

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

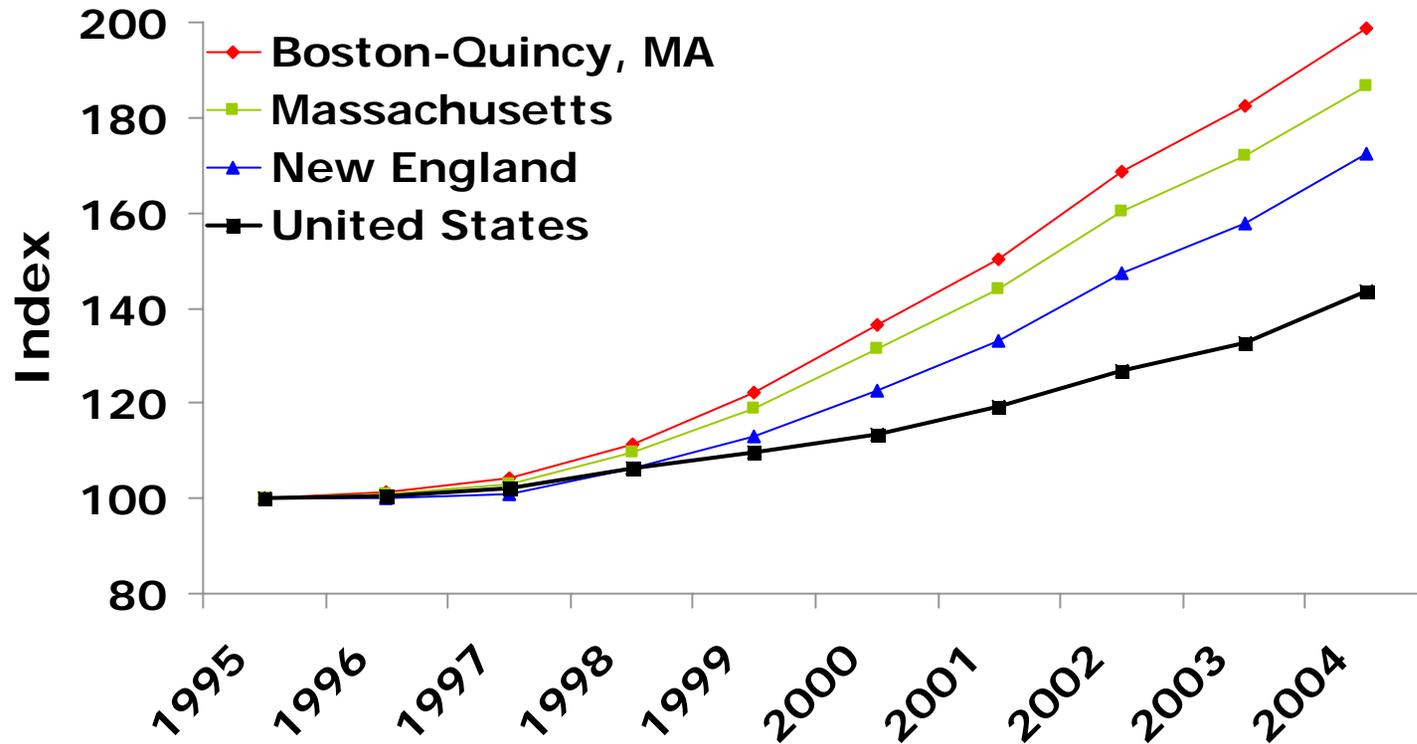
Alicia Sasser, Bo Zhao and Darcy Rollins

New England Public Policy Center  
Federal Reserve Bank of Boston

Presented at:  
"Housing and the Economy:  
Trends, Impacts and Potential Responses"  
May 22, 2006

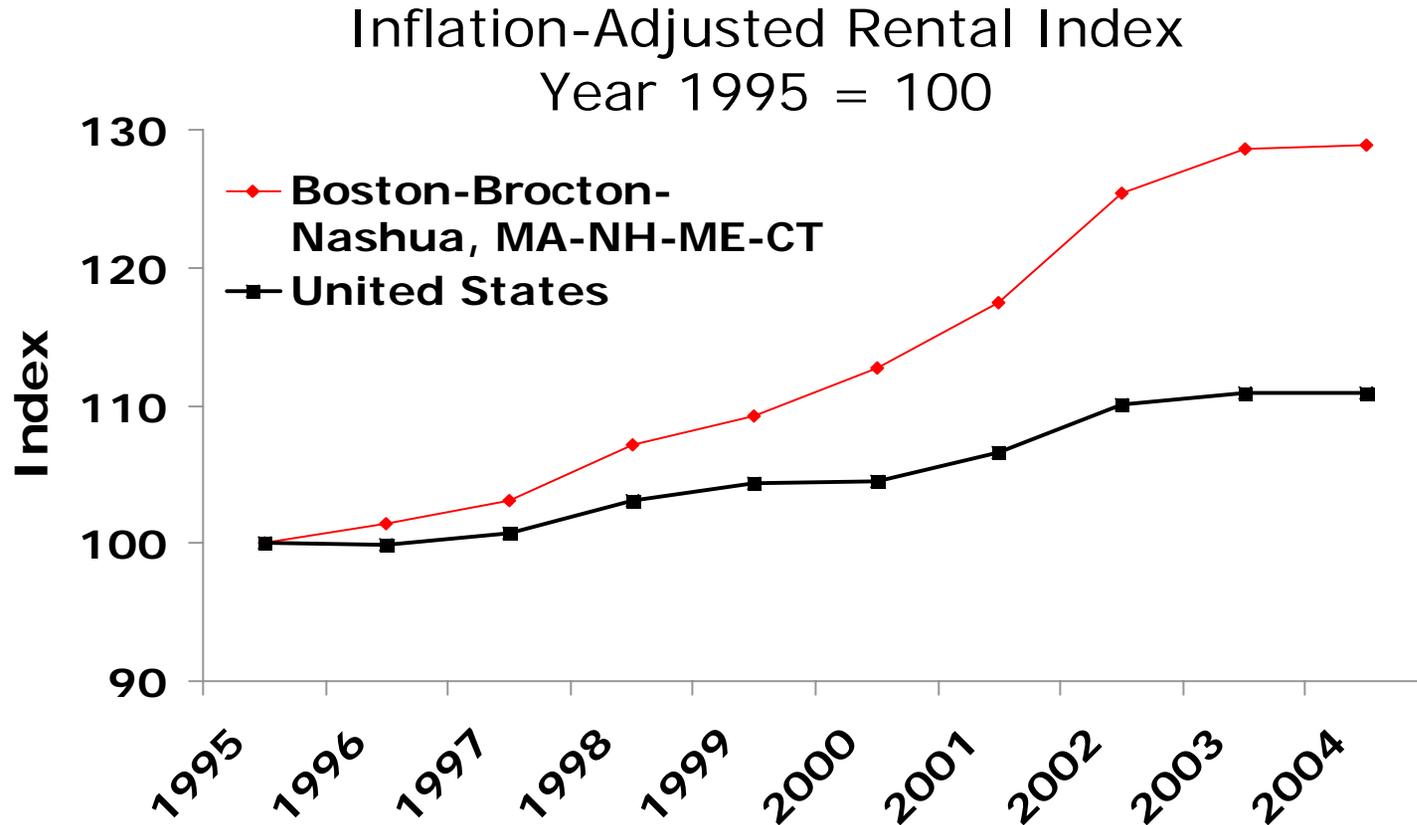
# House prices in New England have risen faster than the U.S., almost doubling in Greater Boston since 1995

