The Greater Boston Housing Report Card 2008

From Paradigm to Paradox: Understanding Greater Boston's New Housing Market

Barry Bluestone

Chase Billingham

Tim Davis

with

Marc Horne, Lauren Nicoll and David Streim

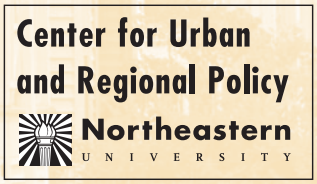
Prepared by:

The Center for Urban and Regional Policy (CURP)
Northeastern University

for

The Boston Foundation and

Citizens' Housing and Planning Association (CHAPA)



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Center for Urban and Regional Policy

The Center for Urban and Regional Policy (CURP) was launched in 1999 at Northeastern University as a "think and do tank"—a center where faculty, staff, and students from the university pool their expertise, resources, and commitment to address a wide range of issues facing cities, towns, and suburbs with particular emphasis on the Greater Boston region. It has produced an array of reports on housing, economic development, transportation, and workforce training; created new computer-based information tools for researchers, students, and government agencies; and sponsored major "action" projects, including the World Class Housing Collaborative devoted to assisting community groups develop housing in their neighborhoods. CURP has also focused its attention on inner city development in older industrial cities in Massachusetts. In 2000, CURP produced the *New Paradigm for Housing in Greater Boston* report, a comprehensive report detailing the nature of the housing crisis in the region. CURP's web site, www.curp.neu.edu, is a leading source of information for community leaders, public officials, urban researchers, and students. CURP staff played a critical role in the creation of Northeastern's new School of Social Science, Urban Affairs, and Public Policy.

Citizens' Housing and Planning Association

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 Boston Foundation

The Boston Foundation, Greater Boston's community foundation, is one of the oldest and largest community foundations in the nation, with assets of over $930 million. In 2007, the Foundation and its donors made more than $92 million in grants to nonprofit organizations and received gifts of more than $155 million. The Foundation is made up of approximately 900 separate charitable funds established by donors either for the general benefit of the community or for special purposes. The Boston Foundation also serves as a major civic leader, provider of information, convener, and sponsor of special initiatives designed to address the community's and region's most pressing challenges. For more information about the Boston Foundation, visit www.tbf.org or call 617-338-1700.

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 variety 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.

We gratefully acknowledge Karl "Chip" Case, Tim Warren, Eleanor White, and Bonnie Heudorfer, who provided our research team with good counsel, important data sets, and an acute understanding of the Greater Boston housing market.

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Letter

Dear Friends,

The significance of the role of housing in Greater Boston's regional economy is hard to overstate.

Beginning in 1995, prices soared for houses and rental apartments, ultimately helping to make this the most expensive place to live in the nation for a family of four. The impact of that long, relentless climb was harsh as many area residents found they had been priced out of the American Dream. It also undermined the region's ability to attract and retain the young workers and families we need to grow and thrive as a community.

The implications of this trend was first documented in a ground-breaking report, called *A New Paradigm for Housing in Greater Boston*, released in 2000 by the Center for Urban and Regional Policy at Northeastern University (CURP). This was followed by an annual series of Housing Report Cards published by the Boston Foundation and presenting research by a team lead by Bonnie Heudorfer and economist Barry Bluestone, Director of CURP and Dean of the Northeastern University's School of Social Science, Urban Affairs and Public Policy. These reports tracked housing costs and supply year by year, from 2000 onward. In addition, they documented the impact of legislation promoted by the Commonwealth Housing Task Force, which addressed the need to expand the supply of affordable housing.

Today, it is time to set a new baseline for understanding the impact of housing on the regional economy and the lives of area residents.

The result is a far-reaching report that updates that seminal research published in 2000. The title of this new report, *From Paradigm to Paradox: Understanding Greater Boston's New Housing Market*, refers back to that original work commissioned by the Boston Archdiocese. In addition, it captures the current market, in which housing prices are falling at frightening speed—yet remain out of reach for far too many area residents.

Under Barry Bluestone's leadership, CURP has produced a report that brings exceptional clarity and focus to this complex and important field. It is at once a call to action and a sobering record of the impact of more than a decade of runaway housing prices and constricted supply. It is a challenging report that provides a solid foundation for future action.

I invite you to read it as a work of deep understanding and insight into the forces that will surely shape our future.

Paul S. Grogan
President and CEO
The Boston Foundation

Executive Summary

From 1995 through 2005, housing prices and rents in Greater Boston soared, making it one of the most expensive metro areas in the nation. Because of escalating housing costs, more than a third of the region's homeowners were paying more than 30 percent of their income for shelter and more than half of all renters were similarly challenged in their ability to afford housing and have enough of their incomes left over to pay for other necessities. Without substantial rental subsidies, low-income households were not able to afford housing at all and research revealed that Greater Boston's housing costs were a major factor in the region's slow growth in employment and in the region's loss of young working families. In its well-known report, *A New Paradigm for Housing in Greater Boston*, first released in September 2000, the Center for Urban and Regional Policy noted that escalating housing prices and rents created a "moral obligation" to provide affordable housing for the region's households and an "economic necessity" to assure the region's continued prosperity.

Now we face a housing paradox in Greater Boston. *Home prices are still too high . . . but they are falling too fast*. This combination leaves much of the affordability problem unresolved at the same time that an explosion in subprime mortgage lending and falling prices have combined to cause a dramatic increase in home foreclosures and the possibility of a downward price cycle in many neighborhoods. This could lead to abandonment, vandalism, and community disintegration. Solving the housing paradox will require a sophisticated set of public policies.

This report combines elements of the original *New Paradigm* study with the annual report cards CURP has issued along with The Boston Foundation and the Citizens' Housing and Planning Association for each of the past five years. Like the *New Paradigm* study, this report tries to explain the nature of the housing problem facing Greater Boston and provides estimates of how much additional housing must be produced to meet our housing needs. It also delves into what caused the current vicious circle of rising foreclosures and falling prices.

Yet like the annual housing report cards, it also tracks trends in the overall regional economy, in housing production, in prices and rents, in affordability, and in federal, state, and local housing policies.

Key Findings

Housing Affordability from 2000 to 2005

In the spring of 2000, the median selling price for a single family home in Greater Boston was under $235,000. By September 2005, it would reach $420,000. Because family incomes rose only slowly over this five year period (and actually declined for renter households), housing became increasingly unaffordable for those who wished to get into the housing market. Effective rents nearly doubled between 1990 and 2000 and have remained at an average of more than $1,500 ever since. The result is that the proportion of homeowners paying more than 30 percent of their incomes for housing increased from about a quarter in 2000 to nearly four in 10 in 2005, and the proportion of renters paying this much of their income for apartments increased from nearly 40 percent to over half. The number of "affordable" communities among Greater Boston's 161 municipalities declined from 101 to only 19.

The rising cost of housing contributed to the loss of young families in the region. Not only did the *absolute cost* of housing skyrocket, but the *relative cost* as well. In 1995, after controlling for higher per-capita income in Greater Boston, housing was only 5 percent less affordable here than in the Charlotte metro region. By 2005, this cost disadvantage had soared to 87 percent. Boston was becoming more and more expensive relative to almost every other metropolitan region in the country, making it less attractive to young Massachusetts families who might have liked to stay here, and making it quite unattractive to families who might otherwise consider moving to Boston from other regions.

What caused the explosion in home prices and rents was inadequate housing production. Little new housing stock was produced despite increased demand.

Vacancy rates fell to extraordinarily low levels, creating sellers' markets for homes, condominiums, and rental apartments. Between 1990 and 2000, only 82,600 new units of housing were developed in Greater Boston to meet the needs of nearly 123,000 new households. This shortfall was not remedied sufficiently after 2000, so housing prices continued to rise.

What was behind the lack of production and therefore the decline in housing affordability were local zoning laws that made it extremely difficult for developers to build a sufficient supply of new housing units.

The Housing Situation Since 2005

Housing prices in Greater Boston stopped rising in the fall of 2005. Since then, the median price of a single family home in the region has fallen by 11 percent. A combination of factors has been responsible for this reversal in prices. The first is *slow population growth*. Prices became so high that homebuyers voted with their feet and many left the region. This, in itself, reduced housing demand and contributed to a slowdown in price appreciation.

The second factor was an *increased supply of housing* that came on line beginning in 2003, much of it due to increased concern by policymakers about housing prices, and increased opportunities for developers.

But the third and most important factor was the *subprime mortgage meltdown*. With home prices rising so sharply after 1995, everyone who could possibly move from renting to homeownership tried to get into the market. Many with less than perfect credit bought homes with subprime mortgages, and many of these had adjustable rates. For those who bought homes at the beginning of the housing price spiral, the risks were worth taking. For at least 82 percent of these homeowners, appreciation more than covered any possible loss and these loans have remained sound. But for those who bought more recently, housing price declines combined with a weakening overall economy have led to many foreclosures and a vicious circle culminating in rounds of price cuts and foreclosures.

Housing Prices and Rents Still Too High

The recent decline in home prices has increased housing affordability at the margin. Between 2005 and 2007, nominal median household income has increased by an estimated 9.3 percent while home prices during this period dropped by 5.5 percent. As a result, the ratio of home price to household income has declined from 6.68 in 2005 to 5.77 in 2007. By mid-2008, with continuing erosion in prices, we estimate the ratio to be 5.43.

But this ratio is still well above the 4.53 ratio in 2000 and 4.02 in 1990. As such, housing is still well beyond the reach of many families. Moreover, with fewer households able to become homeowners, there has been renewed demand for rental units and this has served to keep rents from falling. Combined with a sharp decline in renter incomes, rental affordability is more of a challenge today than ever before.

How Much More Will Housing Prices Fall?

It is hard to tell whether home prices will continue to fall in the Greater Boston region. On the one hand, there are still a lot of subprime mortgages with adjustable rates in the market and the national economy seems to be weakening by the month. Without the dramatic actions of the U.S. Treasury and the Federal Reserve Bank during September 2008, it is virtually certain that housing prices would have plummeted further. Financial institutions would have essentially stopped writing mortgages and the economy would have gone into full recession. Even with these actions, it is too early to tell how quickly mortgage markets will be repaired.

On other hand, there is some evidence that we are near the end of the housing meltdown nationwide. According to Case-Shiller single family home price data for Greater Boston, prices began to rise in July. If prices continue to trend as they have during past cycles, we should see housing prices firm up and continue to rise, albeit very slowly. Data on gross residential investment and housing starts prepared by Karl Case also point to the possibility that we are near the trough of this housing cycle.

How Much New Housing Does Greater Boston Need?

As in the original *New Paradigm* report, we have attempted to estimate how much new housing will be needed to bring housing supply and demand into balance so that prices will rise no faster than general inflation. Based on demographic and employment forecasts out to 2017, we find that we still need to boost housing production modestly over recent levels to assure a sufficient number of ownership and rental units in the region. We will need enough housing to permit the region's aging population of "empty nesters" to downsize to smaller units. This will free up some housing for younger families. We will also need additional housing to accommodate expected job growth.

If the metro area's employment base grows very slowly over the next five years (between 0.1 and 0.4 percent per year), we estimate we will need to produce about 13,400 housing units per year between now and 2012. That is only 15 percent above the annual rate of production sustained between 1998 and 2007. If, on the other hand, we increase employment at a rate of 0.775 percent a year—a rate equal to the growth in employment during the past year and close to the rate expected for national employment growth, we would need to produce about 17,750 units a year, an increase of 53 percent over the past decade's annual average. With proper housing policy, even this higher production target could easily be met.

Implications for Housing Policy

The original *New Paradigm* report focused exclusively on policies to increase the supply of affordable housing. Now, the set of policies required to cope with the exigencies of the housing paradox of "housing prices too high and falling too fast," is more complex.

To ease the foreclosure crisis, we need federal, state, and local policies that make it possible to for mortgage lenders to restructure loans so that distressed homeowners can afford new terms. We also need to expedite the transfer of foreclosed properties to new owners who can make repairs and occupy these units before they become abandoned and vandalized. For prospective homebuyers with good credit, but waiting for prices to fall further, we need to consider creating a mortgage instrument that includes some form of price insurance along with an appreciation fee to pay for the price insurance premium.

To ease the affordability crisis, we need to continue to use Chapter 40B to expedite the production of low-income housing and Chapter 40R to assure that there is a surplus of appropriately zoned land to quickly develop new housing when housing demand picks up. We also need to assure an adequate supply of rental vouchers from the federal government and from the Commonwealth to assure that low and moderate income renters can pay for housing without so badly compromising their ability to pay for everything else their families require.

In short, we need to stabilize prices by reducing foreclosures and create new housing at price points that young families can afford.

Specific Findings for 2007–2008

Economic and Demographic Trends in the Greater Boston Region

The Massachusetts Economy Compared to the Nation

A range of economic indicators reveal that in 2008, Massachusetts lost some of the economic momentum it was gaining between 2004 and 2007. After outpacing the nation throughout much of the 1990s, economic activity in the Commonwealth declined much more sharply during the first few years of this decade and for a longer period of time than the nation as a whole. By 2004, however, the pace of activity had increased to the point where it matched the nation's. Between January 2007 and January 2008, the state's economy continued to grow while it began to slide nationwide. Like the late 1990s, the economy was doing better than most other regions in the country. Since the beginning of this year, however, the national slump in the economy has begun to have a major impact here at home. The Federal Reserve Bank of Philadelphia's index of economic activity for the Commonwealth is now only a quarter of a point higher than that for the nation, and both are trending down.

While job creation is very low in Massachusetts, it appears that employment in this state is not falling

as rapidly as in other states. The nation's year-over-year employment growth approached zero in June of 2008 while in Massachusetts the level of growth was 0.8 percent over the previous year, a small yet positive number.

Population, Income Trends, and Migration

Changes in the region's demographic, economic, and housing patterns indicate mixed outcomes for Greater Boston residents. Early data from the 2007 *American Community Survey* (ACS) shows a loss of 94,000 residents between 2006 and 2007 after a gain of 174,000 residents between 2005 and 2006. Real median household, family, and homeowner income increased slightly between 2005 and 2006, yet the average renter saw his or her real income drop by nearly 2 percent. Vacant housing units increased 12.5 percent (12,627 units) over 2005. Median home prices declined for the first time in a decade, while rents remained stable. However, monthly mortgage costs went up by $103 between 2005 and 2006, and were 22 percent higher than in 2000. Population loss in the state due to outmigration has come down from a high of 33,538 between 2004 and 2005 to just over 8,000 between 2006 and 2007.

Production of New Housing

Housing production in the Greater Boston region plunged in 2007 and again in the first half of 2008, with the number of permits dropping by more than 2,500 in 2007. This decline in permitting strongly affected multi-unit housing. Half as many permits for structures with two to four units were issued in 2007, compared with 2006 levels. Structures with five or more units faced a 20 percent drop in permits between 2006 and 2007. The number of single-family homes permitted fell to its lowest level in more than a decade.

Housing Production by Type and Location

In 2007, North Reading—one of the 24 municipalities in Massachusetts that has adopted the new Chapter 40R Smart Growth Zoning Overlay legislation—eclipsed Boston in the number of census-reported multifamily units permitted.[1] In fact, 73 percent of the 161 communities studied permitted no units of multifamily structures at all. Plymouth and Lowell have issued the most single family permits in the region since 2000, yet even these communities saw a drop in permits in 2007.

The Greater Boston region is not alone in experiencing this downturn in housing production. Most metropolitan regions reached their peak in 2005 or 2006 and permits have since plummeted. However, the cities of the Sunbelt have been much more susceptible to fluctuations in housing production than the Greater Boston region. After issuing four times as many single-family housing permits (32,000) than Boston in 2004, we project that Las Vegas will drop to 5,200 single-family permits, a decline of more than 26,000 in the past four years. Boston should only decline by 5,000 single-family housing units.

Rents, Home Prices, and Affordability

Greater Boston's Rental Market

By 2006, more than half of Greater Boston renters paid more than 30 percent of their income for rent and utilities. This affordability problem stems from the very low vacancy rate in the region: 5.0 percent in the Boston area in 2007 compared to the national rate of 9.7 percent. Boston experienced a mix of appreciation and decline depending on neighborhood, with rental prices in Beacon Hill/Back Bay decreasing by almost 20 percent, while rental prices in Roxbury continued to increase. Only 10 percent of the region's apartments had asking rents below $600, while more than 30 percent had rents above $1,250.

Home Prices

One contributor to softening home prices between 2005 and 2007 was a rising home vacancy rate in Boston as well as the rest of the nation. In 2006, the Greater Boston vacancy rate reached 2.0 percent from a low of just 0.3 percent in 2002. However, in 2008, while the national rate was climbing to 2.8, Boston rate dipped to 1.9 percent. This level of vacancies is just high enough to protect the region from rapid price escalation, but if the rate continues to fall, the housing market will becomes a seller's market again contributing to higher prices.

Between 2006 and 2008, the median price of single-family detached homes in the five-county Greater Boston region fell by 7.2 percent. Meanwhile, median

condominium prices in the region increased by 1.5 percent, perhaps reflecting the movement of "empty-nesters" from larger homes to condos. The difference between the trend in average (mean) prices and the middle (median) price for homes suggests that the most expensive homes in the region are holding value or appreciating while the majority of Greater Boston's homes have lost some of their value.

Foreclosures in Greater Boston

Foreclosures, a national economic challenge, have risen from 177 in the five-county Greater Boston region in 2005 to 2,033 single-family foreclosure deeds in 2007, with 4,275 foreclosures predicted for 2008. Brockton, Boston, Lynn and Lowell experienced the highest foreclosure rates in both 2006 and 2007. Condominium owners in the region have also faced foreclosures, though not to the same degree of single-family homeowners. In 2007, 751 foreclosure deeds were issued to condo owners in the five-county region.

Some hope can be found that the foreclosure crisis may be lessening in the coming years in that the rate of petitions to foreclose, the first step taken by a lender to reclaim property from delinquent borrowers, has begun to slow. In the first half of 2008, 3,774 petitions to foreclose were issued, down from 4,051 filed in the first half of 2007. This dip was partly the result of the implementation of the *Act Protecting and Preserving Homeownership* (the "2007 Act"), which provided foreclosure prevention counseling funds and created a new 90-day window for homeowners to resolve a mortgage default before foreclosure proceedings began. These numbers suggest that after several years of significant foreclosure activity, the region's housing market may be moving towards more normal levels.

Public Spending on Housing

Federal Funding

Since 2004, the federal government has funded the Commonwealth's Department of Housing and Community Development (DHCD) at approximately $400 million per year. More than 70 percent of this total goes for rent subsidies, home heating assistance, and weatherization programs for low-income homeowners. For FY 2009, DHCD anticipates a 1 percent increase in federal funding over the $430 million in FY 2008.

