The Greater Boston Housing Report Card 2011

Housing's Role in the Ongoing Economic Crisis

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The Kitty and Michael Dukakis Center for Urban and Regional Policy conducts interdisciplinary research, in collaboration with civic leaders and scholars both within and beyond Northeastern University, to identify and implement real solutions to the critical challenges facing urban areas throughout Greater Boston, the Commonwealth of Massachusetts, and the nation. Founded in 1999 as a "think and do" tank, the Dukakis Center's collaborative research and problem-solving model applies powerful data analysis, a bevy of multidisciplinary research and evaluation techniques, and a policy-driven perspective to address a wide range of issues facing cities and towns. These include affordable housing, local economic development, workforce development, transportation, public finance, and environmental sustainability. The staff of the Dukakis Center works to catalyze broad-based efforts to solve urban problems, acting as both a convener and a trusted and committed partner to local, state, and national agencies and organizations. The Center is housed within Northeastern University's innovative School of Public Policy and Urban Affairs.

The Citizens' Housing and Planning Association (CHAPA) is a statewide organization that represents the interests of all players in the housing and community development fields, including non-profit and for-profit developers, municipal officials, homeowners, tenants, bankers, real estate professionals, property managers, and government officials. The organization is a sponsor of many research projects concerned with housing and in 1998 commissioned a study from the Donahue Institute at the University of Massachusetts entitled "A Profile of Housing in Massachusetts." This report began the work of measuring progress in key housing policy areas such as supply, affordability, and accessibility. Over the past five years, CHAPA has assisted in the funding and development of each of the Greater Boston Housing Report Cards.

The Warren Group collects public record data on real estate sales and ownership throughout New England and offers a range of real estate products, information services and printed publications, including the weekly newspapers Banker & Tradesman and The Commercial Record. The company also produces and organizes trade shows and events for a variety of industries, including bankers, mortgage brokers, credit unions and lawyers. Based in Boston, the company was established in 1872 and is now in its fourth generation of family ownership and management.

UNDERSTANDING BOSTON is a series of forums, educational events and research sponsored by the Boston Foundation to provide information and insight into issues affecting Boston, its neighborhoods, and the region. By working in collaboration with a wide range of partners, the Boston Foundation provides opportunities for people to come together to explore challenges facing our constantly changing community and to develop an informed civic agenda. Visit www.tbf.org to learn more about Understanding Boston and the Boston Foundation.

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Letter

October 25, 2011

Dear Friends,

The Boston Foundation is proud to publish the ninth annual *Greater Boston Housing Report Card*. As always, this report has been prepared by Barry Bluestone, Dean of the School of Public Policy and Urban Affairs at Northeastern University and Director of the Kitty and Michael Dukakis Center for Urban and Regional Policy. His expert team, informed by the data resources of The Warren Group, once again bring their deep knowledge and analysis to a complex set of issues that are related not only to housing but to our entire economic system.

Last year's report card, called "Taking Stock in an Uncertain Time," correctly predicted the likelihood of another wave of foreclosures and paid special attention to the impact of our region's student population on housing prices.

While raising some alarms, the report offered the encouraging news that Massachusetts was ahead of the national curve in terms of job creation and more immune than other states to the larger economic crisis in America.

This report contains tentative good news as well. Our area's housing market has not sustained anything close to the damage experienced in other states and regions throughout the country. In addition, Massachusetts has a stronger economy in general than many other states.

However, one of the major conclusions of this year's report card is that Massachusetts and Greater Boston are not immune to the forces that are negatively affecting the nation's economy as a whole. In fact, the leading economists we rely on for economic forecasts are concerned that we are in for some rough times ahead.

The analysis in these pages also concludes that until we solve the housing crisis, the larger economic crisis impacting our state, region and country will not begin to abate. That is, in fact, the primary conclusion of this year's report card—and clearly it is the indicator we should follow as we move forward.

So, the signals for an end to our housing and larger economic woes are mixed, but, as always, they are invaluably illuminated by the Dukakis Center's analysis. Through the power of information, we can face the future with knowledge and preparedness—and seek to create our own path to the future rather than simply react to the economic forces that our shaping our community and our lives.

Paul S. Grogan
President and CEO
The Boston Foundation

Executive Summary

Last year's *Greater Boston Housing Report Card* was subtitled, *Taking Stock in an Uncertain Time*. The national economy had shown signs of recovering from the recession that had begun in December 2007, but the pace of economic growth and the persistence of high unemployment were worrisome. As we noted in that report released in October 2010, "As of this moment, there are too many disconcerting statistics that point to a continued weakness in the overall economy and the housing market. While Greater Boston and the Commonwealth appear to be doing better, indeed considerably better than the nation as a whole on a range of economic indicators, we are not an island unto ourselves. If the national economy continues to suffer, we will suffer its tailwinds."

Looking back over the past year, these words appear to have contained an accurate forecast of the nation's economy, a correct assessment of the Commonwealth's superior economic performance, and reason for continued concern about the Greater Boston housing market.

Since last October, the nation's economic growth rate has continued to fall and the consensus forecast for the rest of this year and into 2012 is for growth of no better than 2 percent, below the level needed to reduce unemployment. Civilian employment is barely higher today than 12 months ago and the national unemployment rate remains stubbornly above 9 percent and could go higher. With such a weak labor market, wages have been stagnant and real disposable household income is no higher near the end of 2011 than four years ago. This stymies consumption and therefore economic growth.

In such a weak economy, housing starts across the country in 2011are projected to clock in at their lowest level in at least a decade—indeed at only one-fourth the rate of production during the last recession in 2001 and only one-fifth the rate in 2005. Residential fixed investment is down to just $324 billion this year compared to $775 billion just five years ago. Indeed, the decline in home construction has been a leading factor in why the 2007 cyclical recession has turned into the Great Recession. Between the spring of 2008 and this past spring, the nation's Gross Domestic Product (GDP) has dropped by 0.3 percent led by a 30 percent decline in residential fixed investment. By comparison, non-residential fixed investment in factories, commercial operations, and retail and wholesale trade was down by just 11 percent, while the other major component of GDP, personal consumption expenditures, actually increased, albeit by an anemic 1.0 percent.

In past housing report cards we focused on how housing production, sales and prices were driven by the economy. However, in this Great Recession, there is a giant "feedback loop" between housing and the economy, *with the depressed housing market actually driving the economy*. Until the housing market recovers, there is little hope for an end to slow economic growth and high unemployment. Housing continues to be at the very center of the ongoing economic crisis.

Here in Massachusetts and in Greater Boston, our housing market has not sustained anything near the collapse experienced in other states and regions. Production has not declined as much and prices have not plummeted as far. As such, since December 2007 the growth in economic activity in the Commonwealth has exceeded every state but one (North Dakota) and by the spring of 2011 had recovered to its pre-recession level. Nationally, the level of economic activity was still 4.3 percent below its 2007 level in July. At the same time, the state's employment level was still 1.3 percent below its 2007 peak, but this was a far much better record than the nation's 5 percent dip. Just between January and August of 2011, the Commonwealth added more than 40,000 jobs.

The much better performance of the Massachusetts' economy correlates well with its relatively healthier housing market. A statistical analysis carried out for this report card with data from all 50 states revealed a strong inverse correlation between the decline in home prices since 2006 and the change in economic activity. Those states that have experienced the largest loss in home value such as Nevada, Arizona, California and Florida have suffered the most economic fallout. Those, like Massachusetts, that did not see a near total collapse in their housing markets have recovered faster from the Great Recession.

But here is the rub. Massachusetts and Greater Boston are not immune to the travails of the national economy, or for that matter, the global economy. As such, leading economists in the state now worry that the continuing national housing crisis and weak economy will adversely affect the state and Greater Boston. Hence, understanding the nature of the housing crisis and finding ways to fix the housing market nationwide—as well as in our region—is critical to prosperity here at home.

Specific Findings for 2010–2011

Production, Supply, and Foreclosures

Production of New Housing in Greater Boston

The overall weakness of the national economy appears to have taken its toll on housing production in Greater Boston as it has elsewhere. For all of 2010, the five counties in the Greater Boston region issued a grand total of just 5,823 permits for new units of housing. The "good" news is that this represented an improvement of nearly 24 percent over the extraordinary low 2009 level. The "bad" news was that the higher total in 2010 was only slightly higher than half (52 percent) the average annual number of permits issued between 2000 and 2007, and 2011 seems to be shaping up to be even worse than 2009, with the total number of permits sinking below 4,500. *This would mark the lowest production total in at least two decades and less than 30 percent of the most recent peak year (2005).*

The decline in housing production in the region has been most severe in multi-unit buildings. Between 2005 and 2009, the number of permits for single-family homes declined by nearly 62 percent, but this was eclipsed by the 72 percent decline in two-to-four unit buildings and by 75 percent in larger buildings with five units or more. We project continued declines in 2011: single-family production is forecast to decline by 14 percent from 2010, while production in two-to-four unit buildings will be down 51percent. The number of permits issued for larger residential complexes will likely decrease by nearly a third (32 percent).

Over the past two decades, there has been a shift in where housing is being produced within the Greater Boston region. In the early 1990s, nearly all of the housing permits issued in the five-county Greater Boston area were outside of Suffolk County—essentially outside the City of Boston. However, Suffolk County's share of the region's total housing production has been increasing steadily in recent years. Between 2006 and 2010, its share had increased to more than 12 percent. Housing production has shifted away from Essex, Middlesex and Plymouth counties, while Norfolk has more than held its own. This suggests that households are moving back into the City of Boston and seeking housing here.

Comparing Boston Housing Production to Other Metropolitan Regions

Comparing housing production in Boston with other metropolitan regions reveals a mixed record. A number of metro regions, including Phoenix, Miami, Las Vegas and Minneapolis, have all experienced a drop of more than 80 percent in housing production since 2005. Boston, New York, Seattle and Raleigh all experienced a decrease between 60 percent and 75 percent over this period. Austin, in comparison, is the only metropolitan area among the nine against which we compared Boston that suffered a decrease of less than 60 percent (54.7 percent). While this puts Boston in middle of the nine-metro area pack in 2011, it actually reveals deterioration from 2010 when it had the smallest decline in permit activity of all.

Foreclosures in Greater Boston

Housing supply is not only affected by construction, but by foreclosure. In Greater Boston, there was a moderate downturn in foreclosure activity in 2008, as a result of the state's right-to-cure law which implemented a 90-day moratorium on new foreclosure petitions in order to give delinquent homeowners an opportunity to catch up on payments. With the expiration of that moratorium, however, foreclosure activity shot back up in 2009, and it remained quite high through most of 2010. Beginning in September 2010, however, and continuing through the first half of 2011, the number of foreclosure petitions on single-family homes plummeted as the result of a second right-to-cure period and a slowdown in mortgage company foreclosure processing. While the number of petitions for all types of homes remains high, recent months have seen the lowest rate of foreclosure filings since 2005, perhaps indicating a return to something resembling normalcy in the housing market sometime in the near future.

The story is different when it comes to foreclosure deeds resulting in households actually losing their homes. The trajectory of foreclosure deeds tends to lag behind foreclosure petitions. The first peak in foreclosure deeds occurred in 2008, followed by a moderate reduction the following year and another peak in 2010. Because of this lag, the optimistic trends seen in the trajectory of foreclosure petitions do not appear in the data on foreclosure deeds. Hundreds of foreclosures that were begun in Greater Boston during the worst months of the housing crisis are still working their way through the pipeline. As a result, the monthly number of foreclosure deeds has climbed steadily from a recent low of 94 in November 2010 all the way to 232 in June 2011. While the worst of the foreclosure crisis may have passed, Greater Boston still has a long way to go before all of the foreclosure proceedings are settled, all of the seized properties are sold and the housing market stabilizes again.

Elevated foreclosure activity ultimately affects home prices. Indeed, the sharpest declines in single-family home prices between 2005 and 2010 occurred in precisely those neighborhoods and municipalities that suffered the most foreclosures.

Housing Sales, Vacancies, Prices, and Rents

Home Sales Volume

In last year's *Housing Report Card*, we noted optimistically that 2009 marked the first year in half a decade in which the number of single-family home sales in Greater Boston rose over the previous year. It seems now that such optimism was premature. With only 23,478 homes sold throughout the entire year, 2010 was the second-slowest year since 2000 for single-family home sales in the five-county Greater Boston region. Compared to July 2009, single-family home sales in July 2010 were nearly 800 lower. And with only two exceptions, every month between July 2010 and June 2011 has seen monthly home sales plummet from their level one year prior. What this implies is a sudden stalling of the recovery that appeared to be underway in late 2009 and early 2010. Despite some signs of recovery last year, the market for single-family homes in Greater Boston is still quite weak.

This conclusion is even more apt when we turn our attention to the local condominium market. In contrast to the single-family home sales market, condominium sales in the region did not pick up after their precipitous drop between 2007 and 2008. Rather, they continued to fall in 2009 and 2010. Every month from July 2010 through June 2011 has seen a lower condo sales total than the same month one year prior, and in nine of those 12 months, the decline in monthly sales has been in excess of 300 units. These trends make it likely that 2011 will mark the sixth straight year of decreased annual condominium sales in the five-county region, and will once more set a new low point for annual regional condo sales since at least 2000.

Homeowner Vacancy Rates

As we have noted year after year, Greater Boston has been perpetually among the most expensive regions of the nation where one might purchase a home. A number of important factors contribute to the continually high cost of housing in the region, but the statistic that sums up all of these is the region's apparently intractable low homeowner vacancy rate.

For all intents and purposes, Greater Boston's homeownership vacancy rate has been below the 2 percent national standard since at least 1990. Only in 2006 did the region's vacancy rate hit 2 percent, and this was enough to begin sending home prices lower. Since then and through 2010, vacancy rates have declined modestly so that Greater Boston's home prices fell, but not nearly as much as in other metro areas. Once again, however, the vacancy rate has been inching upward so that by the first quarter of 2011, the vacancy rate once again exceeded 1.5 percent. This increasing rate has led to another softening in the region's home prices.

Home Prices

As home sales continued to suffer month after month during the most recent recession and vacancy rates remained high by Greater Boston standards, home prices declined across the region. As with the data on sales volume, it seemed that 2010 would mark the beginning of an upturn in home prices. Indeed, the median typical price for a single-family home rose nearly 4 percent in 2010 over 2009 levels. However, again in line with the sales volume figures, this recovery seems to have been short-lived. March 2009 marked the lowest point for home prices since 2005 (about $294,000). One year later, in March 2010, the typical price had increased more than $28,000, to almost $323,000. Yet the price increases stopped there; by March 2011, the typical price had fallen slightly, hovering at just over $322,000. Barring some unforeseeable development, it is likely that the average annual price for single-family homes in Greater Boston will end up lower in 2011 than in 2010.

Up until last year, home prices in Greater Boston seemed to be following the same path as experienced in the last regional housing cycle that ran from 1988 to 1997. Home prices declined for 43 months and then began a steady recovery in that cycle. It took nine years for the median home price to return to its previous peak. In the current cycle, home prices began their decline in November 2005 and continued for an identical 43 months, tracking the old cycle almost perfectly. Through much of last year, prices were recovering very much in line with that cycle so that we could project that full recovery would come sometime in 2014. However, the price recovery stalled out in May 2010 and it appears that single family home prices are in for a "double dip." In this case, it may take a lot longer than nine years for a full recovery of home prices to their 2005 level. Instead of 2014, we may be looking at sometime late in this decade.

The older industrial cities of Chelsea, Brockton, Everett and Lawrence, along with the Boston neighborhoods of Mattapan, East Boston and Roxbury, all saw median single-family home prices decline by 33 percent or more while the average decline in the entire Greater Boston region was half this rate. While price cuts were seen across almost all cities and towns in the region, they were most acute in the poorer communities where the foreclosure crisis hit most dramatically.

Rental Market

Rents are driven by a range of factors, but like the homeownership market, among the most significant is the rental vacancy rate. In Greater Boston, rental vacancy rates have been extraordinarily volatile for the last two decades. With the recession that began in late 2007, the vacancy rate in Greater Boston continued to rise. By 2009, the rate exceeded 6 percent for the first time in at least 20 years. Effective rents fell that year by 3.1 percent. Beginning in the spring of 2010, vacancy rates began to decline, and they continued this descent right through the second quarter of 2011, to 4.4 percent.

As such, in the midst of a weak economy, the average effective rent in Greater Boston set a new all-time record of $1,665 in the second quarter of 2011. With household incomes stagnant for all but the highest earners in the region, we expect no improvement in rental affordability in the foreseeable future. A combination of little rental housing production and demand fueled by foreclosed households seeking rental apartments, young families remaining in rental housing because of tightened mortgage credit or fear of buying into a falling market, and increased student demand have all contributed to record rents.

Comparing Boston Rents to Other Regions

As of mid-year 2011, the typical Greater Boston studio or efficiency apartment rent was just 16 percent higher than the U.S. average. But for larger apartments, the Greater Boston premium was much greater: 51 percent for one- and two-bedroom units and 70 percent higher for three-bedroom units. As of spring 2011, Greater Boston appears to have the third highest average rent among major metropolitan areas. Only New York and San Francisco are more expensive. As the economy continues to stumble along, one can expect more and more families to make rational decisions about where to live. If jobs are available in metro regions with substantially less expensive housing, Greater Boston could once again see a major exodus of young working families.

The Significance of Homeownership

Homeownership has conveyed a set of important benefits to most American families. Moreover, there have been social benefits in terms of community stability and local civic engagement that may very well be attributed to homeownership itself. Yet, in the aftermath of the collapse of the housing market there is widespread questioning of whether too much encouragement of homeownership was responsible for calamitous effects on homebuyers and the economy as a whole. To that end, we have included a new chapter in this year's *Housing Report Card* dedicated to investigating homeownership rates in the region and the country, disparities in homeownership by race and ethnicity, and government support for homeownership.

By 2005 nearly 69 percent of all U.S. households owned their own homes. But recently, the homeownership rate has declined to an estimated 66.2 percent in 2011.

In Massachusetts, the homeownership rate rose from 35 percent in 1900 to nearly 56 percent in 1960 and then grew more slowly through 2000 when it stood at 59 percent. For most of the 20th century, the state's homeownership rate lagged the nation's. Unlike the rest of the country, however, with an improving economy through the first half of the last decade, a better economic record in the second half, and taking full advantage of low mortgage rates and easy credit, the homeownership rate in the Commonwealth soared to 65.3 percent by 2010—nearly reaching the U.S. rate of 66.9 percent. The Great Recession has had a much less damaging impact on homeownership in the Commonwealth than the nation as a whole.

Compared to other metropolitan areas, Greater Boston's homeownership rate, like that of the Conmonwealth, had been low for decades, although it had been steadily converging toward the national average. The convergence has been so strong over the past decade that by 2010, Greater Boston could boast a slightly higher homeownerhip rate than the U.S. metro average. Despite the foreclosure crisis, Greater Boston's homeownership rate is now at its highest level ever.

Nevertheless, the homeownership rate among black households in Massachusetts is well below the comparable rate for the nation and the black/white homeownership gap much higher. Indeed, the black/white homeownership gap in Massachusetts is one of the highest in the nation. Nationally, in 2000, the black rate was 25.0 percentage points below the non-Hispanic white rate. In Massachusetts the racial gap was 34.3 percentage points.

In Greater Boston, the picture is no better and perhaps worse. Among the largest 100 metro areas in the country, Hispanics and Asian-Pacific Islanders living in our region have the 3rd lowest rates of homeownership. Non-hispanic blacks are hardly better in 4th place from the bottom.

This low rate of homeownership among minority families places them and their communities at some disadvantage given what we know about the individual and social benefits that stem from homeownership, including:

- private wealth generation
- increased aggregate consumption and economic growth
- improved home (and therefore community) upkeep
- higher rates of voting and civic engagement
- higher rates of academic achievement and educational attainment for students living in owner-occupied homes

A new analysis of the social effects of homeownership by the Dukakis Center and summarized in this report points to a number of individual and social benefits that accrue to homeowners even when compared to renters who have lived in the same place for nearly 10 years and have equivalent social-economic status (SES)—income, education and age. Homeowners accrue much higher levels of wealth even after controlling for income. Homeowners are more likely than renters to participate in community activities, presumably leading to more desirable neighborhoods. The low homeownership rates in minority communities in Greater Boston may contribute to neighborhood dysfunction.

Now with tightened mortgage credit and the possibility of changes in federal institutions that have encouraged homeownership since the 1930s, the large racial and ethnic gaps in homeownership may become much more difficult to eradicate.

Public Policy and Public Spending in Support of Housing

State and Federal Legislation

During the past year, the most significant state-level housing development was not so much new legislation as the successful defense of Chapter 40B. By mid-2010, Chapter 40B had supported the development of more than 1,000 projects with more than 58,000 housing units and has been considered one of the most important tools for affordable housing development in Massachusetts. It has also generated significant controversy at the local community level, leading to an ultimately unsuccessful ballot initiative in November 2010 aimed at its repeal.

While not at the same intensity as last year, there has been important activity at the state level in Massachusetts over the past several years. Important milestones in the Commonwealth include:

- The implementation of the HomeBASE Program providing short-term rental assistance to households who face homelessness
- The passage by the State Senate of An Act Relative to Community Housing and Services providing a link between affordable housing and supportive services
- The advancement of H.4544, state legislation to promote innovative strategies in public housing
- The signing into law of An Act to Stabilize Neighborhoods (The Foreclosure Relief Bill) to provide more time and resources for homeowners to avoid foreclosure
- The signing of Chapter 40T to help preserve affordable housing units from moving to market rate
- The continued operation of Chapter 40R to encourage Massachusetts communities to create smart growth overlay zoning districts where denser, transit-oriented affordable housing can be built as as-of-right

There is, unfortunately, little help on the housing front coming from Washington. Indeed, if new housing legislation is approved by Congress, it is likely to be aimed at reversing policies that could have helped increase the amount of affordable housing and encourage homeownership. Bills were filed recently to eliminate critically-needed programs such as the National Housing Trust Fund and the Low-Income Housing Tax Credit.

Public Spending on Housing in the Commonwealth

The Commonwealth has two sources of funds to assist homeowners, renters and developers of housing. One is from its own revenue, the other from a variety of federal programs. The current recession and the state's fiscal crisis have taken a toll on the state share of DHCD operating funds, declining from $158 million in FY2008 to $115 million in FY2011.

Federal funds flowing to DHCD jumped to $620 million in FY2009 and $644 million in FY2010. An additional $364 million was made available to DHCD during FY2010, and $180 million in FY2011, as part of the American Recovery and Reinvestment Act (ARRA). As such, the total amount of federal funds allocated to DHCD increased from $449 million in FY2008 to more than $1 billion in FY2010. In addition, Washington supplied $12.5 million in homeless assistance funds in FY2010 and $12.3 million in FY2011.

Now with most of the ARRA money spent, the federal government focused on deficit reduction, and state revenues still hurting from the weaker economy, it is likely that funds for housing programs over the next few fiscal years will be substantially lower than in the recent past. Of perhaps even greater concern is the possibility of the repeal of laws that have been central to the development of affordable housing and homeownership among households of modest income. This could spell further trouble for Greater Boston's housing market and especially for lower income renters and the communities where they live.

Conclusion

Overall, the Commonwealth and Greater Boston are faring in this Great Recession substantially better than most regions of the country. The economy here is stronger than most and its housing market in less disarray.

But there are too many troublesome signs in the national economy and in the likely course of federal housing legislation that make us worry that we are by no means out of the woods and the next few years could be as rocky as any we have encountered to date.

1. Introduction

Anyone who read the *Greater Boston Housing Report Card 2008* when it was issued in the fall of that year knew we were at the beginning of a difficult economic period for the nation.[1] Each day brought a new report of rising unemployment, skyrocketing foreclosures, increasing residential vacancy rates, and a collapse in housing values. Few would have expected that three years later, the national economy would still be suffering from unemployment in excess of 9 percent, that home prices would not have stabilized in many metro areas throughout the country, and that a double dip recession was not only a possibility, but more and more likely.

Indeed, in our 2009 *Report Card*, we were encouraged by some progress we were seeing on the economic front and in the housing market. We wrote,

> The overall conclusion—tentative as it must be—is that the worst of the current economic and demographic situation is finally abating. That could mean that housing sales will continue to pick up, that housing vacancy rates will begin to fall, that housing prices will continue to improve, and that we will need to find ways of assuring an adequate supply of housing for a growing population.[2]

That cautious optimism was reflected in the report's subtitle: *Positioning Boston in a Post-Crisis World*.

By the time the next *Greater Boston Housing Report Card* was published in the fall of 2010, we had become less sanguine about the future of the national economy and the housing market. We subtitled that report *Taking Stock in a Perilous Time* given the continued weakness in the housing market and stubbornly high unemployment.

Now in 2011, we see many signs that we face even more perilous times than we have seen in decades. Persistently slow economic growth, anemic job creation, violent swings in the stock market, sovereign debt crises in Europe, and an entrenched political stalemate in Washington threaten to derail any recovery that might have been on the horizon. Some are talking of a "new normal" characterized by economic stagnation, jobless growth, permanent belt-tightening, and a weak housing market in place of an economy of rising expectations, rising incomes, stable home values, and improved living standards.[3] While Massachusetts continues to perform better—indeed, much better—than the nation as a whole, the state inevitably is vulnerable to deteriorating national and global conditions.

As we will see, the continuing weakness in the national economy is unlike most post World War II recessions. It is deeper and longer-lasting because its root cause is different from most "normal" business cycle downturns. This one has a lot less to do with too much manufacturing inventory leading to temporary layoffs, to short-term oil shocks, or to overzealous Federal Reserve Bank attempts to wring inflation out of the economy by driving up interest rates and killing off investment. This time around, it was a peculiar set of events in America's housing market that turned a normal business cycle downturn into what many have dubbed the "Great Recession." America continues to suffer and likely will do so for a number of years to come. Greater Boston is positioned to ride out this nasty storm better than most, but the storm's winds will no doubt cause some damage to the region's economy and extend the horizon before the local housing market fully recovers.

In past reports, we have begun by checking up on how the economy is affecting the housing market. In this report, we will focus equal attention on the reverse: how the housing market itself has contributed to the wild swings in the economy and why fixing the housing market may be the most important step that can be taken to return to some semblance of economic prosperity. In response to President Obama's recently proposed jobs program, Kenneth Rogoff, a renowned Harvard University economist and expert on macropolicy and sovereign debt, spoke for many economists when he told the *Boston Globe*, restructuring underwater mortgages is 'the best simple step to getting out of a recession faster."[4] The collapse of the housing market led us into the Great Recession;

stabilizing home prices, dealing aggressively with the foreclosure crisis, and expanding housing production to put Americans back to work and reduce future upward pressure on rents will be needed to restore the nation's health.

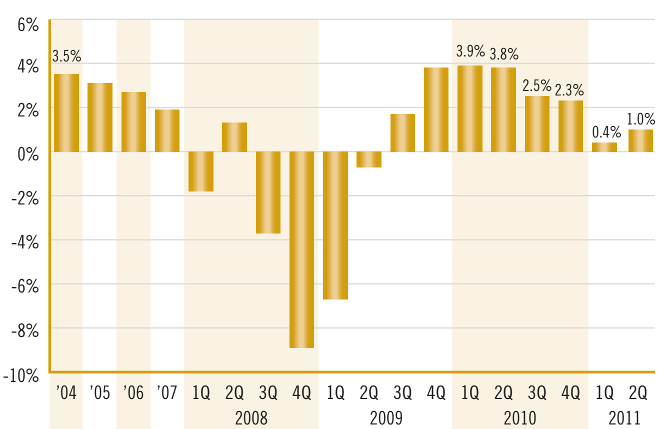
A Brief Look at National Economic Trends

Recalling the history of the Great Recession is a good place to begin. It began officially in December 2007, now nearly four years ago. All through the following year, the recession deepened. In the last three months of 2008, it reached its nadir with real GDP declining at a frightening annual rate of 8.9 percent. The following year, however, brought great hope. From the first quarter of 2009 through the last, the nation's real GDP growth rate improved steadily and entered positive territory by the third quarter (see **Figure 1.1**). In the first three months of 2010, the growth rate was back to nearly 4 percent, even stronger than in the 2004–2007 period when rapid economic growth drove down the nation's unemployment rate to just 4.6 percent. It appeared that we were coming out of the recession at last.

By most, but not all accounts, the nearly $800 billion economic stimulus package engineered by the White House and the Federal Reserve Bank's commitment to extraordinarily low interest rates helped turn around the economy and boost economic growth. But, unfortunately, as the stimulus waned, real GDP growth began

FIGURE 1.1

Percentage Change in Real GDP 2004–2011:2Q



Source: Council of Economic Advisers, "Economic Indicators," July 2011

to slip again and by the first quarter of 2011 it had slowed to only 0.4 percent. The stimulus had provided ignition, but not sufficient power to lift the economy back into a smooth orbit. During the second quarter, GDP growth increased but still remained at a lackluster 1.0 percent—well below the 2.5 to 3 percent growth rate needed to seriously reduce unemployment.

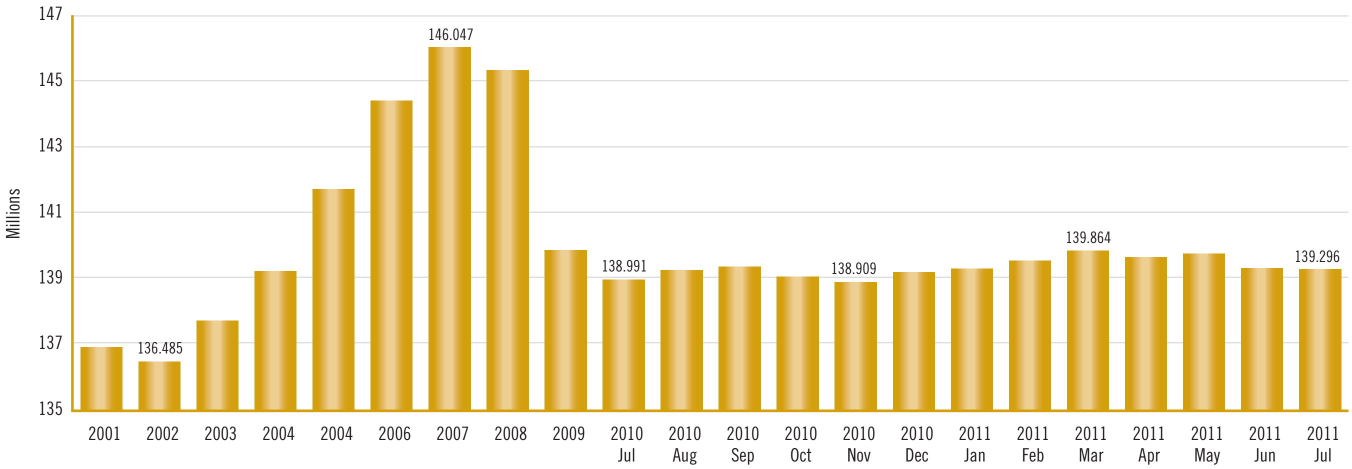
The latest forecasts provide little hope that the rate of economic growth will increase. All through the summer of 2011, one forecaster after another lowered estimates of economic growth for the remaining two quarters of 2011 and for much of 2012. With remarkable stock market volatility and declining producer and consumer confidence, not to mention serious concern about the European economy, Goldman Sachs slashed its third-quarter 2011 real GDP forecast to 1.0 percent and projected fourth-quarter growth at no more than a 1.5 percent annual rate.[5] Mortgage Bankers Association economists predicted that real GDP will grow by no more than 1.5 percent for all of 2011 and by an average rate of no more than 2.3 percent in 2012. If these forecasts pan out, 2011's growth rate will be the lowest since the recession began in 2007. At these rates, national unemployment will remain near or above 9 percent for at least the next 18 months.[6]

The inability to sustain a more rapid GDP growth rate has produced one of the weakest labor markets in decades. As **Figure 1.2** reveals, U.S. civilian employment peaked in 2007 just before the recession began. From the end of the 2001–2002 recession to the beginning of the latest one, the total number of employed workers increased by nearly 10 million to 146 million. The recession that began in December 2007 displaced over seven million of them. Despite a return to positive economic growth, over the past year—between July 2010 and July 2011—employment has increased by only 305,000. The employment trend is flat.

The result, of course, has been persistently high unemployment even as many discouraged workers have stopped looking for work altogether and therefore are no longer counted as unemployed. **Figure 1.3** demonstrates how devastating the recession has been to workers and their families. The total number of unemployed Americans increased from seven million in 2006 to more than 15 million in November 2010. Since then, the number of unemployed has decreased by 1.1 million, but as of August 2011 there were still nearly 14 million

FIGURE 1.2

U.S. Civilian Employment 2001–2011 (July)



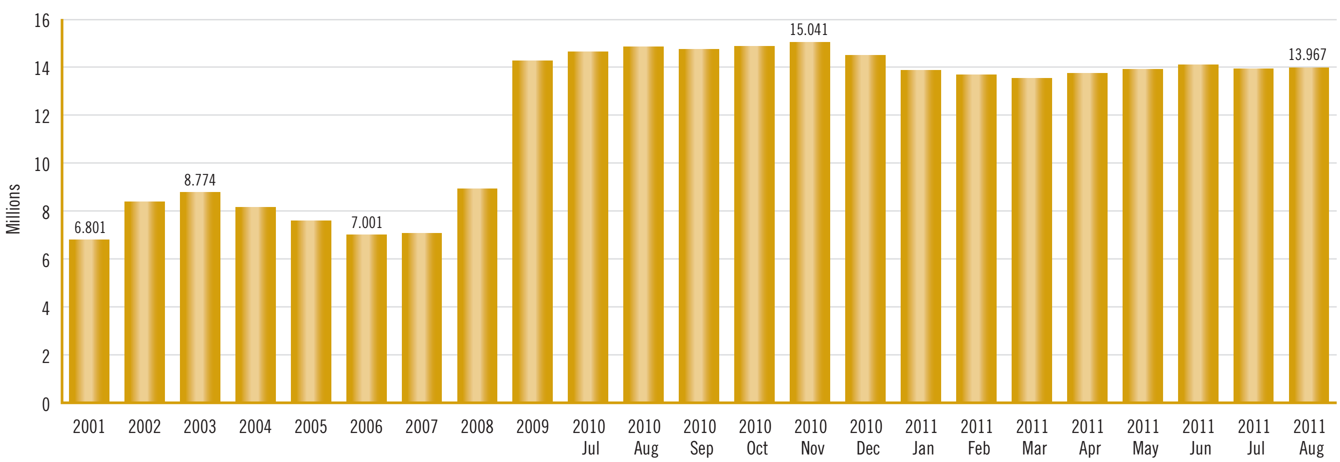
Source: Council of Economic Advisers, "Economic Indicators," July 2011

who were officially unemployed. Among these, six million have been unemployed for at least six months.[7]

With so little employment growth and so little attrition in the ranks of the unemployed, the official national unemployment rate has hardly budged since 2009. As the official tally declined from 9.8 percent to 8.8 percent between November 2010 and March 2011, it appeared that progress was being made in reducing the jobless rate. But with the return to extremely sluggish economic growth in the first half of 2011, the rate has actually climbed back to 9.1 percent and seems to be stuck there. Official Congressional Budget Office (CBO) forecasts do not see the nation returning to "full employment" (under 6%) until 2017.[8] If this prediction holds true, the nation will have experienced a string of nine years in a row with unemployment greater than 6 percent, a streak longer than any since World War II.

FIGURE 1.3

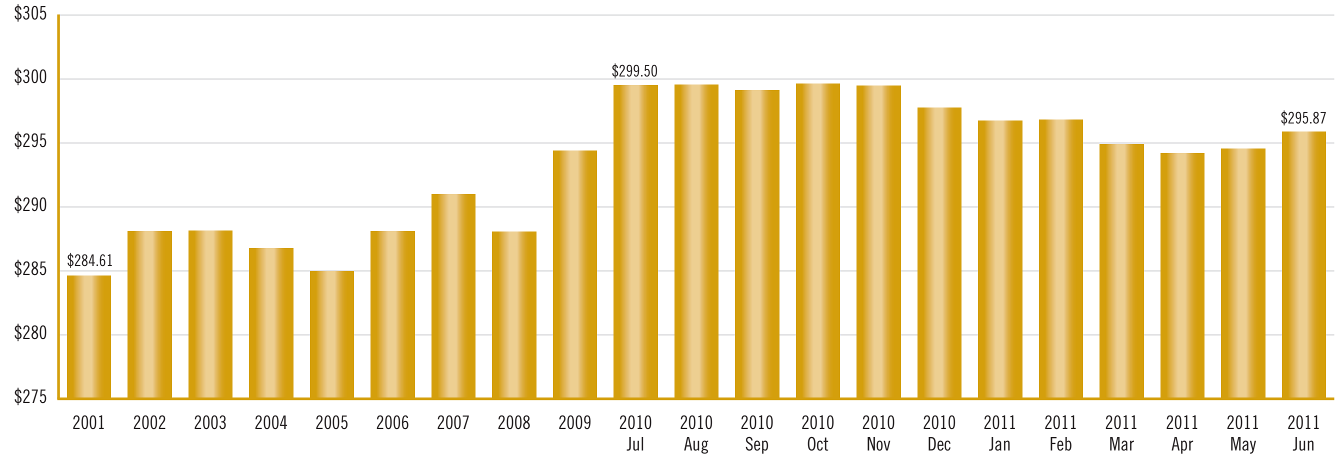
U.S. Unemployment (Seasonally Adjusted) 2001–2011 (August)



Source: Council of Economic Advisers, "Economic Indicators," August 2011

FIGURE 1.4

Average U.S. Real Gross Weekly Earnings (1982–1984 Dollars) Total Non-Farm Employment Sector 2001–2011 (June)

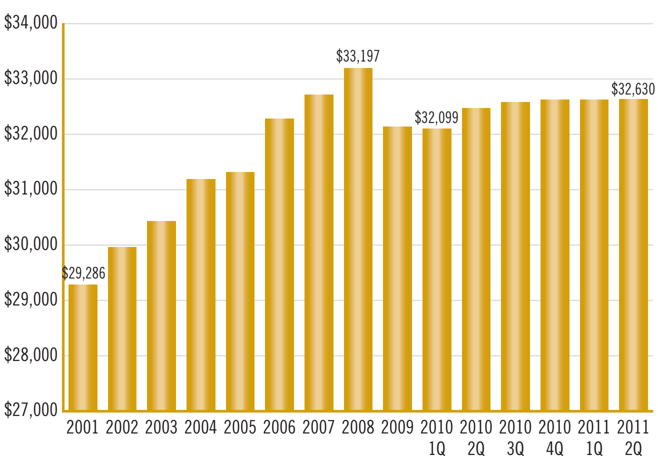


Source: Council of Economic Advisers, "Economic Indicators," July 2011

High unemployment is not the only problem afflicting the labor market. Even among those who are working steadily, the vast majority have seen little increase in their paychecks. As **Figure 1.4** reveals, between 2001 and 2010 average real gross weekly earnings of non-farm workers in the U.S. increased by only 5.2 percent or $15 per week. Since then, weekly wages have actually declined by 1.2 percent. Because most households rely on wages for most, if not all, of their income, it is not surprising that personal income has stagnated for more than a decade, as demonstrated in **Figure 1.5**. As of spring 2011, real personal disposable income was lower than in 2007 and only 11 percent higher than in 2001. With such little growth in disposable income, personal consumption has also slumped. Because personal consumption represents more than 70 percent of GDP, it is not surprising that the economy cannot recover until consumers start spending again.[9] And consumers will not start spending again until they feel their main source of wealth—housing—is stable.