Inflation-Adjusted House Price Index  
Year 1995 = 100



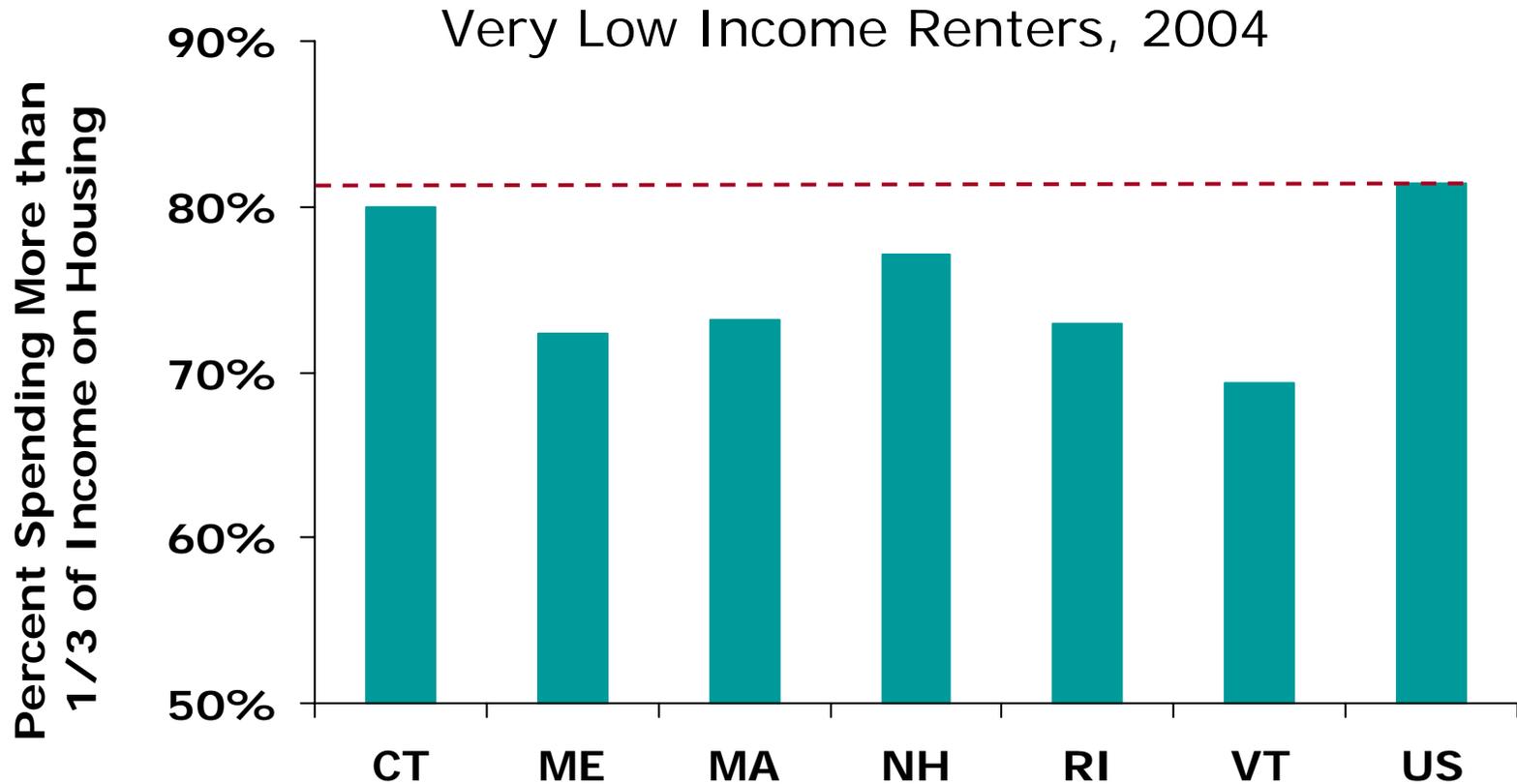
Source: Office of Federal Housing Enterprise Oversight, U.S. Bureau of Labor Statistics.

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



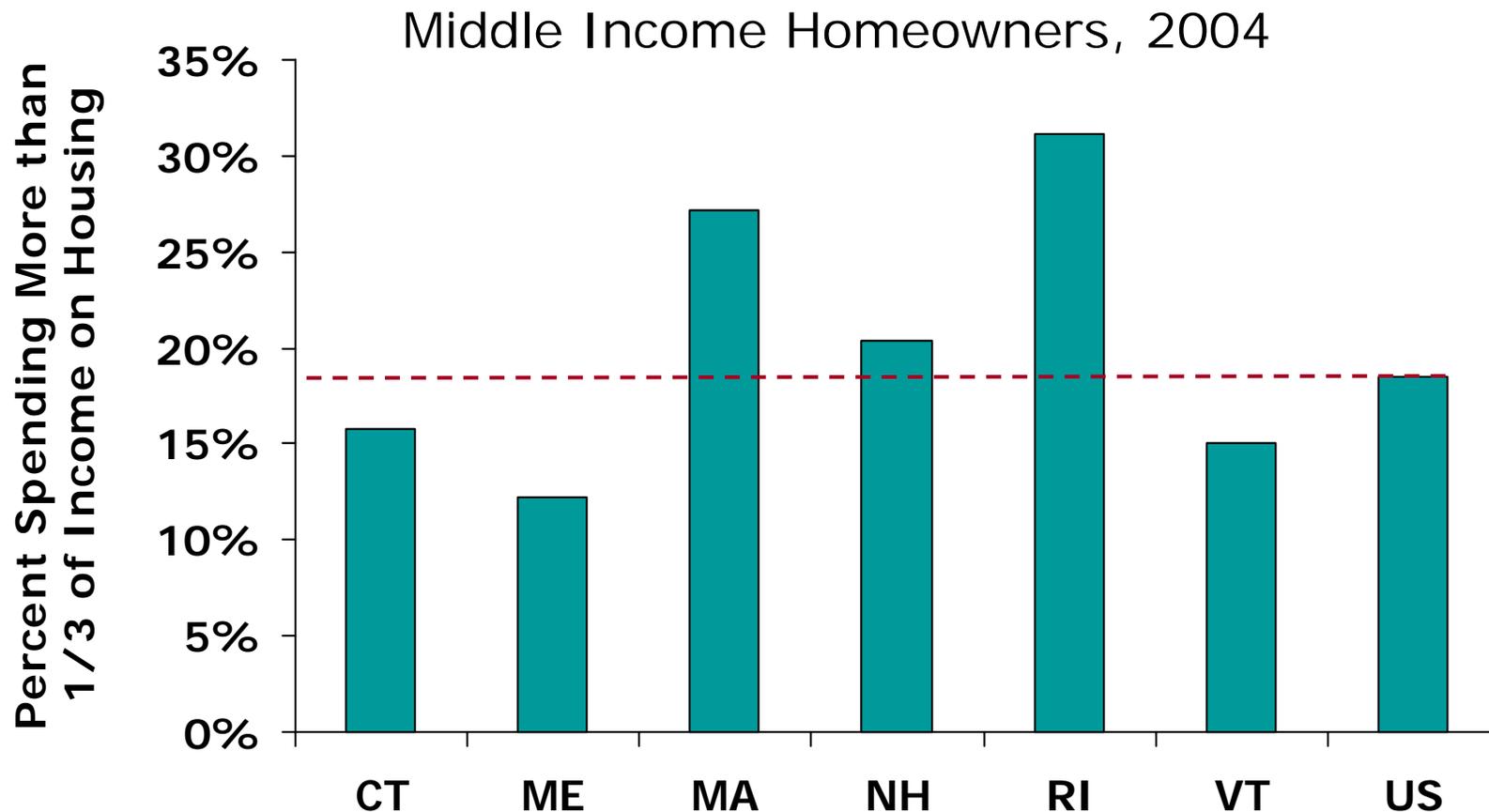
Source: U.S. Bureau of Labor Statistics.