State Funding

In 2008, DHCD spending from state funds increased to $320 million from a low of $187 million in 2004. This represents the highest level of state support for housing since 1991, but in inflation-adjusted dollars the 2008 amount is only 74 percent of the 1991 level and just 45 percent of the 1989 budget. Thus, the trend is in the right direction, but there is still more that the state could do.

The state increased capital spending $40 million in FY2008, largely to fund the renovation of state housing projects. On the operating side, the state increased funding for public housing authorities by 17 percent in FY2008, added 9 percent to its own rental housing voucher program, and 17 percent to a program aimed at providing rental subsidies to those who are covered by the state's Department of Mental Health.

If the FY2009 budget is not reduced because of expected declines in revenue, the total operating budget for DHCD should increase by another 5 percent. The largest increases will be used for public housing and rental vouchers. The capital budget is still not available for FY2009, so we have no knowledge of how much will be added for subsidizing the construction of new affordable housing.

Conclusion

At no time since the publication of the *New Paradigm* report in 2000 have we faced more uncertain times about housing in Greater Boston. So many factors are in play from demographic and employment trends to dramatic federal action to staunch the current crisis gripping the nation's financial sector, that it is virtually impossible to predict what 2009 or 2010 will be like.

What we do know is that taking care of the foreclosure problem in the short run and planning for the development of additional affordable housing in the future is critical. Unless we do both, we will face sharp reductions in home prices over the next year or two and then sharp price and rent increases after that. This will immediately threaten families with foreclosure and entire neighborhoods with abandonment and vandalism, and then reduce our ability to economically compete with other regions of the country.

1.
Introduction

In the summer of 2000, the Boston Catholic Archdiocese and the Greater Boston Chamber of Commerce approached the Center for Urban and Regional Policy at Northeastern University (CURP) with a request that it conduct an in-depth study to determine why housing prices were increasing so rapidly in the region and what might be done to make both housing prices and rents more affordable. With home prices up 48 percent in the five years since 1995, and apartment rents up by an equivalent amount, Cardinal Bernard Law insisted we had a "*moral responsibility*" to find ways to make housing affordable to families of all income levels.[2] Paul Guzzi, President of the Chamber of Commerce, concerned about the region's ability to retain and attract younger workers in the face of sharply rising home prices, argued that meeting the affordability challenge was an "*economic necessity*."

From their request came one of the most comprehensive studies of housing ever completed for the Commonwealth. In February 2001, *A New Paradigm for Housing in Greater Boston* was released. It assessed the reasons why housing prices and rents were rising so rapidly, set a target for new production to bring housing supply into balance with housing demand, and called for action at the level of the community, the state, and the nation to make housing more affordable.[3] The report made the case that the Commonwealth would suffer in terms of both social equity and economic growth if it did not aggressively address the housing affordability crisis.

To assess how well Greater Boston was doing in overcoming the obstacles to developing housing in the region and to meeting the production targets established in the ***New Paradigm*** report, CURP began in 2002 to publish a set of annual *Greater Boston Housing Report Cards* under the auspices of The Boston Foundation and the Citizens' Housing and Planning Association. Each year through 2007, CURP reported on changes in the economic and demographic conditions in the region, housing construction, changes in home prices and rents, housing affordability, and public spending in support of housing. For the most part, these reports demonstrated year after year insufficient new housing production, a continued upward spiral in home prices and rents, and declining affordability.

Now we live in very different times. Foreclosures are skyrocketing, vacancy rates are rising, home prices are falling, and those who have recently bought homes worry that their homes are worth less than their mortgages. In lower income neighborhoods, concentrated foreclosures on a single street lead to fears of widespread abandonment, vandalism, and sharply dropping property values for those on the same street who have dutifully paid their mortgages on time but bear the brunt of neighborhood deterioration. Nationally, the collapse in housing values is seen as the worst since the Great Depression.[4]

Given this sudden change in the economic environment, it is time to reassess housing conditions in Greater Boston in order to better understand what has happened to prices and rents, new construction, affordability, foreclosures, and public policies formulated to cope with the growing complexities of the housing market.

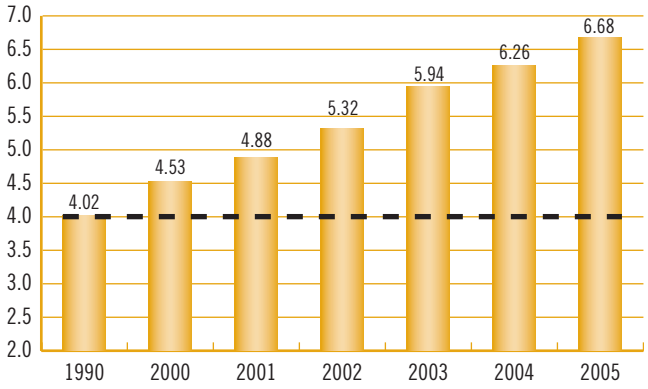
This report is the first step in that process. The original *New Paradigm* report led to annual report cards on progress toward meeting the region's housing needs and ultimately to new legislation that provides a mechanism for spurring the construction of more affordable housing in the Commonwealth. We intend for this installment of the *Greater Boston Housing Report Card* to be an assessment of how far we have come, a reminder of what still needs to be accomplished, and a springboard for continued action aimed at improving housing affordability and maintaining an enhanced quality of life for the residents of Massachusetts.

Housing Affordability in Greater Boston (2000–2005)

Despite the concerns about escalating home prices and rents voiced by the Archdiocese and the Chamber in the spring of 2000, the median selling price

FIGURE 1.1

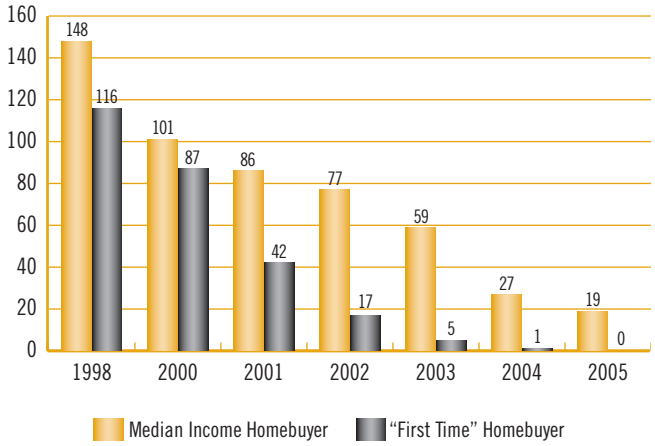
Ratio of Median Selling Price to Median Household Income in Greater Boston, 1990–2005



Source: Case-Shiller Median Single Family Home Sales Prices; U.S. Census Bureau data on Median Household Income

FIGURE 1.2

Affordable Communities in Greater Boston, 1998–2005



Source: The Greater Boston Housing Report Card 2006·2007

for a single family home in Greater Boston was still under $235,000. The run-up in prices that began back in 1995 would prove to be merely a prelude of what would happen to home values over the next five years. Between March 2000 and March 2005, the median selling price would rise by another 75 percent to over $407,000 and would reach $420,000 six months later. The only "good" news was that rents had stabilized, albeit at nearly $1,500 per month for a standard two-bedroom apartment.

If family incomes had kept pace with the explosion in housing costs, affordability would not have been as great a moral or economic challenge. But this was not the case. While home prices escalated, incomes rose slowly at best or stagnated. The result was that housing became increasingly unaffordable for an increasing number of households in Greater Boston. As **Figure 1.1** reveals, the median price of a single family home in 1990 was four times the median household income. In 2000, a decade later, housing was a bit less affordable, with a median price equivalent to 4.5 times the median household income. Over the next five years, however, the median-price to median-income ratio would climb sharply. By 2005, it took nearly *seven* times the median household income to purchase the median priced single family home.

As a result of skyrocketing home prices, by 2005 only 19 of the 161 municipalities in Greater Boston had a median home price that was "affordable" by a median-income homebuyer purchasing the median-priced house in that community.[5] This was down from 101 "affordable" communities in 2000 and 59 as late as 2003. Among homebuyers at 80 percent of median family income, not a single Greater Boston municipality was "affordable" by 2005. Five years earlier, 87 municipalities had been affordable to these young families (see **Figure 1.2**).

Unless a family was willing to spend well beyond *one-third* of its annual gross income in mortgage principal and interest, real estate taxes, and home insurance, that family simply could not afford to buy a typical home in the city or town where existing homeowners had incomes similar to theirs. In fact, in 2005 more than 39 percent of households with mortgages in Massachusetts were paying more than 30 percent of their income for mortgage, property tax, and home insurance and nearly one in seven (13.9 percent) were paying *more than half* their income for these housing costs. Renters were even more cash-strapped for housing. Over half of all renters (51.5 percent) were spending more than 30 percent of their income on rent and a quarter (25.0 percent) were spending more than half their gross income to pay their monthly rent.[6]

Young People Abandon the Region

Prices were rising so quickly during the first half of this decade that the housing crisis was no longer just a problem for homebuyers in Greater Boston. It was also becoming a problem for employers, who were having trouble retaining their own young workers and attracting others to the region. Not only was the *absolute* cost of housing rising faster than household income in Greater Boston, its *relative* cost was increasing sharply against most other metropolitan regions across the country. In 1995, *after controlling for higher per-capita income in Greater Boston*, housing here was only 5 percent less affordable than housing in the Charlotte, North Carolina metro region. By 2005, this *cost disadvantage* had risen to 87 percent.[7] The housing cost disadvantage of Greater Boston relative to Phoenix increased over this period from 40 percent to 80 percent while the cost disadvantage with Seattle increased from 12 percent to 63 percent. Early in the decade, Boston even had a 12 percent cost disadvantage relative to New York City.

With the declining affordability of Greater Boston homes, it was not surprising that Massachusetts suffered a large increase in outmigration of its population to other states. Research reported in CURP's 2005–2006 *Greater Boston Housing Report Card* found a strong link between housing costs on the one hand and slow employment growth and increased domestic net population outmigration on the other.[8] This was particularly true of regions, such as Greater Boston, in the top decile of housing costs across the nation's more than 300 metropolitan areas. On net, over 230,000 residents left the Commonwealth for other states between 2000 and 2005, with the number growing each year.[9] Even the continued influx of immigrants from other countries was not sufficient to offset this loss. Only the fact that births exceeded deaths in the state kept the Massachusetts population from falling below ZPG—zero population growth. Indeed, between 2002 and 2005, the population of Massachusetts actually declined, driven by the loss of nearly 13,000 residents in Greater Boston alone.[10] The population losses were particularly acute among households headed by young workers (those aged 20–24 and 25–34 years).[11] After a decade of extraordinary housing price appreciation from 1995 to 2005, Greater Boston had finally priced itself out of the market for young people, just as the *New Paradigm* report had warned.

Analyzing the Greater Boston Housing Crisis

The *New Paradigm* report not only warned of the demographic and economic consequences of spiraling housing costs, but also tried to analyze why prices and rents had risen so sharply after 1995. It found that a complex combination of supply and demand factors was responsible for the growing housing crisis. On the one hand, during the 1990s the region's buoyant economy, led by information services and the financial sector, boosted the demand for housing. Employers in the Greater Boston labor market added more than 300,000 jobs between June 1990 and June 2000, representing an increase of over 14 percent in the region's employment base.[12] Some of these jobs went to previously unemployed residents, but the surplus of jobs attracted new workers to Greater Boston. More than 120,000 additional households took up residence in the region between 1990 and 2000.

Many of these new working families moved into vacant housing units, reducing the rental vacancy rate to just 2.7 percent and the homeowner vacancy rate to just above 0.5 percent. These were well below the rates considered necessary to keep prices from rising faster than general inflation (6 percent and 1.5–2.0 percent, respectively). With so little excess supply on the market, Greater Boston became a seller's market. A large number of households bidding for such a small supply of housing bid up apartment rents from $930 per month in 1995 to nearly $1,500 in 2000 while home prices increased at double-digit rates annually from 1998 through 2002.[13]

Prices would not have increased anywhere near so rapidly if sufficient new housing supply had been built to fill demand. Between 1990 and 2000, though, only 82,600 new units of housing were developed in Greater Boston to meet the needs of nearly 123,000 new households.[14]

The *New Paradigm* report probed the supply constraint and found a host of reasons why housing development was not keeping up with demand.

- Land costs were found to be particularly high in Boston, where unimproved land ran an average of $6.00 per square foot, compared to $2.25 in Washington, D.C., $1.75 in Baltimore, and $1.00 in Philadelphia.
- Land assembly from many smaller parcels had never been easy in Boston.

- Site clean-up and preparation posed another problem because of the sizeable number of parcels needing brownfield remediation.
- Tax title laws often made it difficult or impossible to free up abandoned land for housing.
- After 1990, the Commonwealth abandoned much of its commitment to providing support for housing production in the state. State spending on housing construction in 2000 was only 40 percent of what it had been in 1989.[15]

While all of these factors played significant roles in keeping production down and keeping prices in Boston abnormally high, the factors that contributed most to the lag in housing production were local zoning laws and building codes that made it costly and time-consuming for developers to build new housing. Strict separation of land uses prevented the development of housing above commercial spaces in thriving retail areas. Large-lot "snob zoning" made it impossible to develop denser housing. Arcane and complex building codes added still other barriers to construction. Behind all of these barriers, according to the report, was a system of local zoning control so powerful that each community had the ability to prevent new housing from being built. Residents in many communities, fearing greater congestion, increased public school costs, or possibly an altered "neighborhood environment," exhibited a strong attitude of "NIMBY-ism"– Not In My Back Yard. In one town meeting after another, residents were quick to vote down new developments, relying on zoning laws and building codes to keep construction to a minimum. The result: with most communities restricting development, total construction fell well below the level needed to keep prices from going through the roof.

Setting a Housing Supply Target

Forecasting out to 2005, the *New Paradigm* report went on to project the amount of additional construction needed each year to meet housing demand. According to its analysis, 51,400 more units would be needed to account for the population growth expected between 2001 and 2005. Another 17,000 rental units would be needed to raise the rental vacancy rate to 6.0 percent. Still another 9,300 units would be needed to raise the owner occupied vacancy rate to 2.0 percent. Altogether then, over the next five years, the report suggested the need for the construction of 78,300 new housing units in Greater Boston between 2001 and 2005.[16]

Given the actual prevailing production level—8,460 units per year, on average, between 1996 and 2000—the *New Paradigm* report predicted a future shortfall of 7,200 units per year, or 36,000 units by 2005. To make up for such a shortfall, housing production would have to be increased at the rate of 15,660 units per year.

As noted earlier, beginning in 2002, CURP began producing a series of annual *Greater Boston Housing Report Cards* to keep track of production, home prices, rents, and government action undertaken to spur housing construction. The results of the very first report proved discouraging. Total housing production actually *declined* in 2001 to 9,701 units from 10,342 the year before. A year later, production had fallen even further, to just 9,520 units. The region was clearly going in the wrong direction, adding to housing price pressure. In 2003, production recovered to a bit over 12,100 units; in 2004, the rise continued, with 13,556 units constructed, and in 2005, with 15,561 units.[17] The trend was finally going in the right direction, but still falling short of the *New Paradigm* goal of 15,660 per year. Altogether between 2001 and 2005, total production reached 60,460 units, nearly 18,000 shy of what the demand projected in the *New Paradigm* required.

This underperformance in production had severe consequences for affordability in Greater Boston. The median price of a single family home increased from $249,000 in 2000 to over $305,000 two years later. Prices continued to rise so sharply that by 2005 the median price in Greater Boston was just under $400,000.[18] Affordability evaporated rapidly, as shown previously in Figure 1.2.

Apartment rents, however, reached a plateau of about $1,500 in 2000 and stayed there through 2005, thanks to the confluence of three factors.[19] The first was a decline in the number of renters, as more people who had previously rented apartments sought to get into the homeownership market in order to take advantage of the explosion in home price appreciation. The movement of renters into homeownership, while contributing to rising home prices, helped raise the rental vacancy rate, and thus helped stave off rapid rent increases. Second, an expansion in the number of student housing units built by area universities further

reduced pressure on the private rental market. Finally, a shift in production from single family to multifamily housing developments favored renters. From just 3,112 units in multifamily developments in 2002 to 8,291 in 2005, the expansion in this housing product helped keep rents stable. Conversely, the decline in single family home construction from over 8,600 units in 1998 to just 6,000 in 2003 was largely responsible for the continued price inflation in owner-occupied homes.[20]

By 2005, those who had bought homes in the 1990s or before were in the enviable position of seeing their housing assets soar in value. By contrast, those who had not purchased a home when prices were lower, especially the region's new generation of young workers, found themselves either spending a huge share of their income on housing or moving to less expensive housing markets further away from Greater Boston (or out-of-state altogether).

Not surprisingly, domestic outmigration soared to more than 60,000 residents per year in both 2003–2004 and 2004–2005.[21] Restrictive zoning, and other barriers to housing construction, had created such a lag in production that the only safety valve remaining was the emigration of Greater Boston residents to other regions of the country. If so many residents had not left the region, housing prices would have risen even more.

The Housing Situation since 2005: Falling Home Prices/Stable Rents

By 2005, Greater Boston's housing bubble was beginning to deflate. A combination of factors led to a reversal in home prices and continued stability in rents.

The first was *slow population growth*. As noted just above, the housing crisis was partially self-correcting. Prices became so high that homebuyers voted with their feet. Because of substantial out-migration, there was almost no growth in the number of households in Greater Boston, and as a result upward pressure on home prices moderated. Of course, this self-correction came at a price. The loss of so many young working families caused leaders and business owners to call into question whether businesses in Greater Boston would be able to meet their future workforce needs. As a number of studies have revealed, this, in turn, became a factor in the location decision of many firms and contributed to slow or negative job growth.[22]

The second factor was the *increased supply of new housing* units that began to come on line in 2003. Between 1999 and 2002 there were, on average, 10,056 building permits issued per year in the Greater Boston metro region. In the subsequent four years, this number increased by 37 percent to an average of 13,750 per year.[23] At the same time, colleges and universities in the region boosted their production of residence hall units. Between 1999 and 2006, more than 4,600 such student apartments were built, freeing up this number of units in the private sector.