FIGURE 1.5

U.S. Real Per Capita Personal Disposable Income (2005 Dollars) 2001–2011:2Q



Source: Council of Economic Advisers, "Economic Indicators," July 2011

The Economy and the Housing Market

There are, of course, a plethora of reasons for the dismal performance of the economy. Consumer confidence and business confidence remain at historically low levels, leading to depressed consumption and investment. Over the course of just one month, from July to August of 2011, the Thomson Reuters/University of Michigan Consumer Sentiment Index fell from 63.7 to 54.9, the lowest level since 1980—lower even than in November 2008 at the height of the financial crisis.[10]

On top of this, global economic chaos has roiled stock markets and America's export performance. Although U.S. corporate profits have rebounded smartly from the recession (reaching nearly $1.8 trillion in the first quarter of 2011—up 25 percent since the first quarter of 2008), corporate investment in non-residential assets is off by more than 11 percent over the same period.[11] This essentially means corporations are saving, not investing.

Hard-strapped consumers are doing the same. Since the recession began in 2007, households have been saving an average of 5.3 percent of their disposable personal income—the highest rate since the 1990s—and up from an average of just 2.8 percent between 2001 and 2007.[12] When you are anxious about losing your job and when the value of your home and perhaps your 401(k) has plummeted, your appetite for consumption wanes.

Each of these factors helps to explain why this economic downturn has been so steep and lasted so long. But to really understand the depth and duration of this Great Recession, one must consider the absolutely central role of America's boom-and-bust housing market and the associated near financial collapse of the nation's banking system.

Financial Meltdown

Why the housing market boomed and then plummeted is a complex story that we will return to in Chapter 4, but we can touch upon the key points here. As we demonstrated in earlier *Housing Report Cards*, housing prices soared during the first half of the last decade not just in Greater Boston, but even more so in other metro areas. Home prices skyrocketed because housing demand was so strong. The demand for housing was so strong because of the expansion of all kinds of new mortgage instruments that made it possible for households to get into the home buying market even if they had a limited ability to service those mortgages in the event of a slowdown in the economy. When the economy faltered in 2008, many of these households could not keep up with their mortgage payments and ended up in foreclosure. The value of these homes plummeted as a supply of foreclosed homes flooded the market. This new supply of market housing affected the value of virtually all other housing stock.

This, in itself, might not have led to such a long and deep downward-spiraling national economic crisis. But how those mortgages were financed and how they were sold on global markets led to a financial collapse affecting a wide swath of the mortgage banking community. Financial institutions packaged the new mortgages into mortgage-backed securities (MBSs) which were then marketed globally. These securities ultimately carried much higher risk than investors imagined because they included mortgages which were likely to go into foreclosure once the economy slowed and borrowers could not service them. When the risky nature of these MBSs was discovered, they plunged in value creating massive losses for some of the world's largest banking and insurance institutions. Thus, the beginning of the Great Recession had everything to do with housing. Moreover, the bailout of the financial sector by the federal government was partially responsible for the huge increase in federal debt which has since led to cutbacks in spending just when the nation requires added economic stimulus to put people back to work.

"Wealth" Effect

Even those not facing foreclosure or losing money in financial markets were deeply affected by the collapse of the housing market. Since the middle of 2006, U.S. single family home value has fallen by $6.3 *trillion* from $22.4 trillion to just $16.1 trillion—about 28 percent.[13] In an important paper released in February 2011, economists Karl Case, John Quigley, and Robert Shiller found that changes in housing wealth have a substantial impact on household consumption, that the effect is "consistently larger than the effect of stock market wealth upon consumption," and that the "effects of declines in housing wealth in reducing consumption are at least as large as the effects of increases in housing wealth in increasing the course of household consumption."[14] Part of this effect is due to the real temporary or permanent loss in home equity and, therefore, the diminished ability of homeowners to borrow against the value of their homes. Another part of the effect is psychological in that homeowners who experience a decline in the value of their most important asset feel "poorer" and compensate by cutting back on current consumption.

Case, Quigley, and Shiller's statistical analysis revealed that a 1 percent decline in housing wealth generates, on average, a .08 percent decline in annual household consumption.[15] When we apply this ratio to the 28 percent loss in national housing wealth between 2006 and 2011, we find that this produced something on the order of a 2.3 percent reduction in personal consumption.

With personal consumption expenditures of $10.7 trillion in the second quarter of 2011, this translates into a loss of nearly $250 billion in consumer spending each year.

We can use this number to estimate how much economic growth might have occurred if housing wealth had not deteriorated. Between the second quarter of 2010 and the second quarter of 2011, nominal GDP expanded by $529 billion or 3.7 percent.[16] If housing wealth had not declined by 30 percent, additional consumption alone, according to the Case-Quigley-Shiller estimate, would have raised the nominal GDP growth rate to 5.4 percent—a 45 percent increase. Given the implicit GDP price deflator for the year ending in the second quarter of 2011, we calculate that real GDP growth would have been closer to 3 percent rather than 1 percent. With such an improved growth rate, employment almost surely would have expanded and unemployment would have declined.

Investment and Construction

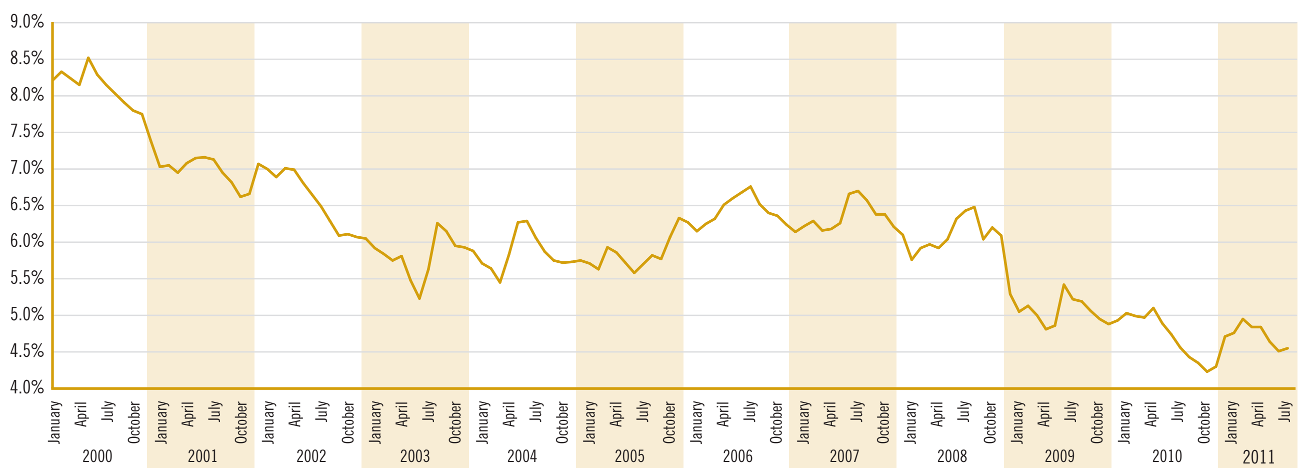
Interest rates, and especially mortgage interest rates, are near the lowest levels seen in more than 10 years, as shown in **Figure 1.6**. As of July 2011, the average 30-year home mortgage had a commitment rate of just 4.5 percent, a full two percentage points lower than in July 2008, and four percentage points below the prevailing rate in 2000. Such low interest rates would normally power a housing boom since low mortgage rates reduce the real monthly cost of purchasing a home. Yet this has not been the case since the recession began. Credit rules have been tightened making it difficult for many households to take advantage of these low mortgage rates. Moreover, credit-worthy customers are anxious about entering a housing market that might still pose significant downside risk and so many of them have remained on the home-buying sidelines.

With so few potential home buyers in the housing market, developers have all but ceased producing housing units. Since 2007, a lack of housing production has put a damper on economic growth. As **Figure 1.7** demonstrates, after the housing bubble began to leak in 2005, the number of new housing starts plummeted. From more than two million units in 2005, the number of new units under construction has continued to shrink almost every year. Based on construction data through July, we project only 420,000 new homes and apartment units will be built nationwide in all of 2011. That is just one-fifth the number of homes built in 2005 and one-fourth the production numbers during the 2001–2002 recession years. As a result, real U.S. residential fixed investment—a major component of GDP—has declined from $775 billion in 2005 to a projected annual figure of just $324 million in 2011 (see **Figure 1.8**).

When housing production slumps, a whole slew of other sectors slump with it, including the appliance

FIGURE 1.6

Monthly National Average Commitment Rate on 30-Year Fixed-Rate Mortgages, January 2000–July 2011

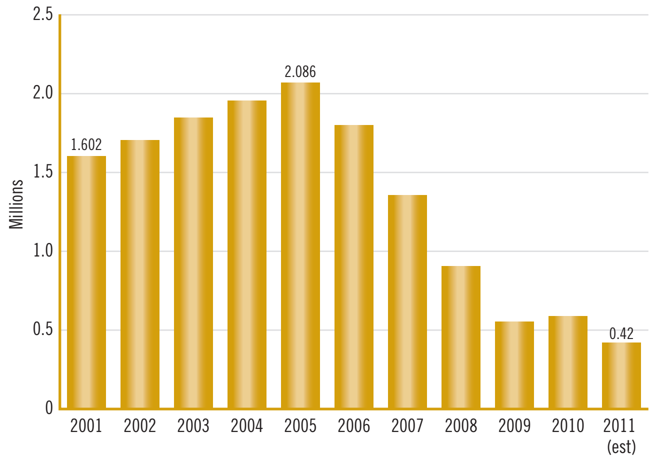


Source: Freddie Mac, Primary Mortgage Market Survey and furniture industries which in turn affects raw material producers from those who mine iron ore to those who make steel. The "domino" effect in the housing sector is vast.

Figure 1.9 summarizes the impact of declining residential investment on GDP. The main components of GDP are: personal consumption expenditures, fixed investment, government consumption, and net exports (exports minus imports). Note that between the second quarter of 2008 and the second quarter of 2011, real GDP declined by 0.3 percent, meaning virtually no growth. A small increase in personal consumption expenditures (+1%) propped up GDP a bit, as did two other factors: a strong increase in exports (+4.8%) and a massive increase in federal stimulus (+10.9%). The decline in GDP was driven by a 5 percent decline in state and local expenditures, an 11 percent decline in non-residential fixed plant and equipment investment, and a whopping *30 percent* decline in residential fixed investment. If housing investment had not collapsed so dramatically, the length and depth of the Great Recession would have been greatly attenuated.

FIGURE 1.7

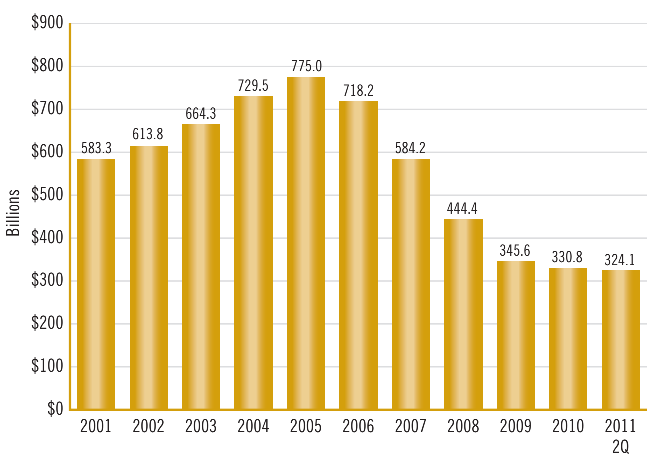
New Housing Unit Starts in U.S. 2001–2011 (annualized est.)



Source: Council of Economic Advisers, "Economic Indicators," July 2011

FIGURE 1.8

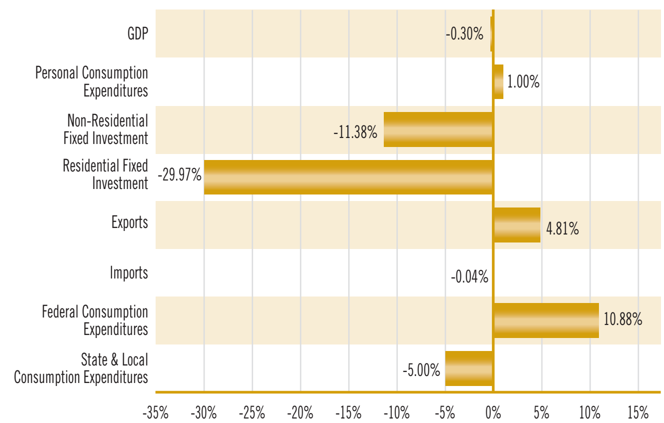
Real U.S. Residential Fixed Investment (2005 Dollars), 2001–2011:2Q (Annualized)



Source: Council of Economic Advisers, "Economic Indicators," July 2011

FIGURE 1.9

Components of Real GDP Decline 2008:2Q–2011:2Q



Source: Council of Economic Advisers, "Economic Indicators," July 2011

The Near Term Future

As noted above, until quite recently, most economists expected the pace of economic growth to pick up in 2011 and accelerate even more in 2012. That forecast seems more and more unlikely given the recent downward revisions in GDP growth rates for the first half of 2011 and the fact that the federal government is no longer stimulating the economy, but rather contracting spending as part of the debt ceiling agreement. The Federal Reserve Bank has vowed to keep real interest rates as close to zero as possible, yet so far low interest rates have not stimulated much investment.[17] Its current attempt to "twist" interest rates by selling short-term paper and buying long-term bonds is aimed at lowering long term interest rates even further. But there is little reason to believe that even lower interest rates will boost investment.

The $787 billion economic stimulus passed by Congress in February 2009 has virtually all been spent. In Massachusetts, only about 4 percent or $300 million of the original $7.4 billion allocated to the Commonwealth under the stimulus package remains.[18]

While President Obama has proposed a new $447 billion package of tax breaks and new government spending, it is almost certain that Congress will agree to support only some of these measures. In any case, many economists believe that even passage of the President's full package would do little to spur the near-term rate of economic growth or appreciably lower the nation's unemployment rate.[19] The President's call for increased infrastructure spending will take time to implement. It is not clear that consumers will spend much of the extended payroll deduction they may be offered and it is unlikely that many firms will take advantage of a jobs tax credit to create new jobs in the face of weak consumer demand.

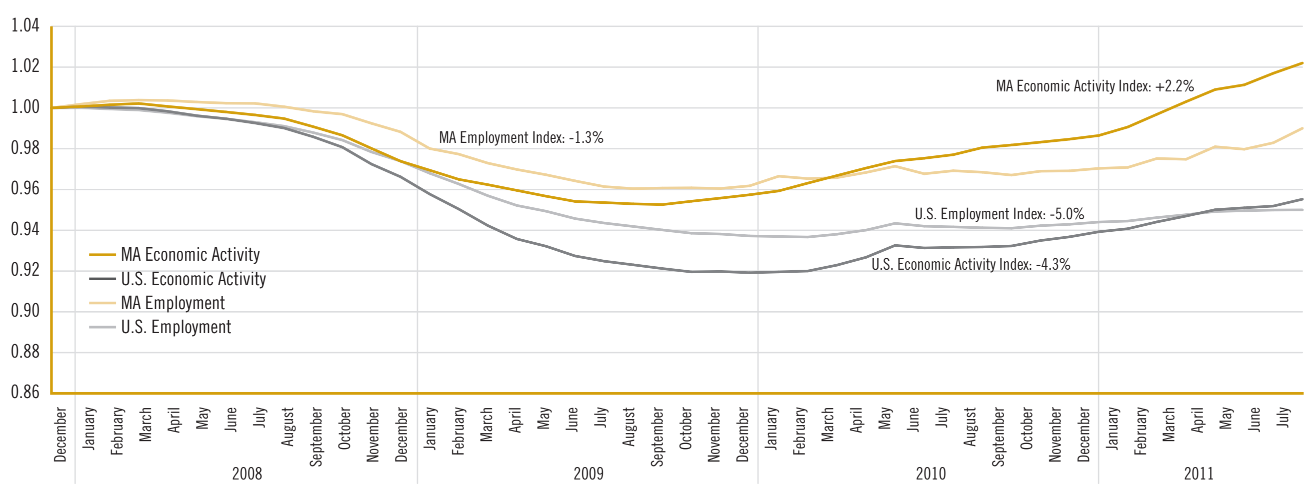
Under this scenario, the national housing market will not recover. With home prices still falling in many parts of the country, the stock market experiencing great volatility, and unemployment remaining stubbornly high and perhaps rising again, prospective homebuyers are staying on the sidelines, developers are cautious about building new units, and foreclosures may continue to remain high. The result is a "feedback loop" where "one piece of bad economic data has a way of making everything else worse."[20]

The Massachusetts Economy

In Massachusetts, we are more fortunate than most. The Commonwealth's economy (as measured by the Economic Activity Index computed by the Federal Reserve Bank of Philadelphia) finally achieved a milestone in February 2011 when economic activity in Massachusetts reached a point equal to the level prevailing before the beginning of the recession. Its recovery was led by the state's construction industry, its information services, its education and medical institutions, and its leisure and hospitality industry.[21] And since February both the economic activity index and employment have continued to improve. **Figure 1.10** compares the trends in both of these economic indices for Massachusetts and the U.S. since the official beginning of the recession in December 2007.

FIGURE 1.10

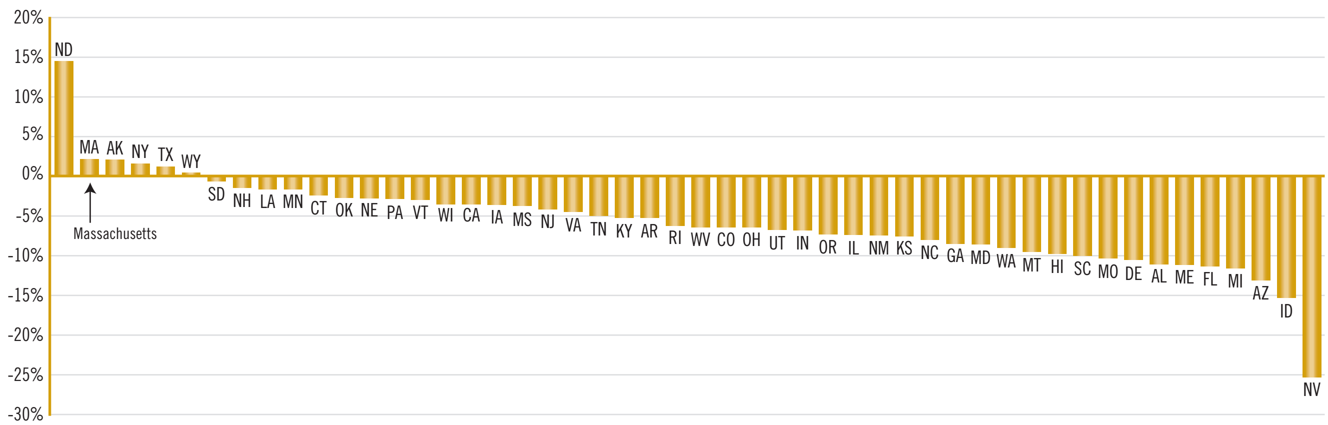
Economic Activity Index and Employment Index, Massachusetts vs. U.S. December 2007–July 2011



Source: Federal Reserve Bank of Philadelphia Coincident Indexes and U.S. Bureau of Labor Statistics, Total Non-Farm Employment (Seasonally-Adjusted)

FIGURE 1.11

Percent Change in Economic Activity Index by State December 2007–July 2011



Source: Federal Reserve Bank of Philadelphia Coincident Indexes

As of July 2011, U.S. economic activity remained 4.3 percent *behind* its December 2007 level; at the same time Massachusetts' economic activity already *exceeded* its pre-recession level by 2.2 percent. As for employment, Massachusetts has still not fully recovered to its pre-recession peak, but as of mid-2011 it trailed that level by only 1.7 percent. By contrast, U.S. employment was still a full 5 percent below its December 2007 level.

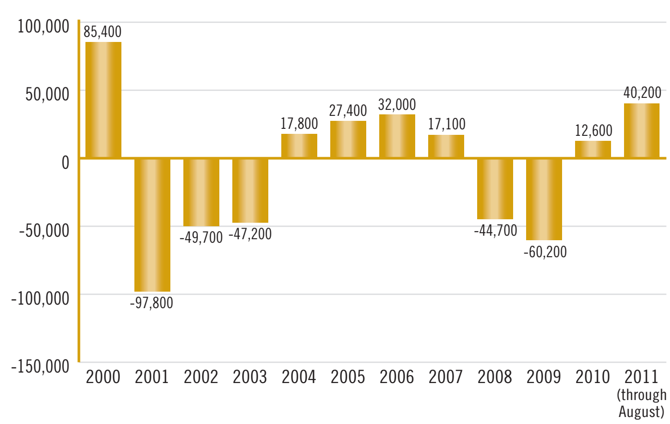
Relative to other states, Massachusetts is doing so well that it ranks second in the nation in terms of its economic activity. (Only North Dakota does better). In fact, as **Figure 1.11** demonstrates, only five states had surpassed their December 2007 economic activity index by July 2011. Ten states still trailed their 2007 index readings by 10 percent or more. Among these are three that were plundered by the housing collapse that began in 2006: Florida, Arizona and Nevada.

The recent increase in economic activity has provided the foundation for relatively strong employment growth in the state. As **Figure 1.12** reveals, after losing nearly 45,000 jobs in 2008 and more than 60,000 more in 2009, Massachusetts saw a modest improvement in the jobs picture in 2010 with a net increase of 12,600. This improvement has strengthened in 2011. Just through the first eight months of the year, employment in the Commonwealth has grown by more than 40,000, helping to drive down the state's unemployment rate to 7.4 percent—a full 1.5 percentage points below the U.S. rate.

As noted above and shown in **Figure 1.13**, the recent jobs recovery in Massachusetts has been led by a set of important industries. Between July 2010 and July 2011, information services employment expanded by more than 5 percent. Construction (mostly non-residential) and

FIGURE 1.12

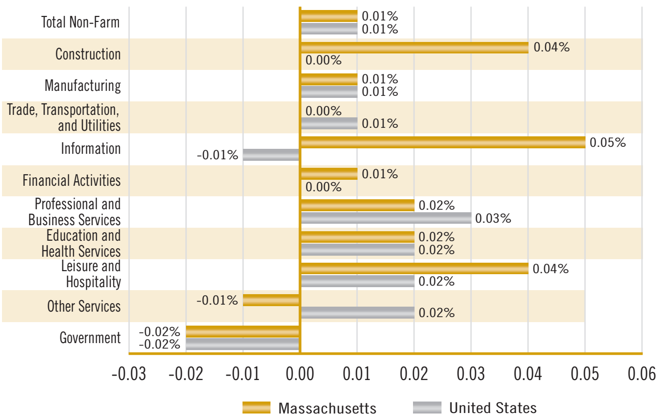
Change in Total Non-Farm Employment in Massachusetts (Seasonally Adjusted) 2000–2011 (August)



Source: U.S. Bureau of Labor Statistics

FIGURE 1.13

Percent Change in Employment Massachusetts vs. U.S., July 2010–July 2011



Source: U.S. Bureau of Labor Statistics

leisure-and-hospitality added nearly 4 percent to their job base while both professional and business services and education and health services increased employment by more than 2 percent. In seven of 10 major economic sectors, the Commonwealth's jobs picture was better than the nation's.

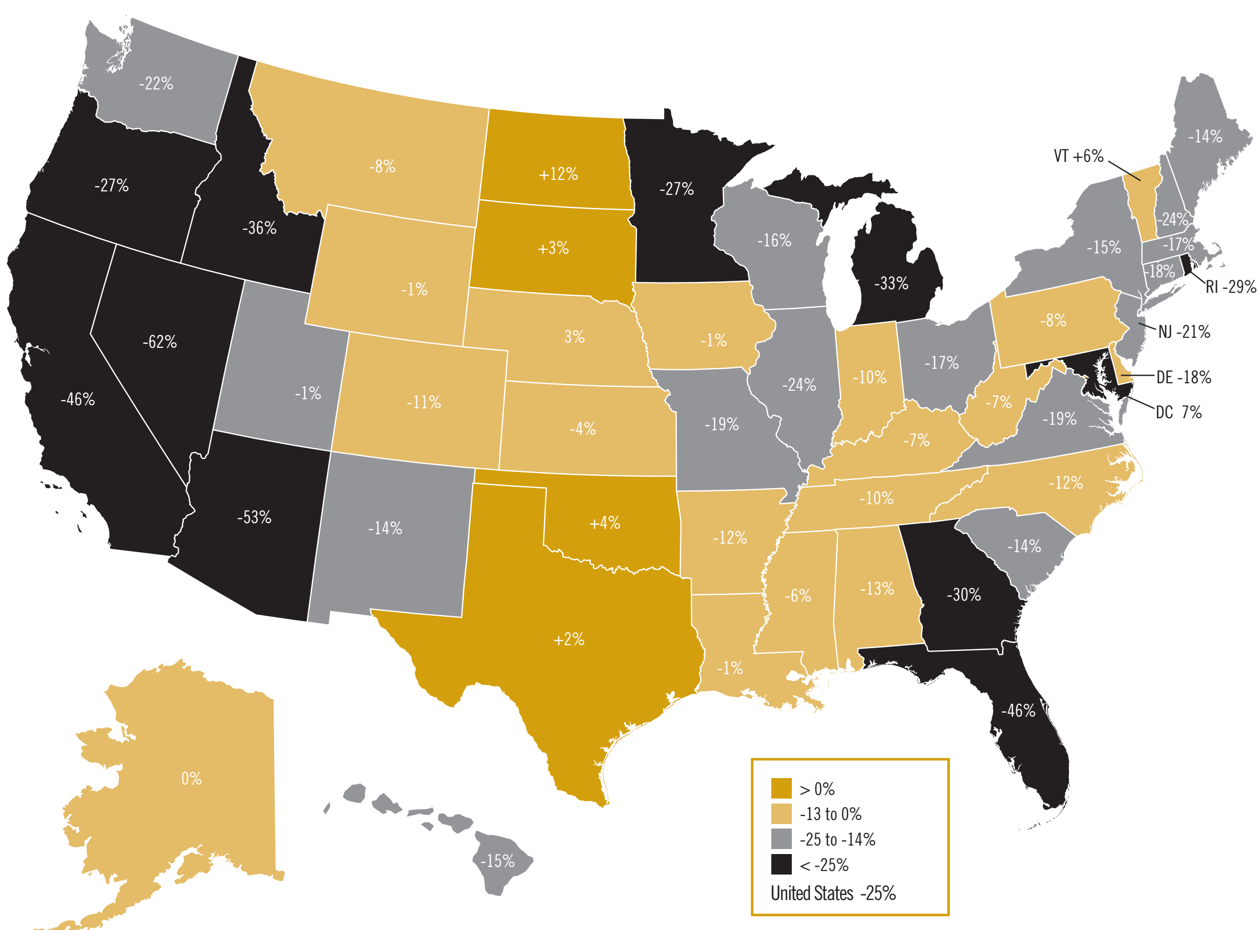
Overall employment in Massachusetts would have expanded even faster if not for the loss of public sector jobs. In just the past year, government employment in the Commonwealth has shrunk by 1.9 percent as a result of the declining state and local coffers.

Housing and Regional Economic Activity

As we noted in last year's *Greater Boston Housing Report Card*, the recent, more encouraging trends in economic activity and employment in Massachusetts are quite

FIGURE 1.14

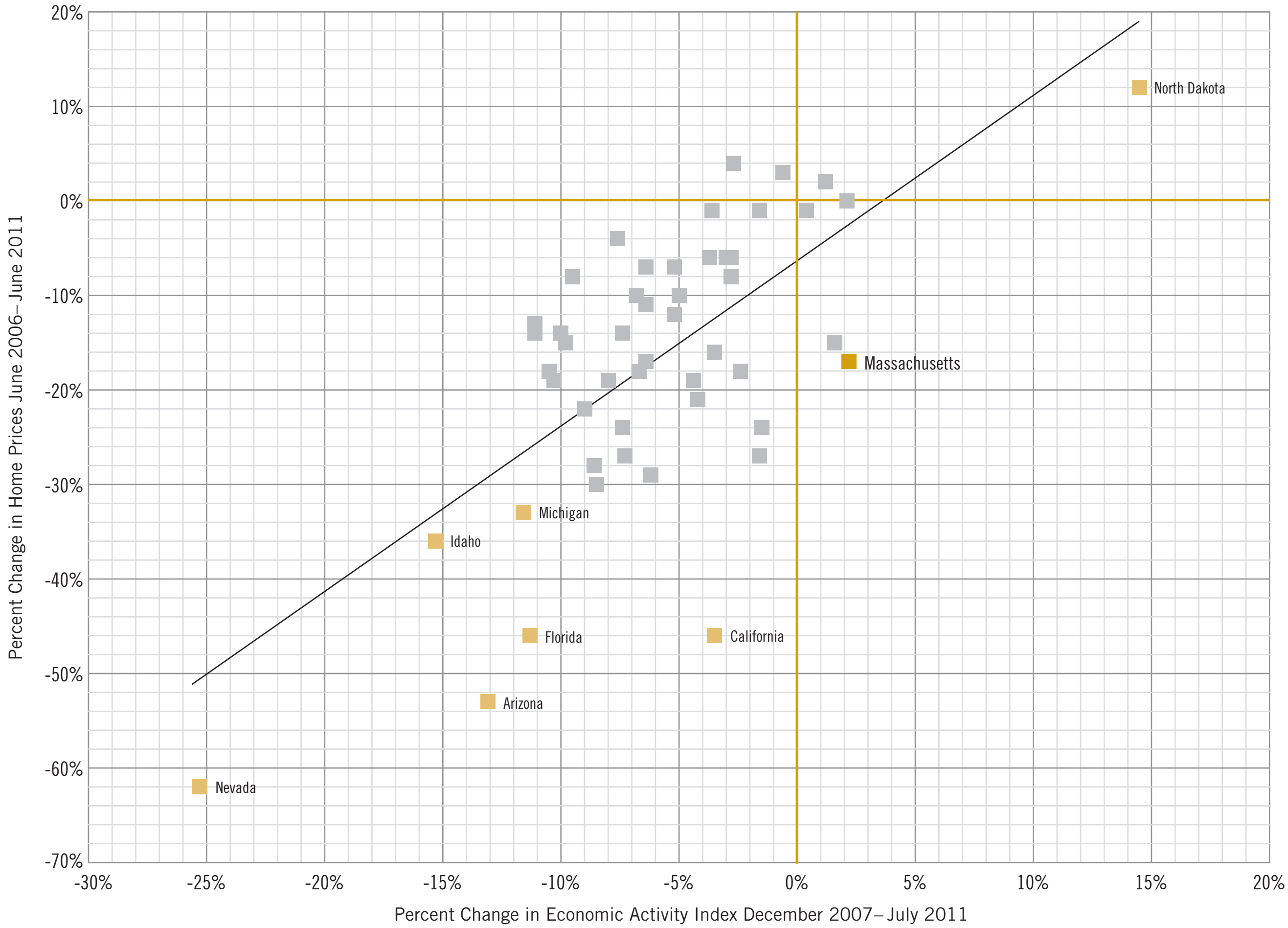
Home Price Performance by State, June 2006–June 2011



Source: Freddie Mac Update, August 2011

FIGURE 1.15

Economic Activity Index vs. Home Price Performance 2006–2011



Source: Freddie Mac and Philadelphia Federal Reserve Bank

different from the trends following both the 1990–91 and 2001–2002 recessions, when the Commonwealth trailed the nation's recovery by a substantial margin. What is different this time around? For one thing, Massachusetts has benefited from its dominance in higher education, healthcare, information services, and even the leisure and hospitality industry. Regions of the country where these industries are strong have fared better than others, and Massachusetts surpasses nearly all other states in at least the first two.

In addition, much of the economic downturn in other parts of the country was precipitated by a near total collapse in the housing market. Home prices fell, construction ground to a halt, and homeowners saw so much of their housing assets disappear that they cut back on their consumption. As this ricocheted throughout state economies, economic activity slowed and jobs disappeared. **Figure 1.14** shows the change in average home prices in each state between June 2006 and July 2011. Note the big losers: Nevada, Arizona, Florida, California and Idaho.

Figure 1.15 compares the change in home prices in each state with the percentage change in their economic activity index. There is a clear correlation between the two with economic activity generally falling further in states with the largest declines in home prices. It is possible that the causation runs from a decline in economic activity to a decline in home prices, but in almost all states the home price collapse preceded the steep decline in the economy. Most likely there is a strong "feedback loop" between the two so that home prices and overall economic performance affect each other, creating a "vicious circle" in states such as Nevada, Arizona and Florida.

Near-Term Economic Prospects

With recent performance as prelude, what is likely to happen in the Massachusetts economy over the next year? The short-term prospects for the last six months of 2011 look reasonably good, according to forecasts published in *Massachusetts Benchmarks*.[22] As **Figure 1.16** suggests, since the second quarter of 2010, the growth in real output in the Commonwealth has exceeded GDP growth in the nation, with Massachusetts pulling further and further ahead of the country.

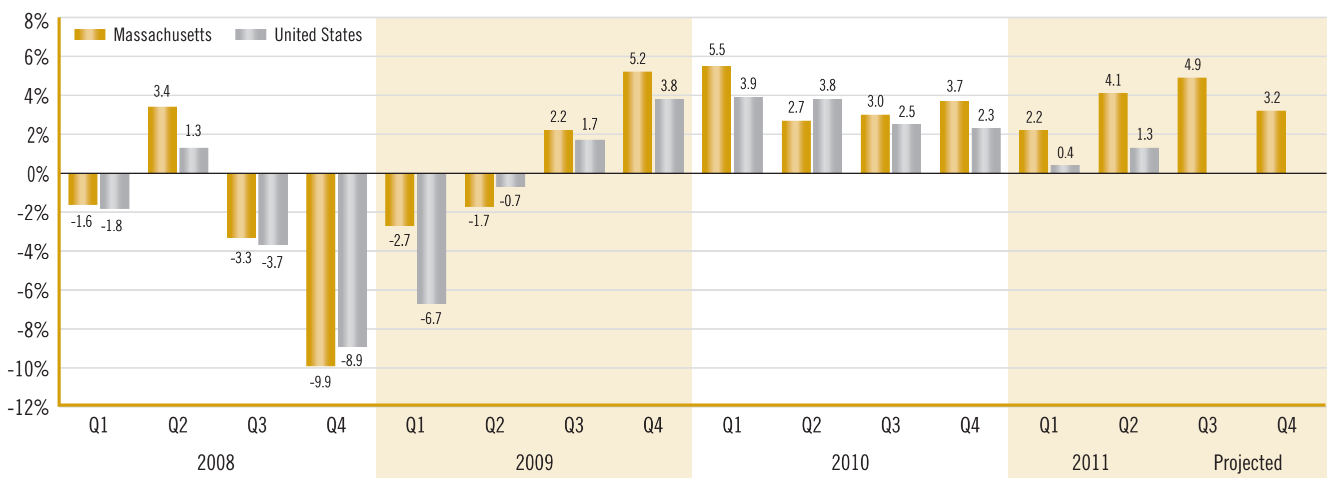
Based on the Benchmark's forecasting model, Massachusetts is poised to experience economic growth of 4.9 percent in the third quarter of this year and to finish the year with a 3.2 percent growth rate in the fourth quarter. This would truly be buoyant growth and would suggest that the state has avoided, at least for the present, a double-dip recession. Whether the nation can avoid this economic outcome is still very much in doubt. With such economic activity in the state, employment should continue to expand and the unemployment rate might decline to no more than 7 percent by early next year.

