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

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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

MA - HPI
MA - Median HH Income
NE - HPI
NE - Median HH Income
US - HPI
US - Median HH Income

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 greater 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 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 Serve 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.