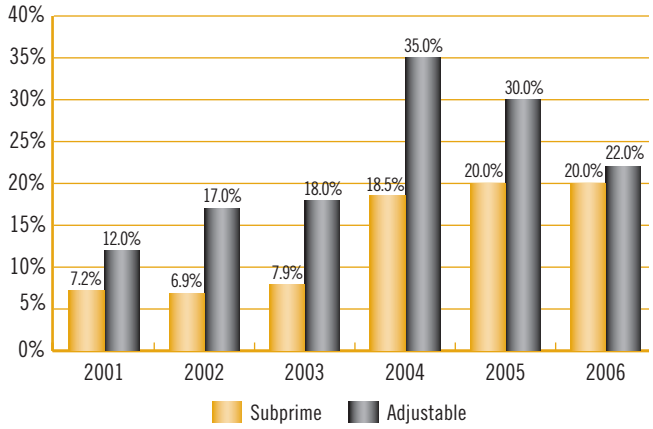
Of course, in other housing markets, housing production was much stronger. In places like Las Vegas, Phoenix, San Diego, and Miami, developers were able to build huge developments, many of them on "spec." The result, as we will see, was a much more dramatic collapse in home prices as supply greatly exceeded demand.[24]

The third factor was the *subprime mortgage meltdown*. Subprime lending refers to the extension of credit to borrowers who are considered "high risk." Subprime loans carry higher interest rates, as well as points and fees, that make borrowing substantially more costly than conventional loans.[25] Until 2003, fewer than 8 percent of all mortgage originations in the U.S. were subprime. The share more than doubled in 2004 and reached 20 percent in 2005 and 2006.[26] Such lending was particularly prevalent in the nation's low-income census tracts, where 40 percent of new mortgages were subprime. In low-income minority communities, the rate reached 45 percent, on average.[27] The sharp increase in the proportion of adjustable rate mortgages (ARMs) only added to the potential powder keg in the housing mortgage market. In 2001, 12 percent of all mortgage originations in the nation had adjustable rates; by 2004, the proportion had reached 35 percent (40 percent in the fourth quarter of that year; see **Figure 1.3**).[28] Those who selected these mortgage instruments would be subject to increased borrowing costs if interest rates rose.

The boom in housing prices from 1995 through 2005 helps to explain why subprime mortgages became so prevalent. With housing values in many parts of the country rising rapidly, and with what seemed to be a reasonable expectation that housing prices would

FIGURE 1.3

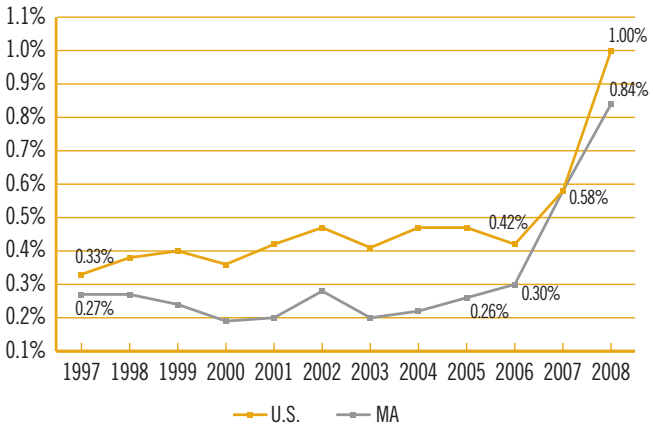
U.S. Subprime and Adjustable Rate Mortgage Originations, 2001–2006



Source: The State of the Nation's Housing 2008

FIGURE 1.4

Foreclosure Initiation Rates– Massachusetts v. U.S., 1997–2008 (1Q)



Source: Mortgage Bankers Association/Haver Analytics

continue to increase, anyone who could possibly purchase a home felt he or she was getting a "piece of the rock." Housing seemed a better bet than the stock market as an appreciating asset.

Under these circumstances, if a mortgage company was willing to permit a family to get into the home-ownership market with almost any kind of mortgage instrument, it seemed worth the gamble. To meet the growing demand for home loans, a proliferation of mortgage servicers arose who were only too happy to sell as many mortgages as they could. It was in their short-term financial interest to qualify buyers, even when those buyers had shaky credit ratings. Some servicers used questionable promotion practices to sell the American dream of homeownership to families clearly unaware of the risks they were taking. Some seeking to own agreed to subprime mortgages with their eyes wide open, understanding the risks but awed by the expected gain.

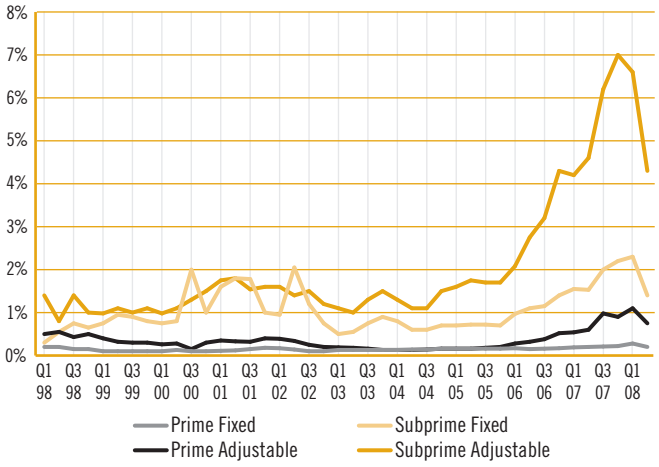
In many cases, the risks were worth taking. According to a recent Boston Federal Reserve Bank study, an overwhelming percentage (82 percent) of those in Massachusetts who took out subprime mortgages have been "successful," insofar as they have been able to remain in their house and continue servicing the monthly mortgage payment over a 12 year period, or have elected to sell their home, usually at a profit.[29] Moreover, for those who bought their homes with a subprime mortgage near the beginning of the home price spiral in 1998, there would still be nearly seven years of rapidly rising house prices. Under these conditions, it is not surprising that the Fed study revealed a foreclosure rate of less than 6 percent—that is, a 94 percent "success" rate—for these early subprime borrowers.[30]

Once the housing price bubble burst in 2005, however, the proliferation of new mortgages led to a wave of foreclosures both nationwide and in Massachusetts. The foreclosure initiation rate for all U.S. mortgages increased from 0.4 percent in 2006 to 1.0 percent in the first quarter of 2008. The Massachusetts foreclosure rate was half the U.S. rate as late as 2003, but by 2007 it reached the U.S. level and trailed the U.S. rate only slightly at the beginning of 2008 (see **Figure 1.4**).[31]

An extremely disproportionate share of the run-up in foreclosures has been experienced by those who took out subprime mortgages—particularly those with an adjustable rate. Back in the first quarter of 2000, only 1 percent of subprime adjustable loans faced foreclosure. By the fourth quarter of 2007, the rate had increased to 7 percent and was now higher in Massachusetts than the 6 percent rate in the U.S. as a whole (see **Figure 1.5**). By contrast, prime fixed rate mortgages in the Commonwealth had a foreclosure rate of 0.3 percent in late 2007, hardly higher than the prevailing rate throughout the last decade. Even the

FIGURE 1.5

Percent of Loans with Foreclosure Initiations in Massachusetts



Source: Mortgage Bankers Association/Haver Analytics

foreclosure rate on subprime *fixed rate* mortgages was less than 2.5 percent.[32]

Sixty-day plus delinquency rates on home mortgages are just about double the rate of actual foreclosure initiations. These are mortgages that will likely face foreclosure if their borrowers continue to fail to honor their monthly mortgage commitments. Back in the first quarter of 2000, less than 2 percent of Massachusetts subprime adjustable rate mortgage holders were delinquent in their mortgage payments. By the first quarter of 2008, the number was close to 14 percent—one in every seven.[33]

Why Foreclosures are Rising

Theoretically, there are three factors that can lead to an increase in foreclosure rates.[34] The first is *rising unemployment* and, by extension, *falling household income*. When the economy weakens, an increasing number of households find it difficult, if not impossible, to keep up with their mortgage payments. Many face mortgage delinquency, and if the delinquency lasts more than 60 days, foreclosure initiation can begin.

The second is *rising mortgage payments*. Until recently, this was hardly a problem, since most mortgages had fixed rates. But with the rise of ARMs, households can find their mortgage payments increasing even as the value of their homes and their household income remain fixed.

The third is a *decline in housing prices*. When home prices decline, borrowers' loan-to-value (LTV) ratios can increase to 1.00 or higher. In such circumstances, it is often rational for borrowers to abandon their properties, returning them to the mortgage company or bank that provided their financing.

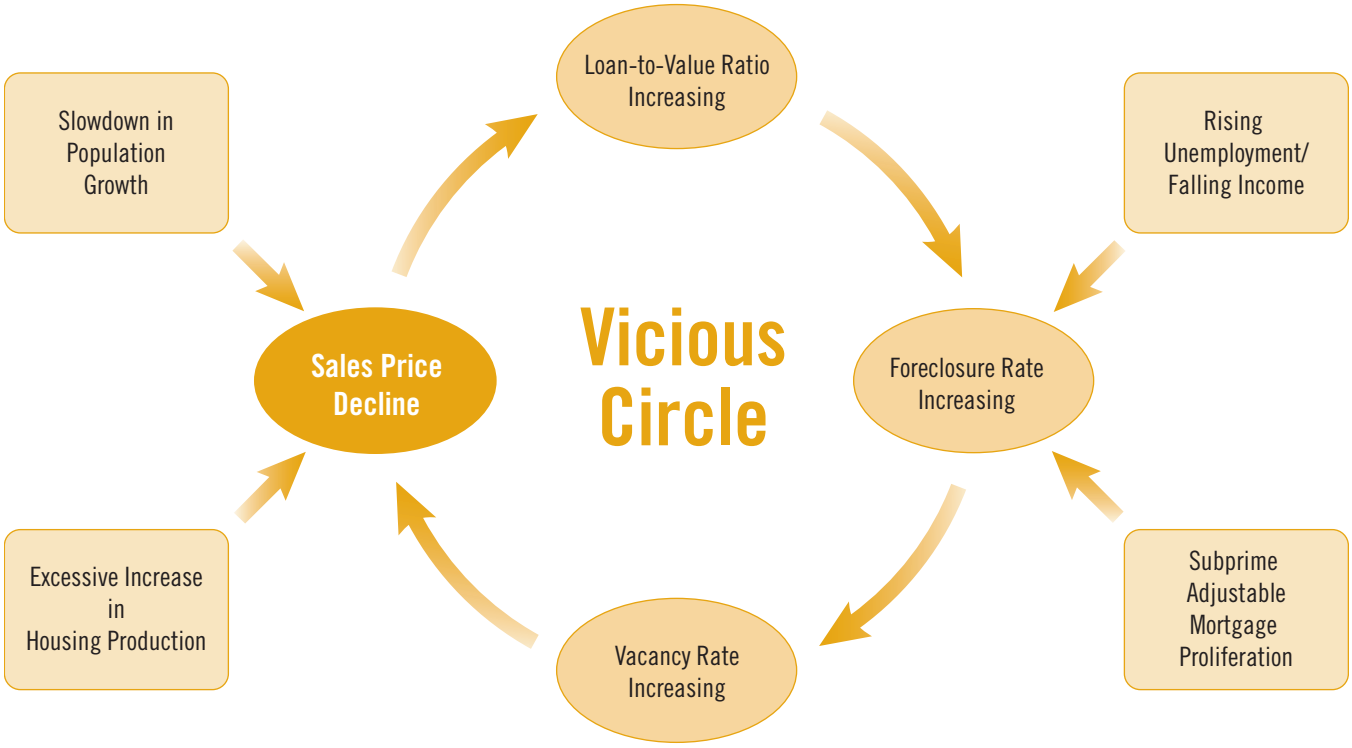
Of these three factors, the Fed study mentioned earlier found that declining home prices, or what it termed "house price depreciation," is the main driver of foreclosures.[35] Rising joblessness and stagnant income has a decidedly weaker impact on foreclosures, if home values remain relatively strong. However, homeowners who suffer a 20 percent or greater decline in the value of their homes are about 14 times more likely to default on a mortgage than homeowners who have enjoyed a 20 percent increase.[36] As such, when prices began to soften in the Massachusetts real estate market in 2006, it is not surprising that foreclosures began to become more prevalent.

The Housing Situation since 2005: Falling Prices in a Vicious Circle

The link between foreclosures and prices is quite strong. Rising foreclosures are often part of a more elaborate vicious circle of falling home prices which in turn leads to even more foreclosures and further price reductions. This circle can be depicted as in **Figure 1.6**. A *slowdown in population growth*, combined with an *increase in housing production that exceeds demand*, can trigger an initial housing price decline. If prices fall substantially, some homeowners—particularly those who have purchased their homes recently at inflated prices—see their mortgage loan-to-value ratios increase. If these ratios rises high enough, or if the borrower's *income declines as a result of a slowing economy and rising unemployment*, the homeowner often chooses to walk away—or is forced into foreclosure—rather than continue to pay mortgage payments on a home worth less than the value of the mortgage. Those who have paid a premium for their mortgage in obtaining a subprime mortgage, particularly one with an adjustable rate, are most prone to foreclosure. Unless foreclosed homes are re-sold and re-occupied quickly, *vacancy rates rise*. The increase in vacancies

FIGURE 1.6

The Dynamics of Falling Home Sales Prices



Source: Author's diagram

adds to the supply of available housing relative to demand, depressing prices further. With prices in free fall, potential homebuyers remain on the sidelines waiting for prices to fall even more. This further depresses demand, leading to a self-fulfilling prophesy of falling prices. This scenario is not unlike a stock market crash. Only when enough potential homebuyers believe that prices have stabilized does demand pick up to the point to actually stabilize prices.

In the early 1990s, when the economy was in recession, foreclosures shot up. In 1990, for every 100 home sales there were three foreclosures in Massachusetts. By 1992, with unemployment rising and incomes shrinking, nearly 15 foreclosures occurred for every 100 home sales. Not surprisingly, following the vicious circle described above, home prices declined.[37] They would not return to their 1989 peak until 1997. Thus a slowing economy led to falling incomes which, in turn, led to rising foreclosures and still faster falling prices.

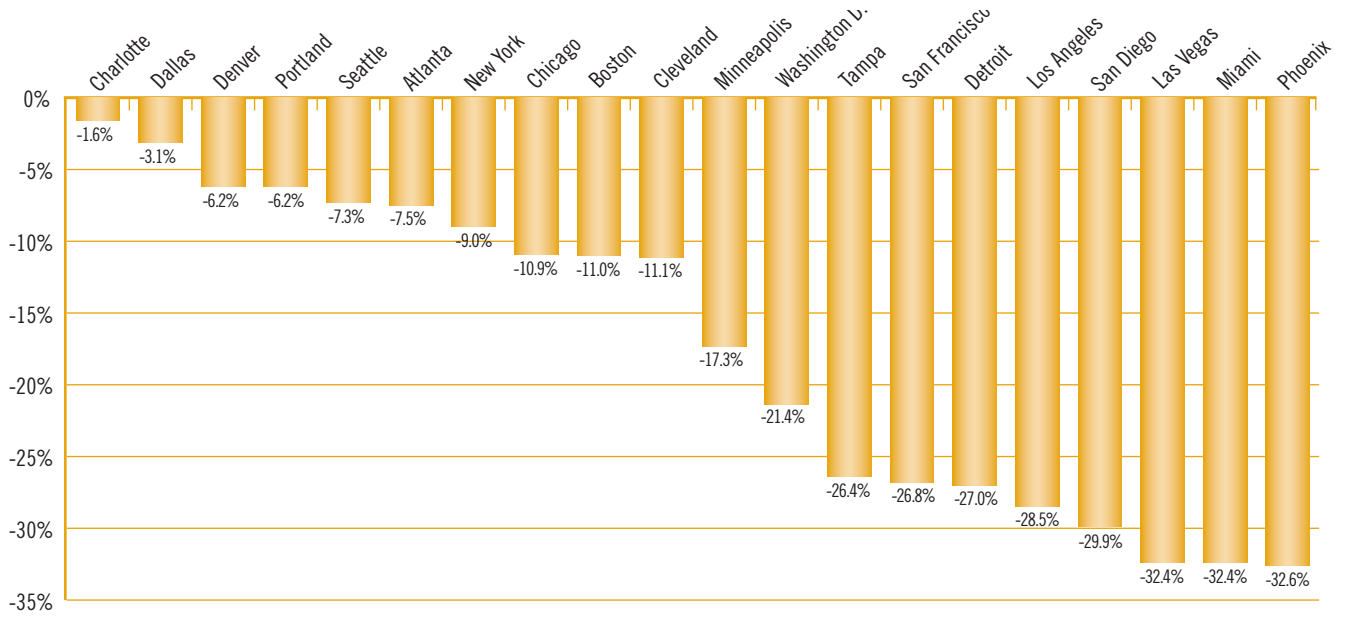
In today's market, the foreclosure to home sales ratio in Massachusetts has increased by a factor of ten from just 0.6 percent in 2003 to 6.0 percent in 2007 and is likely to be much higher in 2008. Homeowner vacancy rates in Greater Boston, as low as 0.5 percent in 2002, increased to 1.2 percent in 2005 and 1.9 percent in 2007.[38]

In this environment of slow population growth, rising foreclosures, and rising vacancy rates, housing prices were bound to fall. In Greater Boston, the median sales price for existing one-family homes, as measured by the Case-Shiller index, has fallen 11 percent from its 2005 third quarter peak of $420,000 to $373,800 in the second quarter of 2008.[39,40]

Figure 1.7 puts these developments in a national context, comparing the erosion in housing prices in Greater Boston with nineteen other major metropolitan areas from their respective peaks to June 2008. Eight of these metro regions have experienced relatively small price reductions, including Charlotte (-1.6 percent),

FIGURE 1.7

Percentage Change in Median Sales Price of Existing Single-Family Homes in Selected Metro Areas (Peak to June 2008)



Source: Case-Shiller Median Sales Price Data

Dallas (-3.1 percent), Denver(-6.2 percent), and New York (-9.0 percent). At the other extreme, three metro regions have seen median home prices for existing single-family homes decline by 30 percent or more. This group includes Phoenix (-32.6 percent) and Miami and Las Vegas, both down by 32.4 percent.

The dramatic declines in home prices in these particular metro areas can be understood by looking at two sets of data. The first is the ratio of new housing units under construction to the increase in the number of households. In this case, we have data on the total number of new housing units produced between 2003 and 2007 and the increase in the number of households over the period 2000 to 2005.[41] In Phoenix, there were 19 percent more units constructed than the number of new households in the region. The comparable figures for San Diego, Miami, and Las Vegas are 41, 39, and 36 percent, respectively. With such an increase in construction relative to demand, one would expect to see homeowner vacancy rates soar. Indeed, they did. In Phoenix, the vacancy rate rose from 1.0 percent in 2005 to 3.7 percent in 2007. In San Diego, the rate doubled between 2004 and 2007, from 1.5 to 3.0 percent. During this same period, the vacancy rate in Miami quadruped to 4.4 percent, while the rate reached 4.9 percent in Las Vegas. With such high vacancy rates, homebuyers had a field day, negotiating prices down substantially. And with such precipitous reductions in housing prices, foreclosure rates soared in these metro areas. In 2007, 1.0 percent of all mortgages nationwide were in some stage of foreclosure. Meanwhile, in San Diego the rate was 1.8 percent; in Phoenix 1.9 percent; in Miami 2.7 percent; and in Las Vegas 4.2 percent. These regions in particular have been the poster children for the downward spiral associated with the housing price vicious circle.