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.



Source: American Community Survey, 2004.

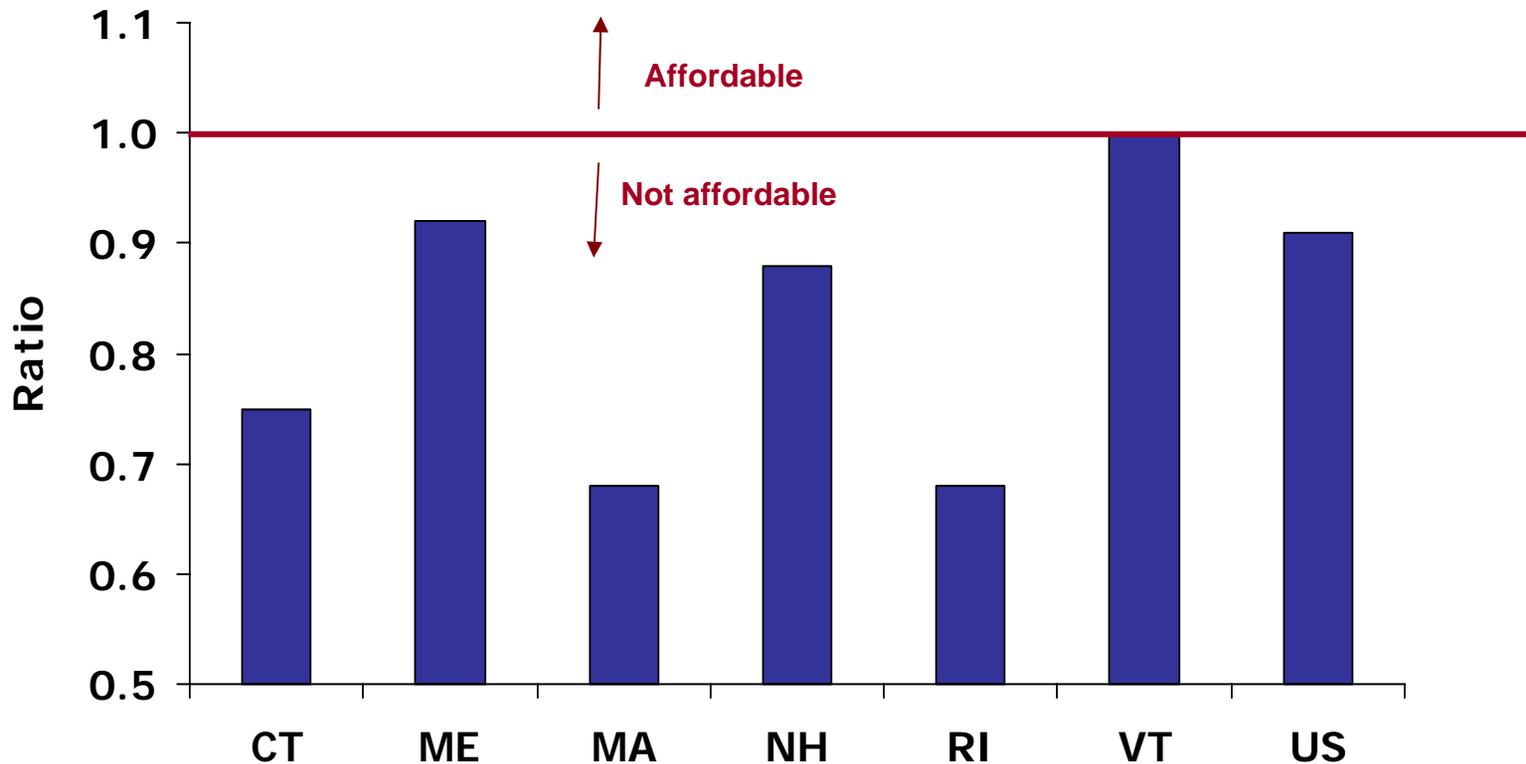
# Yet in some New England states, homeowners face higher housing burdens than elsewhere in the U.S., even for middle-income households



Source: American Community Survey, 2004.

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

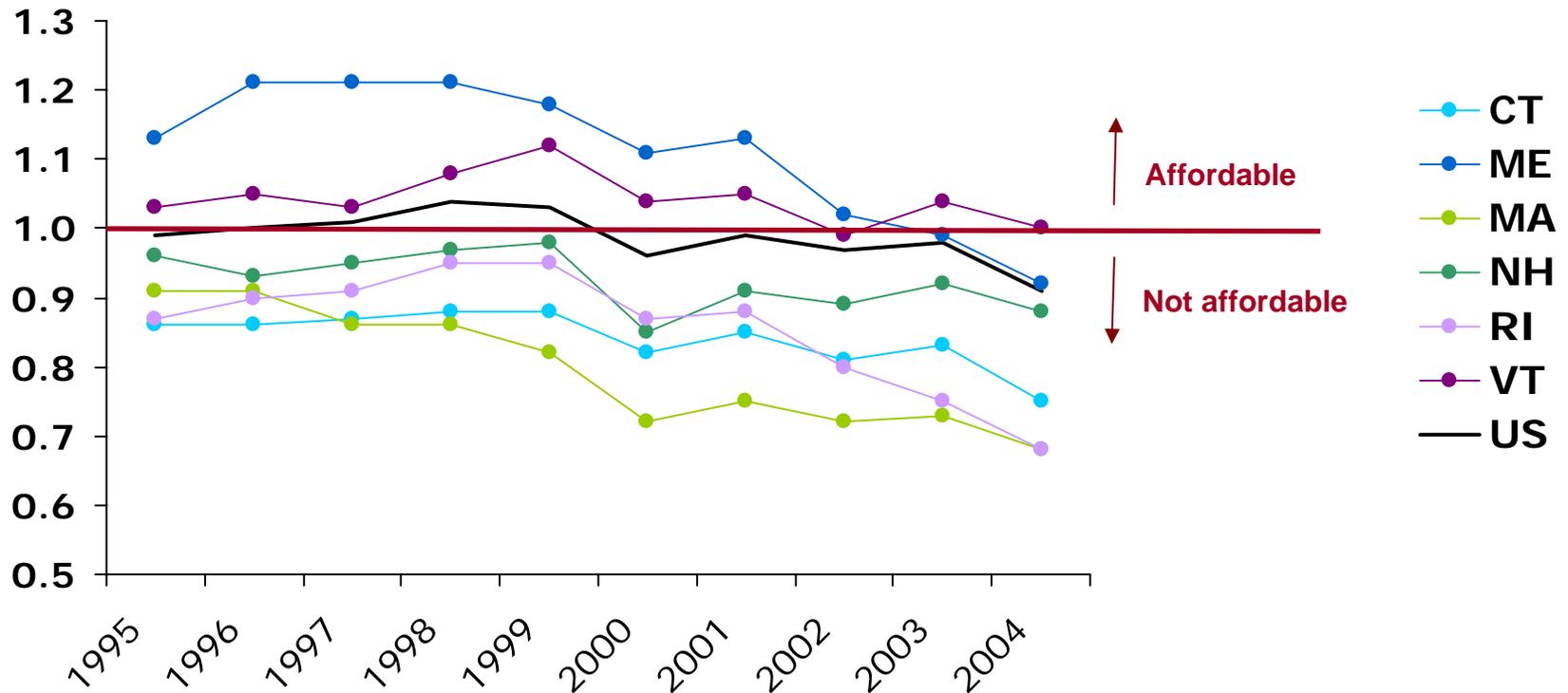
Ratio of Median Household Income to Income Needed to Afford the Median Priced House, 2004



