The Lack of Affordable Housing in New England: How Big a Problem? Why Is It Growing? What Are We Doing About It?

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House prices in New England have risen faster than the U.S., almost doubling in Greater Boston since 1995

Inflation-Adjusted House Price Index
Year 1995 = 100

Rents also increased more rapidly in the region than elsewhere but have leveled off since 2002.

**Inflation-Adjusted Rental Index**

*Year 1995 = 100*

Although many low-income households are burdened by high housing costs, rental housing in New England is relatively affordable compared to other parts of the U.S.

![Diagram showing the percentage of Very Low Income Renters spending more than 1/3 of their income on housing, with data from the American Community Survey, 2004.]

Yet in some New England states, homeowners face higher housing burdens than elsewhere in the U.S., even for middle-income households.

The affordability gap for middle-income homeowners in southern New England is much wider than in the U.S.

Sources: Median household income from the Current Population Survey. Income needed based on monthly costs for the median priced house including principal and interest on a 30-year conventional mortgage with 20% down, real estate taxes, and insurance.
Affordability in the homeowner market has declined throughout New England since 1999...

Ratio of Median Household Income to Income Needed to Purchase the Median Priced House

Sources: Median household income from the Current Population Survey. Income needed based on monthly costs for the median priced house including principal and interest on a 30-year conventional mortgage with 20% down, real estate taxes, and insurance.
...falling more steeply at the lower end of the house price distribution

Change in Median Home Prices vs. Median Household Income for 160 Communities in the Greater Boston area

Affordability has fallen even more sharply in many of New England’s major metropolitan areas since 1995.

Sources: Median household income from the Decennial Census. Income needed based on monthly costs for the median priced house including principal and interest on a 30-year conventional mortgage with 20% down, real estate taxes, and insurance.
Young professionals can still afford the median house in these areas, but not as easily as they used to...

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**Ratio of Median Household Income to Income Needed to Purchase the Median Priced House Young Professional Households**

Sources: Median household income from the Decennial Census. Income needed based on monthly costs for the median priced house including principal and interest on a 30-year conventional mortgage with 20% down, real estate taxes, and insurance.

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...and not as easily as in many rival metropolitan areas

Ratio of Median Household Income to Income Needed to Afford the Median Priced House Young Professional Households, 2000

Sources: Median household income from the Current Population Survey. Income needed based on monthly costs for the median priced house including principal and interest on a 30-year conventional mortgage with 20% down, real estate taxes, and insurance.
For middle-income households there appears to be an adequate supply of affordable houses...

Ratio of Number of Affordable Houses to Number of Middle-Income Owner Households, 2004

...but less than half of the affordable stock is available

Ratio of Number of Affordable Houses to Number of Middle-Income Owner Households, 2004

There are not enough rental units for low-income households in any New England state.

Ratio of Number of Affordable Units to Number of Very Low-Income Households, 2004

The bottom line on affordability

• Rental housing is expensive relative to the nation, but affordable to most New Englanders.

• Owner occupied housing is often not affordable, and is a problem for both middle and low income households. Further, the problem is growing worse.

• Households with educated workers can afford to purchase the median-priced home in the region, but their incomes will go further elsewhere.

• Higher income households are moving down the housing distribution and squeezing the supply available for lower income households in the region.
Why has housing become so unaffordable in New England?

Demand side factors
- Rising incomes
- Increasing income inequality
- Changes in the age distribution of households
- Easier access to mortgage credit
- High and rising expectations regarding future prices

Supply side factors
- Rising costs of physical construction
- Increasing land prices
- Greater regulatory barriers to new construction
Growth in completed new housing is slower in New England than elsewhere in the country...

Growth in Total Housing Units, 2000-2004

Percentage of Existing Stock

Source: U.S. Bureau of the Census.
...and in southern New England there is little new housing in the pipeline

Building Permits per 100,000 Persons, 2004

- CT
- ME
- MA
- NH
- RI
- VT
- U.S.

Source: U.S. Bureau of the Census.
What are we doing about it?

Increasing the ability of households to rent or buy a home
  - Providing subsidies to renters
  - Reducing wealth constraints for buyers

Increasing the supply of affordable units
  - increasing investment in new construction and rehabilitation
  - preserving the affordability of existing units
  - Removing regulatory barriers
    • Inclusionary zoning
    • “Smart” growth initiatives
    • Policies that mitigate the cost of new development to communities