Because Greater Boston did not experience a wave of speculative housing production, it has been spared the worst of the current national housing crisis. Its housing prices have fallen only moderately relative to other metro regions. Much of the 11 percent decrease in home prices since September 2005 is due to the slow growth in households in the region, which has reduced housing demand, combined with increases in the number of foreclosures, which has essentially increased housing supply.

TABLE 1.1

Changes in Housing Affordability in Greater Boston, 2001–2007

					Percent Change	Percent Change
	2001	2005	2006	2007	2001–2005	2005 – 2006/2007
Nominal Median Single Family Home Price	$288,116	$417,552	--	$394,432	44.90%	-5.50%
Nominal Median Household Income	$59,011	$62,462	--	$68,319	5.80%	9.30%
Home Price/Income Ratio	4.88	6.68	--	5.77		
Nominal Median Gross Monthly Rent	$915	$1,042	$1,070	--	13.80%	2.70%
Nominal Median Renter Income	$39,058	$35,748	$36,251	--	-8.50%	1.40%
Annual Rent/Income Ratio	0.281	0.35	0.354			

Source: U.S. Census Bureau, 2001–2007 American Community Survey; Case-Shiller Single Family Home Price Series

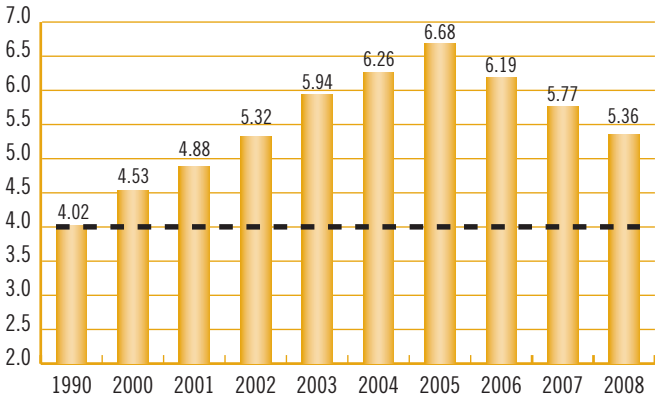
The Greater Boston Housing Paradox: Home Prices Too High and Falling Too Fast

With home prices dropping, homeownership is becoming more affordable in Greater Boston. Between 2005 and 2007, nominal median household income has increased by 9.3 percent while the nominal median single family home price has declined by 5.5 percent. As a result, the ratio of home price to household income has declined from 6.68 in 2005 to 5.77 in 2007 (see **Table 1.1**). By mid-2008, the estimated ratio was down to 5.43, suggesting even greater affordability. Still, it is important to recognize that back in 2000—after five years of housing price escalation—the selling price to median income ratio was only 4.53 (and 4.88 in 2001). As such, prices are beginning to come into line with incomes, but there is still a substantial distance to go to return to the 2000 ratio, let alone the 4.02 ratio of 1990 (see **Figure 1.8**, which extends the data we originally presented in Figure 1.1 to 2008). As of 2006, over 31 percent of homeowners were still paying more than 30 percent of their gross income in principal, interest, property taxes, and home insurance. This figure was down from 39 percent in 2005, but still higher than the 27 percent in 2000.

As for renters, things had not improved at all through 2006. Between 2005 and 2006, median gross monthly rent increased by 2.7 percent while median renter household income increased by only about half this much. As a result, the median renter is now paying 35.4 percent of his or her income on rent, up from 35.0 percent a year earlier. Moreover, although U.S. Census data have yet to be released for 2007 and 2008 on the proportion of renters paying 30 percent and 50 percent or more of their gross income on rent, we do know that as of 2006, 52.6 percent of renters were paying more than 30 percent of their income on monthly rent, the highest proportion ever. Back in 2000, "only" 38.8 percent of renters had to pay this much. A quarter of renters (25.6 percent) were paying more than 50 percent of their gross incomes in rent in 2006, also a record.

FIGURE 1.8

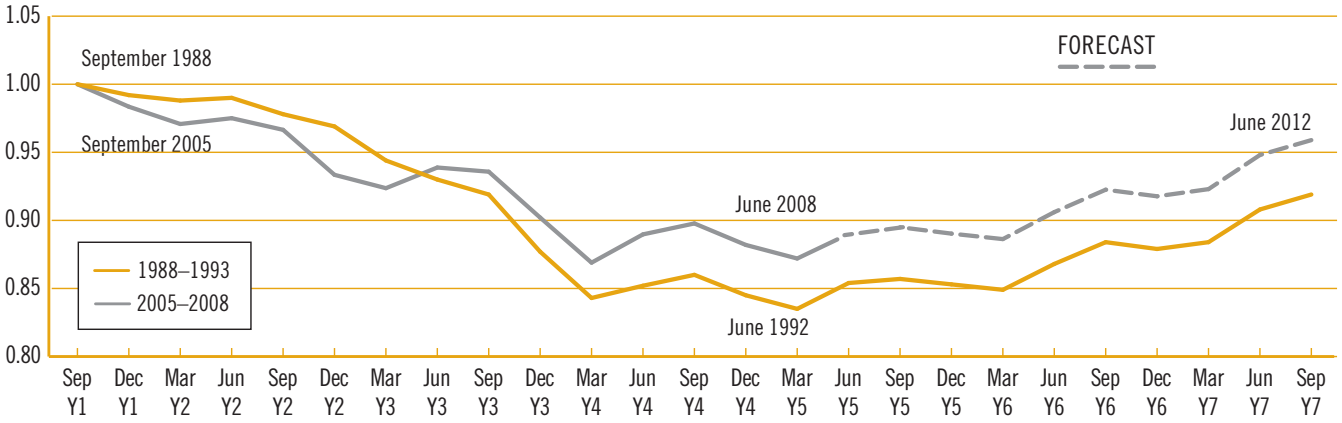
Ratio of Median Selling Price to Median Household Income in Greater Boston, 1990–2008



Source: Case-Shiller Median Single Family Home Sales Prices; U.S. Census Bureau data on Median Household Income (extrapolated to 2008 at an annual rate of 2% per year)

FIGURE 1.9.

Case-Shiller Home Price Index (1988–1993 Cycle v. 2005–2008 Cycle)



Source: Forecast Values based on Case-Shiller Price Index

These figures would suggest the need for even larger price and rent reductions to increase affordability. Yet if the current downward price trajectory continues, even more households will see their LTV ratios rise above 1.0, leading almost inevitably to more foreclosures and an exacerbation of the home price vicious circle. Consequently, even more communities could face the challenges associated with abandoned property and devalued neighborhoods. Thus, we are now faced with a paradox in which home prices and rents are still *too high* to be affordable for many, but *falling too fast* to stabilize neighborhoods.

Of course, over the long run, the paradox could disappear, but not the housing crisis. If prices and rents were to stabilize at their present levels, the number of foreclosures would likely decline. Yet this would still leave a serious affordability problem. If prices and rents continue their downward spiral, the affordability problem would diminish, but foreclosures would likely increase sharply with even more communities facing all of the problems associated with abandoned properties. Somehow, we need to solve the paradox by simultaneously increasing the supply of affordable housing without unduly depressing home prices. Private markets, left alone to the price dynamics of supply and demand, are not very good at this.

How Much Farther will Housing Prices Fall?

As of July 2008, according to Case-Shiller calculations, the median selling price for a single family home in Greater Boston has declined by over $46,000, or 11 percent from its peak of $420,131 in September 2005,. How much further might prices fall below the current $373,800 median?

On the one hand, there is reason to believe that prices will continue to fall over the next one to two years. The number of adjustable subprime mortgages facing upward rate readjustment over the next few years is substantially higher than in past housing cycles. If inflationary pressure, led by rising food and fuel costs and rising import prices based on the weak dollar, continues to mount, the Federal Reserve Board will undoubtedly begin to raise short-term interest rates, thereby causing adjustable mortgage rates to go up, as well. These higher interest rates could easily lead to additional foreclosures, rising vacancy rates, and falling prices. If higher interest rates also slow economic growth, causing a rise in unemployment and a decline in household income, the downward pressure on home prices could be exacerbated.

In its May 2008 Massachusetts forecast, the *New England Economic Partnership* predicted a decline in median selling prices of existing homes of 7.5 percent in 2008 and a further decline of 0.8 percent in 2009, followed by modest price increases of 1.8–3.8 percent per year through 2012.[42] However, it must be noted

TABLE 1.2

Gross Residential Investment and Housing Starts in Down Cycles, 1973–2008

Cycle I*	Peak 1973:1	Trough 1975:1	Percent Change
Gross Residential Investment (billions of $ 2000)	$310.60	$189.20	-39%
Percent of GDP	5.70%	3.60%	
Housing Starts (millions of units)	2.481	0.904	-63%
Cycle II*	**Peak 1978:3**	**Trough 1982:3**	**Percent Change**
Gross Residential Investment (billions of $ 2000)	$356.60	$182.90	-49%
Percent of GDP	5.50%	3.50%	
Housing Starts (millions of units)	2.141	0.927	-61%
Cycle III*	**Peak 1986:4**	**Trough 1991:1**	**Percent Change**
Gross Residential Investment (billions of $ 2000)	$355.90	$250.00	-30%
Percent of GDP	5.60%	3.50%	
Housing Starts (millions of units)	2.26	0.798	-65%
Cycle IV*	**Peak 2006:1**	**2008:02:00**	**Percent Change**
Gross Residential Investment (billions of $ 2000)	$607.20	$367.10	-40%
Percent of GDP	5.50%	3.10%	
Housing Starts (millions of units)	2.265	0.977	-57%

Source: US Bureau of the Census Construction Reports, July 17, 2008; Board of Governors of the Federal Reserve System, Flow of Funds Data, Table F10, Line 19; Bureau of Economic Analysis, GDP release July 31, 2008, Table 1.1.6

*Peak and trough dates are for gross residential investment. For housing starts, peak and trough dates are:
Cycle I: January 1973–February 1975
Cycle II: December 1977–August 1981
Cycle III: February 1984–January 1991
Cycle IV: January 2006–May, 2008

that the NEEP forecasting model has consistently underestimated the housing price decline during the current housing cycle, and it is expected that NEEP's September forecast update will suggest a somewhat steeper and longer home price decline. Interviews with researchers at the Warren Group also suggest that the housing price decline is far from over, as their August press release revealed a much larger monthly price decline in July than they have ever recorded. Timothy Warren, Jr., CEO of The Warren Group, noted that "[f]oreclosure activity has certainly dragged down home prices and *will continue to affect the overall market*."[43]

On the other hand, a much less pessimistic view follows from a close examination of Case-Shiller data for Greater Boston and for the nation. According to Case-Shiller single family home price data for Greater Boston, prices began to rise in July 2008. If prices continue to trend as they did during the last major price correction (September 1988–June 1992)—a period in which home prices fell even more rapidly than during the current cycle—we are likely near the bottom of the current cycle and can expect prices to begin to rise modestly, at least through 2012. If this forecast holds, by June 2012, prices will return to the peak level last achieved in September 2005. **Figure 1.9** depicts this forecast trend.

Added credence to this more optimistic forecast is provided by data assembled by Case-Shiller on national trends in gross residential investment and housing starts over the past three housing cycles plus the current one. As **Table 1.2** indicates, over the past three cycles, residential investment declined by 30 to

49 percent before recovery. Housing starts declined by 61 to 65 percent. Since the current national cycle began in the first quarter of 2006, gross residential investment is down 40 percent while housing starts have fallen by 57 percent. Since these figures closely mirror past trends, one might conclude that the current downturn in housing production is near an end and might expect a stabilizing of home prices and the beginning of at least a modest recovery.

The wild card in all of this is the growing financial crisis that began with the lethal combination of falling home prices and subprime lending. With hundreds of billions of dollars of mortgage-backed securities in default, we have already seen the demise of venerable financial institutions including Bear Stearns, Lehman Brothers, and Merrill Lynch and the federal takeover of Fannie Mae and Freddie Mac and bailout of AIG. Having been burned so severely by taking on mortgage-backed securities, it is almost certain that banking institutions and mortgage companies will dramatically reduce their exposure to any kind of mortgage lending except that carrying almost no risk. For millions of American families, even those with reasonable credit scores, this will result in their being locked out of the homeowner market. With such an expected decline in housing demand, two things could easily happen. Home prices will continue to drop—possibly leading to further foreclosures—and rents will begin to rise again. All of this is speculation, but many of the elements for a continued housing market meltdown seem in place, regardless of the emergency measures taken by the U.S. Department of Treasury and the Federal Reserve Bank to help out troubled lenders and restore confidence in financial markets. These conditions are so unusual that it is difficult to predict outcomes based on past performance.

How Much Housing Does Greater Boston Need for the Next Decade?

The amount and types of housing we will have to produce to meet Greater Boston's future needs will depend to a great extent on demographic trends in the region; the strength of our desire to provide all households with decent, safe, affordable shelter; and the amount of economic growth we can expect and would like to sustain. To obtain useful estimates of housing demand for the upcoming five- and 10-year time horizons, we have developed two types of forecasts. The first relies strictly on expected demographic trends. The second is based on alternative estimates of job growth.

TABLE 1.3

Greater Boston Demographic Projection, 2006–2017

Age	Change in Number of Households, 2006–2012	Change in Number of Households, 2012–2017	Change in Number of Households, 2006–2017
18–24	3,496	-3,471	25
25–34	9,983	13,379	23,362
35–44	-35,723	-15,457	-51,180
45–54	16,331	-20,253	-3,922
55–64	43,143	25,948	69,091
65–74	32,870	40,641	73,511
75+	2,778	6,283	9,061
Working Age (18–64)	37,230	146	37,376
Retirement Age (65+)	35,648	46,924	82,572
Total	72,878	47,070	119,948

Source: Calculated from U.S. Census Bureau, Population Projections, 2000-2030; U.S. Census Bureau, "Annual Households and Housing Unit Estimates, 2000, 2005, and 2006; U.S. Census Bureau, 2006 American Community Survey (ACS), public use files

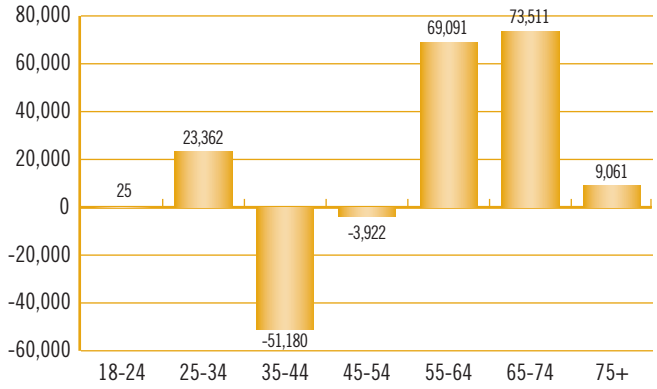
Demographic Projections

According to the U.S. Census Bureau's population projections, the demographic profile of the average Massachusetts household will begin to change dramatically over the next 10 years. Assuming that the share of the total state population residing in the five-county Greater Boston metro region remains the same as in 2006 (62 percent), **Table 1.3** and **Figure 1.10** reveal the expected net change in the number of households by age of the primary householder between 2006 and 2012 and beyond to 2017. These projections are based on expected births, deaths, net interstate migration, and net foreign immigration.[44]

Using the Census statistics, we project an increase of nearly 73,000 net new households in Greater Boston between 2006 and 2012. Of these, about half (37,230) will be headed by someone of "working age" (Age 18–64), while the remaining 35,650 will be of "retirement age" (Age 65+).[45] Notable is the large "loss" of 35–44 year olds as (1) many current households of this age *enter* the 45–54 year old cohort, (2) fewer 25–34

FIGURE 1.10

Change in the Projected Number of Households by Age Cohort in Greater Boston, 2006–2017



Source: See Table 1.3

year olds age *into* this cohort, and (3) more households of this age leave the region than come to Greater Boston from elsewhere. Like much of the rest of the country, Greater Boston is getting older. In Boston, though, the aging of the population is taking place at a faster rate.

Between 2012 and 2017, this aging of the Greater Boston population will become even more dramatic. If the underlying trends the Census uses to predict population growth hold, growth in the Greater Boston population will slow dramatically. This is particularly true of net domestic migration. Since many more households have left Massachusetts for other states, in part because of high housing costs, and relatively few households living in other states have chosen the Commonwealth as their new home, net domestic migration has been negative for the past five years. Based at least partly on this net outflow, the Census projects household growth of only 4.8 percent between 2006 and 2012 in Massachusetts, compared to 6.7 percent nationwide. Over the 10-year period ending in 2017, Massachusetts household growth is estimated to be less than two-thirds that of the U.S. (7.9 percent v. 12.2 percent).

As such, only 47,000 additional households are expected to be living in the region in 2017 compared to 2012. Even more startling is the fact that virtually none (only 146) of these households will be of working age. All the rest will be of retirement age. This presumably is the result of little in-migration into the region and significant out-migration, with most of the change due to residents simply aging into older age cohorts.

Obviously, if this projection for 2012 to 2017 turns out to be true, there will be very few workers available to replace those retiring and few to fill any new job opportunities created in the region.

New Housing Required to Meet the Demographic Projection

Based on these demographic projections and using the methodology developed in the *New Paradigm* report to estimate Greater Boston's housing needs between 2001 and 2005, we can forecast the number of additional housing units that will be required to satisfy housing demand so as not to lead to a new upward spiral in home prices.

To do this we need to calculate (1) how much additional housing is required to get vacancy rates to "normal" levels in order to stabilize prices and (2) how much additional housing we need for the expected growth in the number of households.

When the *New Paradigm* report was published in 2001, vacancy rates were extremely low. As such, the report noted that of the 78,300 new units it called for, 17,600 were needed to bring the rental unit vacancy rate up to 6.0 percent (from 3 percent) and 9,300 units were needed to bring the owner occupied vacancy rate to 2.0 percent (from 1 percent).

Today, according to the most recent data available for 2007, both the rental and owner occupied vacancy rates are just below "normal" at 5.0 percent and 1.9 percent, respectively.[46] Given the number of rental and owner occupied units in Greater Boston, to get to normal vacancy rates, we need to add only about 1,000 units of owner-occupied housing and 6,275 units of rental housing.[47]

In addition to the units required to ensure healthy vacancy rates, many more units of additional housing will be needed to cover expected household growth as suggested by our Census-based projections. By 2012, nearly 73,000 additional units of housing will be needed in Greater Boston; by 2017, the number will be close to 120,000.