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...

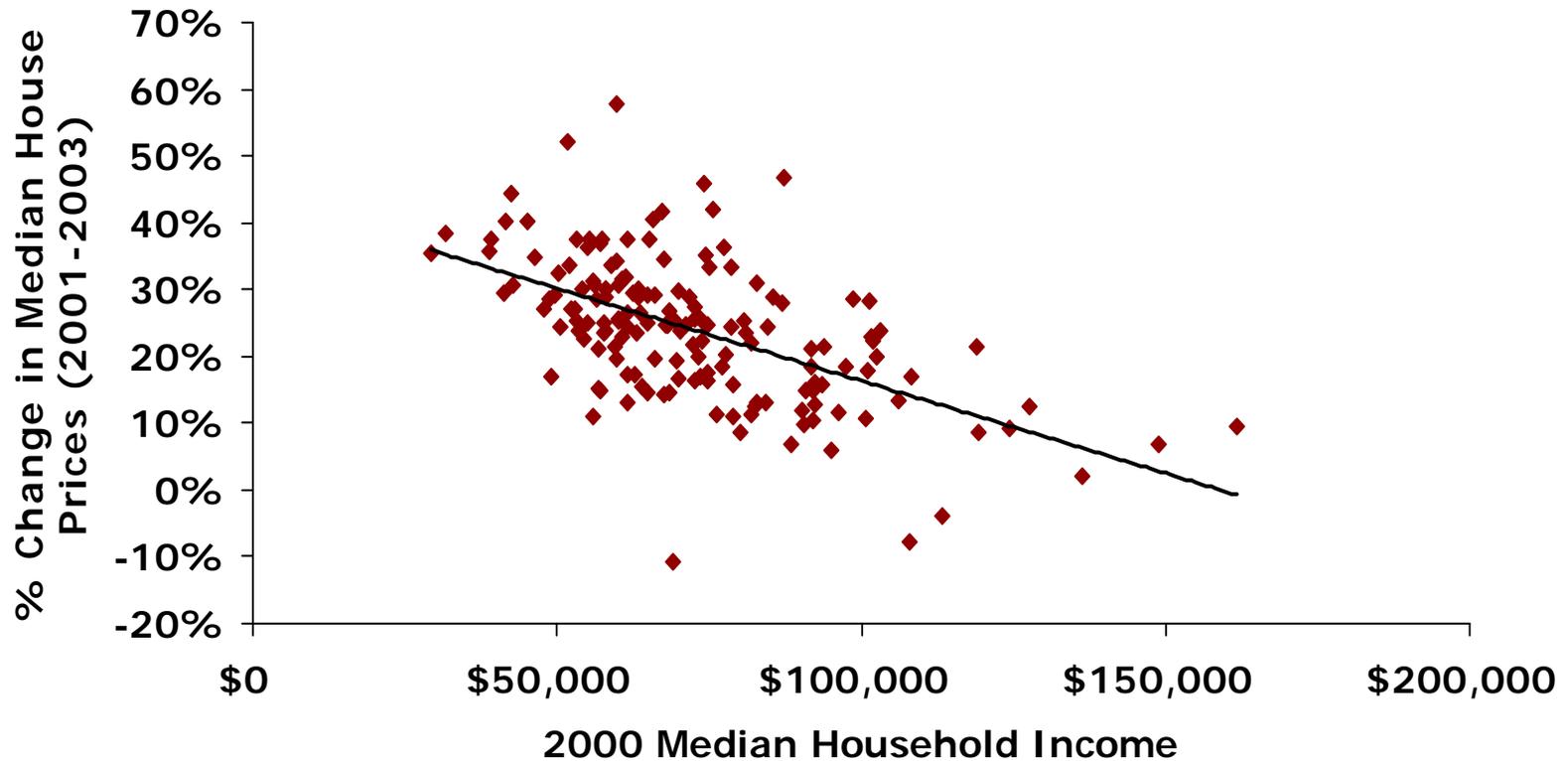
Ratio of Median Household Income to Income Needed to Purchase the Median Priced House



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

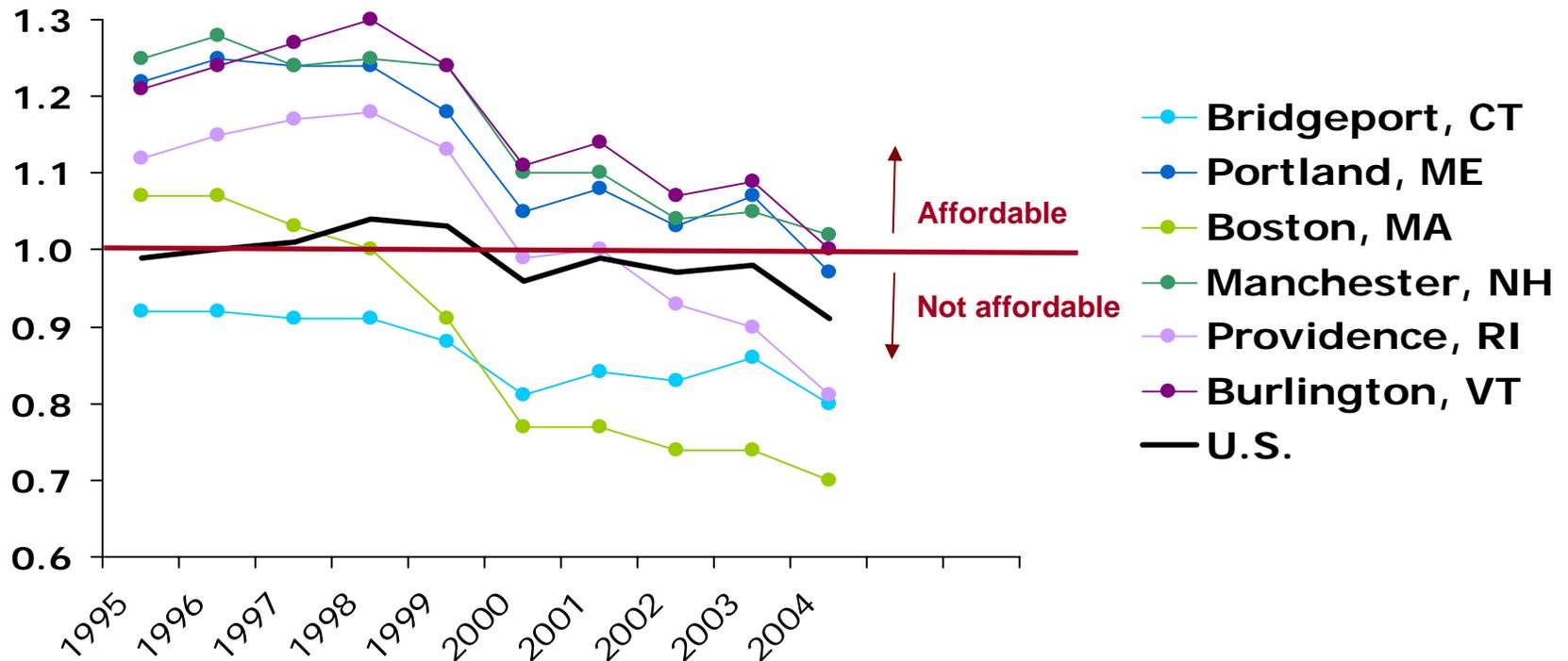
Change in Median Home Prices vs. Median Household Income for 160 Communities in the Greater Boston area