But there are a critical number of potential flies in the ointment. The first is that this optimistic forecast is based on what appears to be surging payroll numbers in the state. These figures come from a survey of Massachusetts *employers* carried out each month. If, on the other hand, one looks at the nation's monthly survey of *households*, the spectacular increase in employment looks quite different. According to the employer survey, Massachusetts added 12,700 jobs in July 2011. According to the national household survey (which include self-employed workers), the number of employed Massachusetts residents fell by 15,200 in that month and grew by just 400 in the first seven months of the year altogether. Both surveys are samples and thus are subject to considerable error. If the truth lies somewhere between these disparate estimates, then Massachusetts still outperformed the nation by a substantial margin, but neither the nation nor the state grew as much as estimated. According to results published in *Massachusetts Benchmarks*, economic growth in the Commonwealth over the first half of 2011 may be overstated by as much as a full percentage point. This still makes Massachusetts look very strong, but not strong enough to sustain a trajectory toward full employment, rising wages or rising household incomes.

Adding to pessimism about the coming year is the "leading index" for Massachusetts. Composed of 10 indicators

FIGURE 1.16

Growth in Real Product, Massachusetts vs. U.S.



Source: Mass Benchmarks

including employment, withholding taxes, sales tax revenue, motor vehicle sales taxes, the unemployment rate, consumer confidence, interest rates and a stock market index, the leading index has been falling since May 2011. A number of these indicators have declined in recent months due to a series of downside risks posed by the debt crisis in Europe, the federal budget crisis in the U.S., continued high and perhaps rising unemployment elsewhere in the nation, continued weakness in the nation's housing market, and the effects of all of these on consumer spending, business hiring and investment.[23]

Of course, Massachusetts is not an island. No matter how much the state has positioned itself to take advantage of expanding industries, the Commonwealth is subject to headwinds created at the national level and on the global stage. In the current economic and political climate, Washington has come close to declaring unilateral disarmament in the face of a renewed economic crisis. The White House-Congressional agreement on the debt ceiling limit has constrained federal fiscal policy in such a way that it has little room to stimulate the economy. The Federal Reserve Bank has vowed to keep interest rates low through 2013, but low interest rates do not seem a sufficient spur to higher investment spending by big business, small business or households. It is hard to discern what institutions or what economic factors might help revive the economy. In this environment, it is not clear how long Massachusetts can continue to see improvement in economic activity or in employment.

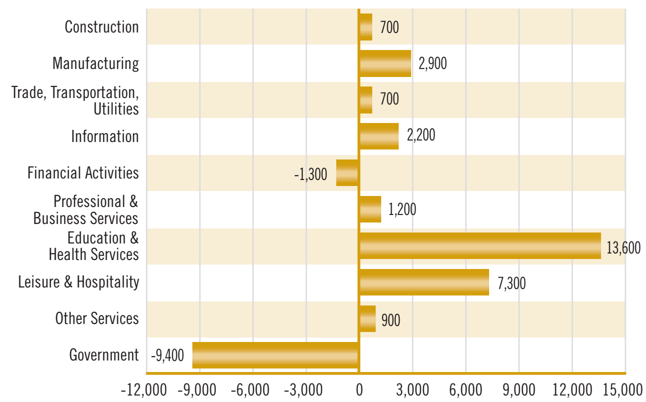
The Greater Boston Economy

The Greater Boston metropolitan area has served as the main generator of jobs in the Commonwealth over the past year. Between May 2010 and May 2011, total non-farm employment in the state increased by 24,600. Of these, Greater Boston was responsible for 21,500 or 87.4 percent, despite the fact that the metro area represents only 76 percent of total state non-farm employment.[24] Within Greater Boston, two sectors were overwhelmingly responsible for job growth as shown in **Figure 1.17**. These were Education and Health Services and Leisure and Hospitality. Taken together, these two created 97 percent of the net employment growth in the metropolitan area. Note that government employment in the region declined by more than 9,000, a drop of 3 percent from May 2010.

Continued growth in these two sectors will be critical to the future of the region. Whether the drive for health care cost containment and the difficulty families are having in paying for higher education will begin to erode growth in this super sector will help determine how well Greater Boston fares in the near future. The ability to continue to attract convention traffic and tourists to the city will play a critical role as well since these fuel the local leisure and hospitality industry.

FIGURE 1.17

Greater Boston Employment Growth by Industry Sector May 2010–May 2011



Source: U.S. Bureau of Labor Statistics

Conclusion

With the relative improvement in economic activity and employment in Massachusetts and particularly in Greater Boston, it would not be surprising to find that home prices stabilized in the region during the past year and that rents remained stable or rose. What is harder to predict is what will happen in 2012 and thereafter. With the nation's housing market still in disarray, despite low mortgage rates, the national economy continues to suffer a major disability. With the overall domestic economy growing only slowly and the global market unstable, it is unclear how much longer Massachusetts and Greater Boston can push against the tide. A double-dip recession will add considerable downward thrust to an economy that has yet to pull out of the Great Recession. The "feedback loop" between the health of the housing market, the strength of the domestic economy and world economic events is alive and well, and at the present time, the loop looks very much like a vicious cycle rather than a virtuous one.

2.
Housing Supply in Greater Boston

The growth in the available housing stock in the nation as a whole is heavily influenced by the state of the economy. Normally, during periods when the economy is flourishing, developers come forward to provide new housing to meet increased demand. When the economy weakens, housing production slows as developers are wary of building units that will remain unsold or not rented. As we noted in Chapter 1, residential construction is such a large share of total national output that there is a feedback loop between economic growth and housing production. A weak economy drives down housing production; a reduction in housing production further weakens the economy.

At the municipal level, the state of the economy is certainly one factor that determines residential construction. The City of Detroit has almost no new housing construction given the existing excess supply in an economy characterized by massive unemployment. When Las Vegas was booming and attracting thousands of new families seeking jobs in the city's resort casinos and associated industries, there was a boom in housing construction.

But local zoning ordinances and building codes often affect construction as well. Cities and towns with restrictive zoning have seen much less construction than municipalities with zoning that encourages development.

From the perspective of providing an effective supply of housing, the amount of new construction and housing rehabilitation is, of course, the dominant factor. Yet in times when foreclosures are on the rise, the total supply of units on the market is augmented by the level of foreclosure activity. When a new unit of housing comes on the market, supply goes up. When an existing unit of housing comes on the market because a family loses its home to foreclosure, the supply of unsold units is further increased. In normal times, production dominates. Since 2005, foreclosures have added many more units to effective supply than new construction. In this chapter, we look at both.

The Trend in Housing in Housing Permits

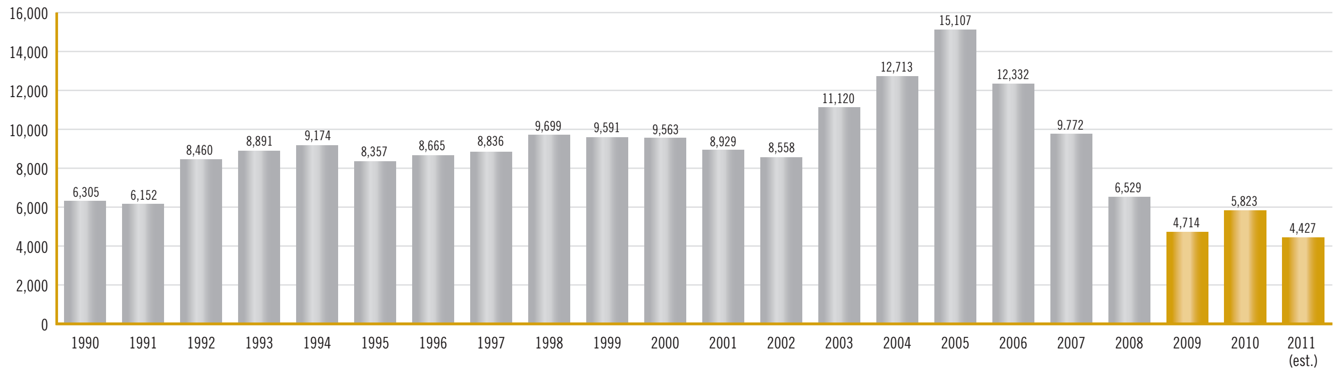
In last year's *Greater Boston Housing Report Card*, we predicted on the basis of permitting data available for the first half of the year that 5,500 new housing units would be added to the stock of housing in Greater Boston in 2010.[1] With the exception of 2009, that would mark the lowest total since at least 1990. By the end of the year, as shown in **Figure 2.1**, it turned out that the five counties in the region issued a total of 5,823 permits for new units. That represented an improvement of nearly 24 percent over 2009, but equaled only a little better than half (52%) the average annual number of permits issued between 2000 and 2007 and the second lowest total in at least two decades.[2]

Since last year, developers are on a trajectory in 2011 to pull even fewer permits, making this year's housing production performance the poorest in at least two decades. Indeed, based on data for the first six months of the year, we project the total number of permits issued in all of Greater Boston will sink below 4,500. This is half the rate of 2000 and less than 30 percent of the recent record year of 2005. Moreover, it marks the *third year in a row* in which fewer than 6,000 permits have been pulled. With the exception of a small rebound in 2010, **Figure 2.1** makes it clear that Greater Boston has been on a six-year path toward ever lower production levels. Clearly, the continuing weakness of the economy has kept developers from considering new production despite the apparent improved prospects of the Massachusetts and Greater Boston economies. Such little production of housing has, in turn, taken its toll on the economy and especially on the local construction industry.

The decline in housing production has been most severe in multi-unit buildings as shown in **Table 2.1**. Between 2005 and 2009, the number of permits for single-family homes declined by nearly 62 percent, but this was eclipsed by the 72 percent decline in two-to-four unit buildings and by 75 percent in larger buildings with five units or more. Essentially, apartment construction collapsed. Given our estimates for 2011, this same pattern has prevailed over the last year. Single-family

FIGURE 2.1

Number of Housing Permits Issued in Greater Boston, 1990–2011 (est.)



Source: U.S. Census Building Permit Survey for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties.

TABLE 2.1

Single-Family and Multi-Family Building Permits in Greater Boston, 2000 to 2011

Year	Total Units	% Change over Prior Year (Total Units)	Units in Single-Family Structures	% Change from Prior Year (SF Units)	Units in 2–4 Unit Structures	% Change from Prior Year (Units in 2–4 Unit Structures)	Units in 5+ Unit Structures	% Change from Prior Year (Units in Buildings with 5+ Units)
2000	9,563		6,376		660		2,527	
2001	8,929	-6.6%	5,604	-12.1%	642	-2.7%	2,683	6.2%
2002	8,558	-4.2%	5,531	-1.3%	709	10.4%	2,318	-13.6%
2003	11,120	29.9%	5,290	-4.4%	1,067	50.5%	4,763	105.5%
2004	12,713	14.3%	6,222	17.6%	985	-7.7%	5,506	15.6%
2005	15,107	18.8%	6,552	5.3%	991	0.6%	7,564	37.4%
2006	12,332	-18.4%	4,910	-25.1%	1,180	19.1%	6,242	-17.5%
2007	9,772	-20.8%	4,139	-15.7%	636	-46.1%	4,997	-19.9%
2008	6,529	-33.2%	2,682	-35.2%	376	-40.9%	3,471	-30.5%
2009	4,714	-27.8%	2,507	-6.5%	278	-26.1%	1,929	-44.4%
2010	5,823	23.5%	3,057	21.9%	340	22.3%	2,426	25.8%
2011 (est.)	4,427	-24.0%	2,619	-14.3%	166	-51.2%	1,642	-32.3%
% Change, 2000–2005	58.0%		2.8%		50.2%		199.3%	
% Change, 2005–2009	-68.8%		-61.7%		-71.9%		-74.5%	
% Change, 2009–2010	23.5%		21.9%		22.3%		25.8%	
% Change, 2010–2011 (est.)	-24.0%		-14.3%		-51.2%		-32.3%	

Source: U.S. Census Building Permit Survey for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties

Note: The estimates of 2011 housing permits were produced by calculating the ratio of 2010 housing permits issued from January to June and applying this ratio to the data from January to June in 2011.

production is forecast to decline by 14 percent from 2010, while production in two-to-four unit buildings will be down 51 percent and the number of permits in larger residential complexes down by nearly a third (32%). As we will see in Chapter 3, the collapse of multi-unit production has contributed to a sharp reduction in rental vacancy rates and an increase in rents.

The Changing Location of Housing Production in Greater Boston

Over the past two decades, there has been a shift in where housing is being produced within the Greater Boston region. As **Figure 2.2** demonstrates, in the early 1990s, nearly all of the housing permits issued in the five-county Greater Boston area were outside of Suffolk County—essentially outside the City of Boston. Of the 41,000 permits issued between 1991 and 1995, fewer than 1,100 or just 2.7 percent of the total was issued in Suffolk County. Middlesex County accounted for nearly 38 percent of all permits during that five-year period with Essex, Norfolk and Plymouth each with about one fifth (18.8% – 21.4%) of the total. Over the three succeeding five-year periods, Suffolk County's share of the total has been increasing steadily so that between 2006 and 2010, its share had increased to more than 12 percent. Housing production has shifted away from Essex, Middlesex and Plymouth Counties while Norfolk has more than held its own. This is consistent with demographic trends which show that the population of the City of Boston has increased by 44,000 over the past two decades from roughly 574,000 in 1990 to 618,000, according to the recently released 2010 Census.[3] Housing demand is slowly but surely shifting from the suburbs to the Greater Boston's central city.

2010 Housing Production by Type and Location

To provide more detail on where housing production is now taking place, we examined housing permit data for 2010 for the 161 cities and towns in Greater Boston (**Table 2.2**).[4] While overall production in the region was very low, Concord ranked first with 386 permits, followed by Boston (351), Stoughton (245), Cohasset (239) and Plymouth (223); only five towns out of the top 15 in 2009 also made it to the top 15 list in 2010, including Boston, Billerica, Tyngsborough, Randolph and Newton. Cohasset and Chelsea made it to the top 15 almost entirely because of the number of multifamily units the two cities approved (240 out of 245 and 112 out of 112 respectively). Newton (ranked 13), Westford (ranked 14) and Lexington (ranked 15), on the other hand, issued most of their permits to single-family structures (82 out of 96, 80 out of 90, and 71 out of 83 respectively). Winthrop is the only town that did not issue any permits at all in both 2009 and 2010.

As for single-family units, Plymouth issued the largest number of permits (132), followed by Billerica (96), Newton (82), Westford (80) and Concord (78); almost half of the municipalities (7) that made it to the top 15 in 2009 also appeared in the top 15 in 2010. Noteworthy is Plymouth, which issued the most permits for single-family structures between 2005 and 2008, coming back to first place after its relative weak performance in 2009 (27, ranking 33rd). At the bottom of the list, Medford and Winthrop once again issued no such permits.

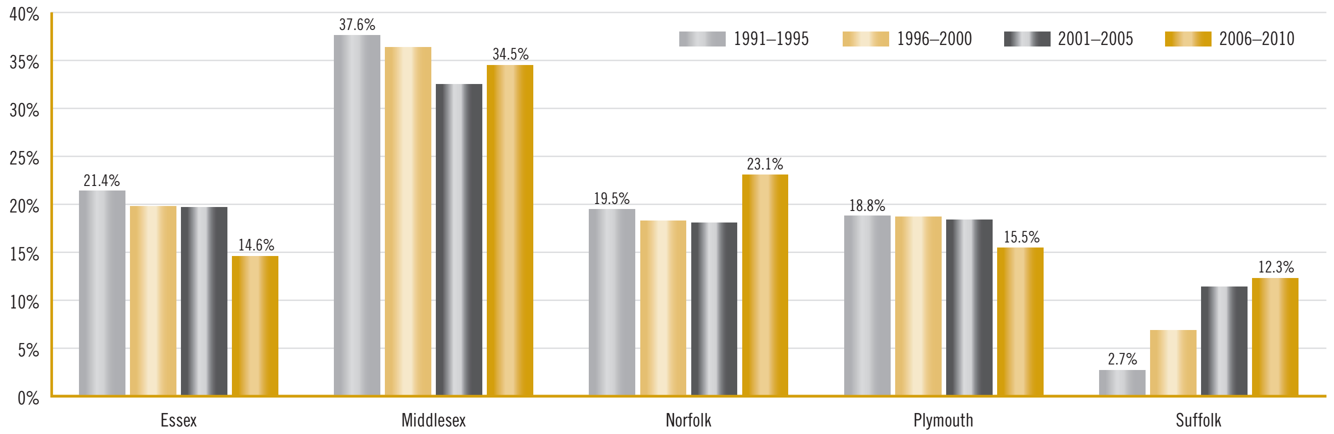
As for multi-family developments, Concord issued the largest number of permits (308), followed by Boston (264), Stoughton (240), Cohasset (166) and Wareham (160). Four municipalities made repeat performances to the top 15 including Boston, Chelsea, Randolph and Billerica. Cohasset and Chelsea, as mentioned above, issued almost all of their permits to units in multi-family structures. Within the region, 125 municipalities—more than three-quarters of the 161—did not approve any multifamily housing, close to the 128 municipalities in 2009 and 122 in 2008. As such, only a small proportion of communities in Greater Boston are responsible for all new housing construction.

Comparing Boston to Other Metro Areas and to the Nation

While Greater Boston is on pace to produce fewer housing units in 2011 than in any year since at least 1990, one may wonder how the rest of the country is doing. As indicated in **Figure 2.3**, a number of metro regions including Phoenix, Miami, Las Vegas and Minneapolis have all experienced a drop of more than 80 percent in housing production since 2005. Boston, New York, Seattle and Raleigh all experienced a

FIGURE 2.2

Percentage of Housing Permits Issued by County in Greater Boston



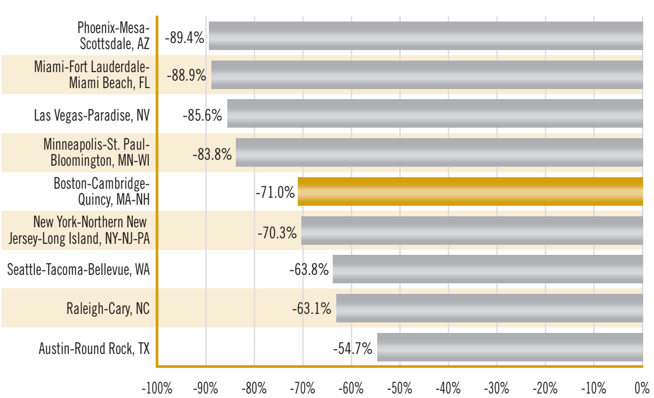
Source: U.S. Census Building Permit Survey for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties.

decrease between 60 percent and 75 percent over this period. Austin, in comparison, is the only metropolitan area among the selected nine that suffered a decrease of less than 60 percent (54.7 percent).

While this puts Boston in the middle of the nine-metro area pack in 2011, it actually reveals deterioration from 2010 when it had the smallest decline in permit activity of all. New York, Seattle, Raleigh-Durham and Austin appear to have weathered the housing collapse a bit better than Boston over the past year. This is perhaps not surprising given the dismal production numbers we have witnessed in our region since the beginning of 2011.

FIGURE 2.3

Percent Change in Building Permits for Selected Metropolitan Areas, January through June, 2005-2011



Source: U.S. Census Bureau, Annual New Privately-Owned Residential Building Permits

Foreclosures

Housing supply is not only affected by construction, but by foreclosure. When a household loses its home to foreclosure, it adds another unit of housing onto the housing market. The crisis in the housing market that gripped the entire nation at the end of the last decade was driven, in large part, by a massive wave of foreclosure activity, as hundreds of thousands of homeowners (first those with subprime mortgages, and later those with conventional loans) fell behind on their payments and were issued foreclosure petitions by their mortgage companies or banks. Greater Boston was no exception to this trend, as evidenced by the data on annual petitions to foreclose on single-family homes, presented in **Figure 2.4**. The number of foreclosure petitions in the region increased slowly between 2000 and 2003, but began its rapid escalation in 2004. From 2003 to 2004, the number of petitions nearly doubled; it nearly doubled again in 2005, and once more in 2006. By 2007, there were nearly 9,000 petitions to foreclose in the region, a figure significantly higher than the number of petitions filed during the entire period between 2000 and 2005.

TABLE 2.2

Municipalities Adding the Most and the Fewest New Housing Units in 2009 and 2010

2010 Rank	Municipality	Total Units Permitted in 2010	Total Units Permitted in 2009	Rank in 2009
Top 15				
1	Concord	386	32	47
2	Boston	351	332	2
3	Stoughton	245	2	148
4	Cohasset	239	3	143
5	Plymouth	223	32	47
6	Wareham	198	20	69
7	Wellesley	187	36	39
8	Andover	147	19	73
9	Billerica	139	106	10
10	Tyngsborough	115	115	9
11	Chelsea	112	44	31
12	Randolph	110	63	11
13	Newton	96	56	15
13	Westford	90	55	17
15	Lexington	83	52	18

2010 Rank	Municipality	Single-Family Units Permitted in 2010	Single-Family Units Permitted in 2009	Rank in 2009
Top 15				
1	Plymouth	132	27	33
2	Billerica	96	42	11
3	Newton	82	34	22
4	Westford	80	55	3
5	Concord	78	32	26
6	Lexington	71	39	14
7	Needham	58	51	4
8	Dracut	55	49	6
9	Taunton	55	50	5
10	Methuen	51	44	10
11	Wellesley	49	36	17
12	Acton	48	32	26
13	Burlington	47	29	28
14	Weymouth	45	20	44
15	Haverhill	44	33	24

2010 Rank	Municipality	Total Units Permitted in 2010	Total Units Permitted in 2009	Rank in 2009
Bottom 15				
145	Sherborn	4	12	95
148	Avon	3	2	148
148	Plympton	3	125	6
148	Townsend	3	43	33
151	Medford	2	0	158
151	Milton	2	33	45
153	Somerville	1	16	81
153	Wenham	1	0	158
155	Harvard	0	12	95
155	Malden	0	5	138
155	Millville	0	2	148
155	Nahant	0	3	143
155	Stoneham	0	6	128
155	Swampscott	0	1	156
155	Winthrop	0	0	158

2010 Rank	Municipality	Single-Family Units Permitted in 2010	Single-Family Units Permitted in 2009	Rank in 2009
Bottom 15				
145	Townsend	3	7	107
148	Milton	2	1	154
149	Arlington	1	2	144
149	Somerville	1	16	63
149	Wenham	1	0	157
152	Chelsea	0	0	157
152	Harvard	0	6	117
152	Malden	0	3	137
152	Medford	0	0	157
152	Millville	0	2	144
152	Nahant	0	3	137
152	Stoneham	0	6	117
152	Swampscott	0	1	154
152	Watertown	0	2	144
152	Winthrop	0	0	157

TABLE 2.2

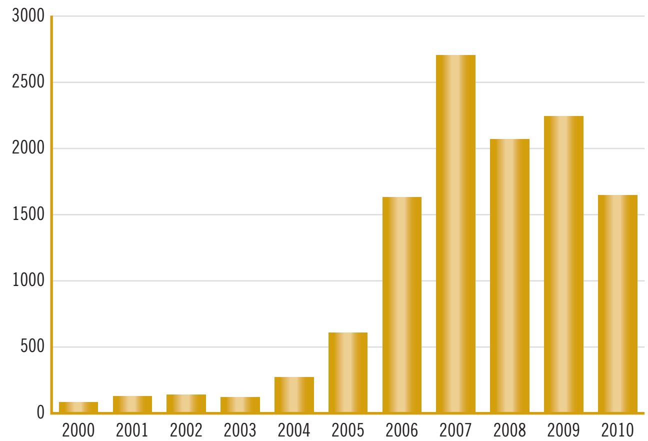
Municipalities... continued

2010 Rank	Municipality	Units in 5+ Unit Structures Permitted in 2010	Units in 5+ Unit Structures Permitted in 2009	Rank in 2009
Top 15				
1	Concord	308	0	34
2	Boston	264	235	2
3	Stoughton	240	0	34
4	Cohasset	166	0	34
5	Wareham	160	0	34
6	Wellesley	138	0	34
7	Andover	115	0	34
8	Chelsea	112	37	11
9	Tyngsborough	96	0	34
10	Plymouth	91	5	31
11	Randolph	91	52	9
12	Quincy	62	0	34
12	Saugus	58	0	34
13	Ipswich	48	0	34
15	Billerica	41	64	7

Source: U.S. Census Bureau, Annual New Privately-Owned Residential Building Permits for Places in MA.

FIGURE 2.4

Annual Petitions to Foreclose on Single-Family Homes in Five-County Greater Boston Region, 2000–2010



Source: The Warren Group

There was a moderate downturn in foreclosure activity in 2008, as a result of the state's right-to-cure law which implemented a 90-day moratorium on new foreclosure petitions in order to give delinquent homeowners an opportunity to catch up on payments. With the expiration of that moratorium, however, foreclosure activity shot back up in 2009, and it remained quite high through most of 2010.

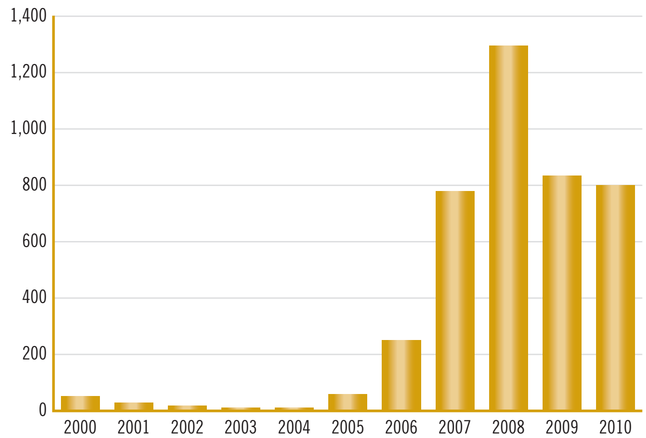
Beginning in September 2010, however, and continuing through the first half of 2011, the number of foreclosure petitions on single-family homes plummeted. Where there had been more than 600 petitions each month from late 2006 forward, monthly totals from the end of 2010 to the present have hovered around 300. Similar patterns in the rate of petitions to foreclose are evident among condominiums and homes in two-unit and three-unit structures. For all types of units, after peaking once again in 2009 and early 2010, the number of petitions to foreclose fell off substantially in late 2010 and the beginning of 2011. While the number of petitions for all types of homes remains high, recent months have seen the lowest rate of foreclosure filings since 2005, perhaps indicating a return to something resembling normalcy in the housing market sometime in the near future.

The story is different when it comes to foreclosure deeds. Not all petitions to foreclose culminate in the seizure of a property; in some cases, homeowners are able to get back on track with their payments or manage to reach a settlement with their lenders. Even in cases where a home is finally seized (as a recorded in a foreclosure deed), the process tends to take many months to complete. As a result, the trajectory of foreclosure deeds tends to lag behind foreclosure petitions. This lag is clear in a comparison of **Figure 2.5**, which tracks foreclosure deeds on single-family homes in the Greater Boston Region, with the data on foreclosure petitions in Figure 2.4. The number of petitions peaked in 2007, fell the following year, and peaked once more in 2009. By comparison, the first peak in foreclosure deeds occurred in 2008 followed by a moderate reduction the following year, and another peak in 2010.

Because of this lag, the optimistic trends seen in the trajectory of foreclosure petitions do not appear in the data on foreclosure deeds. Hundreds of foreclosures

FIGURE 2.5

Annual Foreclosure Deeds on Single-Family Homes in Five-County Greater Boston Region, 2000–2010

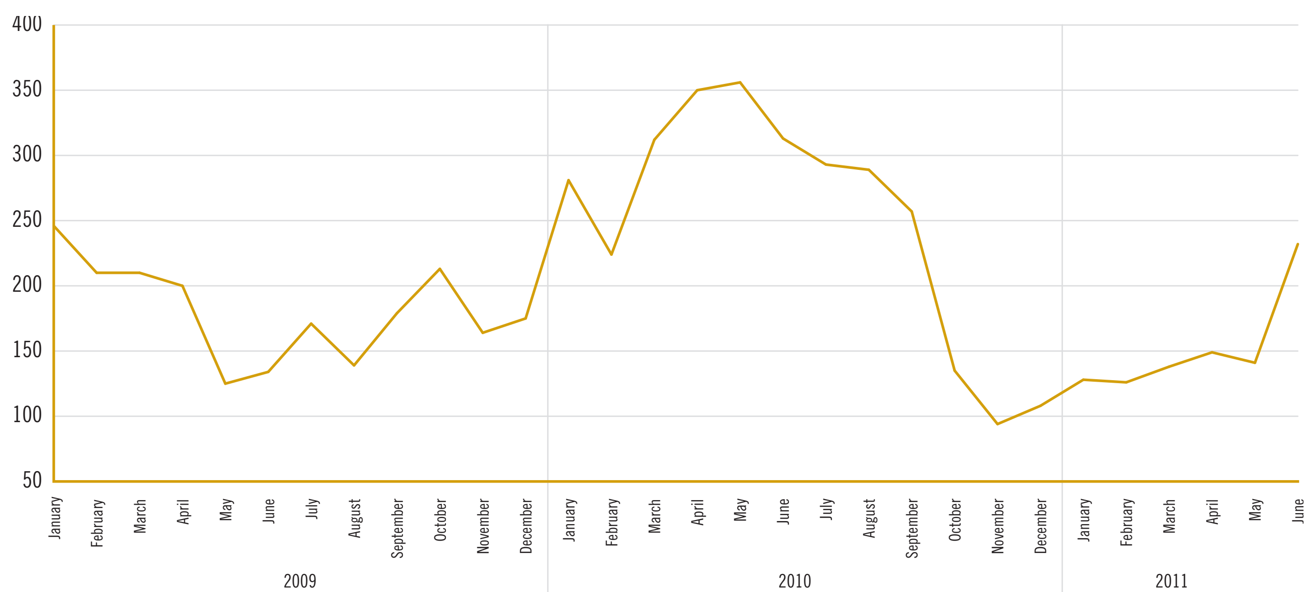


Source: The Warren Group

that were begun during the worst months of the housing crisis are still working their way through the pipeline. As a result, as **Figure 2.6** illustrates, the monthly number of foreclosure deeds has climbed steadily from a recent low of 94 in November 2010 all the way to 232 in June 2011. A similar jump has occurred in the condo market, where monthly foreclosure deeds increased from 48 in November 2010 to 112 in the following June. A more modest escalation in foreclosure deeds has occurred among homes in two- and three-unit structures. These trends indicate that, while the worst of the foreclosure crisis may have passed, Greater Boston still has a long way to go before all of the foreclosure proceedings are settled, all of the seized properties are sold and the housing market can restabilize.

FIGURE 2.6

Monthly Foreclosure Deeds on Single-Family Homes in Five-County Greater Boston Region, January 2009–June 2011



Source: The Warren Group

Foreclosures, Housing Supply, and Home Prices

Such elevated foreclosure activity ultimately affects home prices. This will become clear in Chapter 3 where we find that rising vacancy rates caused prices to fall. In this case, the higher vacancies were not due to an increase in housing production but almost exclusively due to an increase in foreclosure deeds. Indeed, the sharpest declines in single-family home prices between 2005 and 2010 occurred in precisely those neighborhoods and municipalities that suffered the most foreclosures. As **Table 2.3** reveals, Lynn, Lowell and Lawrence each had more than 100 foreclosure deeds in 2008 alone, and Randolph, Taunton, Haverhill, Revere and Dorchester all issued more than 50 deeds. By far the leader in foreclosure activity, though, was Brockton; in that city only one foreclosure deed had been issued in 2005; three years later, there were 299, nearly twice as many as the second highest city total of 167 in Lynn. Indeed, Brockton has been the site of the highest number of foreclosure deeds every year since 2007.

TABLE 2.3

Communities with the Highest Number of Foreclosure Deeds in Greater Boston, 2008

	Foreclosure Deeds in 2008
Brockton	299
Lynn	167
Lowell	142
Plymouth	120
Lawrence	102
Randolph	98
Taunton	79
Haverhill	65
Framingham	64
Wareham	64
Marlborough	61
Revere	57
Dorchester	56
Weymouth	49
Methuen	48

Source: The Warren Group

In places like Brockton, the intense concentration of foreclosed homes has led to widespread vacancy, abandonment and blight. Perhaps more significantly, it has sown the seeds of doubt in the minds of potential homebuyers, who have stayed away from these communities out of fears of further price declines. This has had the self-reinforcing effect of pushing prices down further, reducing the value of families' greatest asset, cutting down on the wealth of the community and putting even more homeowners at risk of future foreclosure. In Brockton, for example, the median home price for a single-family home is down more than 31 percent since 2004—nearly double the loss experienced in Greater Boston as a whole. Home prices in Lynn, Lowell and Lawrence are down by 28 percent, 25 percent and 28 percent, respectively.

What Does the Near Future Hold?

Given the dismal economic forecast suggested in Chapter 1, it is hard to be optimistic about housing production in the rest of 2011 or for much of 2012. Perhaps the production numbers will rebound a bit, if only for the fact that the first half of this year has seen less production than anytime over the past two decades. With so much foreclosed property on the market and few people in the market for new homes, developers are naturally anxious about investing heavily in new stock.

As we will see in the next chapter, however, while the market for single family homes may continue to be quite weak, the market for rental apartments presumably in multi-family developments may pick up in the months ahead. Vacancy rates have been falling and rents are at an all-time peak. This should provide the necessary incentive for some new badly-needed construction. Unfortunately, that is what we predicted last year as well and despite decreasing rental vacancy rates, new production declined anyway.

3.
Home Sales, Prices, and Rents in Greater Boston

Changes in home prices can be a double-edged sword. Between 2000 and 2005, the median price of a single family home in Greater Boston increased by a whopping 55 percent.[1] As we reported in our *Greater Boston Housing Report Cards* published during this period, affordability became a serious problem for many households. Businesses feared that such high prices would encourage young families to move to other metro areas with substantially lower housing costs and that such high housing prices would make it difficult to attract young families to come to Massachusetts to take jobs. Indeed, by 2004, the state was losing, on net, more than 60,000 residents per year due to out-migration.[2]

On the other hand, those who already owned homes in Greater Boston experienced a huge increase in their net worth and, as we noted in Chapter 1, this contributed to an increase in household consumption that helped to increase local economic activity and create jobs. No doubt the improvement in the region's economy and its salutary effect on employment growth is at least partially due to this "wealth effect."

Falling home prices also have both a positive and a negative effect. Lower prices can mean greater affordability for first-time homebuyers or those in the market for a second home, at least as long as prices fall faster than incomes. In normal times, this could make it easier for families of moderate means to join the ranks of homeowners.

But the negative effects of steeply falling home prices can be devastating to a local economy and to the housing market itself. With large numbers of homeowners underwater with the value of their mortgages exceeding the new lower value of their homes, it is difficult for homeowners to refinance their homes even as interest rates fall. Those well underwater may walk away from their mortgages, creating a glut of real estate owned homes (REOs) on the market, leading to a deflationary cycle of lower and lower prices. As a result of lower home values, a negative wealth effect can take hold, reducing household consumption and, as we have seen, contributing to a sustained economic recession.

As such, the best outcome is when housing demand and housing supply remain in rough balance so that home prices do not skyrocket nor plummet. Precisely the opposite has occurred in most regions of the country over the past decade. Home prices exploded between 2000 and the middle of the decade and then fell sharply. In metro areas in states such as Nevada, Florida and Arizona, the result has been calamitous, leading to massive foreclosure, a sharp curtailment in household consumption and business investment, and double-digit unemployment rates.

In Greater Boston, the result has been less than calamitous, but nonetheless painful for those who lost a home to foreclosure, lost home value that might have been needed for retirement or lost a job as a result of the housing market's effect on the economy and the job market. Ironically, the decline in home prices in Greater Boston also adversely affected renters. With families facing foreclosure, they entered the rental market. Young families that would have moved from rental housing to homeownership deferred their purchase, remaining in rental housing. As a consequence, demand for rental units increased, sending rents to record levels.

This chapter will review what has happened to home prices and rents, particularly since the beginning of the Great Recession.

Housing Supply and Demand

For the most part, home prices are determined by the same factors that determine most other prices: supply and demand. When demand surges ahead of supply, we get a "sellers' market" because potential buyers compete for homes, often driving up prices. When supply exceeds demand, the opposite occurs. A "buyers' market" develops where nearly everyone trying to sell a home is in implicit competition with other sellers seeking a scarce set of buyers. Prices, as a result, fall.

It is not easy to observe housing demand per se. Even the number of presumed buyers is often not an accurate reflection of real demand because some are serious about finding a home and others are just "window-shopping." Housing supply is not easy to measure for a similar reason. Some homeowners absolutely need to sell their properties while others are willing to allow their homes to remain on the market, sometimes for years without budging on price. In this case, it may not be accurate to consider such homes as being on the market even if there is a "For Sale" sign on the front lawn.

As a result, what is commonly used to measure the relative amount of supply and demand in the housing and rental markets are vacancy rates. When housing demand exceeds housing supply, excess inventory is generally absorbed by home sales and vacancy rates decline. When demand falls, vacancy rates tend to increase as the level of unsold inventory rises. Prices have been shown to move roughly in concert with vacancy rates, rising as vacancy rates fall and declining as vacancy rates rise.

Homeowner Vacancy Rate

As we have noted year after year, Greater Boston has been perpetually among the most expensive regions of the nation where one might purchase a home. A number of important factors contribute to the continually high cost of housing in the region, but the statistic that sums up all of these is the region's apparently intractable low homeowner vacancy rate.

