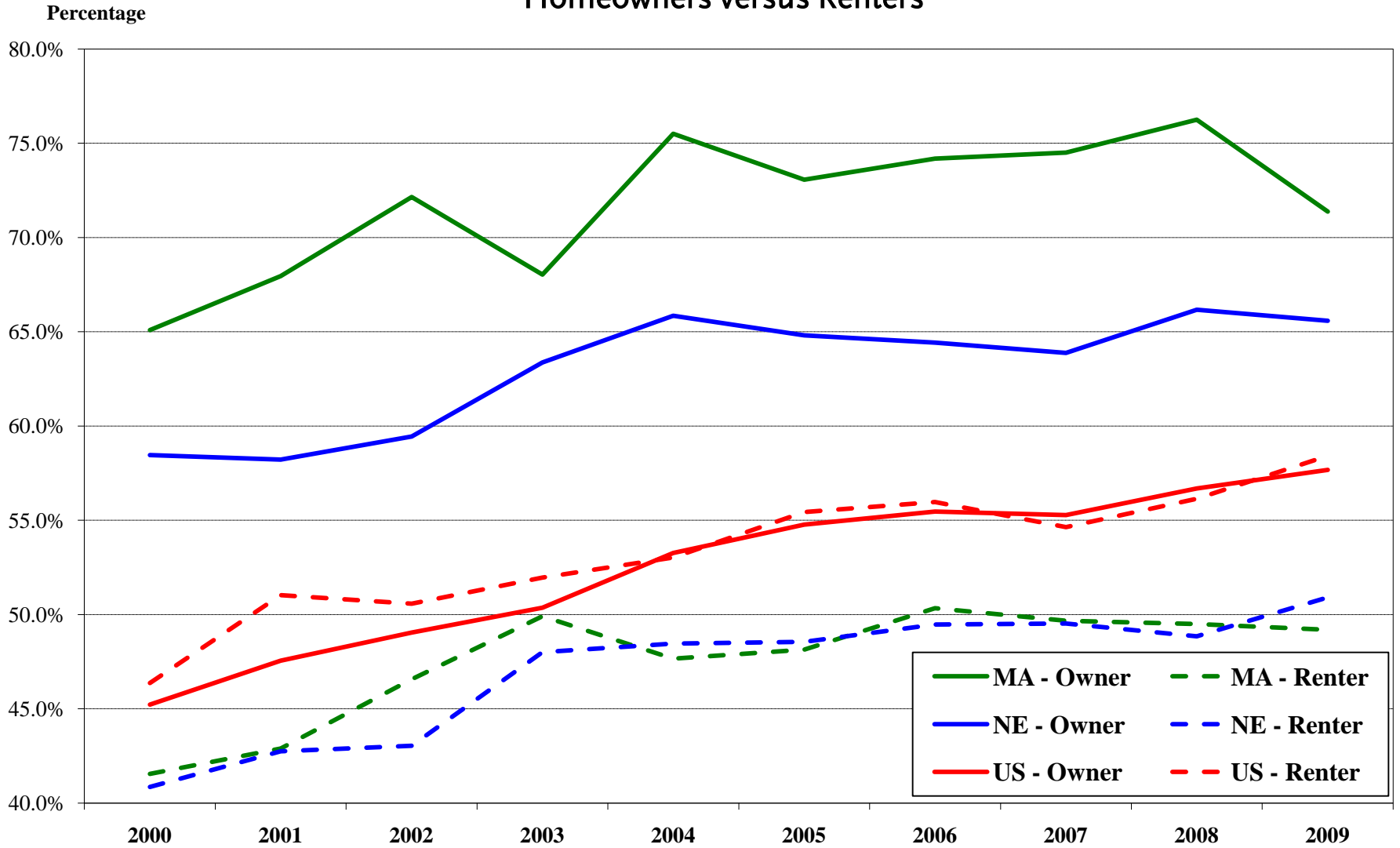
Source: NEPPC calculation using U.S. Census Bureau Census and American Community Survey.

# Percentage of "Middle-Income" Households Experiencing Moderate or Severe Housing Burden: Homeowners versus Renters



Source: NEPPC calculation using U.S. Census Bureau Census and American Community Survey.

# Percentage of "Very-Low-Income" Households Experiencing Severe Housing Burdens: Homeowners versus Renters



Source: NEPPC calculation using U.S. Census Bureau Census and American Community Survey.

# Where we are:

- The housing downturn has resulted in increased affordability for those able to buy.
- However, very few households are in a position to buy as they are facing high cost burdens from housing. Particularly low- and moderate-income households.
- The problem is particularly acute in the Massachusetts housing market.