Source: The Greater Boston Housing Report Card, 2003.

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

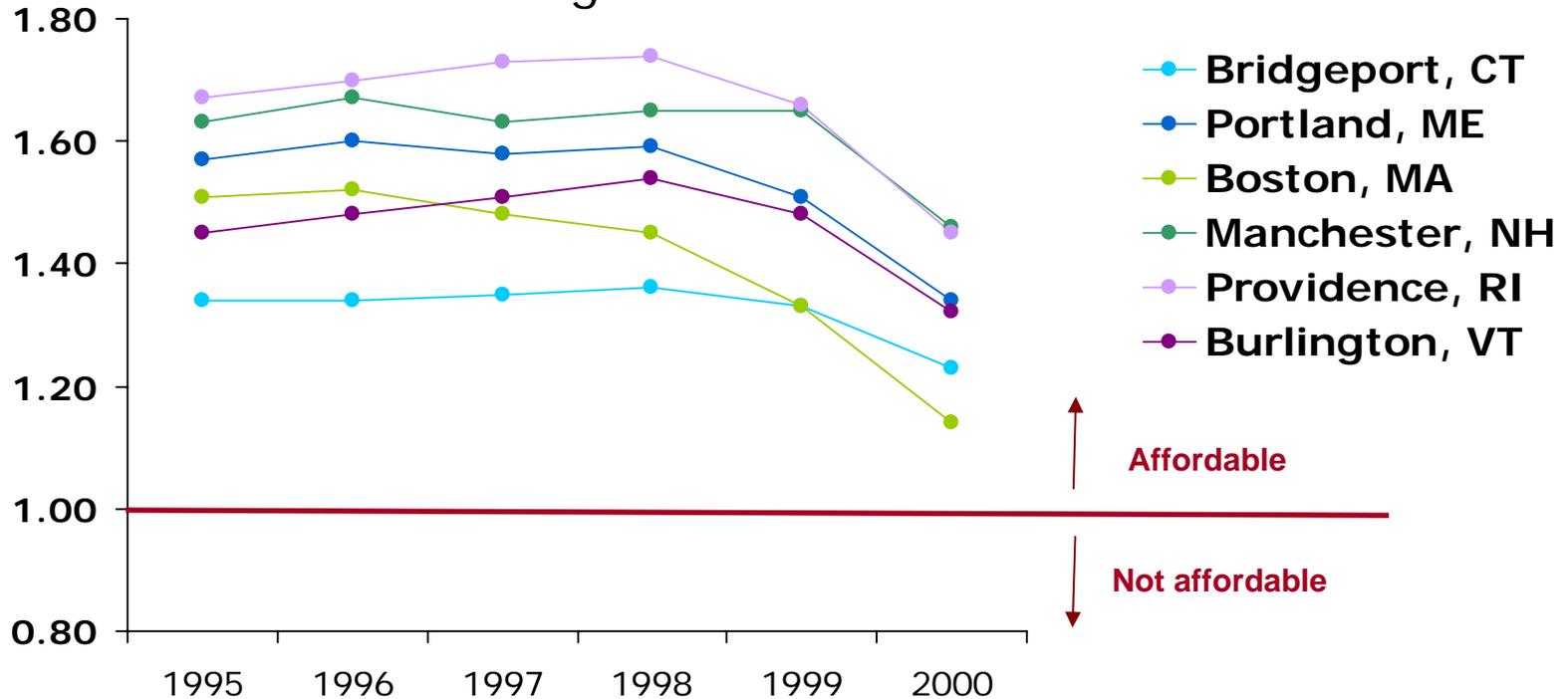
Ratio of Median Household Income to Income Needed to Purchase the Median Priced House



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...

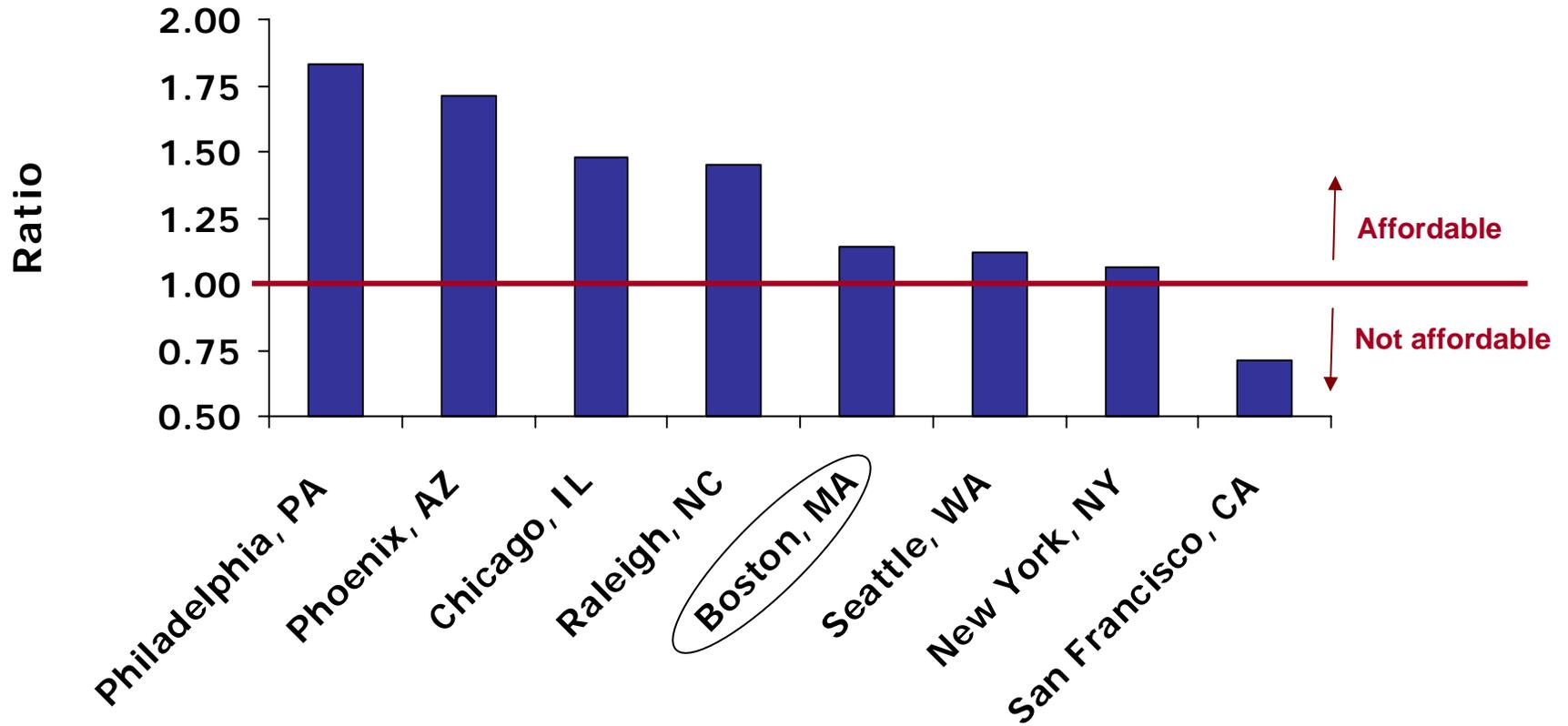
Ratio of Median Household Income to  
Income Needed to Purchase the Median Priced House  
Young Professional Households