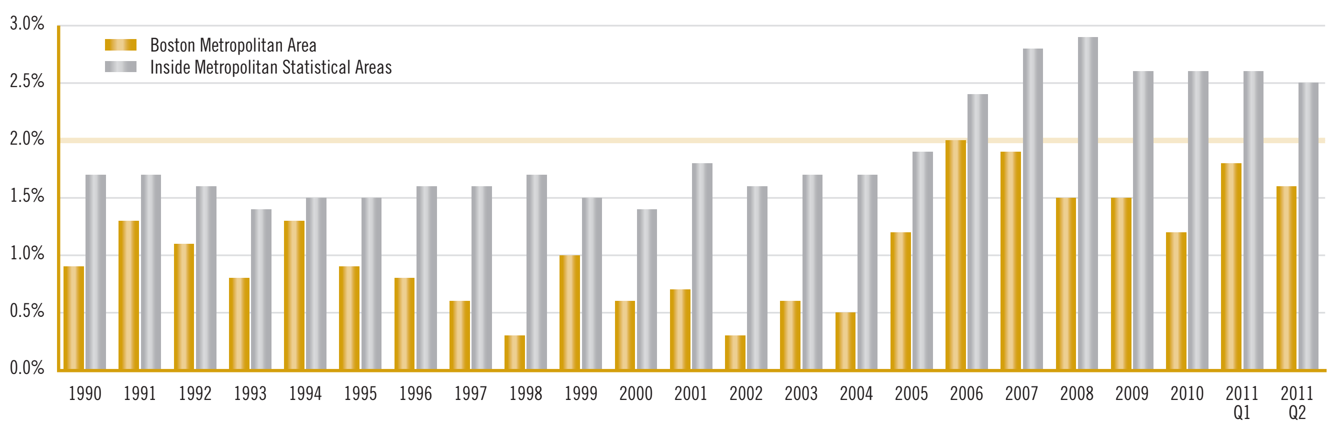
Historically, new home construction has lagged demand in Greater Boston for a variety of reasons, including zoning restrictions. With demand exceeding the resulting supply, vacancy rates remained low. Nationally, a vacancy rate of 2 percent is generally considered normal. At such a rate, home prices tend to stabilize.[3]

For all intents and purposes, Greater Boston's homeownership vacancy rate has been below the 2 percent national standard since at least 1990 as shown in **Figure 3.1** and at least for the past 20 years it has been well below the average for metro areas around the country. Indeed, by 1998 it reached a remarkable low of just 0.3 percent and from 1995 through 2004, it never exceeded 1.5 percent. Not surprisingly, with demand so exceeding supply, home prices soared. Only in 2006 did the region's vacancy rate hit 2 percent and this was enough to begin sending home prices down.

Since then and through 2010, vacancy rates declined modestly so that Greater Boston's home prices fell, but not nearly as much as in other metro areas. Once again, however, the vacancy rate has been inching upward so that by the first quarter of 2011, the vacancy rate once again exceeded 1.5 percent. As we will see, this increasing rate has led to another softening in the region's home prices.

FIGURE 3.1

Homeowner Vacancy Rates, Greater Boston vs. U.S. Metro Areas 1990–2011



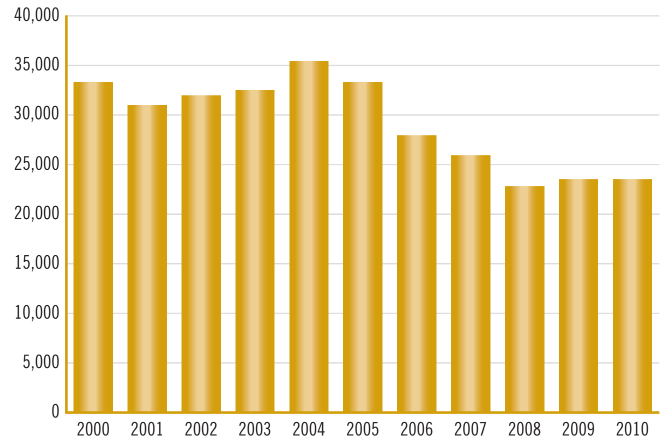
Source: U.S. Census Bureau, Quarterly Vacancy Survey

Figure 3.1 also demonstrates why the housing crisis has been so severe in other parts of the nation. The average vacancy rate for all U.S. metropolitan areas virtually doubled from under 1.5 percent in 2000 to just below 3 percent in 2008. In some metro areas, vacancy rates shot up between 2005 and 2009 well beyond 3 percent, leading to sharp reductions in home prices. Orlando, Florida, experienced a 3.8 percentage point *increase* in its vacancy rate; Greensboro-High Point, North Carolina, saw its rate climb by 3.5 percentage points, while a number of communities in California experienced increases of 2.8 points.[4]

By comparison, Greater Boston fared quite well. In 2006, its vacancy rate was 0.4 percentage points *lower* than the national metro area average. By 2010, the gap was nearly 1.5 percentage points, a disparity seen in only one other year (1998) over the past two decades.

FIGURE 3.2

Annual Single-Family Home Sales in Five-County Greater Boston Region, 2000–2010



Source: The Warren Group

Home Sales Volume

In last year's *Housing Report Card*, we noted optimistically that 2009 marked the first year in half a decade in which the number of single-family home sales in Greater Boston rose over the previous year. It seems now that such optimism was premature. While home sales did accelerate through the first half of 2010, the second half of the year saw such a renewed downturn that the annual home sales figure for 2010 was actually lower than in 2009. In fact, with only 23,478 homes sold throughout the entire year, 2010 was the second-slowest year since 2000 for single-family home sales in the five-county Greater Boston region (see **Figure 3.2**). Only two-thirds as many homes were sold in 2010 as in the recent peak sales year of 2004.

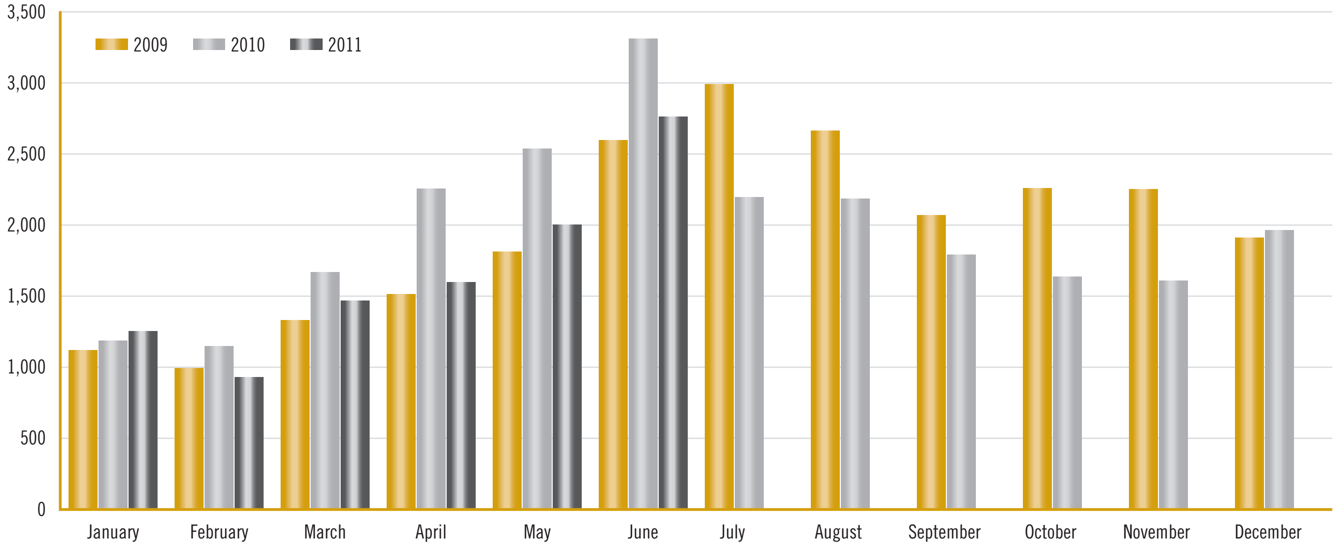
An examination of monthly sales figures can shed light on the current trend in single-family sales and help to better understand where the local housing market is headed. **Figure 3.3** presents these figures for every month going back to January 2009. Home sales move in predictable cycles—sales are always highest in the summer months and lower in the winter months. Comparing the number of sales in one month to the same month in the previous year provides a clearer portrayal of the trajectory of sales figures. In 2010, as this chart shows, monthly sales in the region exceeded their 2009 level for every month between January and June. Indeed, April, May and June of 2010 saw in excess of 700 more homes sold than in April, May and June of 2009. Thus, through mid-year, it seemed that the housing market was picking up steam.

That trend ceased abruptly in July. Compared to July 2009, single-family home sales in July 2010 were nearly 800 lower. And with only two exceptions, every month between July 2010 and June 2011 has seen monthly home sales plummet from their level one year prior. What this implies is a sudden stalling of the recovery that appeared to be underway in late 2009 and early 2010. With many other analysts, we saw what we believed to be the bottom of the housing market in the 2008 sales figures. At this point, however, the monthly sales data point toward a prolonged sluggishness, and it would be unwise to assert that the local housing market has truly found its bottom. Despite some signs of recovery last year, the market for single-family homes in Greater Boston appears still quite weak.

This conclusion is even more apt when we turn our attention to the local condominium market (see **Figure 3.4**). In contrast to the single-family home sales market, condominium sales in the region did not pick up after their precipitous drop between 2007 and 2008. Rather, they continued to fall in 2009 and 2010. Condo sales declined more than 22 percent from 2007 to 2008, fell another 6 percent from 2008 to 2009, and declined once again, by nearly 4 percent, from 2009 to

FIGURE 3.3

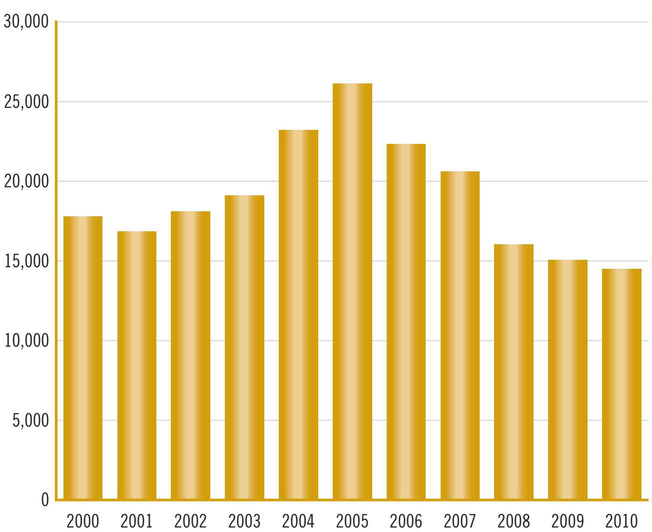
Monthly Single-Family Home Sales in Five County Greater Boston Region January 2009–June 2011



Source: The Warren Group

FIGURE 3.4

Annual Condominium Sales in Five-County Greater Boston Region, 2000–2010



Source: The Warren Group

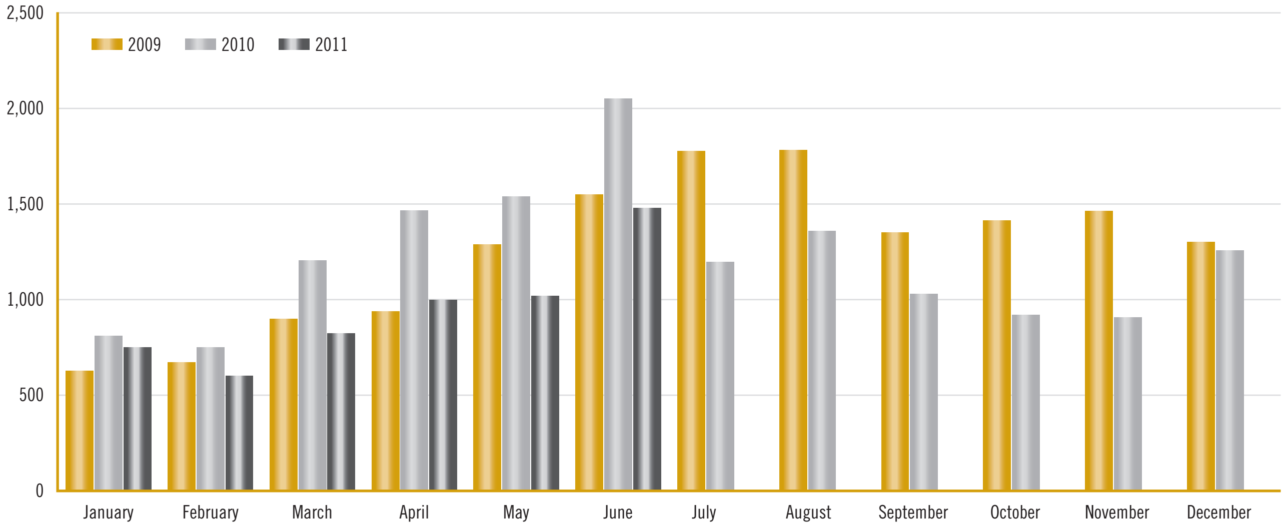
2010. Indeed, the 14,490 condos sold in the five-county region throughout 2010 were barely more than one half the annual sales total of 26,127 observed in the most recent peak year of 2005.

Just like in the single-family home market, condominium sales appeared to be picking up in the late 2009 and through the first half of 2010. As **Figure 3.5** illustrates, year-over-year monthly sales figures for condominiums were much higher for each of the first six months of 2010. However, just as single-family home sales began to drop in July 2010, so did condominium sales. Every month from July 2010 through June 2011 has seen a lower condo sales total than the same month one year prior, and in nine of those 12 months, the decline in monthly sales has been in excess of 300 units.

These trends make it likely that 2011 will mark the sixth straight year of decreased annual condominium sales in the five-county region, and will once more set a new low point for annual regional condo sales since at least 2000.

FIGURE 3.5

Monthly Condominium Sales in Five-County Greater Boston Region January 2009–June 2011



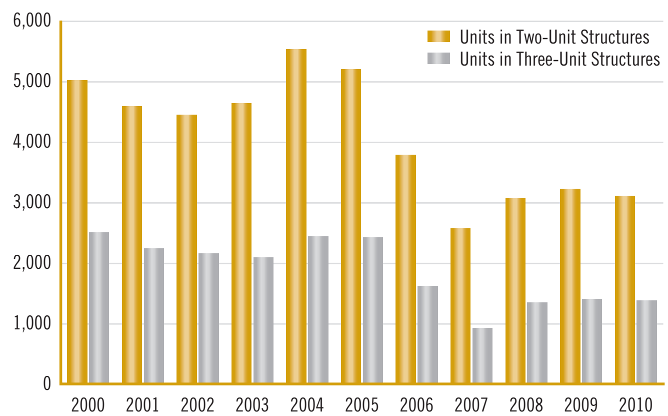
Source: The Warren Group

In last year's *Housing Report Card*, we paid greater attention to the market for homes in two-unit and three-unit structures. Although these make up a relatively small proportion of total home sales in the region, they are of critical importance in several urban communities in and around Boston, where duplexes and triple-deckers are nearly ubiquitous on residential streets. We noted that sales in these types of units had been decimated in the second half of the last decade, with sales of three-family units falling more than 61 percent between 2005 and 2007. From there, a slow recovery seemed to be underway. But, as with the trends for single-family homes and condominiums, this recovery has also stalled. **Figure 3.6** shows that, after rising slightly in 2008 and 2009, sales of units in two – and three-unit structures fell once again in 2010.

Moreover, this slowdown has continued into 2011. In January of 2011, only 75 homes in three-family structures were sold within the entire five-county region of Greater Boston. This was the lowest monthly sales total for these types of units since February 2008. Similarly, the 159 units in two-unit structures that were sold in February 2011 marked the lowest sales figure for these units in three years, and the third-lowest monthly sales total since 2000.

FIGURE 3.6

Annual Sales of Units in Two-Unit and Three-Unit Structures in Greater Boston, 2000–2010



Source: The Warren Group

Home Prices

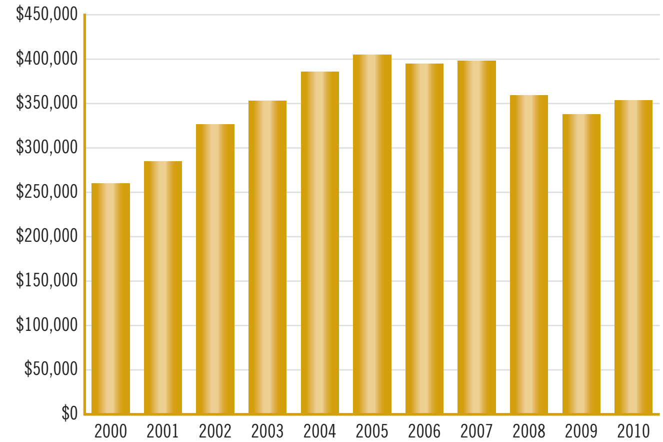
As home sales continued to suffer month after month during the most recent recession, home prices declined across Greater Boston. **Figure 3.7** shows that the median price for single family homes in the five-county region held relatively steady for two years, after peaking in 2005 at $405,000. By 2007, the median selling price had fallen only about $7,000 from that peak. Over the following two years, however, prices sank deeply. The typical price for a single-family home in 2008 was about $359,000, nearly 10 percent lower than the same figure the year before. By 2009, the median price fell to $338,000, 6 percent lower than in 2008, and nearly 17 percent lower than the 2005 peak.

As with the data on sales volume, it seemed that 2010 would mark the beginning of an upturn in home prices. Indeed, the median typical price for a single-family home rose nearly 4 percent in 2010 over 2009 levels. However, again in line with the sales volume figures, this recovery seems to have been short-lived. As the monthly data presented in **Figure 3.8** demonstrate, any price recovery has apparently stalled.

Home prices, like home sales, tend to demonstrate a fair amount of seasonality, so it is helpful to compare data from the same month across years. March 2009 marked the lowest point for home prices since 2005 (about $294,000). One year later, in March 2010, the typical price had increased more than $28,000, to almost $323,000. Yet the price increases stopped there; by March 2011, the typical price had fallen slightly,

FIGURE 3.7

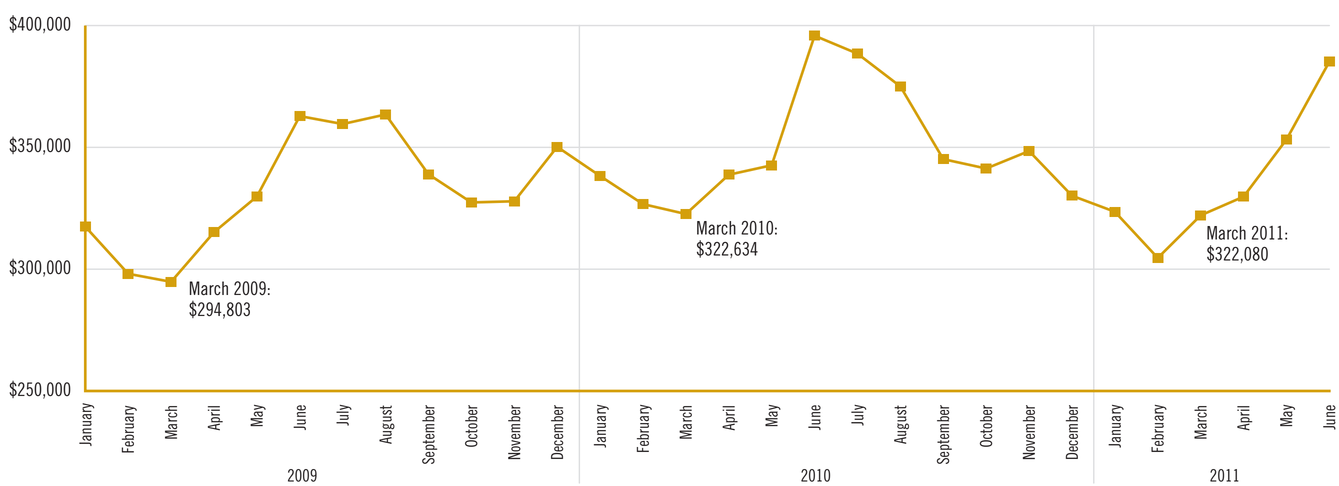
Annual Weighted Average of Median Prices of Single-Family Homes in Five-County Greater Boston Region, 2000–2010



Source: The Warren Group

FIGURE 3.8

Monthly Weighted Average of Median Prices of Single-Family Homes in Five-County Greater Boston Region January 2009–June 2011



Source: The Warren Group

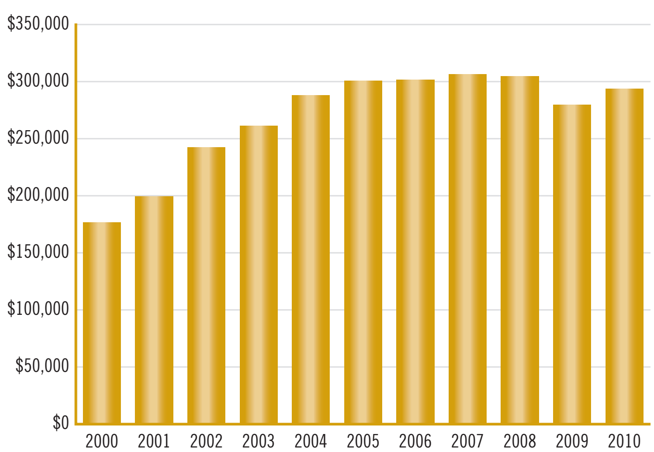
hovering at just over $322,000. Barring some unforeseeable development, it is likely that the average annual price for single-family homes in Greater Boston will end up lower in 2011 than in 2010, further evidence of a protracted sluggishness in the housing market. The median price in June 2011 was $385,176, more than $10,000 below the median price a year ago.

Prices in the condominium market have followed the same trend as in the single-family home market, but the fluctuations have been more muted. With the exception of the profound and rapid slide in prices that took place in the second half of 2008, when the typical price of a condominium in the region fell 29.4 percent over the span of seven months, condominium prices have been relatively stable over the past six years, hovering around $300,000 from 2005 through 2010 (see **Figure 3.9**). While the market showed a robust price increase between 2009 and 2010, that growth has stagnated, just like in the single-family market. But, as **Figure 3.10** shows, prices over the past year have not retreated, as they have among single-family homes. Instead, 2011 has been a period of anemic, yet noticeable, price increases in the condominium market, although the number of sales is well down from previous levels.

Encouraging signs of price stability are even more in evidence among homes in two-unit and three-unit

FIGURE 3.9

Annual Weighted Average of Median Prices of Condominiums in Five-County Greater Boston Region, 2000–2010



Source: The Warren Group

structures. This is partly due to the fact that these prices fell far more precipitously during the housing downturn than prices for single-family homes and condominiums. As **Figure 3.11** illustrates, the typical home in a three-unit building in 2009 sold for less than half as much as the typical home in a three-unit building in 2005. For homes in two-unit buildings, the comparable drop in prices was about 40 percent. Typical prices increased in 2010 over 2009 levels for both types of homes, just as they did for single-family homes and for condominiums.

What sets the two-unit and three-unit homes apart, however, is that these price increases have continued through the first half of 2011, as portrayed in **Figure 3.12**. Between June 2010 and June 2011, the typical sales price for a home in a two-unit structure went up 12.6 percent, from about $315,000 to about $355,000. Among homes in three-unit structures, prices went up 18.3 percent, from about $298,000 to about $352,000 over that time span. By comparison, over that same period, the increase in prices for condominiums was 3.9 percent, and for single-family homes 2.7 percent. Despite their continuing recovery, the prices of two—and three-unit homes are still well below their peak levels.

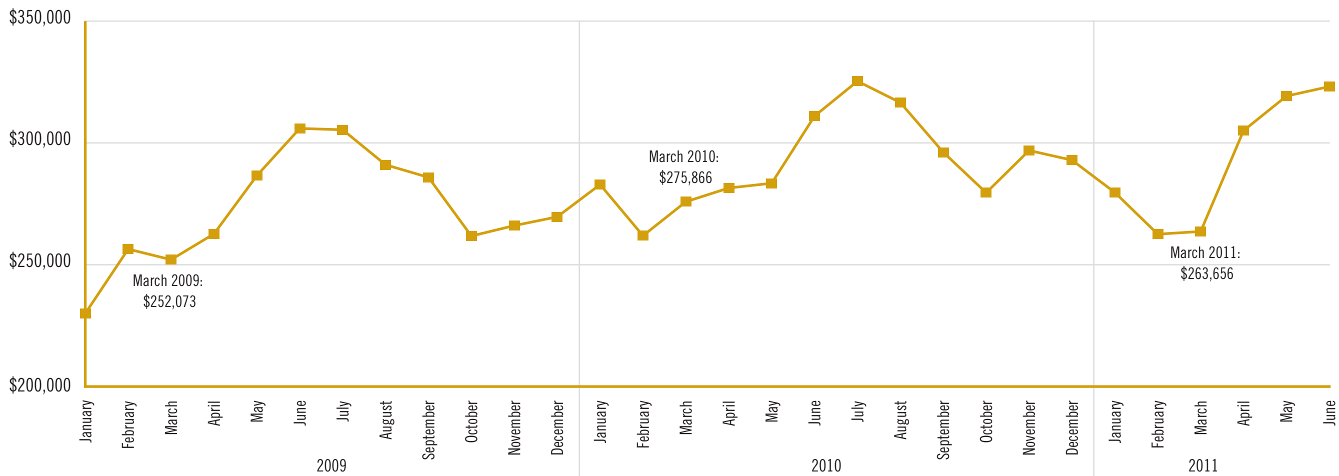
Price Volatility in Low-Income Communities

As with all aggregate quantitative data, averages tend to obscure important pieces of the story. The housing crisis has affected all types of individuals, families, communities and regions, but it has been felt most acutely by those least capable of coping with its effects. Just as this is true for poor families facing foreclosure, it is also true for disadvantaged cities and towns, which have struggled the most with the massive wave of foreclosures along with the vacancies, blight and destruction of wealth that have accompanied it.

During the boom in home prices that took place over the first half of the last decade, existing homeowners in lower-income communities benefited greatly, often seeing the average selling price of their single-family homes more than double. Over that period, the largest percentage increase in the price of a single-family home in Greater Boston was found in East Boston, where the median price rose 137 percent, from $139,500 in 2000 to $330,000 in 2005. In fact, as **Table 3.1** indicates, among

FIGURE 3.10

Monthly Weighted Average of Median Prices of Condominiums in Five-County Greater Boston Region January 2009–June 2011

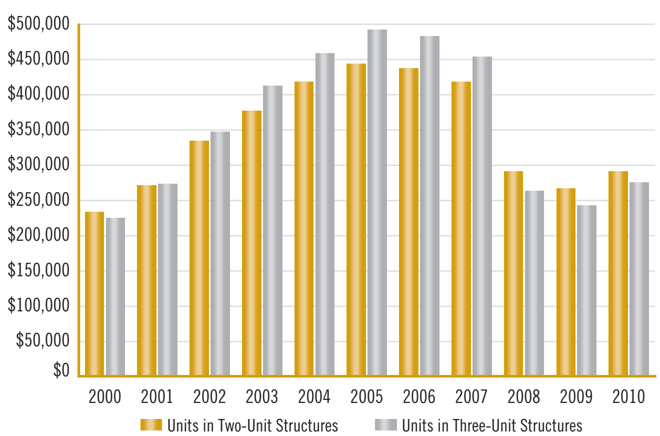


Source: The Warren Group

the 10 communities where the percentage change in prices was the highest between 2000 and 2005, four were lower-income neighborhoods in Boston (East Boston, Roxbury, Dorchester and Mattapan), and three others—Chelsea, Lawrence and Brockton—were older industrial cities that had faced difficult times for

FIGURE 3.11

Annual Weighted Average of Median Prices of Homes in 2-Unit and 3-Unit Structures in Five-County Greater Boston Region, 2000–2010



Source: The Warren Group

TABLE 3.1

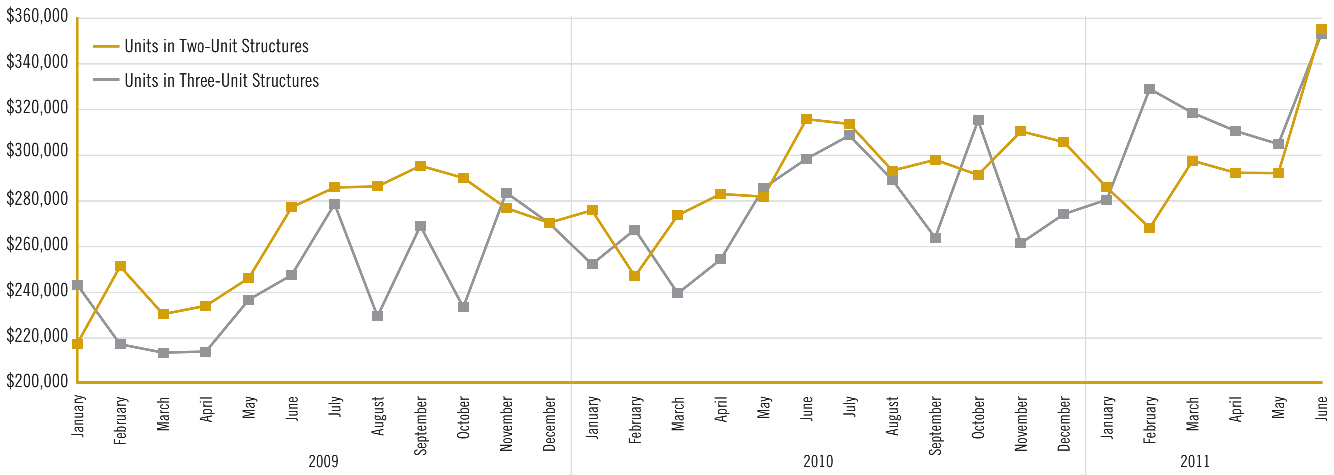
Communities with the Highest Percent Change in Median Single-Family Home Prices in Greater Boston, 2000–2005

	Median Sales Price			
	2000	2005	Change, 2000–2005	Percent Change, 2000–2005
East Boston	$139,500	$330,000	$190,500	136.6%
Roxbury	$157,500	$340,000	$182,500	115.9%
Wareham	$129,900	$270,000	$140,100	107.9%
Dorchester	$177,500	$365,000	$187,500	105.6%
Chelsea	$159,000	$323,250	$164,250	103.3%
Mattapan	$165,000	$327,000	$162,000	98.2%
Lawrence	$124,900	$247,000	$122,100	97.8%
Millville	$169,950	$331,250	$161,300	94.9%
Middleboro	$176,350	$339,900	$163,550	92.7%
Brockton	$142,900	$275,000	$132,100	92.4%

Source: The Warren Group

FIGURE 3.12

Monthly Weighted Average of Median Prices of Homes in 2-Unit and 3-Unit Structures in Five-County Greater Boston Region, January 2009–June 2011



Source: The Warren Group

decades following the industrial flight that began in the mid-20th century. While these communities did not witness the largest absolute price increases in the region (these were seen in the wealthy suburban communities of Brookline, Lincoln and Wellesley), the high percentage increases in these poorer communities represented the expansion of wealth for residents who for many years had seen little appreciation in the value of their homes. Of course, the explosion of home prices in these communities often made it difficult for younger families of modest income to buy into these communities. When they did, the subsequent decline in home prices would be devastating to many of these households as their homes lost value rapidly after 2005.

As we now know too well, the extension of mortgage lending, particularly in the form of subprime loans, had disastrous consequences in thousands of cases. Families that bought homes in these communities at the peak of the market often were the victims of mortgages they could not afford (see Chapter 4). Many homebuyers whose income declined as the economy weakened and unemployment increased—and many who likely should not have qualified for mortgages in the first place—fell behind in their loan payments, leading to a glut of foreclosures that were concentrated in these very same communities where the average

TABLE 3.2

Communities with the Highest Percent Change in Median Single-Family Home Prices in Greater Boston, 2005–2010

	Median Sales Price		Change,	Percent Change,
	2005	2010	2005–2010	2005–2010
Mendon	$485,000	$296,000	-$189,000	-39.0%
Chelsea	$323,250	$200,000	-$123,250	-38.1%
Mattapan	$327,000	$202,450	-$124,550	-38.1%
Wareham	$270,000	$169,000	-$101,000	-37.4%
Brockton	$275,000	$174,500	-$100,500	-36.5%
Everett	$350,000	$225,000	-$125,000	-35.7%
Hopedale	$387,500	$250,900	-$136,600	-35.3%
East Boston	$330,000	$216,075	-$113,925	-34.5%
Roxbury	$340,000	$225,000	-$115,000	-33.8%
Lawrence	$247,000	$165,000	-$82,000	-33.2%

Source: The Warren Group

selling price had risen so sharply over the first half of the decade. As **Table 3.2** reveals, most of the communities that had experienced the largest percentage increase in single-family home prices between 2000 and 2005 were the same ones that saw the largest price *decline* over the following five years—in large measure because of the explosion in foreclosures and newly vacant housing units.

While the single highest percentage decline occurred in the small town of Mendon, the older industrial cities of Chelsea, Brockton, Everett and Lawrence, along with the Boston neighborhoods of Mattapan, East Boston and Roxbury, all saw median single-family home prices decline by a 33 percent or more while the average decline in the entire Greater Boston region was half this rate. While price cuts were seen across almost all cities and towns in the region, they were most acute in the poorer communities where the foreclosure crisis hit most dramatically.

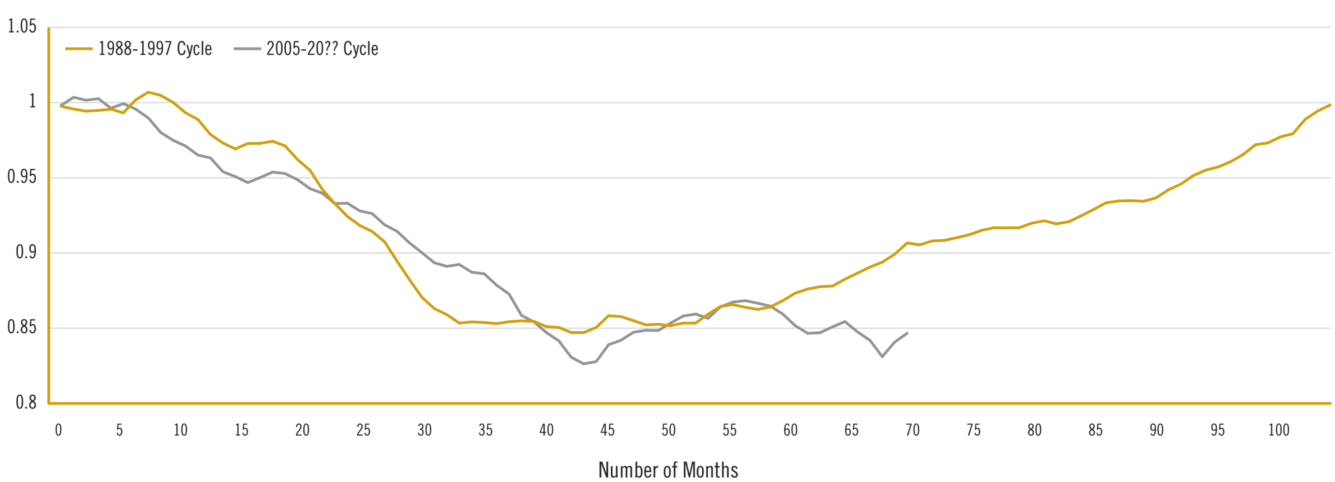
The Long-Term Trend in Housing Prices

Data from the Case-Shiller home price index permits us to look back in time to consider the current home price cycle in Greater Boston with the one that began in 1988 and continued through 1997.[5] According to these data on single family home prices, the typical home in Greater Boston lost 17 percent of its value between November 2005 and what appeared to be its trough in May 2009. This figure conforms closely with the data we have used in this chapter from the Warren Group. The last time Greater Boston went through a housing slump, the decline lasted almost exactly the same number of months (43) and the loss in home value was nearly identical (15 percent). The earlier slump began in July 1988 and continued until January 1992. As **Figure 3.13** demonstrates, once this slump ended, prices began to rebound and continued to do so. By March 1997, prices were back to their July 1988 peak. Altogether, it took 62 months—more than five years—for this recovery.

The recovery from the slump that began in November 2005 appeared to be following almost precisely the same track as the 1988–1997 cycle. If this had continued, we would have expected prices to regain their November 2005 peak by September 2014. However, as the figure reveals, after 12 months of recovery, prices began to dip again. As such, it appears less and less likely that the current home price cycle is going to mimic the old one. In this case, it is difficult to judge how much longer it might take for prices to fully recover. If they continue to "bump along the bottom," we may not see a full price recovery until very late in this decade. In this case, those who bought homes near

FIGURE 3.13

Greater Boston Housing Cycles, 1988–1997 vs. 2005–20??, Case-Shiller Single-Family Home Price Index



Source: Standard & Poor's Case-Shiller Index the peak of the cycle may remain underwater for quite some time to come.

Rental Market

With such a prospect in the homeowner market, it is time to turn to the Greater Boston residential rental market. Rents are driven by a range of factors, but like the homeownership market, among the most significant is the rental vacancy rate. When vacancy rates are rising, landlords often have to hold the line on rent or reduce what they are charging in order to keep their apartments occupied. When rental vacancy rates are falling, the opposite holds. Households compete for a limited supply of available units and therefore landlords can raise rents knowing they are likely to attract a renter even if they hike the monthly cost of a unit.