This projection suggests the need for 12,170 additional units per year between 2006 and 2012, followed by 9,400 per year between 2013 and 2017. Adding in the units needed to marginally raise vacancy rates, we would need to construct about *13,380 units per year to cover household growth and stabilize prices and rents by 2012* and another *9,400 units per year between 2013 and 2017* (assuming that earlier production has by that time brought vacancy rates to their normal levels). This projection is summarized in **Table 1.4**.

Given the average annual housing production levels in Greater Boston over the past ten years (1998–2007), these calculations suggest that over the 2006–2012 period we will have a shortfall of about 1,780 units per year. With an expected slowdown in household growth after 2012, though, production levels close to those currently in place will be more than sufficient to meet demand. Hence, we face *a fairly serious short-term shortage* in housing production if our population projections prove correct, with slow household growth after 2012 *reducing the shortfall to essentially zero*.

TABLE 1.4

Additional Housing Units Needed in Greater Boston Region, 2006–2017

	2006–2012	2013–2017	Total 2006–2017
Units Needed to Account for Household Growth	73,000	47,000	120,000
Units Needed to Raise Rental Vacancy Rate to 6%	6,275	--	6,275
Units Needed to Raise Owner Occupied Vacancy Rate to 2%	1,000	--	1,000
TOTAL UNITS REQUIRED	80,275	47,000	127,275
Annual Production Required	**13,380**	**9,400**	**11,570**
Average Annual Production Level (1998–2007)	11,600	11,600	11,600
Annual Housing Shortfall	**1,780**	**(-2,200)**	**(-30)**

Source: Authors' calculations from U.S. Census Population Projections

Employment-based Projections

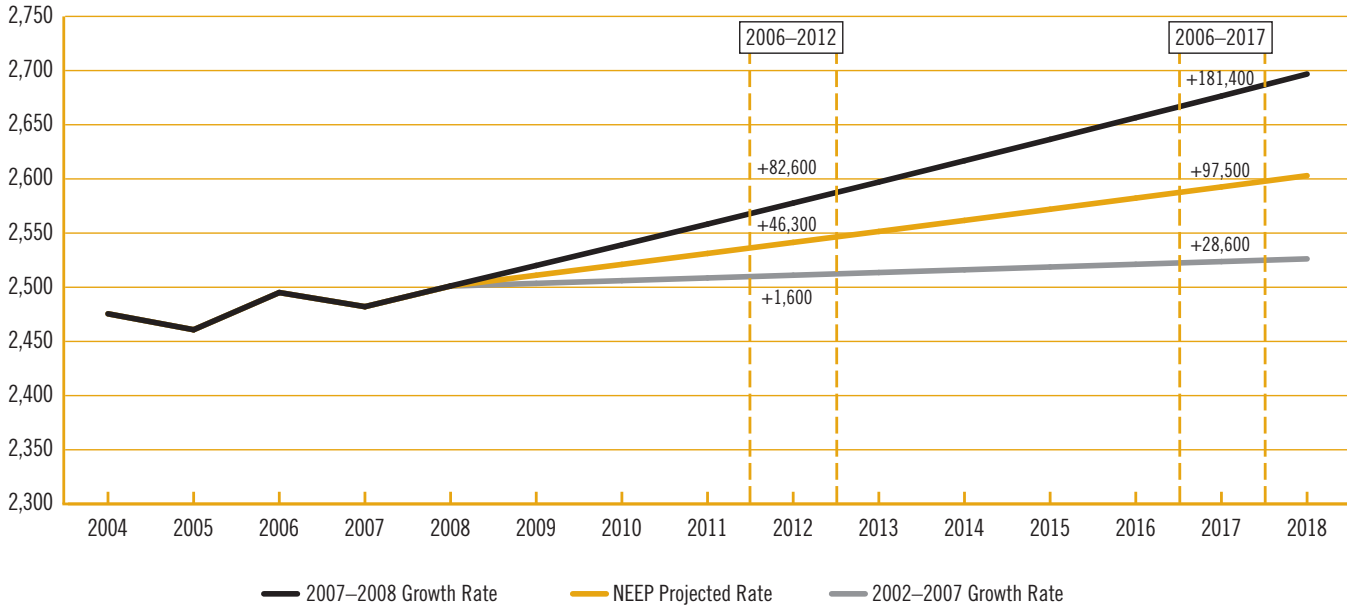
The slowdown in household growth is certainly welcome from the point of view of housing supply and home prices. But what it actually suggests is a rather substantial slowdown in economic growth and employment. With few young workers coming into the workforce, businesses are likely to seek out other regions to expand their enterprises or begin new ones. Home prices will fall, but we will hardly take pleasure in the reason why they do.

If we want or need employment to expand at a faster pace in Greater Boston, there will have to be housing for the workforce. We need to consider just how much added supply we might require to accommodate economic growth. To do so, we have developed three employment scenarios for the period between 2006 and 2012 and for the period ending in 2017. These are described in **Figure 1.11**.

- The *weak growth forecast* is based on anemic employment growth at an annual rate equal to 0.1 percent, the average rate experienced over the past five years (2002–2007). This was a period in which high housing prices retarded employment and population growth. If this weak trend continues, we estimate a total employment growth in the region of only 16,000 jobs, or 2,670 jobs per year through 2012 and a total of only 28,600 through 2017. Given the demographic projection of over 37,000 additional working age households by 2012 with over 48,000 new workers, this scenario suggests a significant increase in unemployment in the region unless labor force participation declines or "surplus" workers leave the region for job opportunity elsewhere. Under these dire circumstances, there will be no problem housing such a small addition to the workforce at current housing production levels.
- The *mid-growth forecast* assumes a growth rate of 0.4 percent, the rate projected by New England Economic Partnership for 2007–2012 in its May 2008 forecast. This is less than half the job growth rate Greater Boston experienced between 1997 and 2002, but it still suggests 46,300 additional jobs by 2012 and 97,500 by 2017. According to our demographic projection, we will have just enough additional working age households to meet employment demand through 2012, but by 2017 we will need to

FIGURE 1.11

Greater Boston Employment Forecast (2006–2017)



Source: New England Economic Partnership; Authors' calculations based on data from the U.S. Bureau of Labor Statistics

somehow find another 48,900 workers to meet this employment goal. This is equivalent to attracting another 37,600 working age households to Greater Boston to fill these added jobs. Consequently, we will have to be prepared to develop an additional 7,520 housing units per year beginning in 2013 on top of the 9,400 required by the demographic projection, per se. That makes a total of nearly 17,000 new housing units per year between 2013 and 2017, about 45 percent more per year than current average production levels (11,600 per year).

- The *strong growth forecast* assumes a growth rate of 0.775 percent, the rate of growth in employment enjoyed in the region over the past year (June 2007-June 2008). If we could sustain this growth rate, we would generate almost 83,000 jobs by 2012 and 181,000 by 2017. This is well below the record 0.9 percent employment growth we enjoyed from 1997 to 2002, but would require that we somehow encourage an additional 34,200 workers to join the Greater Boston labor force by 2012 over and above current demographic projection levels. That translates into an increased demand for 26,300 housing units by 2012 or 4,380 per year. Added to the 13,380 required under the demographic projection, we would need to produce housing at a rate of 17,760 units per year through 2012 – essentially 75 percent more than at current average rates. Projecting out to 2017 reveals the need for adding an additional 133,000 workers to the region's labor force over the next ten years. If this strong growth scenario were somehow to occur, we would be looking at the need for producing a grand total of almost 21,000 housing units per year between now and 2017, an increase of nearly 80 percent over current average annual production rates.

A summary of these projected housing unit needs for additional members of the Greater Boston workforce is found in **Table 1.5**.

Even with the *weak growth* forecast, we need to boost housing production through 2012 in Greater Boston by about 15 percent over current average production levels. The *mid-growth* forecast suggests we need to boost production by about the same amount through 2012, but then must ratchet up production to nearly 17,000 units per year through 2017. If we are able to sustain through 2012 the current "strong" employment growth of the past year, we will need to increase housing production almost immediately by more than 50

TABLE 1.5

Projected Annual Housing Production Needs Based on Various Employment Growth Forecasts

Annual Housing Unit Production Requirement	2006–2012	2013–2017	2006–2017
Weak Growth Forecast	13,380	9,400	11,570
Mid-Growth Forecast	13,380	16,920	14,990
Strong Growth Forecast	17,760	24,475	20,810
Percent Change from Average Annual (1998–2007) Housing Production Rate (11,600 units)			
Weak Growth Forecast	15%	-19%	0%
Mid-Growth Forecast	15%	46%	29%
Strong Growth Forecast	53%	110%	79%

Source: Projections based on July 2008 Greater Boston employment and annual growth rates of 0.1 percent; 0.4 percent, and 0.775 percent respectively

percent or risk seeing a return to a rapid home price appreciation. If we can somehow sustain this strong growth scenario all the way out to 2017, we will need to produce almost 80 percent more housing each and every year. Presumably, that can be done only with an aggressive housing policy in the Commonwealth.

Implications for Housing Policy

What kind of policies can be used to address the paradox of "housing prices too high, but falling too fast"? The answer lies in crafting separate public policies that address the foreclosure crisis and the affordability problem.

Easing the Foreclosure Crisis

To reduce the number of foreclosures, especially in neighborhoods where there are many of them, we need the following kinds of policies:

- For those homeowners still in their homes, but facing foreclosure, we need local and state officials to expand their operations aimed at helping mortgage lenders restructure loans so that homeowners can afford the new terms. This will often involve getting mortgage companies to reduce the size of the loan so that it falls more in line with the actual value of the property.
- Where foreclosure is inevitable, we need policies that expedite the transfer of these properties to new owners who can make repairs and occupy these units before they become abandoned and targets for vandalism and looting.
- For prospective homeowners with good credit, but sitting on the sidelines waiting for home prices to fall even further, we need to consider working with banks and mortgage lenders to develop a loan instrument that includes some kind of "price insurance." Such an instrument would allow homebuyers to get into the market now with little risk of bearing a sharp reduction in price on the unit they have purchased. The insurance "premium" for such price protection could be in the form of a small fee paid when, and if, the property is ultimately sold at an appreciated value. The creation of such a mortgage instrument should speed up the transfer of vacant properties and thereby reduce the chance that these units will become abandoned and vandalized.

Easing the Affordability Crisis

There are a range of policies that can be used to increase affordability in both the rental market and in the homeownership market.

- For low-income renters, we need to find ways of increasing the number of rental vouchers at the state and federal level. This permits low-income families to rent both existing and new properties at rents they can afford.
- To accommodate the need for more rental property and "starter homes," we need to work even more aggressively to assure the production of Chapter 40B developments and to increase the number of communities adopting Chapter 40R smart growth zoning. By increasing the amount of land zoned for denser, more affordable housing, developers will be in a position to respond more rapidly to housing demand if and when it arises. The key to Chapter 40R is to have a surplus of appropriately zoned land so that land costs moderate and developers have "as of right" development opportunities. By having more Chapter 40R districts approved by municipalities, Greater Boston will be in a position to accommodate whatever economic growth comes its way.

- Federal and state subsidies will be needed to assure that a portion of new housing units built by non-profit and for-profit developers can be offered at prices that are affordable to moderate income home-buyers including younger families looking for their first homebuying opportunity.

These are just a few possibilities for dealing with the current housing paradox. If we have the wisdom to develop appropriate policy responses, Greater Boston will be in a position to meet the housing needs of its current population, retain young families already in the region, and get its fair share of the small cohort of younger working families who will soon be making a choice as to where to work, where to live, and where to raise their families. If we are smart about housing policy, we can solve the housing paradox in a way that meets both our moral responsibility to provide affordable housing and meets the need for housing to assure the region's economic prosperity.

2.
Current Market Conditions

The housing market is intimately connected with a variety of economic and demographic forces and, as such, any analysis of housing trends cannot ignore other factors shaping the vitality of the economy and the fortunes of individual home buyers, home seekers, and renters. In this chapter, we review recent trends in economic activity, employment, and interest rates, and we examine how the demographic profile of the region has changed over the past year. Each of these factors affects—and in turn is affected by—trends in housing production, home sales, and housing prices.

Economic Update

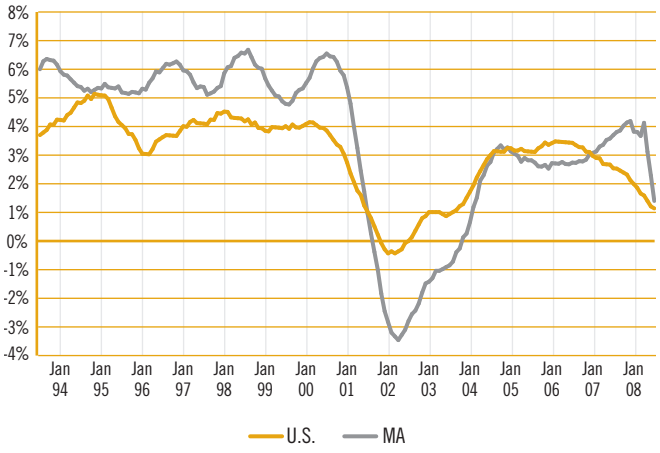
Economic Activity Index

Each month the Federal Reserve Bank of Philadelphia calculates a coincident index of economic activity for each of the 50 states, as well as for the nation as a whole. The index combines data on gross state product, nonfarm employment, hours worked in manufacturing, unemployment, and real wages and salaries. **Figure 2.1** compares changes in this index for Massachusetts to changes for the nation as a whole. According to this index, over the past 15 years economic growth in Massachusetts has followed a similar trajectory to that of the entire United States, but the state has been more acutely affected by swings in the economy. In the 1990s, as the national economy expanded, the Commonwealth's economy grew even more rapidly, outpacing the nation in every year except 1994. In the recession that took place in the first few years of the new millennium, however, the economic activity index fell more sharply and for a longer period of time in Massachusetts than in the rest of the nation.

Between 2004 and the end of 2006, the Commonwealth's economic growth paralleled that of the United States, but over the last two years the U.S. trend and the Massachusetts' trend have begun to diverge again. As the American economy slowed through 2007, Massachusetts continued to see a pronounced economic expansion. Between January 2007 and 2008, year-over-year growth in economic activity rose a full percentage point, from 3 percent to 4 percent, in Massachusetts, while it *slid* a full percentage point across the U.S., from 3 percent down to 2 percent. In 2008, though, the economic activity index began to fall in Massachusetts for the first time in five years. By the middle of the year, as economic growth continued to slide down toward zero across the nation, it came crashing down in Massachusetts. Three months after having a year-over-year growth rate 2.5 percentage points higher than the rest of the country (in April), Massachusetts's growth had fallen so rapidly that by this July, Massachusetts's rate was only a quarter of a point higher than the U.S. as a whole. As such, by mid-year both the U.S. and the Commonwealth's economies were expanding by only 1 percent per year, a third as much as Massachusetts grew between mid-2004 and early 2007 and only one-fourth the rate of late 2007. The coming national recession seems to be finally taking its toll in the Commonwealth.

FIGURE 2.1

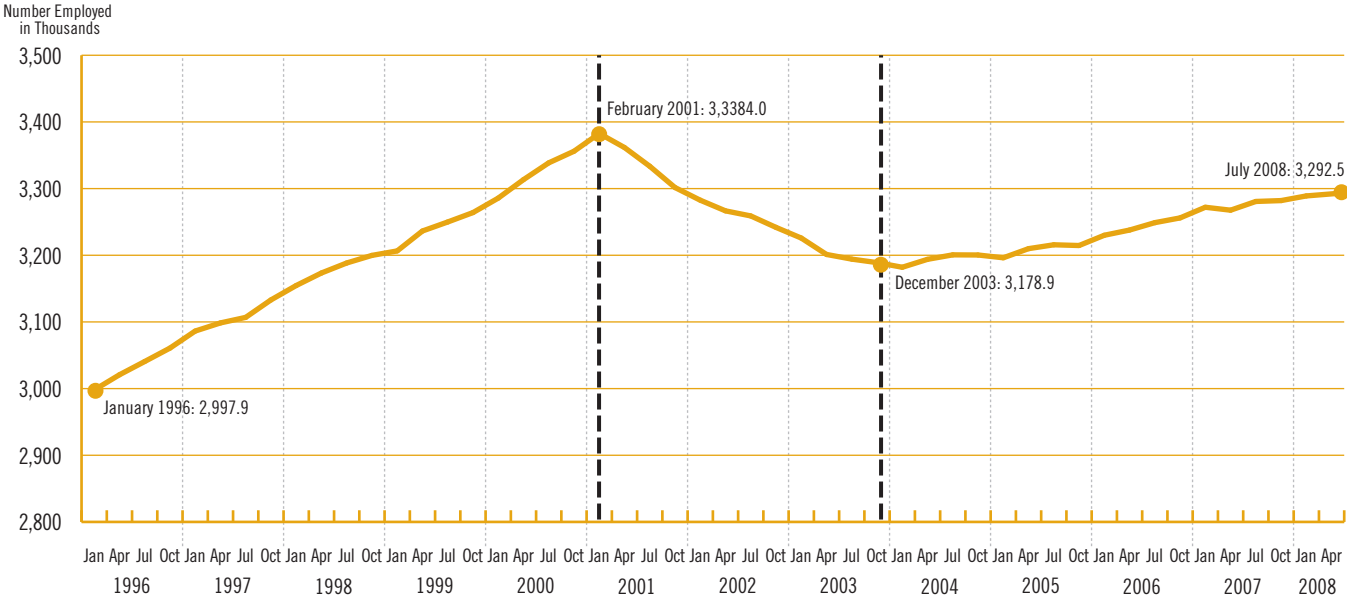
Year-Over-Year Change in Economic Activity Index, Massachusetts v. U.S.