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.

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

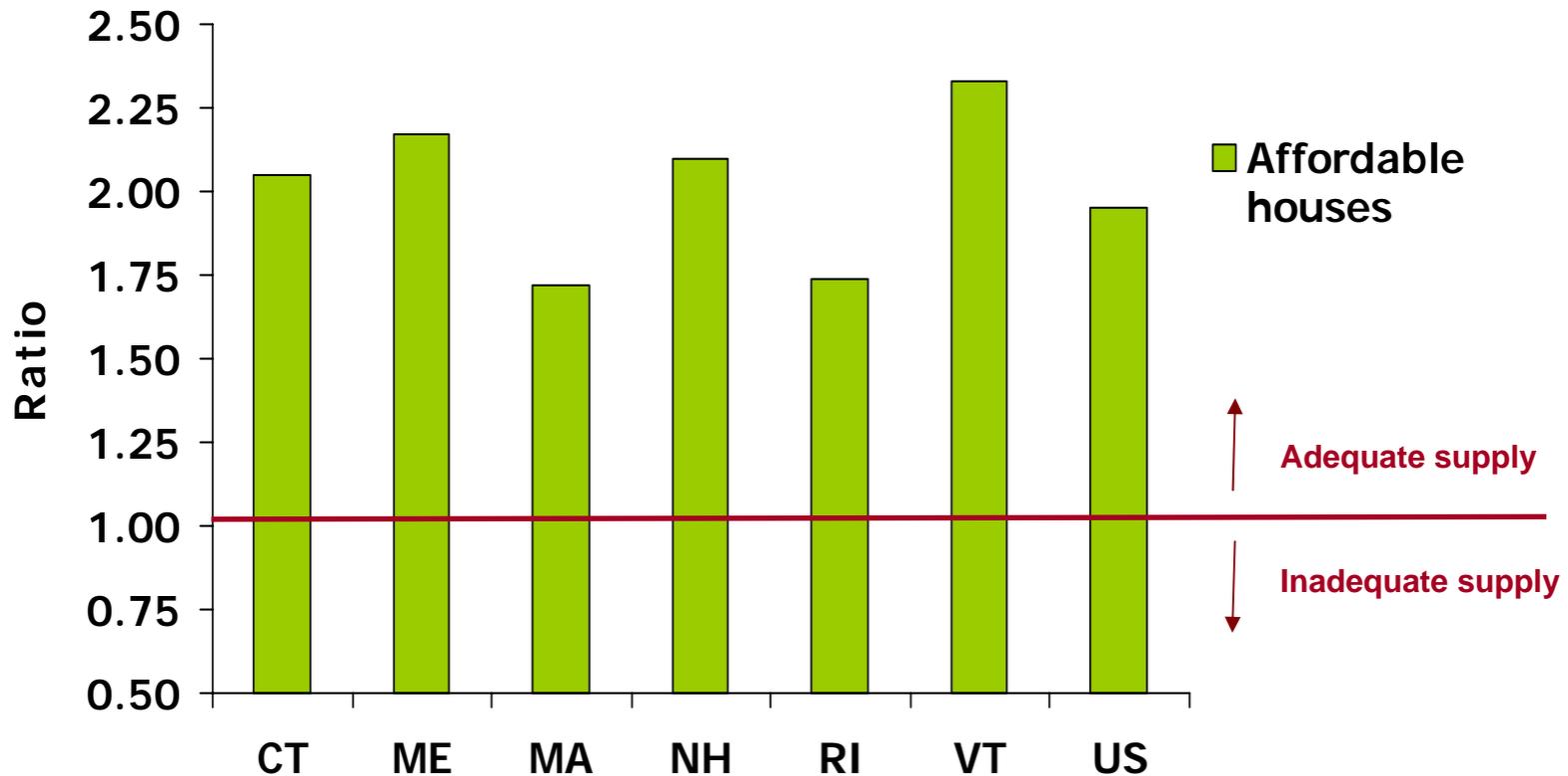
## Ratio of Median Household Income to Income Needed to Afford the Median Priced House Young Professional Households, 2000



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...