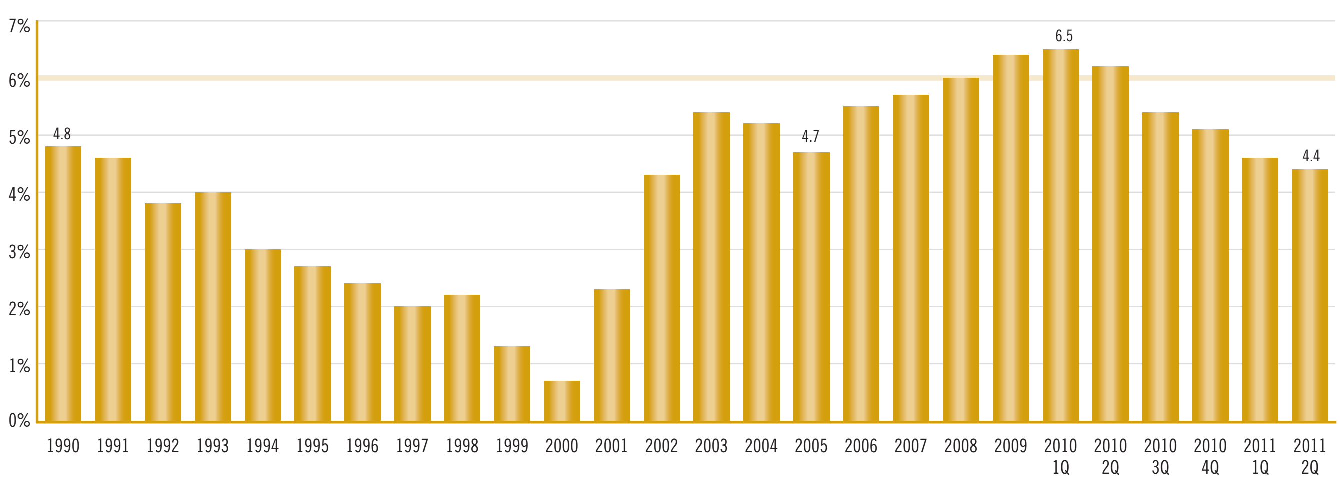
In Greater Boston, rental vacancy rates have been extraordinarily volatile for the last two decades, as **Figure 3.14** reveals. In general, rents tend to rise when the vacancy rate remains below 5 to 6 percent for an extended period of time, and they only stabilize or decline when vacancies rise above that range.[6] The further the rate falls below 6 percent, the more rapidly rents tend to increase; the further above 6 percent, the more they tend to fall.

During the entire decade of the 1990s, demand for rental units soared while the supply increased only modestly, as demonstrated in **Figure 3.15**. Over the entire decade, there was a net increase of just 6,100 rental units in Greater Boston, or 4 percent.[7] As a result, the rental vacancy rate declined from a relatively low 4.8 percent to practically zero (0.7 percent). In such an extreme sellers' market, as **Figure 3.16** demonstrates, effective rents (taking into account any and all discounts) skyrocketed from $820 per month in 1990 to $1,460 in 2000—an increase of 78 percent in a single decade. From 1994 through 2000, effective rents increased every year by 5.2 percent or more. In 2000, the vacancy rate of 0.7 percent permitted landlords to raise rents by a whopping 14.5 percent in a single year (See **Figure 3.17**).

With such a hunger for rental property, residential developers went to work constructing a substantial number of apartment buildings. In contrast to the paltry 6,100 units added to the rental housing stock during the 1990s, the period between 2000 and 2009 saw an addition of nearly 23,000 rental units in Greater Boston. Not surprisingly, the spurt in supply (plus weaker demand due to the 2000–2001 recession) caused a sharp reversal of the vacancy rate so that by early 2003, it exceeded 5 percent. The sellers' market temporarily turned into a buyers' market, and effective rents came down from their 2001 peak. For the next four years (2004–2008),

FIGURE 3.14

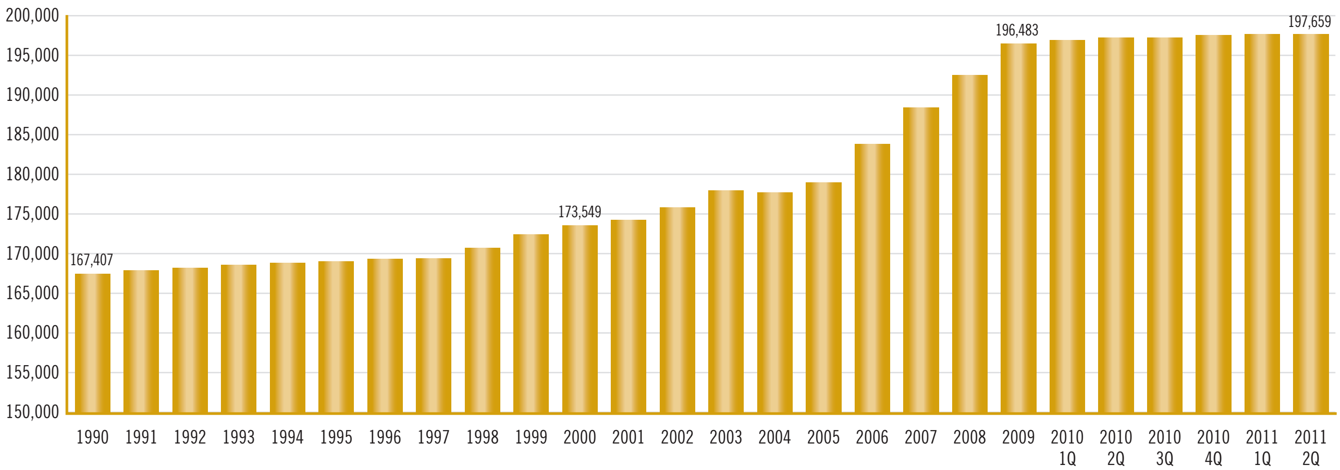
Greater Boston Rental Apartment Vacancy Rate, 1990–2011:2Q



Source: Reis Inc.

FIGURE 3.15

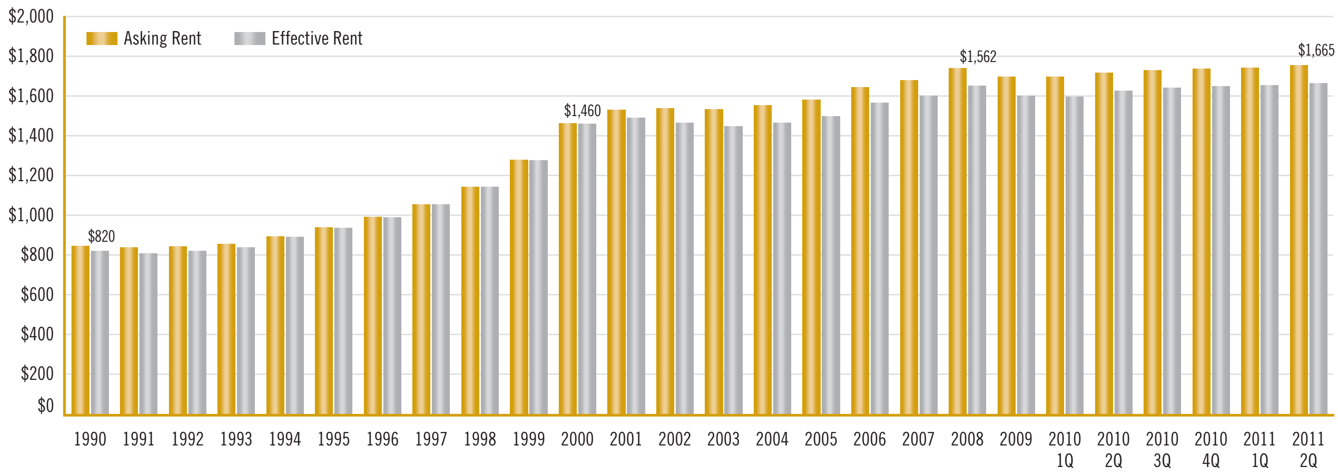
Total Apartment Units in Greater Boston, 1990–2011:2Q



Source: Reis, Inc.

FIGURE 3.16

Greater Boston Asking vs. Effective Rents, 1990–2011:2Q



Source: Reis, Inc.

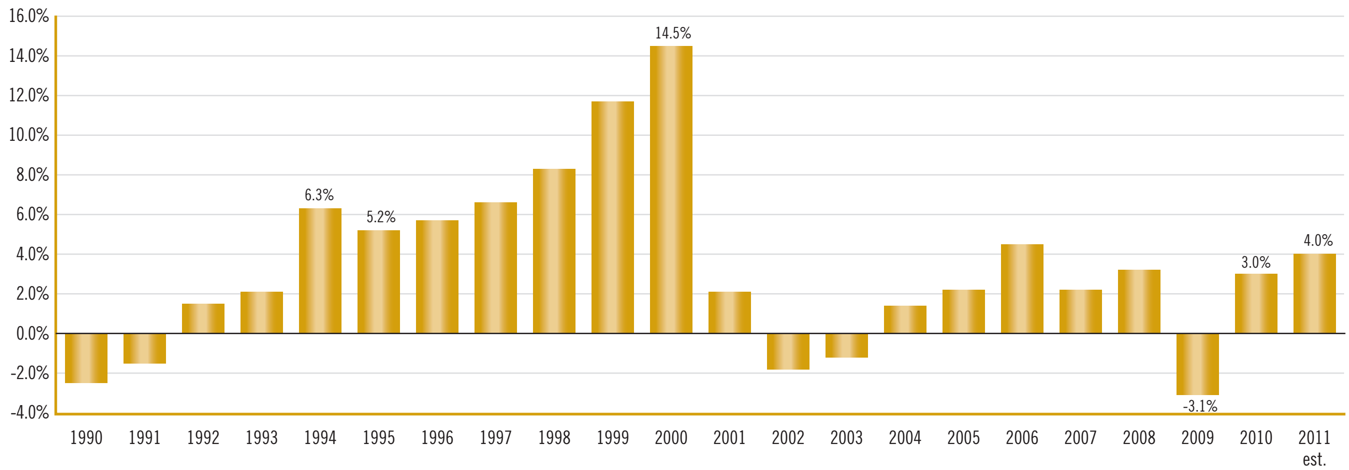
with vacancy rates between 5 and 6 percent, annual rent increases were limited to 2 to 4 percent. With the recession that began in late 2007, the vacancy rate in Greater Boston continued to rise. By 2009, the rate exceeded 6 percent for the first time in at least 20 years. Effective rents fell that year by 3.1 percent.

What Has Happened Since?

With the economy continuing to be so weak in 2010 and 2011, one would think that vacancy rates would remain high and that rents would therefore remain at relatively depressed levels. But that is not what has happened at all.

FIGURE 3.17

Greater Boston Annual Effective Rent Increases, 1990–2011 (est.)



Source: Reis, Inc.

Beginning in the spring of 2010, vacancy rates began to decline, and they continued this descent right through the second quarter of 2011. By then, only 4.4 percent of the rental housing stock in Greater Boston was vacant and a sellers' market was reemerging. If one were to only consider the weak economy, the fact that rents would *rise* by 3 percent in 2010 and another 4 percent in 2011 would make little sense.

What explains this otherwise strange behavior of rents is an intriguing story. On the one hand, supply stopped growing. Between 2009 and the spring of 2011, there was a net increase of fewer than 1,200 rental units in all of Greater Boston. At the same time, the demand for rental units increased sharply. Three factors explain this increased demand:

- A large number of households who lost their homes to foreclosure turned to the rental market, pushing up rental demand. Most families who fell victim to foreclosure did not end up homeless, but ended up competing with existing renters for rental units.
- A *decrease* in the number of younger families moving up the housing ladder from rental units to homeownership kept pressure on rental demand. Either because of tighter credit regulations or because of anxiety about buying into a housing market that might still see home prices decline, home sales plummeted. Those who did not buy homes stayed in rental units and therefore did not free up apartments for new renters.
- The continuing pressure of college students, particularly graduate students, on the rental market helped to absorb scarce supply, with a rapidly growing number of students competing with other households for rental units.

The result is that in the midst of a weak economy, the average effective rent in Greater Boston set a new all-time record of $1,665 in the second quarter of 2011. In early 2011, the price of even the typical 485 sq.ft. studio/efficiency apartment in Greater Boston reached $1,215 per month, with three bedrooms apartments averaging 1,325 sq.ft. going for nearly $2,500 (See **Table 3.3**). If the economy does not weaken considerably over the next year and

TABLE 3.3

Greater Boston Average Apartment Rents, Spring 2011

	Rent	Avg. Sq.Ft.	Avg. Rent/Sq.Ft.
Studio/Efficiency	$1,215	485	$2.51
One Bedroom	$1,583	762	$2.08
Two Bedroom	$1,887	1,076	$1.75
Three Bedroom	$2,499	1,325	$1.89

Source: Reis. Inc.

little supply is added to the rental stock, one would expect to see rents continue to remain at this new record high or perhaps move even higher. With household incomes stagnant for all but the highest earners in the region, we expect no improvement in rental affordability in the foreseeable future.

Relative Rents

For those who are not geographically mobile and must remain in Greater Boston, these rents pose a serious affordability problem. For those who are mobile, these rents pose a serious challenge to retaining the region's workforce and attracting new residents to the region.

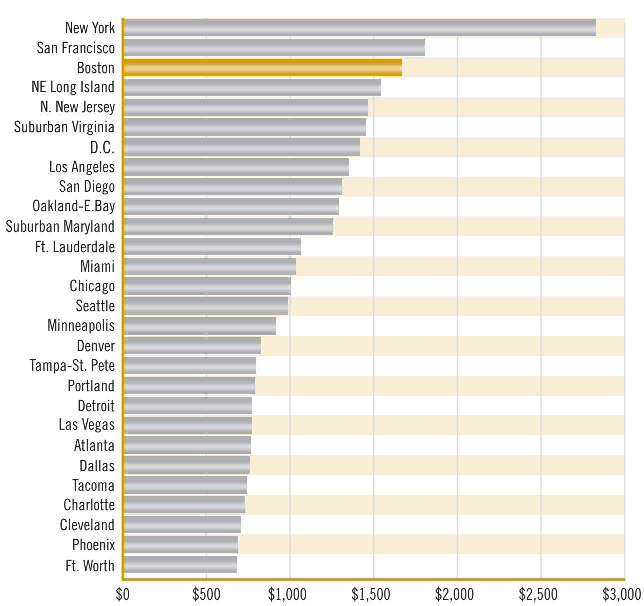
As of mid-year 2011, the typical Greater Boston studio or efficiency apartment rent was just 16 percent higher than the U.S. average.[8] But for larger apartments, the Greater Boston premium was much greater: 51 percent for one – and two-bedroom units and 70 percent higher for three-bedroom units. The smaller apartment premium may not discourage young singles from remaining here and living in tiny studios or efficiencies, but the impact on young families, especially with children, is considerable. Many factors, especially employment opportunities, affect families' location decisions, but such large rent differentials also play a role.

Indeed, as of spring 2011, Greater Boston appears to have the third highest average rent among major metropolitan areas. As **Figure 3.18** demonstrates, only New York and San Francisco are more expensive. The typical rent in Washington, D.C. is 15 percent lower than in Greater Boston. Miami is 38 percent cheaper, Chicago 40 percent cheaper and Minneapolis 45 percent cheaper. The typical apartment in Denver rents for just half of the Greater Boston effective rent. Perhaps most importantly, there are metro areas with which firms in Greater Boston must compete for talent where rents are even lower. Portland, Oregon, is 53 percent cheaper; Charlotte is 56 percent less expensive; and in Phoenix the typical apartment rents for just 41 percent of the average rent in Greater Boston.

Since the beginning of the recent recession in the fourth quarter of 2007, Greater Boston's effective rents have increased by a little more than 4 percent.

FIGURE 3.18

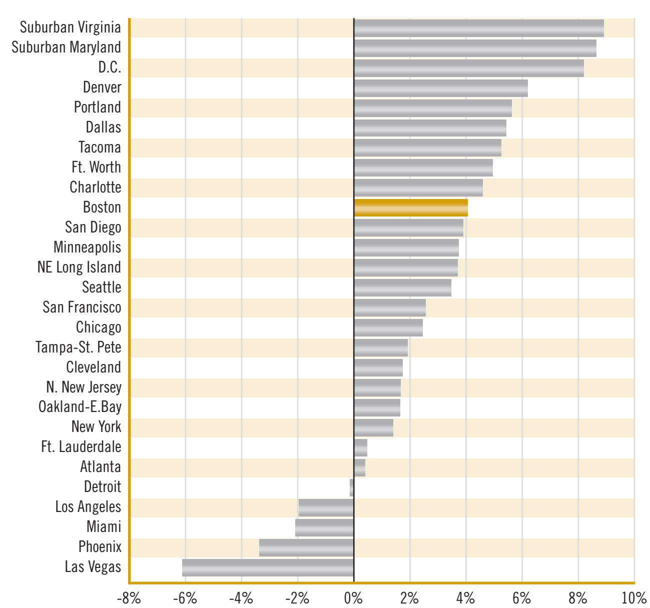
Effective Rents in Major Metropolitan Areas 2011:2Q



Source: Reis, Inc.

FIGURE 3.19

Percent Change in Effective Rents, Major Metropolitan Areas, 2007:4Q–2011:2Q



Source: Reis, Inc.

As **Figure 3.19** reveals, this was just half the increase experienced in Washington, D.C. and somewhat lower than that in Denver, Portland (Oregon), Dallas, Tacoma, Fort Worth and Charlotte. On the other hand, rents rose faster here than in such competing regions as New York, San Francisco, Seattle and Minneapolis.

As the economy continues to stumble along, one can expect more and more families to make rational decisions about where to live. If jobs are available in metro regions with substantially less expensive housing, Greater Boston could once again see a major exodus of young working families.

Summing Up

In each of the *Greater Boston Housing Report Cards* from 2002 through at least 2008, we repeatedly made the case for increasing the supply of housing in Greater Boston in order to moderate rapidly increasing home prices and keep rents from escalating. Now, with the Great Recession seeming to continue without end in sight and with what appears to be a second dip in home prices, our major concern is with stabilizing prices in order to restore consumer confidence so as to help the economy recover. As we will see in Chapter 6, this will require finding ways to limit new foreclosures which add to excess supply particularly in low income communities, developing ways to refinance existing mortgages where the homeowner is underwater so as to keep these units from eventual foreclosure, and inventing ways of taking real estate owned units following foreclosure (REOs) and turning them into rental housing both to reduce excess supply in the homeowner market and increase the supply of residential rental properties. We also need to find ways to absorb excess homeowners units by encouraging home buying among credit worthy households who are temporarily on the home purchase sidelines. Essentially, we need to move from a buyer's market to a market where supply and demand are balanced.

The rental market in Greater Boston requires just the opposite. With rents rising, we need to encourage policies that include new rental housing production for a range of consumers from the elderly and low-income families to undergraduate and graduate students. The goal should be to stabilize rents so as to assure greater affordability for all of these households.

In short, we need to "twist" the housing market, at least temporarily, from a focus on production of homeownership units to rental units in order to stabilize home prices and keep them from falling further and increase the supply of rental units in order to stabilize rents and keep them from rising.

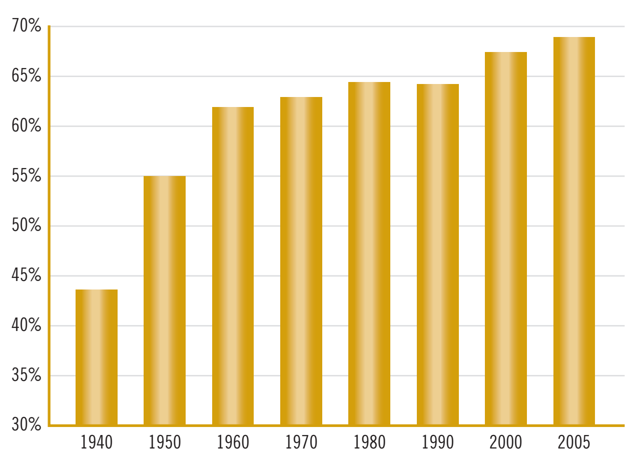
4.
Homeownership

America was founded on the political principle of democracy and the economic tenet of private property. Indeed, in its early years the two were linked together, as only property owners had the right to vote. Nonetheless, until the 20th century, homeownership as a form of private property was largely limited to farmers in rural areas. Even on the eve of World War II, well less than half of all American households were homeowners. That would change dramatically in the second half of the century. Between 1940 and 1960, the ownership rate would climb from less than 44 percent to more than 62 percent, and climb still higher until the collapse of the housing bubble. By 2005, nearly 69 percent of all U.S. households owned their own homes. (**See Figure 4.1**) This represented a higher fraction than most European countries, although not quite as high as in Ireland, Italy, Australia, the United Kingdom, Canada or Finland.[1]

As we will see in this chapter, homeownership has conveyed a set of important benefits to most American families. Moreover, there have been social benefits in terms of community stability and local civic engagement that may very well be attributed to homeownership itself. Yet, in the aftermath of the housing bubble with its extraordinary rise in home prices, its subsequent collapse, and the financial turmoil that followed, there is widespread questioning of whether too much encouragement of homeownership was responsible for a calamitous impact on families who recently bought homes, on the neighborhoods where they live, on long-term homeowners who have seen the value of their most important asset depreciate, and on the nation's economy.

FIGURE 4.1

U.S. Homeownership Rate, 1940–2005



Source: U.S. Census Bureau

Already such concerns have led to tighter regulation of mortgage financing making it more difficult for households to purchase a home, calls for restructuring or possibly doing away with federal government support of the private mortgage market, and suggestions for restricting or eliminating the mortgage interest tax deduction which privileges homeownership over renting.

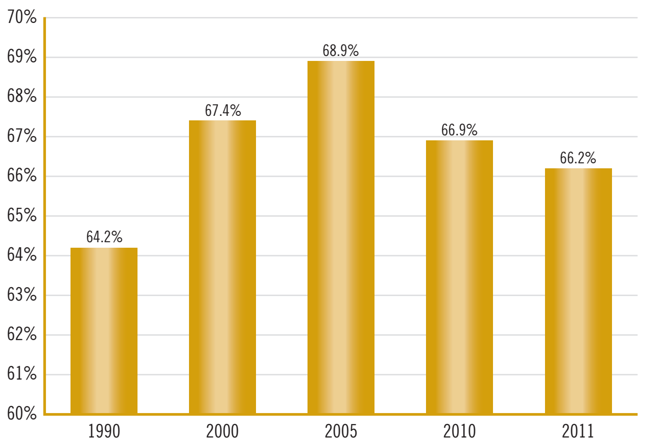
As a result of these forces, we decided to devote a chapter in this year's *Greater Boston Housing Report Card* to a look at the history of homeownership, its private and social benefits, and its distribution by race and ethnicity. A number of important questions surface. Do we now run the risk of an over-reaction to the recent abuses in the housing market, adding too many barriers to homeownership and restricting access for too many households? Could this have a disproportionate impact on racial and ethnic minorities? Might this possibly further hamper a full economic recovery, as well as put another damper on the production of affordable housing nationwide and in our region?

Homeownership Trends in the U.S., Massachusetts and Greater Boston

For the U.S. as a whole, we already can detect a decline in homeownership rates not experienced since the Great Depression of the 1930s. As **Figure 4.2** reveals, the homeownership rate has already declined from 68.9 percent in 2005 to an estimated 66.2 percent in 2011.

FIGURE 4.2

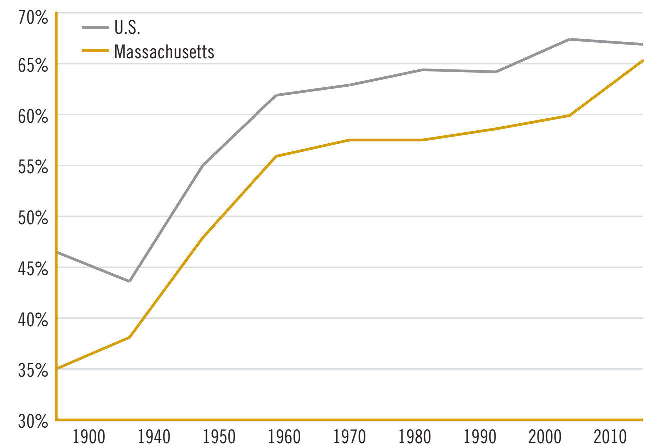
U.S. Homeownership Rate, 1990–2011



Source: U.S. Census Bureau

FIGURE 4.3

Homeownership Rates, U.S. vs. Massachusetts, 1900–2010



Source: U.S. Census Bureau

If this rate of decline were to continue for five more years, homeownership nationwide would fall to a level not seen since 1990.

The Massachusetts Record

The long-term homeownership rate in Massachusetts has closely followed the national trend, although until quite recently it has remained lower than the national average. Within the state, as shown in **Figure 4.3**, the homeownership rate rose from 35 percent in 1900 to nearly 56 percent in 1960, and then grew more slowly through 2000 when it stood at 59 percent. Unlike the rest of the country, however, with an improving economy through the first half of the next decade, a better economic record in the second half, and taking full advantage of low mortgage rates and easy credit, the homeownership rate in the Commonwealth soared to 65.3 percent by 2010—nearly reaching the U.S. rate of 66.9 percent.

From 1990 through 2010, the gap between the national average and that of the Commonwealth declined by more than half between 1900 and 1970—from 11.5 percentage points to 5.4 points; increased again to 7.5 percentage points by 2000, and then closed to within 2 percentage points by 2010. This more or less follows the economic fortunes of the state, as it moved from lagging behind the nation in economic activity and employment to leading the nation. Moreover, recent annual Census data suggest that the homeownership rate in Massachusetts has declined only slightly since 2008 despite the increase in foreclosure activity noted in Chapter 2. In Massachusetts, the rate declined by just 0.4 percentage points between 2008 and 2010, compared to 0.9 percentage points decline in the U.S.[2]

That the Great Recession had a much less damaging impact on homeownership in the Commonwealth than the nation as a whole is due in large measure to the extraordinary decline in homeownership in a small number of states that had huge housing bubbles followed by massive foreclosures. Between 2006 and 2010, when the national homeownership rate was falling by 1.9 percentage points, Massachusetts actually experienced a slight increase of 0.1 percentage points, from 65.2 to 65.3. During the same four year period, Nevada experienced a 6 percentage point drop; Arizona a 5 point decline, and both California and Florida's homeownership rates fell by more than 3 percentage points. States in the industrial Midwest suffered large losses as well.[3]

Homeownership in Greater Boston

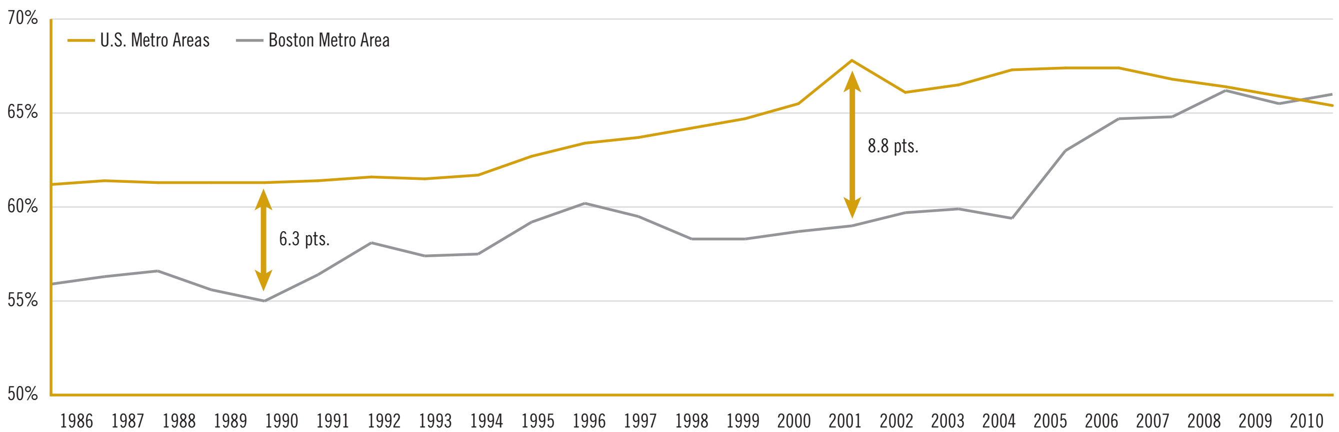
Compared to other metropolitan areas, Greater Boston's homeownership rate, like that of the Conmonwealth, had been low for decades, although it has been steadily converging toward the national average (see **Figure 4.4**).[4] The convergence has been so strong over the past decade that by 2010, Greater Boston actually boasted a slightly higher homeownership rate than the U.S. metro average. Despite the foreclosure crisis, Greater Boston's homeownership rate is now at its highest level ever. The strong economy of the region has kept the ownership rate from shrinking.

Race, Ethnicity, and Homeownership

The rapid rise in homeownership has not been shared equally across racial and ethnic groups. The overall trend in black and white homeownership going back to 1900 is found in **Figure 4.5**. Note that from 1900 through 1940, homeownership rates for both whites and blacks did not change very much, with whites about twice as likely to be homeowners. Between 1940 and 1960 and then again between

FIGURE 4.4

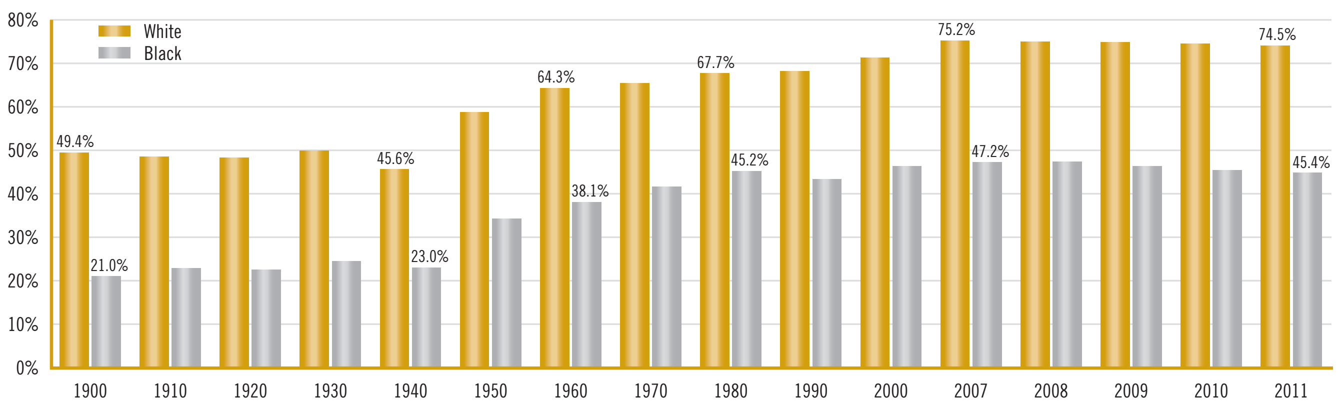
Homeownership Rate, Boston Metropolitan Area vs. U.S. Metropolitan Areas, 1986–2010



Source: U.S. Census Bureau

FIGURE 4.5

U.S. Homeownership Rate by Race, 1900–2011



Source: U.S. Census Bureau

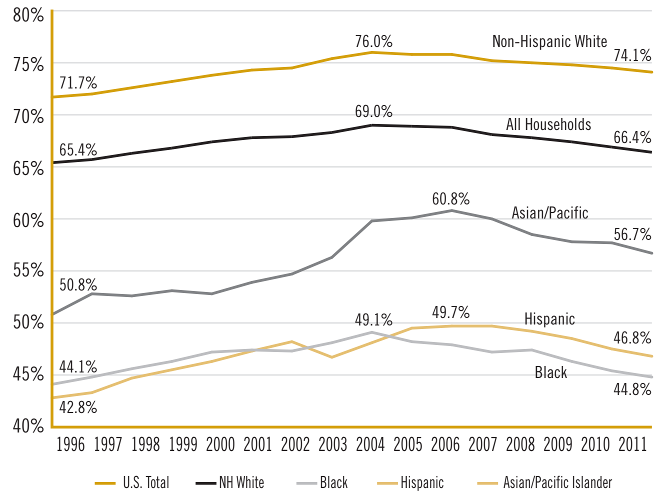
1960 and 1980, homeownership rates increased sharply for both groups, but as **Figure 4.6** reveals, the increase in the black rate was substantially *higher* in both periods. This great progress was due in large measure to the migration of southern black families to the North where they found jobs in defense plants during World War II and remained working there when these plants were reconverted after the war to produce automobiles, home appliances, tires and other manufactured goods. Union wages and benefits made it possible for many black families to afford their first home. This helped continue the upward trend in black homeownership that had begun in 1940. As such, by 1980 more than 45 percent of black households owned their own homes.

Unfortunately, the deep back-to-back recessions in the early 1980s and the "deindustrialization" of much of the industrial Midwest during the rest of that decade and into the first half of the next took its toll, especially on black families. By 1994, the black homeownership rate had fallen back to just a bit more than 42 percent.

Including other racial groups in the analysis allows for a more detailed comparison of homeownership rates (see **Figure 4.7**). The rates for all racial groups share a similar pattern in that each group gradually increased their homeownership rates between 1994 and mid-2000 and dropped off afterwards. The homeownership rate among Asians has always been lower than that of whites and the national average, but higher that those of Hispanics and blacks. Relative to Hispanics, the homeownership among blacks was slighty higher between 1984 and 2004, but fell between 2005 and 2010. In 2004, African-Americans recorded their highest homeownership rate to date (49.1%), and in 2006 the Hispanic homeownership rate reached nearly 50 percent (49.7).

FIGURE 4.7

U.S. Homeownership Rates by Race and Ethnicity 1996–2011:1Q

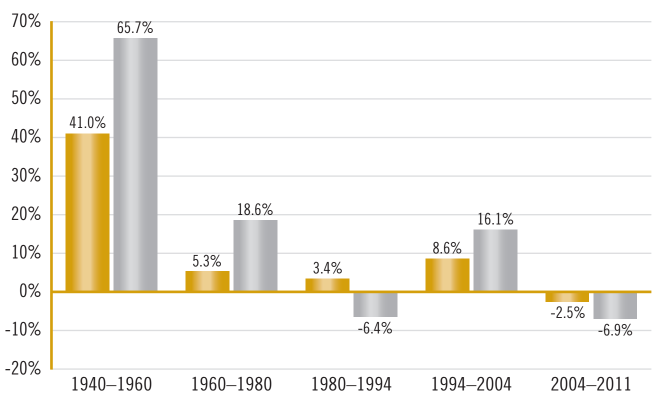


Source: U.S. Census Bureau

Following the 1990–1991 recession, homeownership began to surge again as a result of a recovering economy. For black and Hispanic households, there were substantial gains aided by new Federal Housing Administration (FHA) policies that focused to a greater extent on low-income and minority borrowers.[5] According to the U.S. Government Accounting Office, in 1995 two-thirds of FHA's borrowers might not have qualified for private mortgage insurance for the loans they received.[6] "In 1996," Stuart Gabriel explains, "the FHA insured more loans for minority borrowers than the private mortgage industry."[7] By the late 1990s, mortgage companies were offering subprime loans to those who would not otherwise qualify for a conventional mortgage and lending standards were further relaxed. The black homeownership rate soared from just 42.3 percent in 1994 to 49.1 percent in 2004. The

FIGURE 4.6

Percentage Change in U.S. Homeownership Rate by Race, 1940–2011



Source: U.S. Census Bureau

Hispanic rate shot up from 42.8 percent in 1996 to a peak of 49.7 percent in 2006.

Even with the growth in subprime lending, before the housing bubble meltdown in 2008, the vast majority of these loans were paid in full and on time with few foreclosures and little decline in ownership rates. Indeed, until 2005, according to a 2008 Boston Federal Reserve Bank study, an overwhelming percentage (82 percent) of those in Massachusetts who took out subprime mortgages were "successful," insofar as they were able to remain in their homes and continue to make their monthly payments for at least a 12-year period or sell their homes at a profit. For those early into the subprime market, the foreclosure rate was less than 6 percent.[8]

After 2007, however, with the collapse of the housing bubble, a wave of foreclosures turned homeowners once again into renters. This was particularly true among black and Hispanic homeowners who were more likely to have bought a home on the basis of a subprime mortgage. The black homeownership rate declined by nearly 4 percentage points or nearly 8 percent. The Hispanic rate fell by more than 2 percentage points. Once the housing market soured and home values plummeted, access to subprime credit and variable rate mortgages turned into misfortune for the borrower and lender alike, contributing to the nation's foreclosure crisis, declining homeownership rates and the nation's economic downturn.