Source: Federal Reserve Bank of Philadelphia, State Coincident Indexes (July 1992 = 100)

FIGURE 2.2

Total Massachusetts Non-Farm Employment, 1996-2008



Source: U.S. Bureau of Labor Statistics

Employment

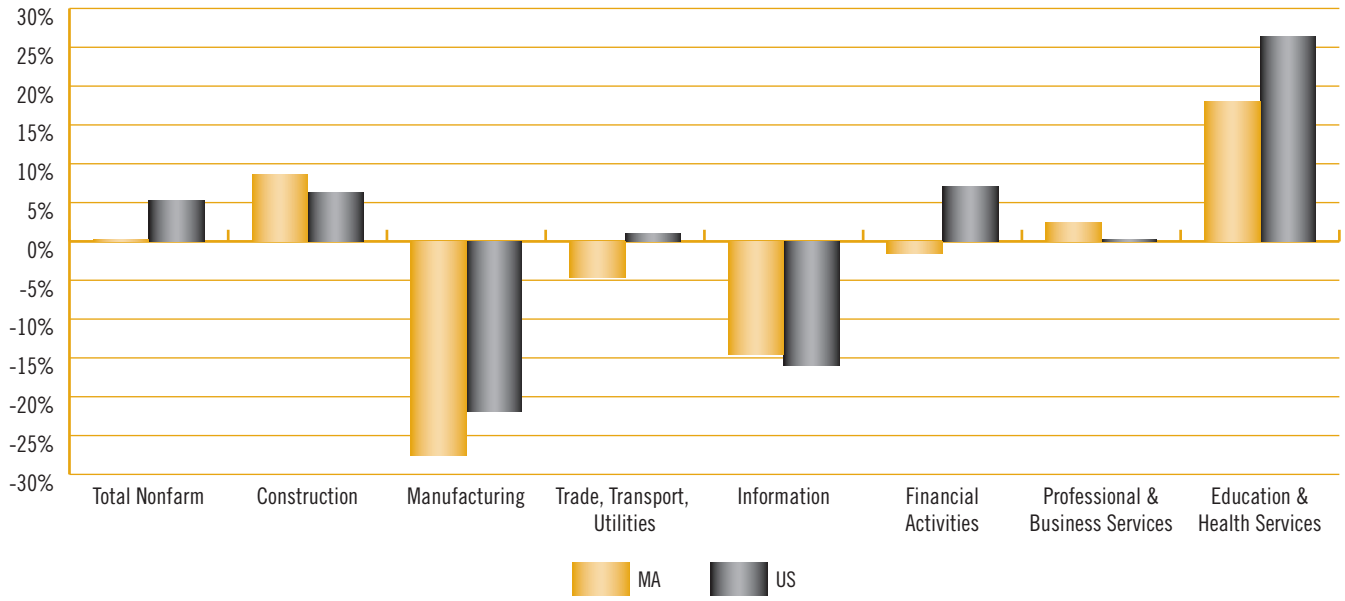
In line with slowing economic activity, employment growth in the Commonwealth is lagging. After adding nearly 34,000 new jobs in 2005 and 42,000 in 2006, the rate of employment expansion in Massachusetts slowed somewhat in 2008. Between January 2007 and January 2008 the state added only 17,000 new jobs (a growth rate of 0.5 percent) and since then only 3,000 jobs through July of this year. As **Figure 2.2** illustrates, employment has continued to climb slowly from its lowest point in December 2003, but the state still remains nearly 92,000 jobs short of its peak in February 2001. Moreover, the apparent slowing in employment growth in the Commonwealth that has accompanied the slumping national economy makes it unlikely that the pre-recession level will be reached again anytime soon. Indeed, projections would suggest that if the current rate of job creation is sustained, we still will not return to the employment level of 2001 much before 2012.

Figure 2.3 reveals the change in employment by major industrial sector in the Commonwealth compared to the U.S. for the period since the beginning of the decade. Overall, the slow economic recovery in the Commonwealth since the December 2003 employment trough has left the state with only 0.2 percent more jobs in July 2008 than in January 2000. Meanwhile, the nation as a whole experienced a 5.2 percent increase in total non-farm employment. Massachusetts continues to trail the nation in employment growth in industrial sectors that have historically had a strong presence in the state. Manufacturing, while declining across the country, has fallen even more rapidly in Massachusetts—although there are some indications that job loss in manufacturing is now slowing in the state, perhaps quite dramatically.[48] Employment in the financial activities sector has dropped by 1.5 percent over this period, while it has grown by 7 percent nationwide. Job growth in education and health services have lagged the nation by eight percentage points in Massachusetts, home of some of the world's most respected hospitals and universities. Meanwhile, job losses in information-based industries have not been quite as severe in Massachusetts as in other states, and the Commonwealth has outperformed the rest of the nation in construction and professional and business services.

Finally, there may be a glimmer of better news on the overall employment front in for Greater Boston. Since mid-2007, employment growth in the region has exceeded the rate of growth for the country as

FIGURE 2.3

Employment Growth by Sector, Massachusetts v. U.S., 2000–2006



Source: U. S. Bureau of Labor Statistics

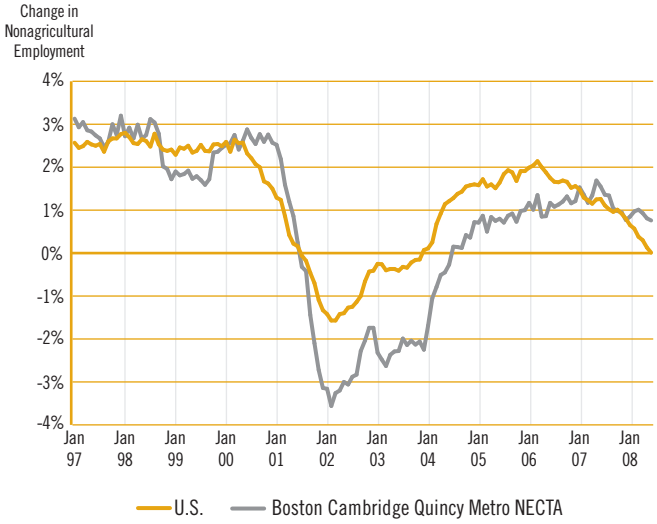
a whole, the first time this has been true since early 2001 (see **Figure 2.4**). This is mostly due to the fact that the employment growth rate seems to be falling sharply elsewhere in the U.S. while the decline is much shallower here. Still, if this trend continues, stronger demand for housing should resume in Greater Boston before the rest of the country and this could begin to stabilize home prices in the state.

Employment trends have varied between municipalities within the Greater Boston region. **Table 2.1** presents data on shifts in the regional employment distribution since 2001. The employment declines that took their toll on the economy in the first half of the decade hit the hardest in the immediate vicinity of the central city and around the older former mill cities of Haverhill and Lowell, north of Boston. The Boston-Cambridge-Quincy subregion, which accounts for more than two thirds of all jobs in the metropolitan area, lost more than 137,000 jobs (7.9 percent), while employment in the Haverhill and Lowell regions declined by 9.4 and 7.0 percent, respectively.

Employment in these subregions has varied even more during the recovery since 2004. By January 2008, the Boston-Cambridge-Quincy area had regained only

FIGURE 2.4

Employment Growth, Boston Metro Area v. U.S.



Source: U.S. Bureau of Labor Statistics

TABLE 2.1

Regional Employment Distribution, 2001–2008 (in Thousands)

	Boston-Cambridge-Quincy	Brockton-Bridgewater-Easton	Framingham	Haverhill-North Andover-Amesbury	Lowell-Billerica-Chelmsford	Peabody	Nashua	Total of Seven NECTA Divisions	Total for Entire Boston-Cambridge-Quincy NECTA
January 2001	1,744	90	156	81	124	103	127	2,423	2,531.3
January 2004	1,607	86	146	73	115	100	126	2,253	2,353.9
January 2008	1,688	89	157	77	117	100	132	2,360	2,455.9
Change Jan 01–Jan 04	-137.4	-3.3	-9.6	-7.6	-8.6	-2.6	-1.4	-170.5	-177.4
% Change Jan 01–Jan 04	-7.9%	-3.7%	-6.2%	-9.4%	-7.0%	-2.5%	-1.1%	-7.0%	-7.0%
Change Jan 04–Jan 08	81.7	2.5	10.2	4.2	2	-0.4	6.4	106.6	102
% Change Jan 04–Jan 08	5.1%	2.9%	7.0%	5.7%	1.7%	-0.4%	5.1%	4.7%	4.3%
Proportion of Total Regional Employment, Jan 2001	68.9%	3.5%	6.2%	3.2%	4.9%	4.0%	5.0%	95.7%	100.0%
Proportion of Total Regional Employment, Jan 2004	68.2%	3.7%	6.2%	3.1%	4.9%	4.2%	5.3%	95.7%	100.0%
Proportion of Total Regional Employment, Jan 2008	68.7%	3.6%	6.4%	3.1%	4.8%	4.1%	5.4%	96.1%	100.0%

Source: U.S. Bureau of Labor Statistics, State and Metro Area Employment

82,000 of the 137,000 jobs it had lost. Just over half of the lost jobs in the Haverhill area had returned by 2008, and *fewer than one quarter* of the lost jobs had returned to the Lowell area. By contrast, the number of jobs in Framingham and Nashua have actually grown since the 2001 employment peak, with Nashua boasting 5,000 more jobs than in 2001. These intraregional shifts have changed slightly the total distribution of employment in the Boston metro area, as jobs have become somewhat less centralized in Boston and other historical industrial centers and have spread out to more distant cities and towns. Indeed, employment seems to be growing faster in areas that have traditionally had more affordable housing.

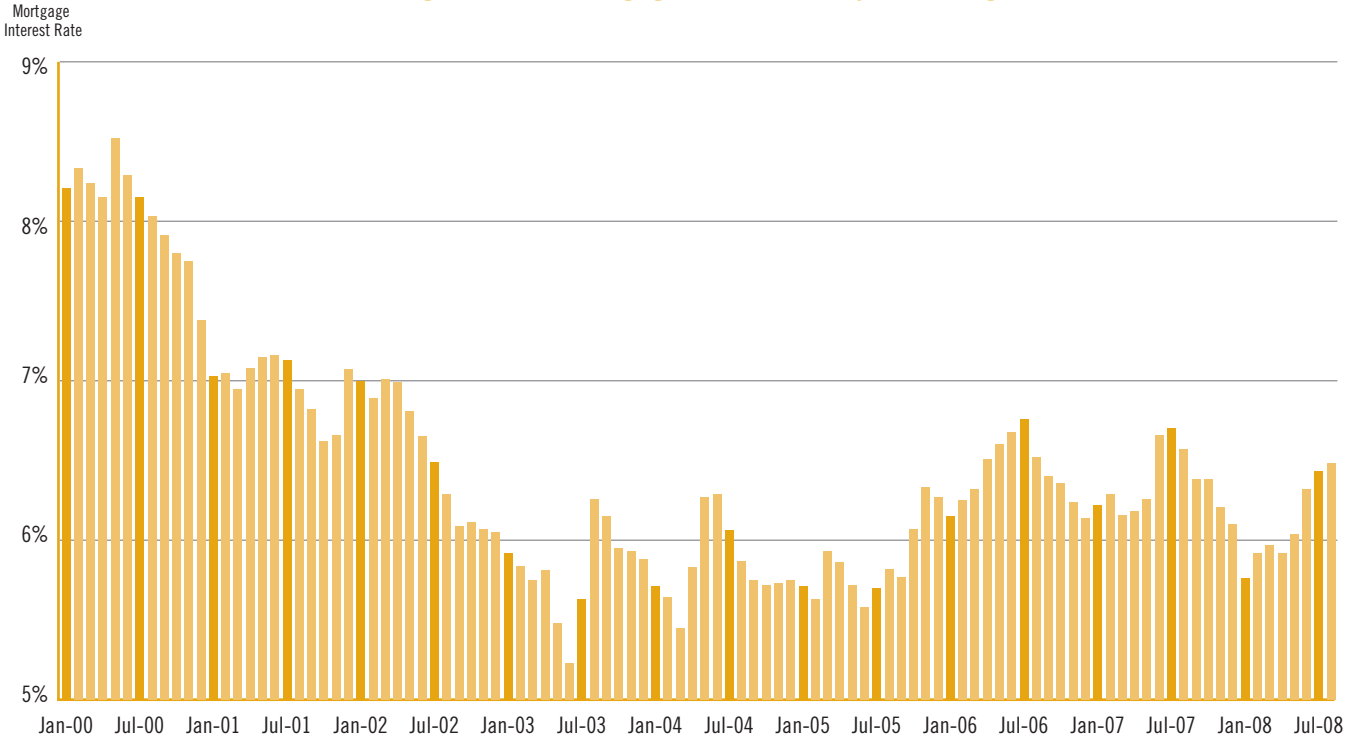
Mortgage Interest Rates

According to **Figure 2.5**, interest rates on 30-year fixed mortgages have varied substantially since 2000. From the beginning of the decade through mid-2003, mortgage rates fell dramatically from 8.5 percent to as low as 5.25 percent. Such low rates helped spur the rapid increase in home prices during the first half of the decade. Even as late as July 2005, a standard fixed rate mortgage carried no more than a 5.5 percent rate. During 2006, rates rose to a peak of 6.76 percent—low by standards set earlier in the decade, but still substantially higher than in the immediate previous period. This helped lead to a slowdown in home prices after September 2005.

Beginning in July 2006, with the exception of an interest rate spike in the second half of 2007, mortgage rates began to decline again and fell to a low of 5.76 percent at the beginning of this year. Since then, with the national credit crisis growing, mortgage rates have

FIGURE 2.5

National Average 30-Year Mortgage Rates, January 2000–August 2008



Source: Freddie Mac Primary Mortgage Market Survey, 30-Year Fixed-Rate Mortgages

been rising again. This has no doubt contributed at least marginally to the sharp slowdown in home sales during the past year.

Demographic Update

Beside employment levels and interest rates, demographic trends have an impact on housing demand. The *American Community Survey* (ACS), released annually by the U.S. Census Bureau, combined with the more comprehensive data gathered every 10 years as part of the decennial census, provide powerful tools for measuring changes in population, family and household characteristics, and the costs that homeowners and renters must bear. Ultimately, the rate of job growth and population growth determine housing demand while interest rates affect both demand and price.

Beginning with the *Greater Boston Housing Report Card 2006–2007*, in response to changes in the Census Bureau's geographic definition of the Boston metro region that rendered many annual comparisons invalid, CURP has used the five counties surrounding and including Boston (Essex, Middlesex, Norfolk, Plymouth, and Suffolk) as a near approximation of the original study area. This geographic approximation comes close to, but does not perfectly match, the original 161-community area used in early *Housing Report Cards*, and it permits comparisons over time that might prove misleading if other geographic definitions were used.[49]

Table 2.2 highlights some of the important changes in the region's demographic, economic, and housing patterns.

- After falling for three consecutive years, the population of the five-county region grew by a robust 4.5 percent between 2005 and 2006, adding 174,000 residents. This population estimate may be too optimistic, however, as early data from the 2007 ACS show a drop of 94,000 residents from 2006 to 2007, possibly reflecting a statistical correction.

TABLE 2.2

Demographic Profile 1990, 2000–2006

Indicator	1990	2000	2001	2002	2003	2004	2005	2006	% Change 2005–2006	% Change 2000–2006
Population	3,783,817	4,010,389	4,041,894	4,048,334	4,044,912	4,039,094	4,035,675	4,038,960	0.08%	0.71%
Households	1,410,238	1,533,041	1,536,447	1,517,712	1,510,910	1,516,275	1,524,296	1,525,803	0.10%	-0.47%
Average Real Median Household Income ($2006)	$61,953	$64,517	$67,174	$67,673	$65,109	$66,110	$64,477	$64,691	0.33%	0.27%
Real Median Family Income ($2006)	$74,336	$78,984	$83,182	$81,685	$82,115	$80,269	$79,181	$79,937	0.96%	1.21%
Real Median Homeowner Income ($2006)	$0	$83,634	$85,389	$85,586	$84,223	$83,527	$84,528	$84,972	0.53%	1.60%
Real Median Renter Income ($2006)	$0	$40,043	$44,462	$40,873	$38,605	$41,035	$36,901	$36,251	-1.76%	-9.47%
Families Below Poverty Level	59,124	59,913	57,715	58,882	66,690	68,687	68,038	62,543	-8.08%	4.39%
Total Housing Units	1,510,420	1,593,023	1,600,763	1,606,322	1,611,499	1,616,578	1,625,201	1,639,335	0.87%	2.91%
Occupied Units	1,412,190	1,532,549	1,536,447	1,517,712	1,510,910	1,516,275	1,524,296	1,525,803	0.10%	-0.44%
Vacant Units	98,230	60,474	64,316	88,610	100,589	100,303	100,905	113,532	12.51%	87.74%
Owner Occupied Units	812,660	916,817	941,906	937,890	944,131	965,201	956,373	965,434	0.95%	5.30%
Renter Occupied Units	599,530	615,732	594,541	579,822	566,779	551,074	567,923	560,369	-1.33%	-8.99%
Median Value Owner Occupied Units ($2006)	$276,111	$261,635	$313,281	$348,448	$395,169	$406,057	$425,156	$421,133	-0.95%	60.96%
Median Gross Monthly Rent ($2006)	$991	$920	$1,041	$1,061	$1,058	$1,065	$1,075	$1,070	-0.47%	16.33%
Renter HHs Paying >30% of Income for Rent	41.7%	39.2%	40.6%	42.9%	47.5%	46.1%	50.1%	52.4%	4.59%	33.67%
Renter HHs Paying >50% of Income for Rent		18.4%	18.6%	21.9%	24.3%	21.9%	25.0%	25.6%	2.40%	39.13%
Median Monthly Owner Cost (w mortgage) ($2006)	$1,682	$1,765	$1,883	$1,869	$1,938	$1,962	$2,045	$2,148	5.02%	21.68%
Median Monthly Owner Cost (w/o mortgage) ($2006)	$513	$540	$564	$545	$597	$618	$642	$683	6.34%	26.54%
Homeowners (w mortgage) Paying >30%	28.3%	26.7%	28.2%	30.8%	33.4%	37.5%	39.3%	43.1%	9.56%	61.15%
Homeowners (w mortgage) Paying >50%		9.0%	9.7%	9.2%	11.4%	14.1%	13.9%	16.3%	17.56%	81.47%

Source: U.S. Census Bureau, 1990 and 2000 Decennial Censuses, American Community Survey 2001–2006

- Adjusting for inflation, median household income in 2006 was virtually unchanged from its 2000 level. The typical household in Greater Boston had no more spending power in 2007 than it did at the beginning of the millennium.
- Adjusting for inflation, median family income rose (though only slightly) for the first time in four years, but even then was nearly 4 percent less than it had been in 2001.
- Income growth was not evenly distributed among homeowners and renters. While the typical homeowner saw his or her real income fall between 2001 and 2006 by no more than 0.5 percent, the typical renter had an inflation-adjusted income 18 percent lower in 2006.[50]
- After peaking in 2004 at 68,687, the number of Greater Boston families in poverty fell by about 5,500 (8.1 percent) between 2005 and 2006, only to rise again in 2007.
- The region added about 14,000 new units of housing over the year. At the same time, however, the number of *occupied* housing units barely changed at all. Instead, the number of vacant housing units went up by a staggering 12,627, an increase of 12.5 percent over 2005.
- For the first time this decade, Greater Boston saw a decline in the median home price, which fell by about $4,000 (1 percent). Even so, home prices remained about 61 percent higher than in 2000, controlling for inflation. Rents remained close to their 2005 level, still $150 (in 2006 dollars) above the median gross rent in 2000.
- While monthly gross rent has remained stable, monthly costs for homeowners have continued to rise. For those paying off a mortgage, monthly costs went up by $103 between 2005 and 2006, and were 22 percent higher than in 2000. For homeowners without a mortgage, monthly costs rose by $41, and were about 27 percent higher than in 2000, controlling for inflation.
- More than half of all renters (52.4 percent) paid 30 percent or more of their income in rent in 2006, the highest rate ever recorded. The proportion paying this much for rent was up from 39.2 percent in 2000.
- Renters paying 50 percent or more of their income in rent reached 25 percent in 2005 and climbed to 25.6 percent in 2006.
- Homeowners paying more than 30 percent of their income on mortgage payments, property taxes, and insurance reached 43 percent in 2006, up from less than 27 percent in 2000. Nearly one in six homeowners was now paying more than 50 percent of their income for housing.