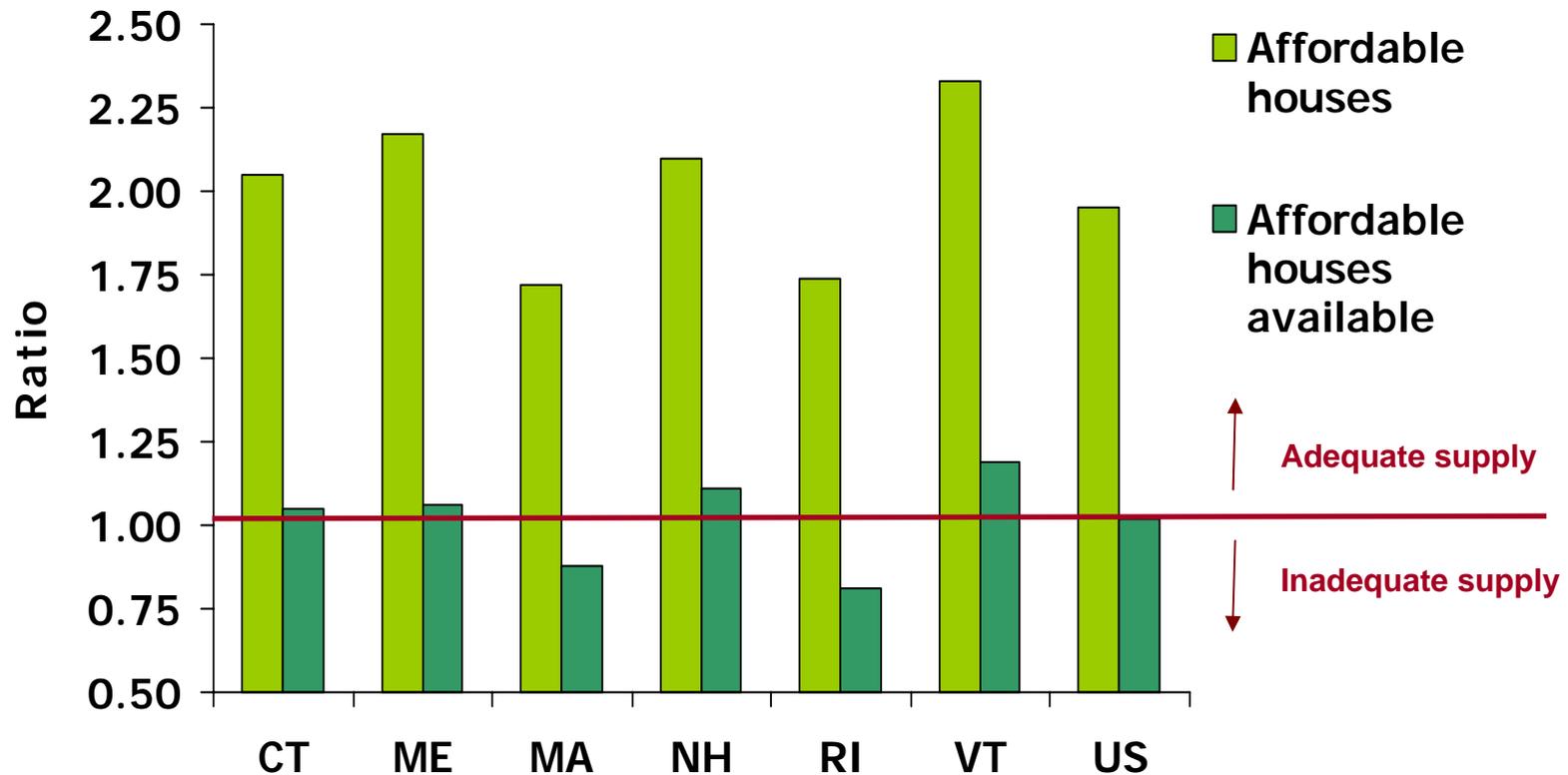
Ratio of Number of Affordable Houses to Number of Middle-Income Owner Households, 2004



Source: American Community Survey, 2004.

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

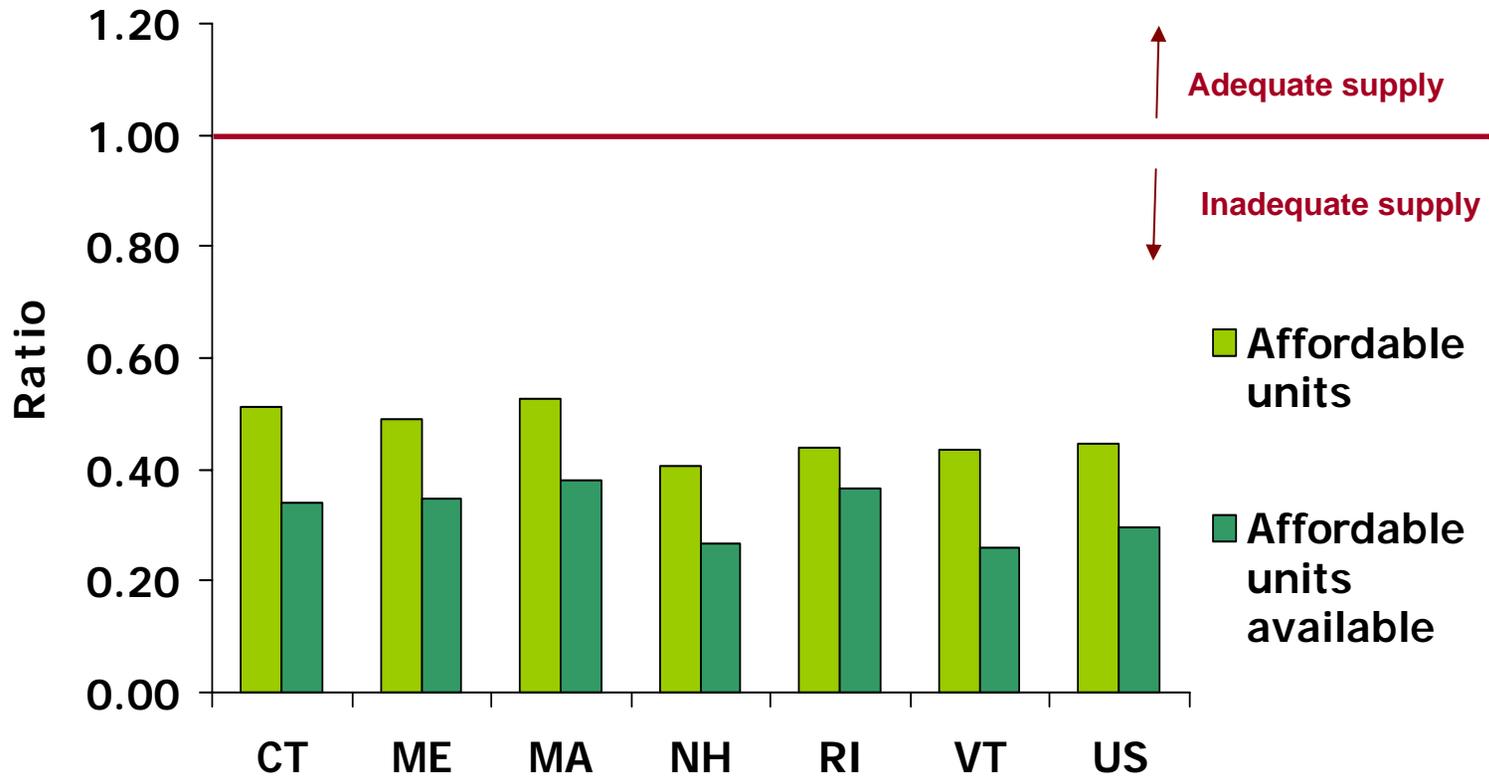
Ratio of Number of Affordable Houses to  
Number of Middle-Income Owner Households, 2004



Source: American Community Survey, 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



Source: American Community Survey, 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?