The Racial Homeownership Gap in Massachusetts

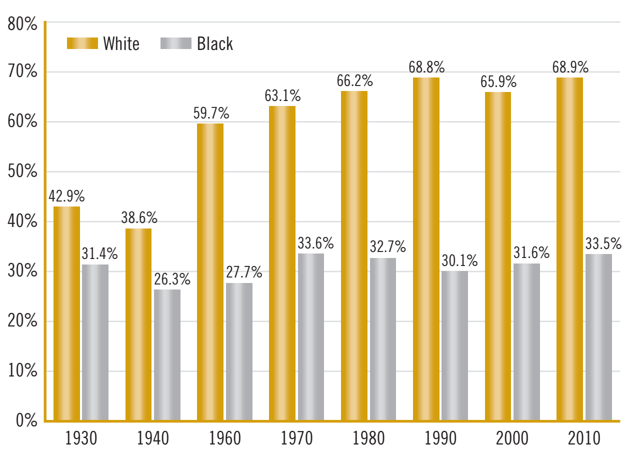
The homeownership rate among black households in Massachusetts is well below the rate in the nation and the black/white homeownership gap much higher. In 2000, 46.3 percent of blacks owned their own homes across the country. But as **Figure 4.8** reveals, in the Commonwealth, the rate was just 31.6 percent in 2000 and 33.5 percent in 2010. This rate is a bit lower than in 1970 and most remarkably not much higher than in 1930. Blacks are much more likely to be homeowners in the South, according to the 2000 Census. In Alabama, for example, the black homeownership rate is nearly 58 percent; in Mississippi it exceeds 60 percent. Part of this great interstate disparity is due to the higher concentration of southern blacks in rural areas where homeownership is the norm. In Massachusetts, most black households live in urban areas. However, even in the industrial Midwest, blacks are more likely to be homeowners. In Michigan, the rate is 50.7 percent; in Ohio, 42.6. Only a couple of heavily urbanized states appear to have a lower rate of black homeownership than Massachusetts: in New York, the rate is 29.1; in Rhode Island 28.2. Even then, in the fully-urbanized District of Columbia, nearly 39 percent of blacks owned homes in 2000, well above the 31.6 percent rate in the Commonwealth.[9]

As such the black/white homeownership gap in Massachusetts is one of the highest in the nation. Nationally, in 2000, the black rate was 25.0 percentage points below the non-Hispanic white rate. In Massachusetts, the racial gap was 34.3 percentage points. In the South, the racial gap is as low as 20.2 points in Alabama and only 17.8 points in Mississippi. The gap in New York in 2000 was even lower than that in Massachusetts: 33.2 percentage points.

The 2010 data indicate that the black-white gap has increased still further in the Commonwealth, swelling to 35.4 percentage points as the white ownership rate increased faster during the decade than the black rate.

FIGURE 4.8

Massachusetts Homeownership Rate, Black vs. White, 1930–2010



Source: U.S. Census Bureau

The Racial Homeownership Gap in Greater Boston

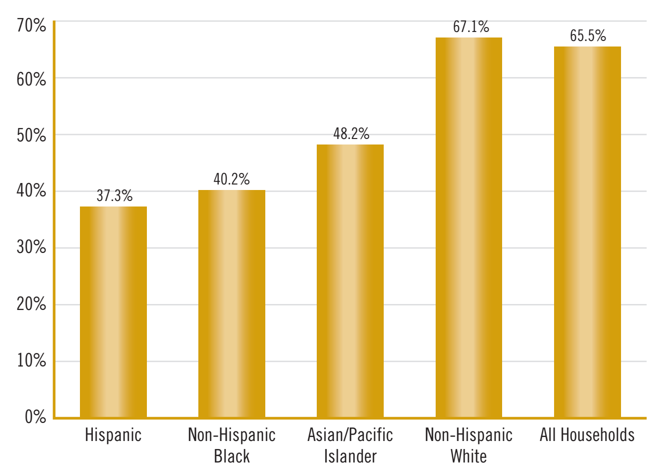
The racial gap in Massachusetts is pretty much mirrored in Greater Boston as shown in **Figure 4.9**.[10] In 2000, the non-Hispanic white homeownership rate was 67.1 percent. This compares with a Hispanic rate of only 37.3 percent and a non-Hispanic black rate of 40.2. Asians and Pacific Islanders did a bit better with a homeownership rate of 48.2 percent. Hence the Hispanic/non-Hispanic white gap is nearly 40 points, while the black/non-Hispanic white gap is close to 37 points.

These gaps are relatively large compared with metro areas across the country. Among the largest 100 metropolitan regions in the U.S., the non-Hispanic white homeownership rate in Greater Boston is the 19th lowest. However, the ranking for other groups in Greater Boston are much lower. The Hispanic rate here is the 3rd lowest in the country; the same holds true for Asian/Pacific Islanders. Non-Hispanic blacks in Greater Boston do not fare much better. Their homeownership rate is 4th lowest among these 100 large metro regions.[11]

Essentially, homeownership is unequally distributed nationwide across racial and ethnic groups and even more so in the Commonwealth and in Greater Boston.

FIGURE 4.9

Greater Boston Homeownership Rates by Race and Ethnicity, 2000



Source: U.S. Census Bureau

Why Homeownership Matters

If the form of home tenure—homeownership vs. rental—made little difference in the wellbeing of families and communities, these large racial and ethnic gaps might be of less concern. However, there are data that suggest that during normal times, when home values are not in free-fall, there are substantial benefits that flow from homeownership to the individual household and to the national economy, and even some benefits for neighborhoods and communities.

Since the housing bubble burst, many have questioned the idea of homeownership itself. The key argument against homeownership is that it inhibits worker mobility in an era when mobility is important to give workers a chance for finding employment in a weak economy.[12] As such, some have argued that homeownership is now impeding national economic recovery.[13] Still others contend we have always valued homeownership too highly given that it has fostered environmentally unfriendly suburban homeowner development where the single-family home dominates over the alternative: energy-conserving urban apartment rental units.[14]

Despite the backlash, there is evidence of both individual and social benefits that stem from homeownership including:

- private wealth generation
- increased aggregate consumption and economic growth
- improved home (and therefore community) upkeep
- higher rates of voting and civic engagement
- higher rates of academic achievement and educational attainment for students living in owner-occupied homes.

Individual Household Benefits

One of the most compelling arguments in favor of homeownership is that one's own home is a 'good investment' in normal economic times and serves as a legitimate means to private individual wealth generation. In fact, most of the wealth possessed by households takes the form of housing equity and evidence has suggested that homeowners' ability to borrow against their housing investment has helped many families not only access capital and credit, but prevented them from plunging into poverty.[15] In 2004, before the housing meltdown, the middle 20 percent of all U.S. households held an average of $148,400 in non-stock assets and only $7,500 in stocks. Non-stock assets—which are overwhelmingly housing equity—made up over 95 percent of their total wealth.[16]

This suggests that renters are less likely to accumulate assets over their lifetime and this can hinder their ability to provide a nest egg for retirement or borrow against their home equity to begin a small business or pay for their own or their children's education. To be sure, some renters accumulate by forsaking homeownership in favor of investing in the stock market or a private business. But the net assets of renters are generally much lower than those of homeowners, even controlling for income. In 2007, according to the Federal Reserve Bank's *Survey of Consumer Finances*, the before-tax income of the median homeowner family was $61,700, approximately *two times* higher than the income of renters ($27,800). The higher income of homeowners by itself would make it possible for them to save more and accumulate assets. But the difference in accumulated family assets is much larger than the difference in income. The mean asset holdings of homeowners in 2007 of $345,000, was *25 times* higher than the $13,600 for renters. Even accounting for the fact that renters tend to be younger, homeownership is likely responsible for some of the difference between their income and asset positions.

Homeownership, when purchased on a 15- or 30-year fixed rate mortgage, also has the advantage of shielding households against rising housing costs. For younger families who are moving up the "age-income" curve, that means over time their basic housing costs decline as a share of their household income. Renters usually do not have this advantage.

Economic Growth

As we noted in Chapter 1, asset accumulation also helps spur personal consumption which in turn helps spur economic growth and employment. It is no surprise that there was a positive "feedback loop" between the rise in homeownership between 1940 and the 1970s and the extraordinary growth in the economy in the post-World War II period that lasted from 1947 to 1973. During that period, real median household income more than doubled in a single generation, by all rights the fastest increase in national economic prosperity in American history.[17]

Social Benefits

There also exists compelling evidence that points to many non-financial benefits that accrue to people who own their own home. In some of the earliest investigations into homeownership, a number of research teams found a positive correlation among homeownership, life satisfaction and happiness. [18] Others have found a positive association between self-esteem and homeownership after controlling for demographic and neighborhood context.[19] Follow-up studies have provided more evidence to support this conclusion, and more robust tests have indicated that simply being a homeowner contributes to a positive perception of self.[20]

While the benefits of homeownership are most pronounced for the individual homeowner and family, there is evidence to indicate that homeownership has positive outcomes for entire neighborhoods and communities. One of the most investigated relationships is that among homeownership, civic engagement and voting. [21] Homeowners are more engaged in local politics and local improvement activities than renters and prove to be more knowledgeable about political leaders and issues. Low-income homeowners in disadvantaged neighborhoods are more likely to vote than renters or even homeowners living in less disadvantaged areas.[22]

Homeownership is positively associated with "social capital," the ability of individuals to access various financial, educational, and cultural opportunities and benefits.[23] Social capital is often derived from the interpersonal relationships individuals form from participation in community groups or attendance at religious services. According to research involving moderate and low-income households, homeownership is positively associated with social capital because homeowners are more likely to interact with their neighbors and have a greater sense of 'place attachment'.[24] While home values do not affect voluntarism, simply being a homeowner is associated with higher rates of volunteering.[25]

Homeownership also has been found to have a positive influence on academic achievement. The children of homeowners, particularly those in low-income families, have a higher probability of staying in school than the children who live in rental housing because they are more likely to remain in the same school and not move from school to school.[26]

While these alleged benefits of homeownership seem reasonable enough, housing advocates and researchers must be cautious when interpreting these results. As many scholars have pointed out, researchers investigating the relationship between homeownership and various individual and social outcomes must be careful to consider the significance of an individual's length of residence.[27] What appears to be due to homeownership may simply be the result of longer tenure in one residence and neighborhood. Renters tend to move more often than homeowners and therefore do not build as strong ties to the community as the typical homeowner. But renters who stay in the same residence for a long period of time may be just as active in their community as homeowners, in which case homeownership is not the important determinant but simply a correlate with length of residence.

Indeed, in at least one highly regarded study the authors found that homeownership was positively associated with a wide range of social outcomes including voting, working to solve local problems, church attendance and property maintenance, but when tenure was controlled for, the effects of homeownership largely disappeared. The authors concluded that long-term renters resemble homeowners, in that the benefits of homeownership can also accrue to non-homeowners who live in the same place for a number of years.[28] Other studies that have accounted for tenure have come to similar conclusions.[29] Are the benefits of homeownership perhaps overrated in which case it would not be unreasonable to consider limiting access to homeownership options, including the traditional long-term fixed rate mortgage with no prepayment penalty and the mortgage interest deduction?

To test the assertions made in the literature, the Dukakis Center has conducted a preliminary analysis of its own, using data collected through the *National Survey of Families and Households* (NSFH) fielded in 2001/2002.[30] Since, as the previous section discusses, many benefits of homeownership may accrue simply as a result of length of residence rather than homeownership itself, this research controlled for this factor in order to measure the "net" effects of homeownership.

In the Dukakis Center analysis of the NSFH data, it was possible to investigate the impact of homeownership on a range of factors including the respondents' optimism about their own life circumstances; on church attendance; on getting together with neighbors; on participation in group recreational activities; on the time they spend in local sports, hobby, and discussion groups; and in the number of times they participate in the activities of local service clubs, fraternal organizations and political groups. In addition to controlling for time in residence, the NSFH data allowed this new analysis to control for the income, age and education of the householder. Essentially, this analysis asks the following question: If renters had the same income, age, education, and residential tenure as homeowners, would they be as optimistic about their own lives and be as civically-engaged as existing homeowners? Again, is there any benefit to homeownership per se?[31]

The results of this new analysis point to a number of individual and social benefits that accrue to homeowners even when compared to renters who have lived in the same place for nearly 10 years and have equivalent social-economic status (SES)—income, education and age.

On the one hand, the analysis finds *no* difference between homeowners and renters in church attendance, in getting together with friends or in participating in group recreational activities. On the other, homeowners tend to be more optimistic about their own futures, they participate more often in local sports and discussion groups, and most importantly are more civically engaged in service organizations, fraternal groups and political organizations. Here are the specific results:

- After controlling for housing tenure and SES, the analysis suggests that homeowners are 9.5 percent more likely (6.5/68.3) to be optimistic about their futures.
- *Before* controlling for housing tenure and SES, 37.5% of homeowners but only 27.2% of renters responded that they participated at least once a year in service clubs, fraternal organizations or political

groups. *After* controlling for tenure and SES, renter participation appears to increase to 31.5%, still 6 percentage points less than homeowners. Thus, homeowners are 19 percent more likely to be active in these groups.

These are not trivial differences, especially given housing tenure and socio-economic controls. It is not entirely clear from this analysis what actually accounts for these statistically significant differences in sense of well-being and civic engagement, but it is not unreasonable to believe that ownership of a substantial asset gives a sense of economic security *in normal economic times* and that maintaining the value of that asset induces homeowners to be more civically engaged in order to assure the quality of the neighborhood where they live. Unfortunately, in some cases, this turns into NIMBYism—"not in my backyard"—and leads to overly restrictive zoning practices in an effort, often misguided, to "maintain a neighborhood's character."

Conclusion

Two major conclusions follow from the data presented in this chapter. The first is that substantial racial and ethnic differences still exist in homeownership in America and the ownership gap is especially large in Massachusetts and in Greater Boston. The second is that there are positive individual, social and national benefits that flow from homeownership and therefore there is reason to continue to encourage homeownership as a public policy goal.

Essentially, over the past 60 years the overwhelming majority of non-Hispanic white households have been able to become homeowners and most of them and their communities have benefited as a result. The majority of black and Hispanic households still have not been able to join their ranks. This is harmful to many families of color who could qualify for homeownership, it is harmful to the neighborhoods where they live and it reduces wealth in these communities which could help power consumption, investment and economic growth.

If, in the wake of the recent housing crisis, admittedly caused by overly lax lending standards and risky mortgage-backed securities, we move toward policies that dramatically lower access to mortgage finance and reduce the tax incentive for homeownership, we may find that we have overreacted. In that case, we will continue to experience huge disparities in homeownership by race and ethnicity and forego social benefits that contribute to community well-being.

In making decisions about changing the fundamental landscape of homeownership finance in the nation, policymakers need to take into account all of these factors.

5.
Public Policy and Public Spending in Support of Housing

After a robust round of housing legislation passed at both the federal and state level in 2009-2010, the current year finds a public sector focused on the larger economic issues facing the country—unemployment, global competition and, occasionally, the stagnant housing market—and a Congress focused on the national debt ceiling and no appetite for either increased taxes or increased spending on domestic programs. As a result, a number of existing federal housing laws are not being funded, others are up for repeal, and little new legislation to help meet the challenge of the national housing crisis is being brought out of committee and taken to a vote. This is particularly true of legislation that could have helped deal with rental housing, the segment of Greater Boston's housing market most in need of assistance. We still may see a more aggressive attempt at dealing with the foreclosure crisis if Congress agrees to go along with President Obama's plan for homeowner relief, but even this legislation may be stalled.

While there were some bright spots on the Commonwealth's side, including public support to retain Chapter 40B and level funding or better for state housing programs, in 2011 Massachusetts and the rest of the country are suffering the loss of federal stimulus funding under the American Recovery and Reinvestment Act of 2009 which helped plug the gap in state funding for housing programs in 2009–2010. With the exception of some hoped-for construction starts in Chapter 40R Smart Growth Zoning Districts and Chapter 40B communities, 2012 is also likely to be a challenging year for housing in Massachusetts.

Recent Advances in State Housing Policy—Saving 40B

Indeed, during the past year, the best thing that happened to housing in the Commonwealth was not so much new legislation as the successful defense of Chapter 40B. The Housing Report Card for 2010 covered in detail the history, goals and accomplishments of Chapter 40B, *The Massachusetts Comprehensive Permit and Zoning Appeals Act*, first enacted in 1969. By mid-2010, Chapter 40B had supported the development of more than 1,000 projects with more than 58,000 housing units and has been considered one of the most important tools for affordable housing development in Massachusetts. It also has generated significant controversy at the local community level, leading to a ballot initiative in November 2010 aimed at repealing this particular zoning law statute in the Commonwealth.

According to the University of Massachusetts Donahue Institute, the economic benefits of Chapter 40B have been formidable.[1] To sum up their report's findings on the subject:

- In the last decade, nearly **22,000 homes** have been built under the Massachusetts Affordable Housing Law.
- These new homes have resulted in almost **50,000 jobs** and **$9.25 billion** in economic activity over the past 10 years alone.
- **Proposed construction** of Chapter 40B homes and the resulting economic linkages is projected to result in total expenditures **of $10.42 billion** and **54,307 jobs** in the coming years.

In summing up, the Institute noted that "Chapter 40B has resulted in a significant economic benefit for Massachusetts and is achieving its goals of providing housing for low- and middle-income seniors and families."

As part of the effort to defeat the November ballot question that would repeal Chapter 40B in the Commonwealth, the CHTF research staff at the Dukakis Center prepared an analysis of the impact of Chapter 40B developments on median home values and median household income. This research was prepared to test the claim that the location of 40B developments in a community had adverse impacts on neighborhood "quality of life."

Data were gathered on median home values and median household income in 1980 and 2000 for each of 350 municipalities (out of the 351) in Massachusetts, along with data on which of these communities had one or more 40B developments in place during this time period.

Using multiple regression analysis to test the impact of a 40B project on these two variables, the Dukakis Center reported that there was "absolutely no statistical evidence linking 40B developments to any difference in the change in median home values or median household incomes." On average, communities with 40B developments experienced increases in home values and household incomes that were no different from communities without 40B developments.[2]

In large part due to the work of the *Campaign to Protect the Affordable Housing Law*, the ballot measure to repeal Chapter 40B was soundly defeated in November of 2010. The decisive electoral victory of 58 percent to 42 percent was the largest margin of any ballot campaign. More than 1,249,600 voters and more than 80 percent of cities and towns affirmed their support for protecting the affordable housing law for seniors and working families in urban, suburban and rural communities all across the state.

The referendum vote maintains this critical tool to produce affordable housing in the Commonwealth and will allow the Commonwealth to expand the amount of affordable housing that can be built in the future. Furthermore, the voters sent a strong message to elected officials that Massachusetts citizens support affordable housing and this issue should be a top priority for government attention in the coming years.

New State Housing Programs and Legislation

While not at the same intensity as last year, there has been important activity at the state level in Massachusetts during 2010–2011 in recognition of market factors that demand attention to issues of housing in the Commonwealth.

The HomeBASE Program

With an increase in homelessness in the Commonwealth, and informed by the report of the *Special Commission Relative to Ending Homelessness in the Commonwealth*, as part of their FY 2012 budgets, both the Massachusetts House and Senate adopted the Patrick-Murray Administration's HomeBASE proposal to make housing assistance, not shelter, the primary response to assisting families that are homeless.[3] The new HomeBASE Program offers an alternative to shelter centers and motels to families who are at serious risk of homelessness.

Both the Massachusetts House and Senate agreed on the following components of the HomeBASE program, which became effective as emergency legislation on July 28, 2011:

- Families that face homelessness and are served with HomeBASE short-term rental assistance may secure rental housing with the help of regional nonprofits and the Central Massachusetts Housing Alliance. These families will pay no more than 35 percent of their income towards rent and utilities when they are enrolled in the program. Families also can receive assistance of up to $4,000 to avoid homelessness if they do not need continuous rental assistance. HomeBASE assistance is capped at three continuous years.
- HomeBASE-eligible families can earn no more than 115 percent of the federal poverty level, but if they are successful in increasing their incomes while utilizing the program, families can earn up to 50 percent of area median income without being terminated from the program.
- Families utilizing HomeBASE will be assigned a stabilization worker and receive stabilization services. The program administrators will be able to subcontract with other service providers to assist with stabilization services.
- Families that seek HomeBASE assistance must be provided with temporary housing or shelter while they wait to secure an apartment.
- HomeBASE rental housing costs should not exceed 80 percent of the established Fair Market Rent, with some opportunity for flexibility if that maximum rent level is a barrier to securing housing.

This is an important piece of legislation, beyond its obvious value to families facing homelessness. It is a clear statement by the Commonwealth that homeless shelters are not the preferred solution to homelessness—permanent housing is.

An Act Relative to Community Housing and Services

Filed by Sen. Patricia Jehlen (D-Somerville) in the Massachusetts Senate and by Rep. Kevin Honan (D-Boston) in the House, this legislation could lead to the development of up to 1,000 units of Supportive Housing in Massachusetts over the next three years. Supportive Housing—defined as affordable housing linked with supportive services designed to help tenants with modest incomes to maintain housing stability and maximize their independence—is a national best practice to end homelessness and is critical to enabling persons with disabilities and seniors with service needs to live independently in the community.

In order to build supportive housing for people with disabilities, elders or extremely low-income households, a developer must now access three separate pools of funds through multiple applications to cover capital costs, operating expenses, and supportive services. This consensus proposal coordinates the process to build supportive housing by establishing formal relationships and shared principles among the relevant state agencies involved in the process. A Citizens' Housing and Planning Association (CHAPA) press release of July 21, 2010, describes this legislation as

> aim[ing] to increase the state's focus on the development of permanent supportive housing. The legislation calls on the Administration to determine numeric benchmarks for the creation of supportive housing, charges them with creating an efficient and effective application process for creating supportive that eliminates government silos, and establishes a target of 1,000 units of new supportive housing over the next 3 years. The legislation does not include any costs to the Commonwealth, but provides a more efficient framework to utilize current resources to benefit residents that need affordable housing and services.[4]

This statute could have a powerful effect on the ability of both nonprofit and for-profit developers to produce housing for an often-neglected segment of the housing market. The bill was passed by the Senate on July 21, 2011, and referred to House Ways and Means for action.

Legislation to Promote Innovative Strategies in Public Housing

Also several years under consideration, a bill to change the way public housing is administered was filed by Rep. Jeffrey Sanchez (D-Boston) and Sen. Harriet Chandler (D-Worcester).[5] This legislation would reduce and streamline regulatory and statutory requirements for participating housing authorities. By not restricting the use of appropriated funds to one narrow purpose, housing authorities would be able to more effectively address local needs, which differ by locality. The bill also would authorize innovative program design on issues such as rent calculation to reduce the administrative burden and cost on the housing authority, and to lighten the burden on tenants to produce the personal information often necessary to document income and exclusions.

In the 2010 legislative session, the bill was reported favorably by the Housing Committee. However, the legislation, H.4544, did not advance from the House Committee on Ways and Means. In the 2011 session, the Housing Committee favorably reported the legislation once again. The Senate version is currently before the Senate Committee on Ways and Means and the House version is before the House Committee on Ways and Means. Affordable housing advocates have been supportive of this legislation as a way to promote innovative strategies to manage and rehabilitate state public housing, an extremely important resource of more than 46,000 units of state-aided low-income public housing.

An Act to Stabilize Neighborhoods (The Foreclosure Relief Bill)

In August of 2010, the Massachusetts Legislature passed, and Governor Patrick signed, *An Act to Stabilize Neighborhoods* to provide foreclosure relief to the many households affected by mortgage foreclosures in the state.[6] This important legislation included the following provisions:

- Delay a foreclosure by an additional 60 days (to 150 days) if the financial institution neglects to consider a loan modification
- Protect lawful tenants of foreclosed properties from unnecessary displacement so long as the tenant pays rent to the lender. The protections end when there is

a purchase and sale contract for the lender to sell the property

- Criminalize willful acts of mortgage fraud
- Mandate that a lender assumes a Massachusetts Rental Voucher Program rental assistance payment contract
- Create a local option for municipalities to forgive property taxes on foreclosed properties acquired by nonprofits during the term of the rehabilitation
- Require in-person counseling for reverse mortgages beginning in 2012

It is more than likely that the sharp reduction in foreclosure petitions beginning in September 2010 noted in Chapter 2 was related to this effort. In its quarterly look at distressed property levels, *Foreclosure Monitor* found that the number of housing units in distress dropped 14 percent in Massachusetts from April 1, 2010, to April 1, 2011.[7]

Chapter 40T

In the making for more than 20 years, the *Affordable Housing Preservation Bill* was signed into law on November 24, 2009. It contains requirements affecting owners of covered subsidized properties, including the requirement of a notice of intent to sell any property with an expiring affordability restriction.[8] As reported by the John D. and Catherine T. MacArthur Foundation, approximately 41,000 units of subsidized rental housing throughout Massachusetts may lose their affordability restrictions by 2019 as a result of prepayments, opt-outs and, increasingly, the expiration of subsidized 40-year mortgages.[9] In order to prevent this where possible, Chapter 40T provides:

- additional notification requirements as a building gets closer to use restriction termination
- an opportunity for the Massachusetts Department of Housing and Community Development (DHCD) or its designee to purchase publicly assisted housing that is for sale if the proposed private sector transaction does not preserve affordability
- a maximum level that rents can be raised for a period of three years after a building's use restrictions terminate if the tenants do not receive enhanced Section 8 vouchers.

DHCD promulgated regulations for the implementation of Chapter 40T on May 21, 2010, and as of July of 2011, the Commonwealth's Community Economic Development Assistance Corporation (CEDAC) had received the required 40T Notifications from 81 projects with 12,544 total housing units, of which 11,073 are affordable.[10] It is too early to know how many of these projects will be offered to DHCD for sale or how much affordability will be maintained, but 40T goes the furthest of any Commonwealth effort to date to prevent the loss of as many expiring use units as possible.

Chapter 40R

Now in force for more than five years, Chapter 40R is the "carrot" to Chapter 40B's "stick." The law complements 40B by encouraging municipalities to create specific "smart growth" zoning districts that allow for higher density housing development near transit, in town centers or on underdeveloped land, in return for additional state-provided local aid. The definition of smart growth includes mixed-use developments, open space and low-income housing availability.

As of August of 2011, 31 cities and towns in Massachusetts had approved Smart Growth Districts under Chapter 40R, 20 of which are in the Greater Boston area. With Reading and Marblehead each approving a second 40R District in their towns, the total number of 40R districts now stands at 33. The approved districts account for more 12,000 units that could be built as-of-right when developers begin constructing housing again. More than 7,500 of these potential units are in Greater Boston. The as-of-right provision is especially important because it will allow developers to move more quickly once economic conditions improve and housing demand accelerates.

For the time being, it remains difficult to judge the true long-term impact of the program because we have no indication of when and if these 40R units will actually be constructed given the weakened economy and relatively weak housing demand. However, as of June 2011, more than 1,400 units had been issued building permits in Chapter 40R districts, even in the midst of these difficult economic times. Given the reduction in the rental vacancy rate and the concomitant increase in rents in recent months, it is fair to expect that 2011-2012 will see an increase in construction starts in Chapter 40R districts.

Indeed, the first signs of new construction under 40R can be found in one of the two approved 40R districts in the Town of Reading. Oaktree Development is nearing construction for a 53-unit multifamily in this downtown location. A second project, proposed for Reading's other 40R district, originally called Addison-Wesley and now called Gateway, should soon get underway. Pulte Homes has submitted plans to the town seeking to develop more than 400 condominium and townhouse units, only 200 of which will be age-restricted. A percentage of the development will be within the 40R district.

Given the difficulty of getting communities to accept more rental housing, particularly for younger families, the associated Chapter 40S providing for special state "school cost insurance" for those communities adopting 40R and finding large increases in public education expenses. It should help assure that when additional housing is developed, it will not be restricted to age-restricted housing for older households.

Given the adoption of 40R districts in many parts of the state, the Trust Fund established to encourage districts to adopt this measure is nearly depleted. Of the $15.2 million allotted since 2007, only $1.5 million remains in the Trust Fund as of June 30, 2011. As such, unless more funds are allocated to the fund it is possible that the state will not be able to honor its 40R commitments to existing adopters and no additional communities will join the program.

Recent Events in Federal Housing Policy

There is, unfortunately, little help on the housing front coming from Washington. Indeed, if new housing legislation is approved by Congress, it is likely to be aimed at reversing policies that could have helped increase the amount of affordable housing. Bills were filed recently to eliminate critically-needed programs such as the National Housing Trust Fund and the Low-Income Housing Tax Credit.

National Housing Trust Fund

The National Housing Trust Fund was created as part of the *Housing and Economic Recovery Act of 2008*, but there have been no efforts to capitalize it. Now it is facing tough opposition in the current Congress. NHTF would support the production, preservation and operation of rental housing units for the lowest income households in the nation. It is the first federal rental housing production program proposed to be specifically targeted to extremely low income households since the Section 8 voucher program was established in 1974. Given the high and ever-increasing cost of rental units in Greater Boston, the NHTF could be a boon for the region and the Commonwealth if it were ever funded.

Under the proposed Act:

- Production of housing would be targeted for households who have incomes from 30 to 50 percent of area median income, including those facing homelessness
- At least 90 percent of the funds would be used for the production, preservation, rehabilitation or the operation of rental housing
- Up to 10 percent could be used for homeownership activities for extremely low or very low income first-time homebuyers including down payment and closing cost assistance and assistance for interest rate buy-downs
- At least 75 percent of the funds for rental housing would benefit extremely low-income households (those with incomes at or below 30 percent of area median income) or households with incomes below the federal poverty line.

More than 2,250 organizations representing every Congressional district have signed a letter in support of capitalizing this critical priority program. Nonetheless, and to the great dismay of supporters of the NHTF, on July 12, 2011, the Subcommittee on Capital Markets and Government Sponsored Enterprises of the House Committee on Financial Services marked-up H.R. 2441, the Housing Trust Fund Elimination Act of *2011*. The bill to eliminate the NHTF was voted out of subcommittee to continue through the legislative process.

Housing Preservation and Tenant Protection Act of 2010

On July 28, 2010, the House Financial Services Committee approved H.R. 4868, the *Housing Preservation and Tenant Protection Act of 2010*, but the bill failed to pass the Congress in 2010 and died during the session in 2011.[11] This comprehensive affordable housing legislation, introduced by then Chairman Barney Frank of Massachusetts, would have helped to stem the loss of affordable rental housing units across the country and prevent the displacement of low-income tenants, many of whom are elderly or disabled. Some short-term fixes have been approved or proposed in appropriation bills, including the recently approved Senate appropriations bill which will continue to allow the provision of enhanced vouchers for tenants in projects with maturing mortgages (see below).

Since the 1950s, HUD has subsidized 1.7 million rental units in more than 23,000 privately-owned, multi-family properties that are typically affordable to low-income tenants. Many of these units are more than 40 years old and in need of recapitalization. A 2004 Government Accountability Office (GAO) report found that more than 193,000 subsidized units were projected to become market rate housing in the next 10 years when the HUD-subsidized mortgage matures and the mortgage subsidy and low-income affordability restrictions attached to the property terminate. GAO estimated that approximately 200,000 individuals in more than 101,000 units would be at risk of paying higher rents because there were no existing tenant protections (such as enhanced vouchers) to protect the tenants from paying higher rents or being evicted when the mortgage matures. The bill that failed to pass muster in the Congress addressed the issues outlined in the GAO report. It also addressed a host of other issues related to protecting the significant investment made by the federal government in helping to construct and maintain housing for low- and moderate-income tenants, many of whom are elderly or disabled. If the bill had passed, a number of its provisions would have:

- Provided resources and incentives to prevent the further loss of affordable housing units
- Provided grants and loans to for-profit and non-profit housing sponsors to help ensure the property is recapitalized and kept affordable
- Established a voluntary Preservation Exchange Program to encourage owners to sell properties to purchasers who will keep the housing affordable
- Established a first right of refusal that provides state housing agencies with an opportunity to purchase a property from an owner who wishes to sell their property while not requiring owners to sell their properties or prevent them from obtaining fair market value
- Allowed owners to request project-based assistance in lieu of enhanced vouchers, which serves to help preserve the long-term affordability of the project, assist with capital for rehabilitation, and ensure that tenants are not displaced
- Allowed owners to receive budget-based rent increases, thus ensuring that the properties are adequately maintained and encouraging owners to renew Section 8 contracts
- Closed gaps in existing law to ensure that all low- and moderate-income tenants are eligible for enhanced vouchers in the event that the assisted housing is converted to market rate housing
- Given HUD and affordable housing providers the tools needed to recapitalize the aging Section 202 elderly housing portfolio

Clearly, this legislation could have yielded a number of key benefits to current low and moderate income renters, including many in Greater Boston.

Livable Communities Legislation

On August 3, 2010, the Senate Banking Committee passed Chairman Chris Dodd's *Livable Communities Act* (S. 1619) to improve the coordination between housing, community development, transportation, energy and environmental policies to help create better places to live, work and raise families.[12] In what is becoming a familiar pattern, this bill also never became law.

The bill was designed to promote sustainable development and enable communities to reduce traffic congestion; cut greenhouse gas emissions and oil consumption; protect farmland and green spaces; revitalize existing Main Streets and urban centers; spur economic development; and create more affordable housing. If enacted, this piece of legislation would have been a natural complement to Massachusetts' Chapter 40R *Smart Growth Zoning and Housing Production Act*, but it is apparently dead at least as part of the FY2012 budget.

Neighborhood Stabilization Program

A third round of the Neighborhood Stabilization Program ("NSP3") was passed in 2010 with several important amendments to the program.[13] First passed in 2008, NSP has been an important tool for communities and nonprofits attempting to deal with the problems of foreclosed properties in the wake of the financial market collapse in 2008. The basic program provided that NSP funds may be used for activities which include, but are not limited to:

- Establishing financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties
- Purchasing and rehabilitating homes and residential properties that are abandoned or foreclosed
- Establishing land banks for foreclosed homes
- Demolishing blighted structures
- Redeveloping demolished or vacant properties

The 2010 Act provided for $1 billion in spending with up to 2 percent set aside for technical assistance. In 2011, the Commonwealth received a grant under NSP3 of $6,190,994.[14] The city of Springfield, MA, received an additional $1.2 million bringing the total to just under $7.4 million for Massachusetts this year.[15] Whether this legislation will be maintained in the future is still in doubt and it is unlikely that more funds will be allocated to this program.

Public Housing Legislation

One of the most difficult issues affecting affordable housing nationally is the number of low-income public housing units that are substandard, functionally obsolete or otherwise uninhabitable or unmarketable. Bringing all of these units up to current standards is not possible, given the amount of federal funding that would be required, and housing practitioners have for years been testing out approaches to finance the amount of work necessary. The U.S. Department of Housing and Urban Development's new study on capital needs in public housing found that the nation's 1.2 million public housing units need an estimated $25.6 billion for large scale repairs to improve basic living conditions for residents.[16] Two approaches currently under consideration would harness the power of private capital markets to make this possible.

The *Public Housing Reinvestment and Tenant Protection Act of 2011* was filed by Rep. Maxine Waters (D-California) in February of 2011. In April of 2011, Rep.Water's bill was referred to the House Committee on Financial Services, and was further referred to the Subcommittee on Insurance, Housing and Community Opportunity, where it is under consideration at this time.[17] This legislation has as its goals:

- To reform public housing demolition and disposition rules to require one-for-one replacement and tenant protections
- To provide public housing agencies with additional resources and flexibility to preserve public housing units, and
- To create a pilot program to train public housing residents to provide home-based health services.[18]

Again, given the Congress' current fixation with the federal deficit and debt, it is unlikely that this legislation will be implemented, despite the deteriorating condition of public housing in many parts of the country.

Filed by Sen. Robert Menendez (D-New Jersey) in March 2011, S. 624: *The Choice Neighborhoods Initiative Act of 2011*was referred to the Committee on Banking, Housing, and Urban Affairs, where it is under consideration. This piece of legislation would authorize the Department of Housing and Urban Development to transform neighborhoods of extreme poverty into sustainable, mixed-income neighborhoods with access to economic opportunities by revitalizing severely distressed housing, and investing and leveraging investments in well-functioning services, educational opportunities, public assets, public transportation and improved access to jobs.[19]

Closely related to this program concept, the President's FY 2012 budget renews its request for funding for the *Transforming Rental Assistance* (TRA) initiative. The budget proposes $200 million to fund a demonstration to test conversion of public housing to either Project-Based Vouchers or some other form of project-based assistance under Section 8. Through the demonstration, HUD intends to convert up to 263,000 units, including 255,000 units of public housing. The language in the budget proposal remains very broad, allowing the Secretary to "waive, or specify alternative requirements for, any provision that governs the use of assistance from which a property is converted pursuant to this heading." The budget states that participation in the demonstration will be voluntary and the selection process will be competitive (except for properties currently assisted under RAP, Rent Supplement, or Moderate Rehab), but it does not provide additional information on what selection criteria will be employed.[20]

Although there is much debate among housing professionals and elected officials about the specifics of various programmatic approaches, the basic idea carries promise for reclaiming low-income public housing units—an almost irreplaceable asset for people in need. HUD Secretary Shaun Donovan has stated that the absence of a viable preservation strategy for public housing has led to the loss of 150,000 units through demolition or sale over the last 15 years. Debate about this approach is likely to continue for some time, but it is unlikely that positive action will be taken on any of these proposals.

Low Income Housing Tax Credits

Provisions in the 2009 Stimulus Bill (the American Recovery and Reinvestment Act or "ARRA") had a significant and powerful effect on the ability of developers to monetize low income housing tax credits (LIHTC) and start construction on hundreds of affordable housing projects in Massachusetts and across the country. More than $144.5 million has been expended from ARRA tax credit funding programs in Massachusetts.[21] Unfortunately, this stimulus funding has all been exhausted.

Until funding is approved for the National Housing Trust Fund – an unlikely prospect—LIHTC remains the primary method for supporting new construction and rehabilitation of housing for low- and moderate-income households. Unfortunately, this critical piece of existing legislation has come under attack in Congress.