The combination of high rents and home prices that have fallen, but not very far in relation to stagnating or falling incomes, has made housing affordability every bit as difficult for most Greater Boston residents today as it was before home prices began to decline.

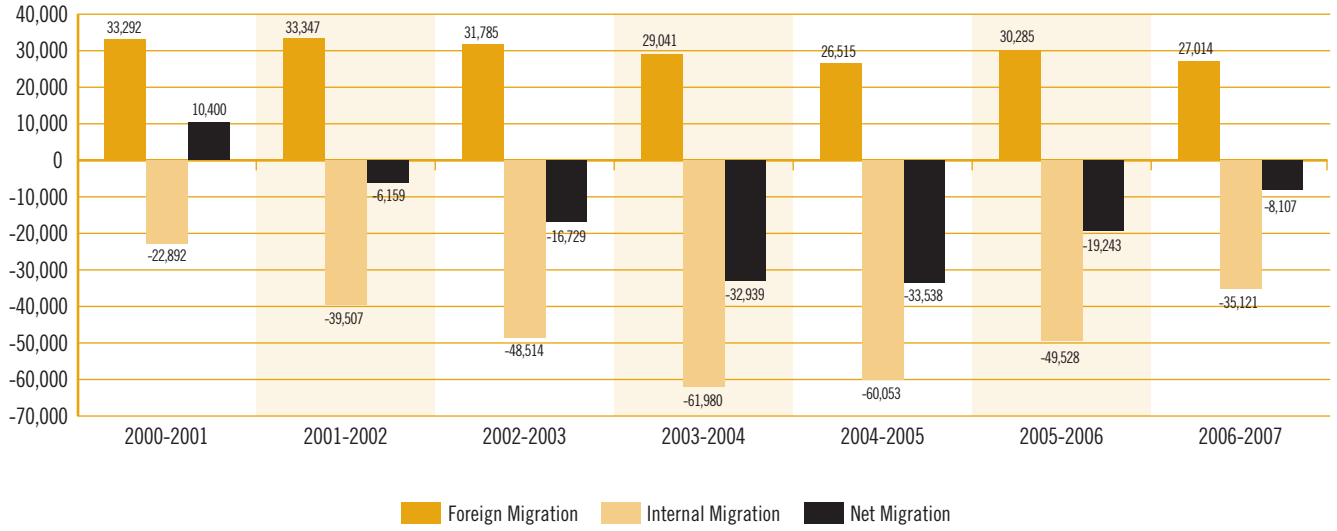
Migration

For several years Massachusetts has suffered a severe net outmigration of residents. As the cost of living in the Commonwealth rose dramatically, many residents sought out cheaper alternatives in other regions of the country. The outmigration peaked between 2003 and 2004, when the state lost nearly 62,000 residents to other regions of the country. The state's annual domestic net outmigration is typically offset by a positive rate of foreign immigration, but over the past several years even the influx of new people settling in Massachusetts from abroad could not make up for the precipitous population decline due to domestic outmigration.

Recent data indicate, however that the population loss resulting from migration is narrowing. While the flow of foreigners into Massachusetts remains strong, the loss of current residents to other parts of the United States continues to slow. The total population loss due to migration (both foreign and domestic) has come down from a high of 33,538 between 2004 and 2005 to just over 8,000 between 2006 and 2007 (see **Figure 2.6**). This may reflect the softening of home prices in the region, reducing the incentive to leave the state and making it more feasible for those from out-of-state to settle here.

FIGURE 2.6

Massachusetts Net Migration



Source: U.S. Census Bure, State Population Estimates, Components of Population Change

What Do These Economic and Demographic Trends Mean?

Taking all these trends together suggests that despite the recent decline in home prices, affordability remains an important issue in Greater Boston. Moreover, to the extent that employment may begin to increase in the region, demand for housing could begin to pick up putting upward pressure on both rents and home prices. Home prices have not fallen far enough, given stagnating incomes, to make much of a dent in the affordability challenge.

3.
Housing Production in the Region

Back in 2000, civic, political and moral leaders stressed the grave importance of expanding the region's housing supply in order to make Greater Boston a more affordable place to live. Beginning in 2003, developers, builders, and zoning officials finally came through, expanding production each year through 2005. The expanded production levels—in combination with slow population growth—helped to rein in the region's housing price spiral. Between 2000 and 2005, the annual rate of price appreciation on single family homes declined from 16.9 percent to 5.1 percent.

Yet even after housing prices began to decline in 2006, the price reductions were not sufficient to increase affordability very much. In this chapter, we assess the state of housing production in the region, using data from the *U.S. Census Bureau Building Permit Survey* as our primary tool to determine how much new housing stock is being added in the region and which communities are leading the way in the development of new housing. In a new addition to *Housing Report Card* analysis, we also compare the Boston metropolitan area with that of other major metropolitan regions to determine how Boston ranks in relation to other areas of the country in terms of production.

Overall Production Levels

Housing production in Greater Boston peaked three years ago in 2005, when a little over 15,000 units were permitted. In 2006, the number of permits issued dropped by nearly 2,800 units, followed by a drop of 2,560 in 2007. Based on production through the middle of this year, we project that the total number of permits in all of 2008 will be just a little above 8,000—just a little more than half the production level in 2005 (see **Table 3.1**).

The permitting decline was most acute in small multi-unit structures: the number of units in two to four unit structures was cut almost in half between 2006 and 2007 and we project the number will fall to fewer than 300 units this year. That represents more than a 75 percent drop in production in two years. The number of units in large structures (with five units or more) is expected to decline over this period by much less—25 percent. Meanwhile, the number of single-family homes we expect to be permitted in the region in 2008 will fall to its lowest level in more than a decade, down by more than half since 2005.

2007 Housing Production by Type and Location

Only 46 out of the 161 cities and towns in the Greater Boston Region (29 percent) issued more permits in 2007 than they had in 2006. Looking just at units permitted in large structures, this number drops to 22 (14 percent), exceeding their 2006 permitting level.

Multifamily Homes

As shown in **Table 3.2**, the construction of multifamily homes is down across most of the metropolitan region, most notably in Boston. In 2007, the city of Boston permitted just 820 housing units in structures with five or more units – fewer than half the number (1,967) it had permitted the year before.[51] For the first time since CURP began tracking these data, Boston was not the area leader in multifamily housing production. Rather, this honor went to North Reading, one of the 24 municipalities in Massachusetts that has adopted the new Chapter 40R Smart Growth Zoning Overlay legislation (see chapter 5 for more on 40R). North Reading is a town with about one-fiftieth as many residents as the state capital.

Most municipalities in the Greater Boston Region continue to avoid constructing any units of multifamily housing. In fact, the number of communities permitting no units in large structures reached its highest level in 2007 – 118 (73 percent of the 161 communities studied) – since we began tracking these data in 2000. Only 22 Greater Boston communities increased their multifamily permitting in 2007 over 2006 levels. In contrast, 72 communities—just under half of all of the cities in towns in Greater Boston—have issued *any* permits for multifamily housing in the eight years

TABLE 3.1

Single Family v. Multifamily Building Permits in Greater Boston

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)
1999	9,591		6,790		660		2,141	
2000	9,563	-0.3%	6,376	-6.1%	660	0.0%	2,527	18.0%
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 (est.)	8,061	-17.5%	3,051	-26.3%	274	-56.9%	4,735	-5.2%
% Change, 2000-2008	**-15.7%**		**-52.1%**		**-58.5%**		**87.4%**	

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

since 2000. Given the extraordinary increase in the expected increase in the number of "empty-nesters" looking for such housing in the next decade, this represents a potentially huge market that so far is undersupplied.

Single Family Homes

Since 2000, the town of Plymouth has led by far every other community in the permitting of single-family homes in Greater Boston. Issuing 2,035 such permits since 2000, Plymouth has accounted for 4.5 percent of all single-family permits in the region. By comparison, the second highest permitter of single-family homes, Lowell, has made up only 1.75 percent of the region's single family permits since 2000.

In 2007, Plymouth and Lowell again led the way in the permitting of single-family homes, but even these consistent producers of detached homes saw a sharp decline in their permitting. Plymouth, which had issued 182 such permits in 2006, issued only 164 in 2007. Lowell saw an even bigger drop, from 143 in 2006 to 101 in 2007. No other community in the region issued more than 100 permits for single-family homes last year. All told, only 48 Greater Boston communities increased their single family permitting between 2006 and 2007.

Comparing Boston to Other Cities

Boston is certainly not alone in suffering this housing downturn. Most metropolitan regions in the country reached their most recent peak in permitting in 2005 or 2006, and since then permits in almost all metro areas nationwide have plummeted. **Figure 3.1** compares the permitting decline in Boston to that in eight geographically and demographically diverse metropolitan areas, based upon data from the *U.S. Census Bureau's Annual Building Permit Survey*. Estimates for the number of permits issued in 2008 are based upon year-to-date data on permits issued through June 2008 divided by the proportion of total permits that had been issued by mid-year in 2007 for each region.[52]

Within this selection of metropolitan areas, Boston falls in the middle in terms of the change in permitting over the past several years. Nearly all metro areas nationwide have followed the path of diminished permitting. For example, the Miami area is projected to issue

TABLE 3.2

Municipalities Adding the Most and Fewest New Housing Units in 2006 & 2007

2007 Rank	Municipality	Total Units Permitted in 2007	Total Units Permitted in 2006	Rank in 2006
Top 15				
1	North Reading	1249	31	93
2	Boston	1041	2419	1
3	Cambridge	611	898	2
4	Quincy	419	641	3
5	Braintree	359	214	13
6	Bedford	223	114	26
7	Mansfield	211	43	74
8	Plymouth	191	225	11
9	Saugus	177	159	18
10	Abington	151	95	33
11	Westford	140	105	29
12	Sharon	139	9	143
13	Dedham	136	297	7
14	Everett	135	142	20
15	Canton	134	131	21
2007 Rank (from Bottom)				
Bottom 15				
15	Chelsea	6	6	10
10	Avon	5	5	9
10	Cohasset	5	8	14
10	Hopedale	5	8	14
10	Milton	5	4	7
10	Rowley	5	10	20
7	Sherborn	4	3	4
7	Somerville	4	12	27
7	Topsfield	4	1	2
5	Belmont	3	42	82
5	Boxford	3	10	20
4	Boxborough	2	10	20
2	Hamilton	1	2	3
2	Nahant	1	3	4
1	Winthrop	0	48	92

2007 Rank	Municipality	Single Family Units Permitted in 2007	Single Family Units Permitted in 2006	Rank in 2006
Top 15				
1	Plymouth	164	182	1
2	Lowell	101	143	2
3	Westford	99	105	4
4	Needham	88	53	35
5	Franklin	87	75	14
6	Tyngsborough	80	116	3
7	Sudbury	79	50	41
8	Hingham	74	34	60
9	Milford	72	41	50
10	Wareham	71	87	11
11	Acton	70	71	16
12	Haverhill	69	95	6
12	Middleborough	69	84	13
12	Pembroke	69	52	38
12	Wellesley	69	53	35
2007 Rank (from Bottom)				
Bottom 15				
14	Avon	5	5	14
14	Cohasset	5	8	21
14	Hopedale	5	8	21
14	Lawrence	5	23	76
14	Milton	5	4	11
14	Rowley	5	10	27
14	Swampscott	5	3	8
10	Millville	4	0	1
10	Sherborn	4	3	8
10	Somerville	4	6	16
10	Topsfield	4	1	3
8	Boxford	3	10	27
8	Medford	3	4	11
6	Boxborough	2	10	27
6	Watertown	2	2	4
3	Belmont	1	42	113
3	Hamilton	1	2	4
3	Nahant	1	3	8
1	Chelsea	0	0	1
1	Winthrop	0	2	4

2007 Rank	Municipality	Units in 5+ Unit Structures Permitted in 2007	Units in 5+ Unit Structures Permitted in 2006	Rank in 2006
Top 15				
1	North Reading	1218	0	46
2	Boston	820	1967	1
3	Cambridge	586	857	2
4	Quincy	396	584	3
5	Braintree	338	180	10
6	Mansfield	200	21	35
7	Bedford	188	84	19
8	Saugus	155	134	13
9	Sharon	124	0	46
10	Abington	120	60	23
11	Canton	114	109	15
12	Everett	93	87	18
13	Westwood	79	102	17
14	Dedham	76	285	6
15	Waltham	74	125	14
2007 Rank (from Bottom)				
Bottom 15				
118 municipalities did not permit any multifamily housing in 2007				
117 municipalities did not permit any multifamily housing in 2008				

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

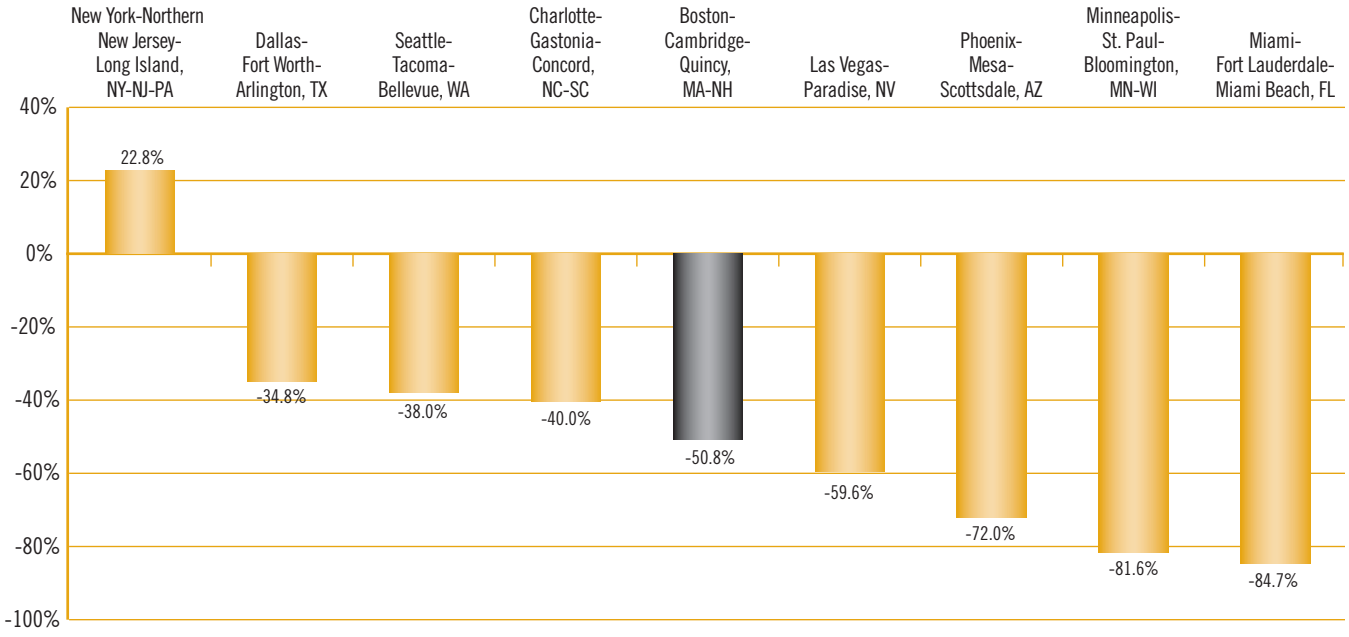
permits for fewer than 7,000 housing units in 2008, just three years after it issued more than 45,000. The drop in the Twin Cities is nearly as severe—from 22,000 in 2005 to just 4,000 projected permits in 2008. In Boston, the number of permits is expected to be half of what it was three years ago. Of these nine areas, the only one projected to increase its rate of issuing permits is New York, a city that experts expect to buck the trend of urban population decline by adding more than 1 million new residents by 2025.[53]

While the housing downturn has affected nearly all metropolitan areas, it has not necessarily affected all of them in the same way. The disparities between areas can be demonstrated by comparing recent trends in Boston to recent trends in comparable regions that, in some ways, compete with Boston for economic development and for residents. As Table 3.1 has demonstrated above, the trend in permitting in Greater Boston rose steadily through the first half of the decade, and has since fallen just as steadily. The steepest declines, though, have been in single family homes and in units in structures with 2–4 units. In larger structures (those with five units or more), permitting is up sharply from its 1999 level, and even in the past few years the relative drop in multifamily permitting has been less severe than that in single family permitting.

By comparison with Boston, a city with relatively little land left on which to build, the sprawling metropolises of the Sunbelt have been much more susceptible to fluctuations in housing production. **Figures 3.2A** and **Figure 3.2B** reveal how Boston has fared relative to Las Vegas, Nevada, one of the metropolitan areas that has grown the fastest and sprawled the most over the past decade. As in many new sprawling cities, the boom in housing in Las Vegas has been concentrated in detached single-family homes (Figure 3.2A). In 2004, for example, nearly 32,000 permits for single-family homes were granted in Las Vegas. This was nearly four times higher than the number in Boston. After such excessive buildup, though, came a steep drop. We project that Las Vegas will issue only 5,200 single-family permits by the end of 2008, a decline of more than 26,000 in just four years. In Boston, by contrast, the drop in single-family permitting, while more than 50 percent lower than the 2004 level, is relatively mild (just 5,000 units fewer than in 2004).