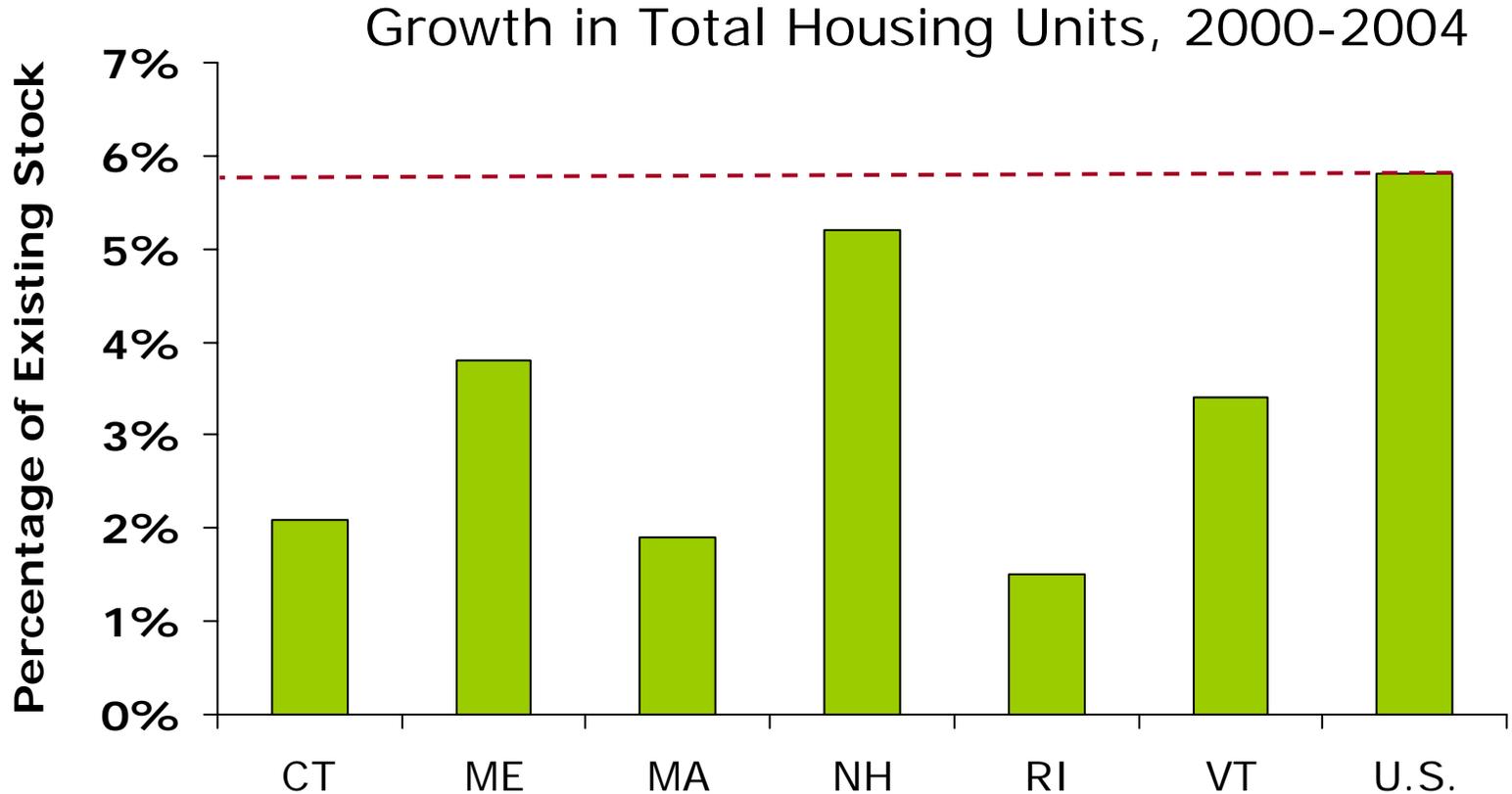
## Demand side factors

- 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

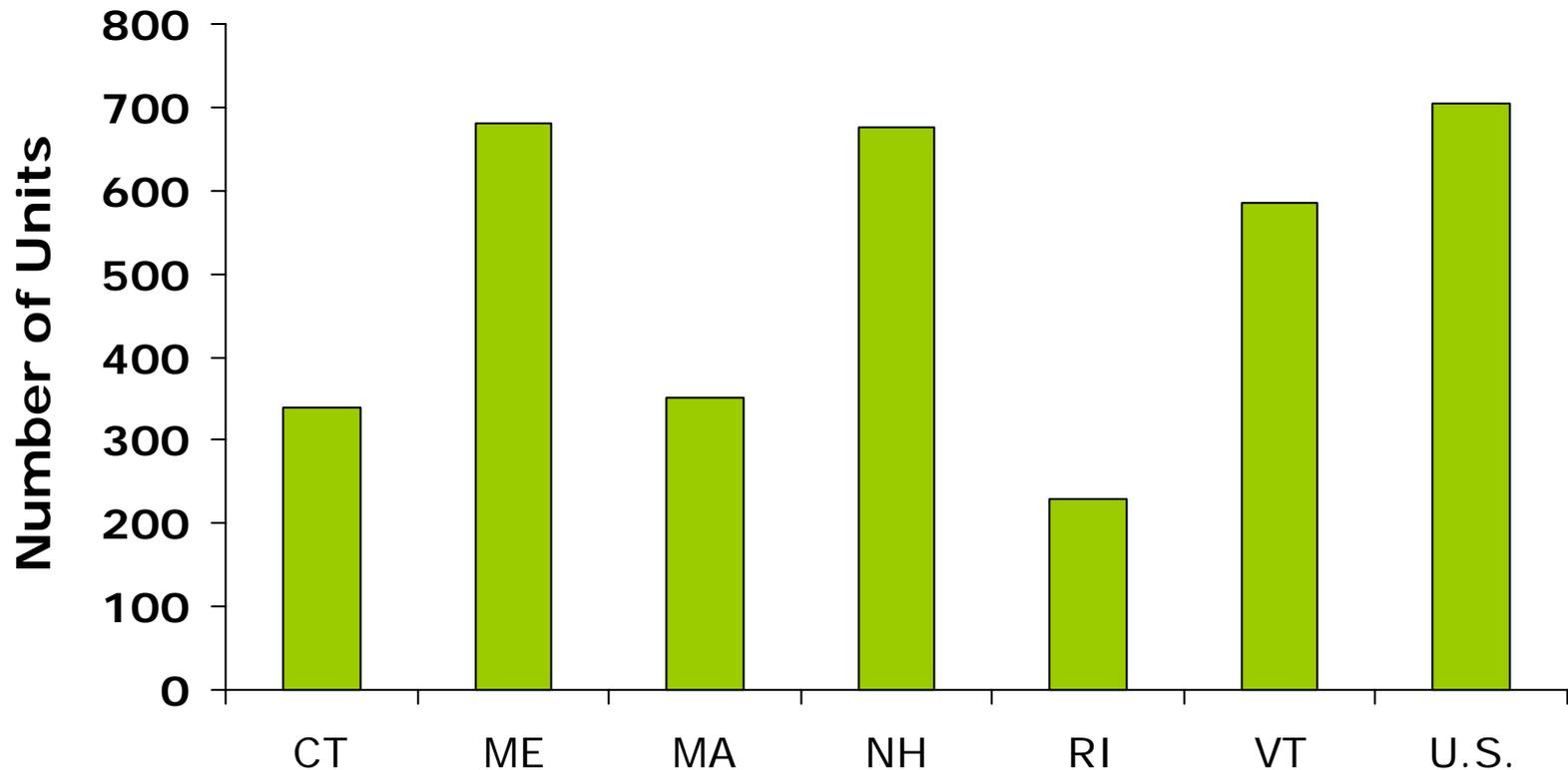
# Growth in completed new housing is slower in New England than elsewhere in the country...



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



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**