In July of 2011, Sen. Tom Coburn (R-Oklahoma) released his proposed "Back in Black: A Deficit Reduction Plan," which, among other tax reforms, proposes the elimination of the low-income housing tax credit (LIHTC), (along with the new markets tax credit (NMTC), historic preservation tax credit (HTC) and renewable energy tax credits (RETCs)).[22] In response, The Affordable Housing Tax Credit Coalition (AHTCC) sent a detailed rebuttal of this proposal to other lawmakers. The AHTCC warned that repealing the LIHTC would deprive millions of low-income families and seniors of a decent place to live and would eliminate thousands of jobs. More than 550 organizations signed on in support of this rebuttal.[23] The President's Budget for FY2012, released in February of 2011, maintains support for the Low-income Housing Tax Credit program.

So far, at least, there has been no action on Sen. Coburn's bill, but in looking at ways to "close tax loopholes," it is possible that the Congressional Debt Reduction Committee will include elimination of at least some of these programs in their recommendations. This could be devastating to the future production of affordable housing.

HOME Investment Partnerships Program

HOME is the largest federal block grant to state and local governments explicitly created to encourage the production of affordable housing for low-income households. Its annual budget has been on the order of $2 billion.[24] According to CHAPA, both the U.S. House and Senate versions of the FY2012 budget subject this program to deep cuts.

Section 8 Vouchers: The Section 8 Savings Act (SESA)

The Section 8 Voucher program has proven itself over the years since its inception in 1974 to be one of the most important of the housing subsidy programs for low- and moderate-income households. Under the Section 8 Voucher program, eligible households pay 30 percent of their income for rent, with HUD making up the difference, up to an approved Fair Market Rent. Section 8 relies upon the private market to produce the units, with the rental subsidies administered by public housing agencies.

The Center for Budget and Policy Priorities (CBPP) in Washington, DC, describes the program as "the nation's most widely used form of low-income housing assistance, help[ing] roughly two million low-income families afford modest rental units of their choice in the private market. Studies have shown that vouchers are highly effective in reducing homelessness and housing instability (both of which have been linked to a range of developmental problems among children) and help families move to lower-poverty neighborhoods with better schools and less exposure to crime."[25]

The Section 8 program has been used extensively in Massachusetts since 1974, when the state and its housing authorities became "early adopters" of the program. There are currently approximately 72,300 tenant-based *mobile* Section 8 vouchers in use in Massachusetts, plus nearly 57,500 *project-based* vouchers (including moderate rehabilitation projects) in affordable housing developments in the state, so that a total of nearly 130,000 households in Massachusetts benefit from the Section 8 program.[26]

On the positive side, Rep. Judy Biggert (R-Illinois), chair of the U.S. House Financial Services subcommittee responsible for housing, released a draft of the *Section 8 Savings Act* (SESA) on June 16, 2011. Similar in some respects to the Section 8 Voucher Reform Act (SEVRA), approved by the House Financial Services Committee in July 2009 but never enacted by the Congress, SESA would strengthen the housing voucher program. SESA's reforms are focused on enabling state and local agencies to stretch limited funds to help more needy families (or avoid harsh cutbacks), ease administrative burdens on agencies and private owners, and support working families.

Even though the Congressional Budget Office (CBO) estimates that passage of SESA could save more than $700 million in budget authority over five years through streamlining housing agency policies and procedures, it is not clear that this bill has a chance of passage in Congress.[27]

Public Housing Budget Provisions

Massachusetts has almost 40,000 federal public housing units which need ongoing funding for operations, repairs, modernization and resident services. The state's public housing stock is generally older than in other parts of the country, placing it at greater risk of deterioration without reinvestment. This resource is extremely important because it provides permanent housing for some of the region's lowest income families, elders and people with disabilities who could not otherwise afford to rent apartments in the private market. Underfunded for many years, the public housing budget is always of great importance to housing advocates across the country.

Of special concern to Massachusetts is the FY2012 House Transportation, Housing and Urban Development, and Related Agencies (T-HUD) Appropriations bill. It includes a provision that would eliminate federal funds to continue to maintain public housing units that have been newly federalized. According to CHAPA, 48 state public housing developments with 3,856 units at 19 local housing authorities in the Commonwealth were approved for federalization. In the summer of 2010, 28 of these developments including nearly 1,700 units completed the federalization process, using about $4 million in state grants.[28] According to CHAPA, under the proposed T-HUD budget, these units will no longer be eligible to receive federal operating and capital support. If this occurs, these housing units will be at severe risk of being taken off-line, depriving thousands of families of public housing.

For FY 2012, the President proposed a budget that reduces federal public operating housing funds and did not seek additional funding for supportive services to public housing residents beyond that which can be supported by operating subsidy accounts, but it did increase the capital budget for public housing marginally. The budget includes:

- *Operating Subsidies*: The President's FY 2012 budget requests $3.962 billion for the Operating Fund for 2012 (down from $4.83 billion in FY11). According to HUD's budget justifications, this figure represents 79.8 percent of eligibility under the current Operating Fund formula. However, the President's budget also proposes an offset totaling $1 billion of Public Housing Administration (PHA) "excess" operating reserves. The requested appropriations, in combination with offset reserves, would be sufficient to provide each agency with 100 percent of their formula eligibility.[29] The House appropriations subcommittee has recommended a funding level that is $100 million below the President's request, while the Senate Appropriations Committee has funded the program at the President's request level. Both bills rely on HUD's proposal to require public housing authorities to use excess operating reserves to fill the gap, but the Senate puts more restrictions on the extent to which HUD can order PHAs to use these reserves.
- *Capital Grants*: The President's FY 2012 budget requests $2.405 billion for the Public Housing Capital Fund, with $2.365 billion to be applied toward formula grants. The top-line request represents a reduction of $95 million from the FY 2010 enacted

level of $2.5 billion, but the request is an increase of $361 million more than the President's request for FY 2011.[30] The House appropriations subcommittee has proposed cutting funding to $1.53 billion (25% less than the FY2011 appropriation) and the Senate appropriations committee has proposed providing $1.875 million (an 8% cut).

Although this is good news in the sense that the request is moving in the right direction, the total capital needs of the country's public housing, as indicated earlier are estimated at $20 to $30 billion or more than *10 times* the budget requested for FY2012**.** In general, in these tight fiscal times, public housing is nowhere near as high a priority as many housing advocates believe it should be.

Rental Assistance Demonstration Program

One last piece of proposed legislation by the U.S. Senate authorizes a demonstration program to convert up to 60,000 public housing units to project-based Section 8 units but provides no additional funding. Unlike the HUD proposal, the demonstration would be limited to public housing. Projects are to be chosen competitively and HUD must ensure awardees are diverse both geographically and in portfolio size, and HUD must also evaluate the effectiveness of the program as a method to recapitalize public housing. The authorization runs until September 30, 2015. The language in the bill directs HUD to use existing resources, with increases in Section 8 to be funded by reductions in public housing operating and capital funds. The accompanying Committee Report says the reductions should be directly related to the units in the demonstration. It is unclear how this would work (i.e., will future rental assistance funding depend on future public housing funding levels) and if it is workable.

In any case, most of this legislation lies dormant for the foreseeable future as the Congress turns its attention almost exclusively to deficit reduction.

Public Spending on Housing in the Commonwealth

The Commonwealth has two sources of funds to assist homeowners, renters and developers of housing. One is from its own revenue, the other from a variety of federal programs. A large chunk of the state's funds used for housing are annual operating funds; the remainder is capital or trust funds used for investment in public housing and to subsidize affordable housing construction. All of these funds are processed through the state's Department of Housing and Community Development (DHCD). State-funded operating funds are used largely to pay for administration of the agency, for rental assistance, and for public housing subsidies. In addition, in FY2010, operating funds for homelessness programs were shifted from the Department of Transitional Assistance to DHCD.

Federally-financed funds extended to DHCD are used for such programs as the Section 8 rental voucher program, for new housing development and rehabilitation, for energy assistance and for various neighborhood stabilization programs. For fiscal years 2010 through 2012, DHCD has received funds from the federal *American Recovery and Reinvestment Act* (ARRA) for a range of programs, including the Homelessness and Rapid Re-Housing Program, Low Income Housing Tax Credits and weatherization programs. This is a declining resource, as DHCD received $357 million in FY2010 and $181 million in FY2011. ARRA funding will decline further in FY2012. Altogether, DHCD had $1.3 billion in FY2011 to spend on housing, homelessness and community services.

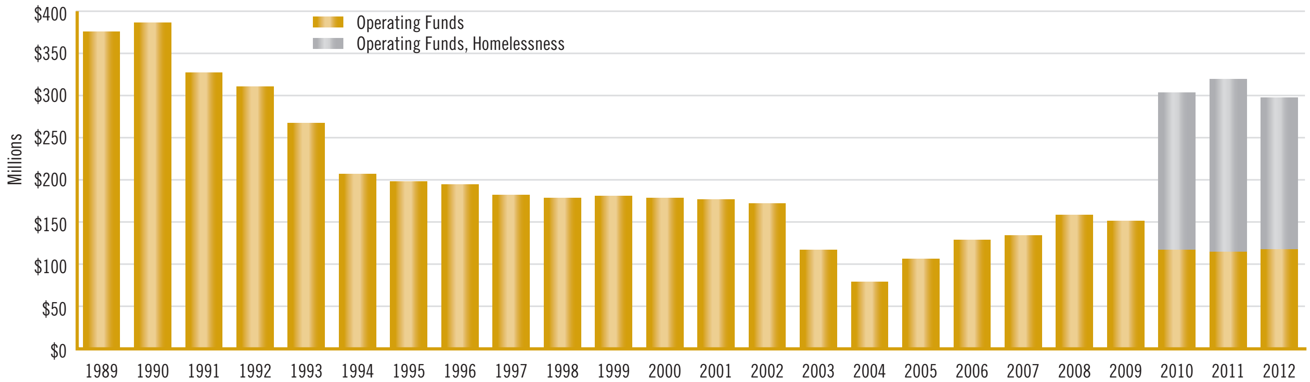
DHCD Operating Funds

In 1990, the state spent $386 million of its own funds on housing programs through DHCD's operating budget (in FY2011 dollars). Beginning in 1991, the amount declined an average of 14 percent per year, so that by 1994, the state was spending only about half the amount annually—$207 million. Over the next eight years, operating spending for housing continued to decline, but at a slower pace of 2 percent per year, and some of this decline was balanced with increases in capital spending through state bonds. By 2002, spending of operating funds was down to $172 million. Over the next two years, state spending on housing was slashed to just $79 million in 2004. From 2004 to 2008, operating funds were increased to DHCD, but 2008 funding ($158 million) was still less than 2002.

The current recession and the state's fiscal crisis have taken a toll on the state share of DHCD operating

FIGURE 5.1

DHCD Real Operating Funds (FY2011 Dollars), FY1989–FY2012



Source: DHCD Budget Office and www.mass.gov budget documents

funds, declining from $158 million in FY2008 to $115 million in FY2011 as shown in **Figure 5.1**. Total DHCD funds increased after 2009, but *only* because of the transfer of Homelessness operating funds into its account. For FY2012, DHCD will see a tiny $2.9 million increase in operating funds, almost all of which will support an 8.4 percent increase in the Massachusetts Rental Voucher Program.

As noted above, in FY2010 state homeless programs were shifted from the Department of Transitional Assistance to DHCD as part of the implementation of the recommendations of the Special Commission Relative to Ending Homelessness in the Commonwealth.[31] This move more than doubled DHCD's operating funds. Emergency Assistance (EA) for Families is the largest of these programs. Any family who meets eligibility guidelines may access EA. The recession pushed more families into homelessness, resulting in a 74 percent increase in the number of families served by EA between September 2007 and September 2009.[32]

As a result, during FY2010, EA received $42 million in supplemental funding, for total FY2010 funding of $134 million. Under the FY2011 budget, EA was to receive $115 million in funding, but continued high levels of need forced the state to provide an additional $46 million in funding, for total FY2011 spending of $161 million. For FY2012, EA funding will decline to $98 million, largely due to the creation of the new $39 million HomeBASE program, which provides short-term rental assistance and services instead of shelter beds or motel rooms. The combined FY2012 funding of these programs will be $136 million, higher than the EA budgeted funds for FY2011, but less than actual FY2011 spending. The provision of rental assistance is considered more cost effective than shelters or motels.

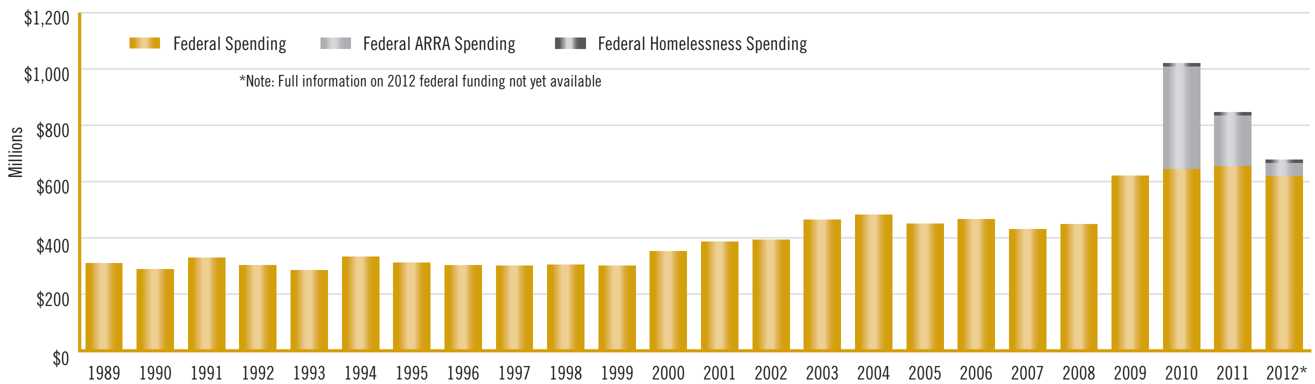
Federal Spending through DHCD

From FY1989 to FY1999, inflation-adjusted federal spending through DHCD was relatively stable, with the exception of double-digit increases in FY1991 and FY1994 (see **Figure 5.2**). From FY1999 to FY2004, federal spending increased 60 percent ($180 million), to $482 million (FY2011 dollars), but then declined to $449 million in FY2008. Federal funds flowing to DHCD jumped to $620 million in FY2009 and $644 million in FY2010. An additional $364 million was made available to DHCD during FY2010, and $180 million in FY2011, as part of the American Recovery and Reinvestment Act (ARRA). As such, the total amount of federal funds allocated to DHCD increased from $449 million in FY2008 to just over $1 billion in FY2010. In addition, Washington supplied $12.5 million in homeless assistance funds in FY2010 and $12.3 million in FY2011.

As of this writing, final FY2012 Federal spending figures are not yet available, though it is clear that

FIGURE 5.2

Total Real Federal Spending (FY2011 Dollars), FY1989–FY2011



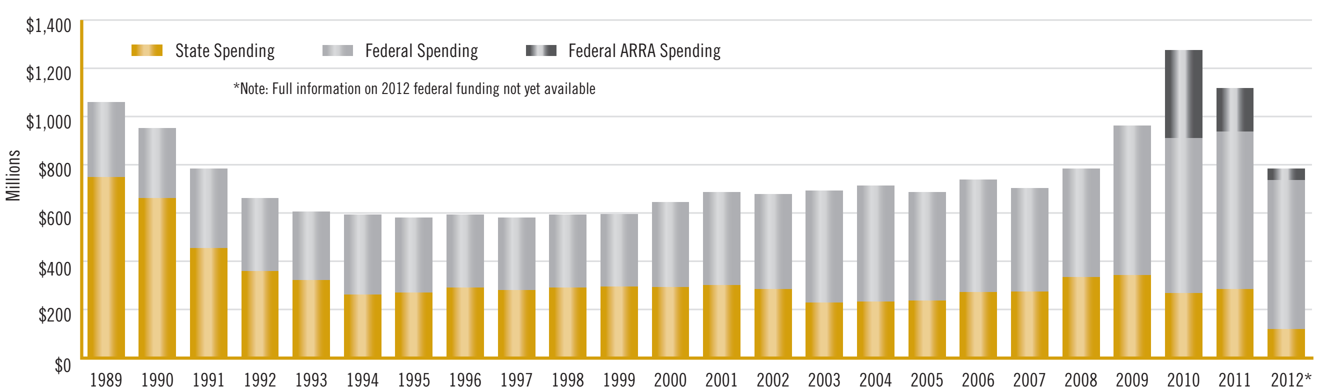
Source: DHCD Budget Office and www.mass.gov budget documents

ARRA funding is set to decline further. In addition, spending on other federal programs such as weatherization, Neighborhood Stabilization and Home Investment Partnerships are set to decline dramatically, led by a $22 million, 55 percent decline in weatherization programs. What is most likely is that DHCD will end up with about $620 million in regular federal spending plus $46 million in remaining ARRA funds and $12 million in federal homeless funds for a total that will likely not reach $700 million. This will represent a cut of 20 percent from FY2011 and as much as 33 percent from FY2010.

Figure 5.3 shows changes in total DHCD spending (federal, as well as state operating and capital funds), excluding the new homelessness funding, from 1989 to 2011 (in FY2011 dollars). Neither final federal spending data nor state capital spending data for FY2012 were available at this writing. From FY1989 to FY1997, total funds declined 45 percent, from $1 billion to $580 million. While there was some recovery in total spending from FY1998 to FY2008, federal cash infusions in FY2009 and FY2010 pushed total funding to $1.3 billion in FY2010. With ARRA funding declining, total resources declined to $1.1 billion in FY2011 and will decline further in FY2012.

FIGURE 5.3

Total Real DHCD Spending (FY2011 Dollars), Including Federal Share and ARRA, FY1989–FY2011



Source: DHCD Budget Office and www.mass.gov budget documents

Conclusion

As we look at housing policy in 2011, we have something to cheer about in the Commonwealth, but great concern about the inability of the federal government to enact legislation that would be useful to enhance the production of rental housing and improve housing affordability. Even more worrisome is the possibility of the repeal of laws that have been central to the development of affordable housing. Moreover, given the focus on deficit reduction, it is unlikely that there will be anywhere near as much federal funding for housing in the future as in the past.

The state's fiscal health may pose a future problem for housing programs in the Commonwealth. Additional federal funds under the ARRA program made up for a shortfall in state funding until now. But these federal funds are nearly exhausted. As such, the Commonwealth will likely be unable to sustain a full commitment to housing provision at least over the next several years.

The success of the effort to save the Chapter 40B program is significant, especially as it demonstrates a willingness within the population of Massachusetts to support the production of affordable housing. We can also hope that developers will finally come into the market to offer rental housing, taking advantage of the numerous communities that have adopted 40R and therefore have zoned land ready for housing development.

6.
Conclusion and Policy Suggestions

On June 1, 2011, *The Wall Street Journal* front page main headline blared "Housing Imperils Recovery." In the very first paragraph, the article noted that home prices nationwide had sunk to 2002 levels, "effectively wiping out almost a decade's worth of home equity across the U.S. and imperiling the fragile economic recovery as Americans confront the falling value of their biggest investment."[1] The article went on to point out that falling home prices undermine economic growth in several ways. Homeowners cut their consumption when the value of their main asset depreciates and the further its value erodes, the more they are stuck in homes they cannot sell because they are worth less than they owe on their mortgages. Unemployed homeowners find it hard to move to where jobs might exist because they cannot easily change where they live. All of this weighs on consumer confidence and their spending, turning business sentiment against investment and hiring. All of this leads to a vicious downward cycle.

In past *Greater Boston Housing Report Cards*, we have focused on how the economy affects housing prices and rents. Now with the Great Recession extending into its fourth year and with less and less hope for recovery in 2012, it is abundantly clear that we need to better understand how the housing market affects the overall economy and focus more attention on "fixing" housing in order to fix the economy. This is particularly critical given the inability of Washington to come to an agreement on a jobs package as of this writing. The point of this year's report card is that housing is now at the very center of the economic crisis and the economy does not recover without a major improvement in the housing market.

A corollary to this argument is that in past report cards we have focused most of our attention on making housing more affordable in the Greater Boston metro region. No doubt this is still a worthy and important goal. But very much in line with those economists who argue that we need to "stimulate" the economy in the short-run and only then focus on deficit reduction, we see a need to stabilize home prices in the short-run and then make a concerted effort to make those prices more affordable over the long-run. This will take a set of new housing policies and we will lay out some alternatives at the end of this chapter.

The Economy: Where We Are

By now, if this were a normal business cycle, we would be back on the road to rapid economic growth and full employment. But in 2011, national economic growth stalled out and employment stopped growing. Massachusetts is doing a good deal better than the rest of the country, but it is not immune to national and even international events. When a group of 17 leading Massachusetts economists from UMass, Boston University, Northeastern, Harvard, MIT, the Federal Reserve Bank of Boston and the Federal Deposit Insurance Corporation came together in late September to deliver a prognosis on the Commonwealth's near-term economic health, they concluded that despite its superior economic performance to date, the Bay State's economy will likely flag in the months to come.[2] Beside the housing drag on the economy, these economists worry that the bipartisan Congressional deficit reduction "Supercommittee" will propose major cuts in defense and scientific research funding, two sectors that are key to Massachusetts' better-than-average economic performance. They also worry that turmoil in European economies will hurt Massachusetts exports. This could be a "perfect storm" that undermines any hope of near-term economic recovery.

That Massachusetts home prices appear to be headed for a double-dip suggests that homeowners will have to wait a long time for the values of their homes to recover. For long-term homeowners, this only means the appreciation on their homes is not as great as it once was. For newer homeowners, this likely means they will continue to be underwater for some time to come, owing more on their mortgages than the current value of their homes. As we know from economic research, the negative "wealth effect" is a major damper on household consumption and therefore on economic growth and employment. In many Greater Boston communities, the sharp increase in foreclosures in 2010 and early 2011 adds to downward home price pressure, further depressing household consumption.

That housing production in Greater Boston in 2011 is likely to be lower than at any time in at least the past two decades also suggests that residential construction employment will continue to suffer along with other industries that depend on homebuilding for their sales.

Meanwhile, renters, who face the highest unemployment rates in Greater Boston, have seen rents rise to their highest level ever. Ironically, depressed prices in the homeowner market have been responsible for the increase in rents as foreclosed households seek rental housing and young families forego moving from their rental units into their first homes because of fear that home prices will fall further, pushing them underwater. Weak demand for homeownership means abnormally strong demand for residential rental units.

Irony of ironies, stabilizing home prices and even creating the conditions where home prices are rising again may be important for *increasing* affordability for renters. We need to make it possible for potential homebuyers to come back into the market to improve household asset values and reverse the decline in homeownership rates. This is important in Massachusetts, but most important in states where homeownership rates have plummeted such as Nevada, Arizona, California and Florida and to some extent in the industrial Midwest.

Increasing homeownership is also an issue of racial justice. The progress that blacks and Hispanics have made in closing the homeownership gap with non-Hispanic whites has been reversed as a result of the housing crisis. Almost nowhere in the country is the homeownership gap greater than in Greater Boston. So working to close that gap is particularly important here.

Unfortunately, the federal government is walking away from policies that historically have been helpful in producing new housing, rehabbing older housing, providing public housing and encouraging homeownership. Moreover, with the last funds from the *American Recovery and Reinvestment Act of 2009* (ARRA) being spent, the Commonwealth will no longer be able to sustain its level of housing investment.

What Should be Done?

There are many plans afoot about what might be done to revive the housing market while at the same time assuring low- and moderate-income families safe and secure shelter. There are four areas that need attention:

- Stabilizing home prices in the short-term
- Providing for construction of affordable housing units
- Increasing rental housing to reduce rents
- Increasing production of homeownership units to moderate future prices

Here are some ideas worth considering.

National Programs

A range of federal programs are needed to stabilize the housing market and increase the supply of rental housing. Some of these only require that existing programs be sustained. Others involve new approaches to housing preservation and home price stability.

Maintain Federal Low Income Housing Tax Credit Program

There is great concern that the federal Low Income Housing Tax Credit (LIHTC) could be eliminated or reduced as part of corporate tax reform proposals (including a proposal to reduce the corporate tax rate in exchange for eliminating many current credits and deductions). It is highly unlikely that Congress would provide replacement funding in the form of direct appropriations if it eliminated LIHTC.

Maintaining the housing credit is crucial to both the economy in the short run and to affordable housing production generally. It has been the nation's largest single housing production tool since 1986 and is key to multifamily rental production overall. The *National Council of State Housing Agencies* estimates that it finances approximately 90 percent of all affordable rental housing produced annually and the *National Association of Home Builders* reports that the credit financed half of all multifamily starts in 2010.[3] While tax credits are sometimes criticized as less efficient than grants, the use of credits for affordable housing development has had several offsetting benefits, including bringing "market discipline" to the financing and operation of affordable housing. Providing this federal funding as a permanently authorized tax credit rather than a grant or loan program subject to the annual budget process has also made it a reliable funding source.

The program has proved durable in the face of the current recession, with demand for credits only temporarily interrupted at the height of the recession in 2008-2009. Investors in Massachusetts projects are now paying 85 to 90 cents per dollar of credit, close to pre-2008 levels and the "9%" credit is expected to generate $119 million or more in private funding for affordable housing in Massachusetts in 2011. In addition, smaller ("4%") credits available automatically to eligible developments funded with tax-exempt bonds will generate millions more. LIHTC typically provides 60 percent of the funding for a project; without it, many production and preservation projects, including new transit-oriented housing and HOPE VI redevelopments, would not go forward.

Preserve Funding for Federal HOME Block Grants

Given current long-term budget cutting targets approved by Congress, there is great uncertainty about the likely funding levels for HUD programs in Fiscal Year 2012 (which started this October 1) and in the years to follow. The appropriations committees and subcommittees in the House and Senate have both proposed cutting funding deeply for a number of HUD programs in FY2012 relatively to FY2011. While the House and Senate propose very different cuts for some programs, both have proposed deep cuts in the HOME Investment Partnerships program (25% and 38% respectively).

Cutting HOME would seriously damage the ability of the Commonwealth and many cities and towns in Greater Boston to create and preserve affordable housing. Unlike the CDBG block grant program, which provides annual grants to 37 larger communities in Massachusetts for a variety of activities, the HOME grant is specifically for affordable housing activities and currently provides annual allocations to almost 100 cities and towns statewide, as well as the state, through a mechanism that allows smaller towns to band together to receive direct block grants. The Commonwealth uses much of its HOME allocation ($13 million in FY2011) to support LIHTC projects by providing some of the 40% of development costs on average not raised by the credit program. HOME also promotes affordable housing development in high opportunity suburban communities which do not receive other federal block grants because of their relative wealth.

Enact the Section Eight Savings Act (SESA)

Housing advocates have been proposing administrative reforms to the Section 8 voucher program for years that would simplify program administration, reduce program costs and better serve the households using the program. Passage of this bill would make it possible to reduce cuts to other HUD programs while improving overall program operations. Amendments to the current SESA language, including requiring better use of reserves and reallocation of uncommitted funds, could increase these benefits.

Ensure Government Sponsored Enterprises Continue as Congress Considers Reform

Congress and the Administration have been discussing how to reform Fannie Mae and Freddie Mac, the two major Government Sponsored Enterprises (GSEs) that provide a secondary market for single-family and multi-family housing and that have proven critical to the availability of capital for these purposes for decades. Since their financial collapse in 2008, and placement in government conservatorship, there has been much debate over their long-term future. Most proposals would replace the GSEs, with their implicit government guarantee of securitized mortgages, leaving federal support for mortgage lending primarily to HUD/FHA, Veterans Administration, and Rural Housing programs that serve targeted populations. These proposals would essentially leave secondary mortgage market operations to the private sector, ignoring the critical role the GSEs have played in ensuring mortgage liquidity, especially in times—including the present—when private capital availability contracts. The GSEs accounted for 75 percent of all single family mortgages in the first quarter of 2011, and Ginnie Mae accounted for another 22 percent.

Continued government support is critical to keeping mortgage funds flowing and restoring the housing market, especially given the government's ability to take the long view, rather than having to respond to short-term profit expectations.

No one expects GSE reform to occur in the next year, given the fragility of the economy, but any future solution should consider the principles recommended by the Center for American Progress' Mortgage Working Group (MWG): to ensure liquidity, responsible risk-based pricing, broad access to capital across geographies, and the availability of capital for multifamily housing and affordable single family housing. It recommends the establishment of chartered mortgage institutions that could provide guarantees of timely payments to investors backed by on-budget government catastrophic risk insurance.

Support Federal Funding for Housing Counseling

Housing counseling for would-be homebuyers, as well as homeowners, has been an important tool for encouraging sustainable homeownership and for preventing foreclosures. Non-profit counseling organizations provide pre-purchase counseling, post-purchase counseling, counseling for reverse mortgages and other services. Nationwide, these groups have provided assistance to four million households and worked to prevent mortgage delinquency for 2.6 million households since 2009.[4] Funding for this program was eliminated in FY2011 and only the Senate (not the House) has proposed funding it in FY2012. Funding should be restored in FY2012.

Home Price Insurance

Another new idea aimed at stabilizing home prices at little cost to the federal treasury involves providing what amounts to insurance against a catastrophic decline in the value of one's newly-purchased home.[5] Under such an arrangement, the U.S. Treasury in conjunction with the U.S. Department of Housing and Urban Development would put in place for the next 18 months a *home price insurance program* providing a form of catastrophic loss protection for homebuyers taking a chance on the current housing market. If families knew that they were insured against taking a large loss on a home bought this year or early next, many would likely come off the sidelines and begin looking for a home to buy. After all, if the program were in place and they postponed purchasing, they not only would lose the insurance option after 18 months, but if many others took advantage of the program, they might miss the bottom of the market altogether. That should give enough encouragement for several million homebuyers to move quickly, taking much of the current inventory "off the shelf", stabilizing home prices and encouraging new home construction.

In order to assure that this government insurance policy does not permit homebuyers to game the system, the program would need some security measures. To qualify for the insurance, which would not cost more than $500 to cover administrative expenses, a home for sale would need a full and fair valuation by a licensed qualified appraisal firm and a home inspection by a licensed inspector. To discourage speculators from entering this market, the insurance program would be limited to owner-occupied properties with no more than three housing units. To assure that a family can really afford the home, the purchaser would be required to obtain a conventional mortgage and pay a minimum of 10 percent down. To assure that homes are not "flipped," the insurance would only be paid if the homeowner held onto the property for a minimum of three years with the possible exception for homeowners who faced an economic calamity due to an unexpected health problem or long-term unemployment.

Once the homebuyer resells the property (after re-appraisal and re-inspection), the government would pay 85 percent of any loss between the original purchase price and the subsequent selling price after deducting mortgage closing costs on the original purchase. The homeowner would be responsible for the rest. The maximum insured loss under this program would be limited to $100,000.

If few take advantage of this new program, the cost to the government would be trivial. If a large number of buyers come into the market, increased housing demand would contribute to stabilizing prices and therefore negate the need for paying a large number of claims. Three years from now, almost everyone expects home prices to be higher than today so the risk to the federal budget is tiny. But even under an unlikely worst case scenario where one-fourth of the homes insured somehow suffered a staggering 22 percent further decline in prices—the price drop used in the worst case scenario when the Treasury stress-tested the banks for TARP funds—the cost to the government would be less than $10 billion on a million insurance policies.

The U.S. Congressional Financial Services Committee has already drawn up draft legislation for such a plan. This would be a great time to dust it off and try to pass it. If it works, home prices should quickly stabilize, the current pressure on rental markets would begin to subside as some renters move to homeownership, the number of foreclosures because homebuyers are "underwater" should decline, new home construction would begin to become profitable and a good number of jobs would be created.

State Housing Policy Recommendations

There are a number of policy reforms that can be carried out by the Commonwealth and in Greater Boston to expand housing production, stabilize home prices and reduce pressure on rents.

Expand the State Low Income Housing Tax Credit Program

Applications for federal LIHTC allocations have soared in recent years, with new requests outstripping annual allocations by three to one in Massachusetts. As a result, the state has had to tell developers with fundable projects that it may be two or three years before they can receive a federal credit allocation. The state low-income housing credit program was created in 1999 to compliment the federal program by providing investors with a credit against their state tax liability. State credits work like federal credits but are taken each year for five years rather than 10. Raising the current $10-million ceiling on annual new state credit allocations to $20 million for the next four years would create about 2,700 rental units affordable for households with incomes up to 60 percent of area median income and provide a much needed boost to the construction industry.

Enact Supportive Housing Legislation

The legislature could enact legislation (House bill 368/ Senate bill 1967) to create 1,000 units of supportive housing and to enhance coordination across housing and human services agencies (see Chapter 5 for a more detailed description).

Enact the Public Housing Innovations Bill

The legislature could enact legislation (House bill 375/ Senate bill 1935) to provide local housing authorities with greater flexibility to maintain and revitalize their public housing inventory (see Chapter 5 for a more detailed description).

Pass Zoning Reform Legislation

Outdated state planning and zoning enabling laws have added to the Commonwealth's housing challenges. Beacon Hill has not tackled comprehensive zoning legislation since 1975. The legislature needs to confront this challenge in order to promote the housing options Massachusetts needs to stay competitive. We encourage the legislature to pass comprehensive land use planning and zoning reform legislation that satisfies three principles: 1) promotes compact sustainable development, 2) encourages prompt and predictable permitting decisions, and 3) creates a more diverse housing stock.

Support 40R & 40B

To assure a sufficient supply of communities where new housing can be developed, it is important to maintain and support both Chapter 40R and Chapter 40B. The successful defense of 40B in the November 2010 referendum demonstrated that there is strong public support for this law and the legislature should resist any attempts to weaken it. Assuring adequate funding for Chapter 40R and its companion 40S will provide communities with confidence that the state will make good on its promise of local aid to those communities adopting smart growth zoning overlay districts where affordable housing can be readily developed.

As noted in Chapter 5, the Trust Fund established to provide additional local aid to communities that adopt 40R is nearing depletion. Legislation filed by Rep. Kevin Honan (House Bill 197) and Sen. Harriet Chandler (Senate Bill 75, co-sponsored by Rep. Carolyn Dykema) would provide for a continuing and reliable source of funding of the Smart Growth Housing Trust Fund by capturing income tax payments from those living in 40R smart growth districts and depositing these funds temporarily in the Smart Growth Housing Trust Fund. The Trust Fund would then make the required payments to communities under Chapter 40R and 40S. Annually, after reserves are retained, any balance will be returned to the General Fund. This mechanism will provide, on an ongoing basis—without specific legislative or administrative action each year—for the funds needed to fund Chapters 40R and 40S and thus will result in their becoming self-sustaining. It is important to note that this bill will not increase the costs of 40R or 40S. It will simply assure that funds will be available to make the payments when the payments are due, as required by statute.

Multi-University Graduate Student Village Development

Last year's *Greater Boston Housing Report Card* suggested that with the increase in the graduate student population in the region and the lack of housing provided for them by area universities, upward pressure was being placed on residential rents. Because of the concentration of universities in Greater Boston, this is more of a problem than in other areas of the country.

One way to provide for such housing is to have a number of universities collaborate with a private sector developer to construct one or more "multi-university graduate student villages." The universities would be responsible for marketing units in these urban villages to their graduate students which would be developed conveniently near mass transit stops so that residents would have ready access to their respective campuses. The villages would not only contain units of various sizes and offered at a range of rents, but would contain community space for entertaining and seminars, a Zip Car facility, and retail space where there could be a supermarket, drycleaner, sports bar or other facilities.

Several developers and construction firms have shown interest in this concept. Given the continued increase in local rents, this would be a good time to press forward with university leaders to assess the viability of such a plan.

Federal, State, and Private Sector Approaches to Foreclosure Relief

Finally, there are actions that could be taken at the federal and state level which would reduce the impact of foreclosures on households facing the loss of their homes and help stabilize home values in the communities where foreclosures are most prevalent.

Addressing the foreclosure crisis requires a comprehensive approach at all levels of government working in partnership with the private sector and non-profit organizations. Since 2008, many laudable initiatives have been implemented and new laws have been enacted at both the state and federal levels. However, given the persistence of the foreclosure crisis, more tools will be needed in the coming months and years. Some of these include:

- The state and federal governments should continue to support non-profit organizations to provide foreclosure counseling so that individual homeowners can successfully remain in their homes, if at all possible, to assist with short sales in cooperation with local brokers or to transition to rental housing.
- The Obama Administration could strengthen the Home Affordable Modification Program (HAMP) so that homeowners can move more quickly from trial loan modifications to permanent loan modifications and so that lenders have greater incentives to reduce the principal of the outstanding loan amount, thereby making it more sustainable and affordable for homeowners over the long term.
- The Federal Housing Finance Agency (FHFA) could expand the Home Affordable Refinance Program (HARP) to allow for a greater number of "underwater" homeowners to be eligible to refinance their loans to lower interest rates through Fannie Mae and Freddie Mac.
- Disposition of Real Estate Owned (REO) Properties. According to the *Center for American Progress*, in 2011 the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac owned approximately 250,000 residential properties, mostly from mortgages insured or securitized by these agencies before the housing bubble burst.[6] Some of these properties are still well-preserved and could be sold individually through normal real estate markets or at auction. But, as the Center claims, most of these properties are unoccupied and losing value as they deteriorate. Instead of continuing to hold these for sale well into the future, they could be converted into rental units for the time-being. This would help stem neighborhood blight, reduce the surplus of foreclosed housing on the market depressing home prices and provide a much-needed supply of additional rental housing, thus stabilizing rents. The Center calls this proposed program "Rehab-to-Rent."

In order to prevent private developers from cherry-picking only the choicest properties for rehab and rent, the Federal Housing Finance Agency charged with disposing of REO units could require that investors and property managers partner with affordable housing organizations including local Community Development Corporations to purchase a pool of properties of varying quality for conversion to rental units. CDCs and similar organizations can use community land trusts, funds from the Neighborhood Stabilization Program (NSP) and HOME funds to help keep rents affordable in these converted units. The Center notes that the rehab of these units will help national and regional economies not only by stabilizing home prices and rents, but by generating construction jobs and employment connected to rental housing management.

- Support *Project Rebuild:* The President's jobs bill (the *American Jobs Act*) announced in September 2011, includes a proposed $15 billion appropriation to rebuild neighborhoods and communities hurt by high levels of foreclosure. It would essentially follow the model of the Neighborhood Stabilization Program (NSP), but expands eligibility to for-profits as well as continuing to make funds available to public agencies and non-profits. It also would allow funds to be used to rehabilitate and repurpose commercial properties in these areas. The proposal is intended to stimulate demand in the construction sector and stabilize property values in high foreclosure neighborhoods. It would provide both formula allocations and competitive grants. The administration estimates that Massachusetts would receive $40 million under the program.
- Massachusetts should explore the possibilities of starting a mediation program to allow for successful resolutions of foreclosures between lenders and homeowners. A recent Federal Reserve Bank of Boston study has documented that these programs can be quite effective in reducing foreclosures.[7]

Conclusion

There is a vast array of existing and new approaches to improving the housing market that warrant immediate consideration given the enormous impact that the nation's housing market has had on America's economy. If some of these approaches were implemented quickly, we could begin to see a faster exit from the Great Recession and at the same time put in place housing programs that will stabilize home values for those who have seen the values of their homes depreciate, reduce the number of families facing foreclosure, take pressure off the overheated rental market and provide additional affordable housing for low and moderate-income households.

There is much to be done.

Endnotes

Chapter 1

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[2] Barry Bluestone, Chase Billingham, and Jessica Herrmann, *The Greater Boston Housing Report Card 2009: Positioning Boston in a Post-Crisis World*. The Boston Foundation, Citizens' Housing and Planning Association, and the Dukakis Center for Urban and Regional Policy at Northeastern University, October 2009, p. 34.

[3] See Alice Gomstyn, "Finance: Americans Adapt to the 'New Normal,'" *ABC News*, June 15, 2009.

[4] As quoted in Megan Woolhouse, "Economists Doubtful on Chances Obama's Jobs Bill will Succeed," *Boston Globe*, September 13, 2011, p. B5.

[5] See Lucia Mutikani, "Stocks Volatility keeps Forecasters Busy," *Reuters News Service*, August 28, 2011.

[6] See Mortgage Bankers Association, "MBA Economic Forecast," August 19, 2011.

[7] U.S. Bureau of Economic Statistics, "Employment Situation Summary," September 2, 2011. (www.bls.gov)

[8] See Damian Paletta, "Forecast Clouds Debt-Cut Outlook," *The Wall Street Journal*, August 25, 2011.

[9] See U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product: Second Quarter 2011," Table 3.

[10] See SEI Investment Management Unit, "Economic Insights: University of Michigan Consumer Sentiment Index," August 16, 2011 and Lucia Mutikani, "Stocks Volatility keeps Forecasters Busy," op.cit.

[11] Calculated from Council of Economic Advisers, "Economic Indicators," July 2011, p. 9.

[12] See Council of Economic Advisers, "Economic Indicators," July 2011, p. 6 and Council of Economic Advisers, Economic Report of the President 2011 (Washington, D.C.: Government Printing Office, February 2011), Table B-30, p. 226.

[13] Freddie Mac, *Freddie Mac Update*, August 2011, p. 18.

[14] Karl E. Case, John M. Quigley, and Robert J. Shiller, "Wealth Effects Revisited 1978-2009," *Cowles Foundation Discussion Paper No. 1784*, Cowles Foundation for Research in Economics, Yale University, February 2011.

[15] Case, Quigley, and Shiller, op. cit., p. 37.

[16] See U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product: Second Quarter 2011," op.cit., Table 3.

[17] Binyamin Appelbaum, "Its Forecast Dim, Fed Vows to Keep Rates Near Zero," *New York Times*, August 9, 2011.

[18] See Casey Ross, "Anxiety Rises as Stimulus Dries Up," *Boston Globe*, August 22, 2011.

[19] See Megan Woolhouse, "Economists Doubtful on Chances Obama's Jobs Bill will Succeed," op.cit.

[20] Motoko Rich and Nelson D. Schwartz, "A Wave of Worry Threatens to Build on Itself," *New York Times*, August 8, 2011.

[21] The Economic Activity Index prepared by the Philadelphia Federal Reserve Bank for each state and the nation is based on data on total nonfarm employment, hours worked in manufacturing, unemployment rates, and real wages and salaries. In the long run, this index tends to reflect changes in each state's and the nation's total output or Gross State Product (GSP).

[22] See Alan Clayton-Matthews, "Massachusetts Current and Leading Economic Indices," *Mass Benchmarks*, August 2011.

[23] Alan Clayton-Matthews, "Massachusetts Current and Leading Economic Indices," op. cit., p. 2.

[24] These data are from the U.S. Department of Labor, Bureau of Labor Statistics, "Establishment Data for Major Metropolitan Areas," August, 2011, Table D3. Greater Boston here refers to the Boston-Cambridge-Quincy Metropolitan Statistical Area.

Chapter 2

[1] The housing permit data are available on a county basis. Here we define Greater Boston to consist of all of the municipalities within the five counties of Essex, Middlesex, Norfolk, Plymouth, and Suffolk.

[2] Not all permits turn into new housing units, but according to the U.S. Census, historically the number of housing starts is only 2.5 percent less than the number of permits issued and the number of housing completions is only 4 percent less than the number of housing starts. As such, more than 93 percent of all permits typically end up being new housing units. For our purposes, permits represent a reasonably accurate measure of housing production and these data are collected at the county level by the Census Bureau for all counties in the U.S. See U.S. Census Bureau, "Relationship between Building Permits, Housing Starts, and Housing Completions," http://www.census.gov/const/www/nrcdatarelationships.html.

[3] For data on the population of the City of Boston, see www.cityofboston.gov/census.

[4] For a complete list of the 161 cities and towns, see the Municipal Scorecard in **Appendix A**.

Chapter 3

[1] This estimate is based on data supplied to the Dukakis Center from the Warren Group on single family home prices for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties in Massachusetts. The Warren Group keeps track of home sales and prices for single family homes, 2–4 unit residential buildings, and apartments with 5+ units, as well as foreclosure petitions, deeds, and auctions. See www.warrengroup.com.

[2] See Barry Bluestone, Chase Billingham, and Jessica Herrmann, *The Greater Boston Housing Report Card 2009: Positioning Boston in a Post-Crisis World*, The Boston Foundation, Citizens' Housing and Planning Association, and Kitty and Michael Dukakis Center for Urban and Regional Policy, October 2009, Figure 2.9, p. 33.

[3] See Barry Bluestone, Mary Huff Stevenson, and Russell Williams, *The Urban Experience: Economics, Society, and Public Policy* (New York: Oxford University Press, 2008), pp.417–421.

[4] See Danielle Hale, "Homeownership, Rental and Homeowner Vacancy Rates Overview of Metropolitan Statistical Area Data," National Association of Realtors, August 5, 2010. http://www.realtor.org/research/economists_outlook/commentaries/commentary_homeownership_metro

[5] The Case-Shiller Index provides data on home prices for 20 metropolitan areas. It is available from Standard & Poor's website at http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----

[6] See Bluestone, Stevenson, and Williams, *The Urban Experience: Economics, Society, and Policy*, op. cit., p. 420.

[7] The data used in this section are from Reis, Inc. which tracks the apartment rental market on a regular basis for approximately 200 metropolitan regions. Reis only counts apartment complexes with 40 or more units and therefore the total number of rental units in a metro region exceeds the number counted by Reis. In 2009, according the U.S. Census, there were roughly 440,000 rental units in Greater Boston. Reis counted about 196,000 of these or 45 percent.

[8] Data on rents in various metro regions was supplied to the Dukakis Center by Reis, Inc.

Chapter 4

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Massachusetts homeownership rate in 2008 was 65.7%; in 2010 65.3%. The comparable rates for the U.S. were 67.8% and 66.9%. See U.S. Census data as reported in http://finance-data.com/series/MAHOWN and Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2011*, Table A-3, p. 36.

[3] These statistics are from the U.S. Census Bureau, *Current Population Survey* as reported by the Danter Company http://www.danter.com/statistics/homeown.htm.

[4] Census Bureau, "Housing Vacancies and Homeownership Survey," Table 16 &16a, retrieved on 6/27/2011 from http://www.census.gov/hhes/www/housing/hvs/annual10/ann10ind.html.

[5] U.S. General Accounting Office, "Homeownership: Achievements of and Challenges Faced by FHA's Single Family Mortgage Insurance Program," June 2, 1998, p. 5.

[6] U.S. Government Accounting Office, op.cit., p. 5.

[7] Stuart A. Gabriel, "Opening the Doors to Homeownership: Challenges to Federal Policy," *Cityscape: A Journal of Policy Development and Research*, Vol. 5, No. 2, 2001, p. 35.

[8] See Kristopher Gerardi, Adam Hale Shapiro, and Paul S. Willen, "Subprime Outcomes: Risky Mortgages, Homeownership Experiences, and Foreclosures," Federal Reserve Bank of Boston Working Paper No. 07-15, May 2008.

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[11] "Exposure to Neighborhood Homeownership Rate by Race Ethnicity," op. cit.

[12] See Richard Florida, "Homeownership Is Overrated." *The Wall Street Journal*, June 7 2010. Retrieved August 5, 2011 (http://online.wsj.com/article/SB10001424052748703559004575256703021984396.html?mod=rss_opinion_main (http://www.time.com/time/magazine/article/0,9171,2013850,00.html)

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[15] See Robert Schafer, "State of the Nation's Housing: 2000," Joint Center for Housing Studies, Harvard University. Retrieved August 5, 2011 (http://www.jchs.harvard.edu/publications/markets/SON2000_Ch1.pdf); Lauren J. Krivo and Robert L. Kaufman, "Housing and Wealth Inequality: Racial-Ethnic Differences in Home Equity in the United States," *Demography* Volume 41 (Issue 3), 2004; Edward N. Wolff, "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze," The Levy Economics Instute of Bard College, Working Paper #502, June 2007. Retrieved August 5, 2011 from http://www.levyinstitute.org/pubs/wp_502.pdf; and Joint Center for Housing Studies, Harvard University, "State of the Nation's Housing: 2003," Joint Center for Housing Studies, Harvard University. Retrieved August 5, 2011 (http://www.jchs.harvard.edu/publications/markets/son2003.pdf)

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variables included the householder's income, age, education, a dichotomous variable for residential tenure, and finally a dichotomous variable where being a homeowner = 1 and being a renter = 0. The logit analysis provided a measure of the statistical significance for this last variable (after controlling for the others) and the estimated probability of homeowners and renters answering "1" to each dependent variable. The Center used a 90% confidence interval to test for a statistical difference in response between homeowners and renters.

Chapter 5

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[14] See http://hudnsphelp.info/media/snapshots/06-30-2011/3GR-AAAA_MA-R01-BOS-06302011.pdf.

[15] See http://hudnsphelp.info/media/snapshots/06-30-2011/3GR-SPRF_MA-R01-BOS-06302011.pdf.

[16] See Abt Associates, *Capital Needs in the Public Housing Program* reported in http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing.

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Chapter 6

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Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2010	Number of Single Family Home Sales Through June 2010	Number of Single Family Home Sales Through June 2011	Percent Change in Number of Single Family Sales, June 2010–June 2011	Median Single Family Home Selling Price Through June 2010	Median Single Family Home Selling Price Through June 2011	Percent Change in Median Single Family Sales Price, June 2010–June 2011
Abington	5,332	15	38	50	31.6%	$273,750	$246,750	-9.9%
Acton	7,645	48	89	68	-23.6%	$475,000	$455,000	-4.2%
Amesbury	6,570	22	59	39	-33.9%	$290,000	$295,000	1.7%
Andover	11,513	147	147	130	-11.6%	$515,000	$468,784	-9.0%
Arlington	19,358	53	159	113	-28.9%	$491,000	$525,000	6.9%
Ashland	5,781	20	57	45	-21.1%	$325,500	$392,000	20.4%
Avon	1,737	3	16	15	-6.3%	$273,500	$220,000	-19.6%
Ayer	3,141	38	16	23	43.8%	$265,000	$299,900	13.2%
Bedford	4,692	15	52	51	-1.9%	$523,500	$520,000	-0.7%
Bellingham	5,632	12	68	55	-19.1%	$241,500	$235,000	-2.7%
Belmont	9,936	15	79	69	-12.7%	$686,000	$710,000	3.5%
Berkley	1,870	15	29	8	-72.4%	$272,850	$262,500	-3.8%
Berlin	891	8	8	12	50.0%	$471,465	$385,000	-18.3%
Beverly	16,150	11	122	110	-9.8%	$329,250	$330,000	0.2%
Billerica	13,055	139	125	117	-6.4%	$316,000	$290,000	-8.2%
Blackstone	3,321	6	31	27	-12.9%	$225,000	$199,900	-11.2%
Bolton	1,472	19	32	28	-12.5%	$442,500	$458,775	3.7%
Boston	250,367	351	530	441	-16.8%	$349,500	$332,000	-5.0%
Boxboro	1,900	4	16	12	-25.0%	$438,500	$640,000	46.0%
Boxford	2,602	4	43	17	-60.5%	$525,000	$515,000	-1.9%
Braintree	12,924	49	134	114	-14.9%	$325,000	$315,000	-3.1%
Bridgewater	7,639	26	67	66	-1.5%	$298,500	$250,000	-16.2%
Brockton	34,794	27	348	241	-30.7%	$176,564	$152,000	-13.9%
Brookline	26,224	5	73	69	-5.5%	$1,065,000	$1,160,000	8.9%
Burlington	8,395	68	94	71	-24.5%	$377,950	$360,000	-4.7%
Cambridge	44,138	38	59	44	-25.4%	$714,750	$757,500	6.0%
Canton	8,129	40	83	65	-21.7%	$403,500	$410,000	1.6%
Carlisle	1,647	5	22	17	-22.7%	$677,500	$692,750	2.3%
Carver	4,063	10	37	45	21.6%	$250,000	$237,500	-5.0%
Chelmsford	12,981	10	140	117	-16.4%	$335,000	$300,000	-10.4%
Chelsea	12,317	112	25	17	-32.0%	$206,700	$210,900	2.0%
Cohasset	2,752	239	41	24	-41.5%	$730,000	$857,500	17.5%
Concord	6,095	386	79	88	11.4%	$675,000	$664,500	-1.6%
Danvers	9,712	14	108	68	-37.0%	$314,250	$306,500	-2.5%

Appendix A **Municipal Scorecard,** continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2010	Foreclosure Auctions, 2010	Foreclosure Deeds, 2010	Foreclosure Deeds (2010) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Vote Approving Community Preservation Act	Expiring Use Units at Risk - 2012
Abington	66	74	21	0.39%			0
Acton	21	37	11	0.14%	Y	2002	0
Amesbury	69	97	43	0.65%			0
Andover	55	62	25	0.22%			0
Arlington	44	22	9	0.05%			145
Ashland	55	79	23	0.40%	Y	2002	162
Avon	18	32	7	0.40%			0
Ayer	24	35	22	0.70%	Y	2001	20
Bedford	14	7	4	0.09%	Y	2001	96
Bellingham	74	103	35	0.62%			90
Belmont	17	27	8	0.08%	Y	2010	0
Berkley	39	21	11	0.59%			0
Berlin	8	1	3	0.34%			40
Beverly	107	118	41	0.25%			0
Billerica	145	139	37	0.28%			0
Blackstone	58	62	27	0.81%			0
Bolton	13	0	3	0.20%			0
Boston	1467	2134	828	0.33%			2555
Boxboro	18	17	7	0.37%			0
Boxford	13	23	5	0.19%	Y	2001	0
Braintree	88	102	36	0.28%	Y	2002	239
Bridgewater	87	51	37	0.48%	Y	2005	0
Brockton	708	1065	368	1.06%			113
Brookline	40	55	13	0.05%			99
Burlington	34	32	8	0.10%			0
Cambridge	48	85	24	0.05%	Y	2001	425
Canton	60	35	23	0.28%			105
Carlisle	8	14	2	0.12%	Y	2001	18
Carver	80	105	39	0.96%	Y	2006	0
Chelmsford	81	90	39	0.30%	Y	2001	0
Chelsea	141	17	87	0.71%			112
Cohasset	17	17	4	0.15%	Y	2001	0
Concord	16	14	3	0.05%	Y	2004	0
Danvers	69	90	37	0.38%			0

Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2010	Number of Single Family Home Sales Through June 2010	Number of Single Family Home Sales Through June 2011	Percent Change in Number of Single Family Sales, June 2010–June 2011	Median Single Family Home Selling Price Through June 2010	Median Single Family Home Selling Price Through June 2011	Percent Change in Median Single Family Sales Price, June 2010–June 2011
Dedham	8,893	6	110	98	-10.9%	$349,500	$331,200	-5.2%
Dighton	2,261	6	23	12	-47.8%	$273,300	$273,113	-0.1%
Dover	1,874	20	29	18	-37.9%	$779,900	$980,000	25.7%
Dracut	10,597	55	97	102	5.2%	$269,900	$224,000	-17.0%
Dunstable	933	12	9	11	22.2%	$385,000	$355,000	-7.8%
Duxbury	5,103	12	58	74	27.6%	$525,500	$533,500	1.5%
East Bridgewater	4,423	38	49	31	-36.7%	$260,000	$230,000	-11.5%
Easton	7,596	21	91	51	-44.0%	$394,800	$345,000	-12.6%
Essex	1,357	15	20	6	-70.0%	$567,000	$477,250	-15.8%
Everett	15,886	56	43	34	-20.9%	$255,000	$215,000	-15.7%
Foxborough	6,260	21	57	60	5.3%	$356,000	$343,450	-3.5%
Framingham	26,588	12	237	180	-24.1%	$300,000	$292,000	-2.7%
Franklin	10,296	45	118	102	-13.6%	$377,000	$363,750	-3.5%
Georgetown	2,601	19	38	25	-34.2%	$359,200	$336,750	-6.3%
Gloucester	12,997	23	100	63	-37.0%	$286,250	$340,000	18.8%
Groton	3,339	55	40	30	-25.0%	$424,500	$381,000	-10.2%
Groveland	2,090	42	34	9	-73.5%	$315,000	$292,500	-7.1%
Halifax	2,804	8	31	36	16.1%	$256,500	$205,000	-20.1%
Hamilton	2,717	5	38	35	-7.9%	$445,000	$379,000	-14.8%
Hanover	4,440	11	64	51	-20.3%	$420,000	$390,000	-7.1%
Hanson	3,167	15	35	30	-14.3%	$240,000	$243,750	1.6%
Harvard	2,156	0	27	22	-18.5%	$487,000	$607,500	24.7%
Haverhill	23,675	62	178	145	-18.5%	$255,000	$225,000	-11.8%
Hingham	7,307	38	120	102	-15.0%	$570,000	$646,500	13.4%
Holbrook	4,145	11	50	36	-28.0%	$238,750	$213,000	-10.8%
Holliston	4,861	60	61	72	18.0%	$399,900	$377,500	-5.6%
Hopedale	2,284	5	27	22	-18.5%	$275,000	$277,500	0.9%
Hopkinton	4,521	53	71	54	-23.9%	$502,000	$577,500	15.0%
Hudson	7,144	22	68	60	-11.8%	$263,700	$252,000	-4.4%
Hull	4,679	8	48	40	-16.7%	$357,350	$320,750	-10.2%
Ipswich	5,414	77	56	38	-32.1%	$395,500	$367,500	-7.1%
Kingston	4,370	18	53	48	-9.4%	$317,000	$323,500	2.1%
Lakeville	3,385	23	53	32	-39.6%	$250,000	$272,000	8.8%
Lancaster	2,103	16	23	20	-13.0%	$293,500	$266,000	-9.4%

Appendix A **Municipal Scorecard**, continued

Municipality	Petitions to Foreclose, 2010	Foreclosure Auctions, 2010	Foreclosure Deeds, 2010	Foreclosure Deeds (2010) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Vote Approving Community Preservation Act	Expiring Use Units at Risk - 2012
	Foreclosure Activity				Affordability and At-Risk Units		
Dedham	88	1	25	0.28%			0
Dighton	32	40	11	0.49%	Y	2010	0
Dover	8	15	3	0.16%			0
Dracut	136	177	72	0.68%	Y	2001	0
Dunstable	6	9	2	0.21%	Y	2006	0
Duxbury	48	1	12	0.24%	Y	2001	0
East Bridgewater	61	79	28	0.63%			0
Easton	70	85	31	0.41%	Y	2001	0
Essex	7	10	2	0.15%	Y	2007	0
Everett	184	8	80	0.50%			160
Foxborough	42	0	24	0.38%			0
Framingham	236	354	144	0.54%			439
Franklin	85	83	32	0.31%			58
Georgetown	32	31	11	0.42%	Y	2001	0
Gloucester	73	112	34	0.26%	Y	2008	80
Groton	14	12	7	0.21%	Y	2004	0
Groveland	18	20	7	0.33%	Y	2004	0
Halifax	48	59	21	0.75%			0
Hamilton	18	22	13	0.48%	Y	2005	0
Hanover	44	63	16	0.36%	Y	2004	0
Hanson	61	61	15	0.47%	Y	2008	0
Harvard	7	8	2	0.09%	Y	2001	0
Haverhill	309	451	182	0.77%			33
Hingham	35	44	11	0.15%	Y	2001	0
Holbrook	56	63	25	0.60%			0
Holliston	46	49	19	0.39%	Y	2001	0
Hopedale	25	17	12	0.53%			0
Hopkinton	32	42	15	0.33%	Y	2001	0
Hudson	53	98	29	0.41%	Y	2007	0
Hull	76	0	29	0.62%			0
Ipswich	44	46	12	0.22%			0
Kingston	80	74	28	0.64%	Y	2005	20
Lakeville	44	1	20	0.59%			22
Lancaster	19	0	13	0.62%			0

Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2010	Number of Single Family Home Sales Through June 2010	Number of Single Family Home Sales Through June 2011	Percent Change in Number of Single Family Sales, June 2010–June 2011	Median Single Family Home Selling Price Through June 2010	Median Single Family Home Selling Price Through June 2011	Percent Change in Median Single Family Sales Price, June 2010–June 2011
Lawrence	25,540	20	111	75	-32.4%	$175,000	$155,000	-11.4%
Lexington	11,274	83	213	192	-9.9%	$695,000	$710,750	2.3%
Lincoln	2,076	5	20	18	-10.0%	$917,500	$917,500	0.0%
Littleton	3,018	12	36	33	-8.3%	$389,250	$362,500	-6.9%
Lowell	39,381	41	233	170	-27.0%	$189,000	$178,450	-5.6%
Lynn	34,569	18	224	137	-38.8%	$195,500	$185,000	-5.4%
Lynnfield	4,249	18	61	50	-18.0%	$525,000	$490,000	-6.7%
Malden	23,561	0	92	84	-8.7%	$271,000	$250,000	-7.7%
Manchester	2,219	10	28	28	0.0%	$854,500	$791,250	-7.4%
Mansfield	8,083	17	61	54	-11.5%	$326,000	$352,250	8.1%
Marblehead	8,746	16	91	84	-7.7%	$485,000	$516,250	6.4%
Marlborough	14,846	22	126	84	-33.3%	$263,000	$247,000	-6.1%
Marshfield	9,117	61	109	123	12.8%	$366,000	$330,000	-9.8%
Maynard	4,398	6	49	51	4.1%	$311,900	$300,000	-3.8%
Medfield	4,038	16	69	51	-26.1%	$553,400	$512,000	-7.5%
Medford	22,631	2	111	104	-6.3%	$338,500	$340,000	0.4%
Medway	4,243	9	57	50	-12.3%	$334,500	$317,250	-5.2%
Melrose	11,200	22	118	107	-9.3%	$398,250	$395,000	-0.8%
Mendon	1,870	5	22	12	-45.5%	$291,000	$331,500	13.9%
Merrimac	2,281	14	18	17	-5.6%	$280,000	$280,000	0.0%
Methuen	16,848	51	167	115	-31.1%	$252,000	$217,000	-13.9%
Middleborough	7,195	60	75	77	2.7%	$225,000	$215,000	-4.4%
Middleton	2,337	37	24	24	0.0%	$409,200	$437,500	6.9%
Milford	10,682	31	89	68	-23.6%	$280,000	$245,000	-12.5%
Millis	3,060	19	24	35	45.8%	$308,000	$315,000	2.3%
Millville	956	0	11	7	-36.4%	$240,000	$165,000	-31.3%
Milton	9,142	2	124	102	-17.7%	$424,500	$454,950	7.2%
Nahant	1,676	0	8	7	-12.5%	$381,750	$425,000	11.3%
Natick	13,337	34	155	142	-8.4%	$397,500	$386,500	-2.8%
Needham	10,793	58	200	168	-16.0%	$630,000	$639,128	1.4%
Newbury	2,614	9	31	22	-29.0%	$380,000	$393,250	3.5%
Newburyport	7,717	14	84	71	-15.5%	$400,375	$410,000	2.4%
Newton	31,857	96	279	263	-5.7%	$715,000	$770,000	7.7%
Norfolk	2,851	39	49	34	-30.6%	$389,500	$418,000	7.3%

Appendix A **Municipal Scorecard,** continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2010	Foreclosure Auctions, 2010	Foreclosure Deeds, 2010	Foreclosure Deeds (2010) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Vote Approving Community Preservation Act	Expiring Use Units at Risk - 2012
Lawrence	5	9	2	0.01%			212
Lexington	24	36	2	0.02%	Y	2006	72
Lincoln	9	8	2	0.10%	Y	2002	125
Littleton	23	23	6	0.20%	Y	2007	0
Lowell	463	698	296	0.75%			180
Lynn	540	793	283	0.82%			410
Lynnfield	30	3	10	0.24%			0
Malden	216	3	116	0.49%			129
Manchester	5	0	5	0.23%	Y	2005	0
Mansfield	60	70	26	0.32%			0
Marblehead	35	55	21	0.24%			0
Marlborough	130	248	120	0.81%			0
Marshfield	124	131	35	0.38%	Y	2001	0
Maynard	31	27	8	0.18%	Y	2006	56
Medfield	21	17	4	0.10%			0
Medford	117	70	36	0.16%			93
Medway	42	54	20	0.47%	Y	2001	0
Melrose	53	54	28	0.25%			0
Mendon	20	20	7	0.37%	Y	2002	0
Merrimac	24	32	11	0.48%			24
Methuen	245	271	101	0.60%			0
Middleborough	116	7	57	0.79%	Y	2010	16
Middleton	33	28	7	0.30%	Y	2004	48
Milford	118	144	51	0.48%			61
Millis	29	41	17	0.56%	Y	2006	0
Millville	21	19	14	1.46%			0
Milton	88	0	18	0.20%			139
Nahant	11	15	2	0.12%	Y	2004	0
Natick	55	85	33	0.25%			0
Needham	29	37	9	0.08%	Y	2004	20
Newbury	6	20	6	0.23%			0
Newburyport	60	57	17	0.22%	Y	2002	101
Newton	86	72	18	0.06%	Y	2001	71
Norfolk	22	7	5	0.18%	Y	2001	0

Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2010	Number of Single Family Home Sales Through June 2010	Number of Single Family Home Sales Through June 2011	Percent Change in Number of Single Family Sales, June 2010–June 2011	Median Single Family Home Selling Price Through June 2010	Median Single Family Home Selling Price Through June 2011	Percent Change in Median Single Family Sales Price, June 2010–June 2011
North Andover	9,896	42	106	87	-17.9%	$474,450	$465,000	-2.0%
North Reading	4,839	22	51	52	2.0%	$430,000	$387,500	-9.9%
Norton	5,942	21	70	51	-27.1%	$259,000	$252,500	-2.5%
Norwell	3,299	15	63	40	-36.5%	$482,500	$513,125	6.3%
Norwood	11,911	10	87	74	-14.9%	$355,000	$333,500	-6.1%
Peabody	18,838	29	130	90	-30.8%	$298,950	$295,000	-1.3%
Pembroke	5,834	21	80	52	-35.0%	$284,500	$293,500	3.2%
Pepperell	3,905	22	41	24	-41.5%	$285,000	$285,000	0.0%
Plainville	3,088	29	31	24	-22.6%	$262,000	$325,000	24.0%
Plymouth	19,008	223	251	199	-20.7%	$272,500	$265,000	-2.8%
Plympton	865	3	4	10	150.0%	$272,500	$310,250	13.9%
Quincy	39,912	74	200	188	-6.0%	$320,000	$299,450	-6.4%
Randolph	11,497	110	108	90	-16.7%	$246,500	$222,500	-9.7%
Raynham	4,197	24	48	36	-25.0%	$263,950	$297,500	12.7%
Reading	8,811	12	95	79	-16.8%	$421,216	$386,000	-8.4%
Revere	20,102	17	95	55	-42.1%	$235,000	$200,000	-14.9%
Rockland	6,632	29	56	38	-32.1%	$256,250	$205,588	-19.8%
Rockport	3,652	8	33	24	-27.3%	$425,000	$406,250	-4.4%
Rowley	1,985	5	16	18	12.5%	$333,000	$437,250	31.3%
Salem	18,103	7	61	58	-4.9%	$270,000	$260,500	-3.5%
Salisbury	3,456	23	27	21	-22.2%	$250,000	$255,000	2.0%
Saugus	10,111	75	98	61	-37.8%	$298,950	$270,000	-9.7%
Scituate	6,869	17	101	91	-9.9%	$407,500	$479,000	17.5%
Sharon	6,006	17	88	72	-18.2%	$384,950	$400,000	3.9%
Sherborn	1,449	4	30	26	-13.3%	$720,000	$750,000	4.2%
Shirley	2,140	20	19	13	-31.6%	$265,000	$211,000	-20.4%
Somerville	32,389	1	42	29	-31.0%	$384,000	$391,850	2.0%
Southborough	2,988	14	52	47	-9.6%	$544,950	$482,500	-11.5%
Stoneham	9,231	0	62	65	4.8%	$416,500	$345,000	-17.2%
Stoughton	10,429	245	89	70	-21.3%	$300,000	$245,000	-18.3%
Stow	2,108	27	30	31	3.3%	$429,950	$460,000	7.0%
Sudbury	5,582	35	84	77	-8.3%	$600,500	$674,900	12.4%
Swampscott	5,804	0	62	61	-1.6%	$401,500	$371,400	-7.5%
Taunton	22,874	59	156	124	-20.5%	$228,000	$214,300	-6.0%

Appendix A **Municipal Scorecard,** continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2010	Foreclosure Auctions, 2010	Foreclosure Deeds, 2010	Foreclosure Deeds (2010) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Vote Approving Community Preservation Act	Expiring Use Units at Risk - 2012
North Andover	69	107	35	0.35%	Y	2001	0
North Reading	41	0	16	0.33%			0
Norton	74	108	36	0.61%			24
Norwell	29	22	7	0.21%	Y	2002	0
Norwood	71	2	23	0.19%			35
Peabody	144	199	79	0.42%	Y	2001	239
Pembroke	89	79	31	0.53%	Y	2006	0
Pepperell	44	53	20	0.51%			40
Plainville	23	18	4	0.13%			0
Plymouth	319	426	143	0.75%	Y	2002	58
Plympton	12	20	6	0.69%	Y	2008	0
Quincy	219	319	107	0.27%	Y	2006	367
Randolph	243	185	94	0.82%	Y	2005	69
Raynham	54	64	29	0.69%			0
Reading	39	2	13	0.15%			0
Revere	241	197	134	0.67%			0
Rockland	93	14	39	0.59%			0
Rockport	13	23	6	0.16%	Y	2002	30
Rowley	13	21	4	0.20%	Y	2001	0
Salem	152	186	63	0.35%			322
Salisbury	28	37	12	0.35%			0
Saugus	99	134	44	0.44%			0
Scituate	62	53	16	0.23%	Y	2002	0
Sharon	44	43	10	0.17%	Y	2004	0
Sherborn	9	1	1	0.07%			0
Shirley	22	28	17	0.79%			0
Somerville	107	186	51	0.16%			0
Southborough	26	26	6	0.20%	Y	2003	0
Stoneham	47	10	20	0.22%			0
Stoughton	107	140	35	0.34%	Y	2008	130
Stow	8	10	4	0.19%	Y	2001	22
Sudbury	27	27	10	0.18%	Y	2002	0
Swampscott	46	64	19	0.33%			0
Taunton	320	392	138	0.60%			128

Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2010	Number of Single Family Home Sales Through June 2010	Number of Single Family Home Sales Through June 2011	Percent Change in Number of Single Family Sales, June 2010–June 2011	Median Single Family Home Selling Price Through June 2010	Median Single Family Home Selling Price Through June 2011	Percent Change in Median Single Family Sales Price, June 2010–June 2011
Tewksbury	10,125	42	103	90	-12.6%	$306,600	$294,950	-3.8%
Topsfield	2,126	21	36	26	-27.8%	$433,000	$443,650	2.5%
Townsend	3,162	3	38	32	-15.8%	$228,750	$221,500	-3.2%
Tyngsborough	3,784	115	35	37	5.7%	$364,900	$289,000	-20.8%
Upton	2,083	19	37	30	-18.9%	$375,000	$388,069	3.5%
Wakefield	9,914	35	93	75	-19.4%	$362,000	$362,000	0.0%
Walpole	8,202	40	109	76	-30.3%	$358,500	$388,500	8.4%
Waltham	23,749	64	143	122	-14.7%	$392,500	$363,500	-7.4%
Wareham	8,650	198	124	105	-15.3%	$175,500	$170,000	-3.1%
Watertown	14,959	9	36	42	16.7%	$441,250	$412,875	-6.4%
Wayland	4,703	13	70	63	-10.0%	$547,500	$544,900	-0.5%
Wellesley	8,789	187	187	166	-11.2%	$857,500	$867,500	1.2%
Wenham	1,310	1	19	14	-26.3%	$431,000	$473,125	9.8%
West Bridgewater	2,507	6	25	24	-4.0%	$244,000	$282,000	15.6%
West Newbury	1,414	13	26	15	-42.3%	$338,750	$455,000	34.3%
Westford	6,877	90	93	60	-35.5%	$430,000	$469,000	9.1%
Weston	3,796	26	65	61	-6.2%	$1,093,000	$1,075,000	-1.6%
Westwood	5,218	14	71	52	-26.8%	$535,000	$482,250	-9.9%
Weymouth	22,471	81	206	159	-22.8%	$300,000	$259,900	-13.4%
Whitman	5,100	26	48	45	-6.3%	$249,000	$233,000	-6.4%
Wilmington	7,141	39	98	71	-27.6%	$325,500	$340,000	4.5%
Winchester	7,860	18	108	84	-22.2%	$717,500	$763,000	6.3%
Winthrop	8,009	0	34	28	-17.6%	$326,500	$282,999	-13.3%
Woburn	15,312	23	111	80	-27.9%	$315,000	$310,000	-1.6%
Wrentham	3,477	16	46	39	-15.2%	$354,000	$410,000	15.8%

Appendix A **Municipal Scorecard,** continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2010	Foreclosure Auctions, 2010	Foreclosure Deeds, 2010	Foreclosure Deeds (2010) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Vote Approving Community Preservation Act	Expiring Use Units at Risk - 2012
Tewksbury	109	102	36	0.36%	Y	2006	0
Topsfield	16	15	1	0.05%			0
Townsend	43	53	24	0.76%			0
Tyngsborough	44	48	20	0.53%	Y	2001	0
Upton	18	2	9	0.43%	Y	2003	89
Wakefield	62	0	22	0.22%			25
Walpole	63	0	19	0.23%			0
Waltham	88	76	27	0.11%	Y	2005	0
Wareham	173	219	96	1.11%	Y	2002	24
Watertown	38	73	18	0.12%			171
Wayland	18	18	7	0.15%	Y	2001	0
Wellesley	24	23	2	0.02%	Y	2002	13
Wenham	7	6	5	0.38%	Y	2005	0
West Bridgewater	19	24	13	0.52%	Y	2008	0
West Newbury	15	8	2	0.14%	Y	2006	0
Westford	39	40	14	0.20%	Y	2001	0
Weston	13	18	1	0.03%	Y	2001	0
Westwood	22	18	5	0.10%			32
Weymouth	222	261	82	0.36%	Y	2005	188
Whitman	99	7	27	0.53%			0
Wilmington	65	14	19	0.27%			0
Winchester	23	35	7	0.09%			0
Winthrop	69	6	29	0.36%			56
Woburn	92	110	42	0.27%			39
Wrentham	29	33	18	0.52%			0

Sources:

Data on the number of sales and median sales prices, along with data on foreclosure petitions, auctions, and deeds, were provided by the Warren Group. Foreclosure data represent the number of foreclosures on single-family, 2-family, 3-family, and condominium properties.

Data on building permits are taken from the U.S. Census Building Permit Survey.

Data on Expiring Use Units at Risk come from the Community Economic Development Assistance Corporation (CEDAC), Database of Expiring Use Properties in Massachusetts 2010, available from the Citizens' Housing and Planning Association (CHAPA) at http://www.chapa.org/sites/default/files/CEDACatriskreportAugust2011.pdf.

The Greater Boston Housing Report Card 2011 Communities