FIGURE 3.1

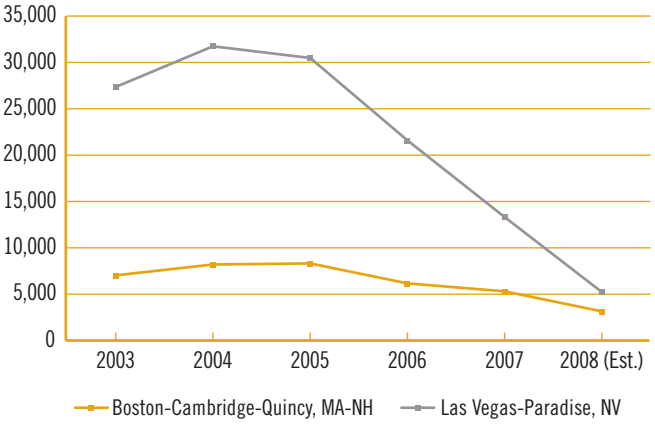
Percent Change in Building Permits for Selected Metropolitan Areas, 2005–2008



Source: U.S. Census Bureau, Housing Units Authorized by Building Permits, Table 3 – Metropolitan Areas

FIGURE 3.2A

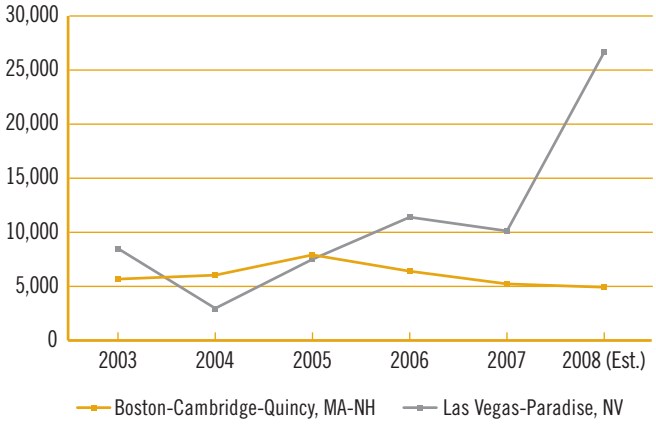
Units Permitted in Structures with 1 Unit, Boston v. Las Vegas, 2003–2008 (Est.)



Source: U.S. Census Bureau, Housing Units Authorized by Building Permits, Table 3 – Metropolitan Areas

FIGURE 3.2B

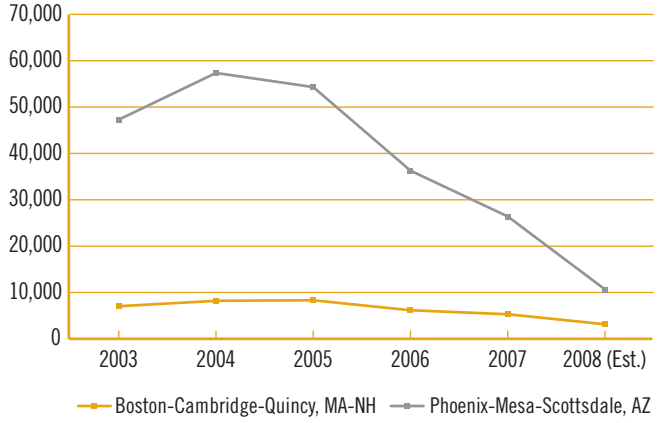
Units Permitted in Structures with 5+ Units, Boston v. Las Vegas, 2003–2008 (Est.)



Source: U.S. Census Bureau, Housing Units Authorized by Building Permits, Table 3 – Metropolitan Areas

FIGURE 3.3A

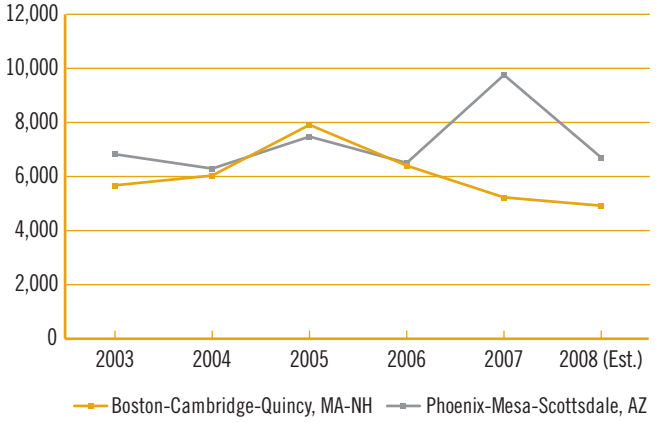
Units Permitted in Structures with One Unit, Boston v. Phoenix, 2003–2008 (Est.)



Source: U.S. Census Bureau, Housing Units Authorized by Building Permits, Table 3 – Metropolitan Areas

FIGURE 3.3B

Units Permitted in Structures with Five-Plus Units, Boston v. Phoenix, 2003–2008 (Est.)



Source: U.S. Census Bureau, Housing Units Authorized by Building Permits, Table 3 – Metropolitan Areas

Meanwhile, as civic leaders in Las Vegas have recognized the problems that come along with spreading out further and further into the desert, there has been a shift toward denser living in Nevada's largest city (see Figure 3.2B). Las Vegas Mayor Oscar Goodman himself has marveled at the recent move toward dense downtown residential living, saying "[t]hey wouldn't have given you a plugged nickel eight years ago that there would ever be a high-rise residential building in downtown Las Vegas."[54] In fact, as recently as 2004, Las Vegas issued fewer than 3,000 permits for housing units in multi-unit structures. In 2008, by comparison, we project that the city will issue 26,700 such permits, indicating a trend almost diametrically opposed to the one that has occurred in single-family permitting. In Boston, multi-family permitting has stayed virtually flat since 2003.

In Phoenix, single-family permitting has dropped off even more profoundly than in Las Vegas (**Figure 3.3A**). From a high of 57,360 single-family permits issued in 2004, we project just 10,700 single-family permits in 2008, an 81 percent drop. *Unlike* Las Vegas, however, Phoenix has not seen the concomitant rise in multi-family permitting (**Figure 3.3B**). From a 2004 level of 6,293 units permitted in five-plus-unit structures, Phoenix permitted 9,756 such units in 2007; but if year-to-date trends are a good indication, the Phoenix area should see a severe decline in such permits in 2008.

Thus, Boston's already dense building patterns keep yearly permitting levels relatively low, compared to competitor regions. As a result, however, Boston does not feel the effects of nationwide economic ups and downs as acutely as metropolitan areas that have undergone massive recent expansion.

The problem, of course, will be if the slowdown in housing construction remains in place once the state's economy begins to grow faster. In retrospect, the sluggish pace of housing production was responsible for the housing price spiral the region experienced from 1995 through 2005, but the slow pace had an unexpected silver lining. Because there was little speculative housing production in Greater Boston, we did not begin the current economic downturn with a large surplus of housing. In other parts of the country, this has led to even sharper home price depreciation than in Greater Boston.

Over the long-run, the challenge will be to provide sufficient new housing to keep vacancy rates from falling to levels consistent with a strong seller's market, leading to another upward price spiral while not overbuilding to the point where vacancy rates rise to a point where a strong buyer's market leads to a collapse in home values. With a number of housing policies in place such as Chapter 40R and Chapter 40S, we may have hit upon a formula that will provide the region with a sustainable supply of housing consistent with a more healthy housing market.

4.
Rents, Home Prices, and Affordability

As demonstrated in Chapter 3, Boston has not suffered as severe a drop in housing permits over the past few years. Still, despite the relative stability of construction in the region, compared to some other more volatile regions, affordability remains a major concern in Boston. As **Table 4.1** shows, Massachusetts remained, at least through 2006, one of the least affordable states on a large number of indicators. Among the 50 states, Massachusetts had the third highest median housing value, just as it had in 2005. Meanwhile, household income for homeowners actually fell in 2006, and while the Commonwealth still ranks fourth on homeowner income, it also ranks very high (seventh highest, up from ninth highest in 2005) on the proportion of its homeowner households spending more than 30 percent of their income on housing costs. Even more troubling is the growing affordability problem for renters in the Bay State. In 2005, the proportion of renters paying more than 30 percent of their income for rent and utilities was the ninth highest in the nation; in 2006, it had climbed to third highest.

TABLE 4.1

How Massachusetts Ranks on Key Housing Indicators, 2005 & 2006

Indicator	2005 Value	2005 Rank	2006 Value	2006 Rank
Median Housing Value of Owner Occupied Housing Units	$361,500	3	$370,400	3
Median Monthly Housing Cost for Owner Occupied Units with Mortgage	$1,781	3	$1,925	4
Median Monthly Housing Cost (Gross Rent) for Renter Occupied Units	$902	4	$933	5
Median Contract Rent	$799	4	$823	5
Ratio of Monthly Owner Cost to Monthly Renter Cost	1.97	6	2.06	5
Percent of Mortgaged Households Spending 30 Percent or More of Household Income on Housing Costs	37.3%	9	41.8%	7
Percent of Renters Spending More than 30 Percent of Household Income on Rent and Utilities	46.4%	9	48.6%	3
Median Household Income—Homeowner Households	$79,234	4	$77,591	4
Median Household Income—Renter Households	$31,820	11	$32,402	12

Source: U.S. Census Bureau, *American Community Survey* 2005 & 2006, Ranking Tables

Rental Market

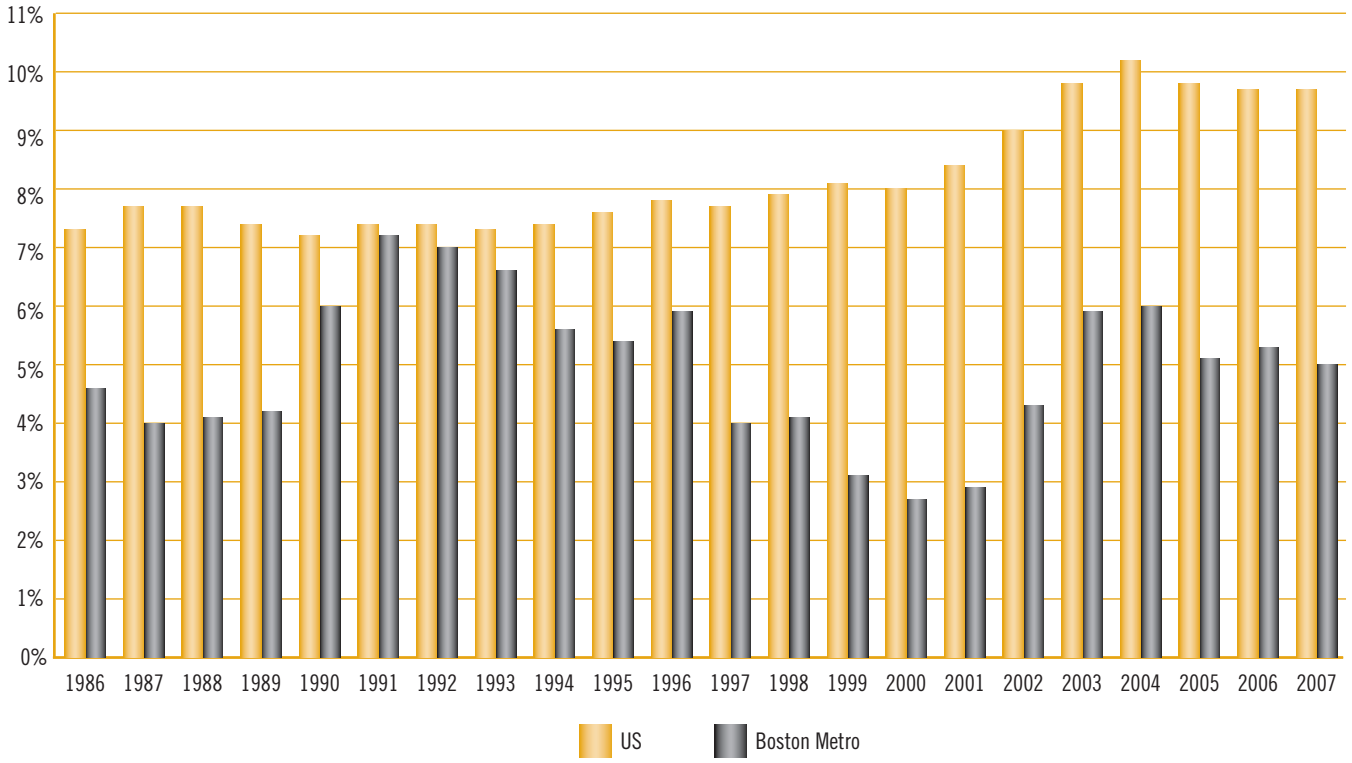
Much of the affordability problem in Greater Boston's rental housing market continues to be the result of very low vacancy rates (see **Figure 4.1**). In 2007, the rental vacancy rate in the Boston area was 5.0 percent, only about half the national rate of 9.7 percent. Nationwide, vacancy rates have hovered around 10 percent since 2003. In Boston, by contrast, while the vacancy rate has risen somewhat from a low of 2.7 percent in 2000, it remains low enough to continue boosting rents above the national average. In fact, 2007 marked the 11th straight year in which Boston's rental vacancy rate trailed the national rate by at least three percentage points.

Table 4.2 tracks rents in selected Greater Boston communities from 1998 through 2007, based on rental advertisements in the *Boston Sunday Globe*. Over the three year period 1998–2001, each of these communities experienced a substantial increase in its median rent. In general, rents increased fastest in working class communities. In Everett, the median rent increased almost[55] percent while in Revere and Winchester they rose 64 and 65 percent, respectively.

Already by 2001 rents in these communities had either stabilized or actually declined. In some wealthier communities like Brookline and Newton, rents remained high. But in other communities including Chelsea, Quincy, and Revere, they fell by anywhere

FIGURE 4.1

Rental Vacancy Rates, Boston Metro v. U.S.



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

from 16 to 26 percent. This was apparently due to a disproportionate number of working class households leaving the rental market to take advantage of homeowner opportunities, often made possible by subprime loans. With such a "twist" in demand, it was not surprising to see home prices rise in these communities while rents declined.

Within the city of Boston, individual neighborhoods have experienced vastly different trajectories since the early part of the decade (see **Table 4.3**). Rents went up in almost every Boston neighborhood between 1998 and 2001; since then, it has been much more of a mixed bag, with some neighborhoods greatly appreciating in rental cost and others falling. Over the past year, the largest change in advertised rent took place in Roxbury, where rents increased by more than a third, after having fallen sharply the year before. Still, no neighborhood has seen recently the huge rental appreciation that took place in many Boston neighborhoods between 1998 and 2001, when, for example, rents in Dorchester went up by more than 60 percent.

As more individuals and families who might earlier have considered buying a home have instead decided to stay in the rental market, and as increasing numbers of homeowners who have faced foreclosure have been forced to find rental housing, the cost of renting has risen steadily. **Figure 4.2** displays recent trends in average asking and effective rents for apartments in Greater Boston. Asking rents held steady from the second quarter of 2001 through the second quarter of 2005, ranging from $1,500 to just over $1,550 in every quarter. Since that time, however, the trajectory has been steadily upward. Asking rents have increased every quarter since that time, rising $170 (11 percent) through the second quarter of 2008. Meanwhile, effective rents—rents including any discounts such as a month's free rent—have experienced a parallel increase. From an average of $1,466 in the second quar-

TABLE 4.2

Median Advertised Rents for 2-Bedroom Apartments in Boston Area Cities, 1998–2007

City/Town	1998	2001	2004	2005	2006	2007	%Change 1998–2001	%Change 2001–2007	% Change 2006–2007
Arlington	$1,100	$1,500	$1,300	$1,250	$1,250	$1,350	36.4%	-10.0%	8.0%
Belmont	$1,225	$1,600	$1,350	$1,350	$1,400	$1,300	30.6%	-18.8%	-7.1%
Brookline	$1,400	$1,800	$1,650	$1,838	$1,800	$1,850	28.6%	2.8%	2.8%
Cambridge	$1,400	$1,750	$1,550	$1,600	$1,575	$1,750	25.0%	0.0%	11.1%
Chelsea	$1,100	$1,350	$1,195	$1,500	$1,300	$1,050	22.7%	-22.2%	-19.2%
Dedham	$1,000	$1,275	$1,100	$1,200	$1,125	$1,025	27.5%	-19.6%	-8.9%
Everett	$775	$1,200	$1,100	$975	$1,000	$1,100	54.8%	-8.3%	10.0%
Framingham	n/a	n/a	n/a	$1,075	$1,200	n/a	n/a	n/a	n/a
Lexington	$1,300	$1,648	$1,600	$1,500	$1,800	$1,400	26.8%	-15.0%	-22.2%
Lynn	n/a	n/a	n/a	$1,000	$999	n/a	n/a	n/a	n/a
Malden	$850	$1,250	$1,175	$1,190	$1,125	$1,100	47.1%	-12.0%	-2.2%
Medford	$950	$1,400	$1,200	$1,200	$1,200	$1,200	47.4%	-14.3%	0.0%
Melrose	$950	$1,400	$1,275	$1,295	$1,375	$1,173	47.4%	-16.2%	-14.7%
Needham	n/a	**	$1,350	$1,475	**	$1,625	**	n/a	n/a
Newton	$1,300	$1,600	$1,450	$1,400	$1,450	$1,550	23.1%	-3.1%	6.9%
Quincy	$850	$1,250	$1,300	$1,250	$1,250	$1,050	47.1%	-16.0%	-16.0%
Revere	$788	$1,288	$1,100	$1,098	$1,195	$950	63.5%	-26.2%	-20.5%
Somerville	$1,050	$1,400	$1,298	$1,200	$1,250	$1,300	33.3%	-7.1%	4.0%
Stoneham	n/a	n/a	$1,225	**	$1,125	$1,150	**	n/a	2.2%
Waltham	$975	$1,350	$1,250	$1,200	$1,150	$1,200	38.5%	-11.1%	4.3%
Watertown	$1,200	$1,500	$1,300	$1,250	$1,300	$1,300	25.0%	-13.3%	0.0%
Winchester	$1,050	$1,750	$1,350	$1,373	$1,448	$1,650	66.7%	-5.7%	14.0%
Winthrop	$900	$1,228	$1,200	$1,200	**	$1,200	36.4%	-2.3%	n/a

Source: *Boston Sunday Globe*, compiled by the Department of Neighborhood Development, City of Boston

** Number of cases too small for statistical significance

Note: Data before 2007 are for median rents of 2-bedroom apartments. Data for 2007 are for median rents of 1-, 2-, and 3- bedroom apartments, so data are not directly comparable. Advertised apartments with parking are excluded from the sample.

ter of 2005, Greater Boston saw effective rents climb to $1,646 (12 percent) through the second quarter of 2008.

The increasing burden placed upon renters can also be illustrated by tracking asking rents by price category over time. **Figure 4.3** shows how the distribution of asking rents has shifted over just a few years.[55] In 2000 (represented by the leftmost bar in each price category) more than four fifths of all advertised apartments in Greater Boston went for less than $900. About 13 percent of landlords were asking for between $900 and $1,249, and only about 3.5 percent of all apartments had asking rents above $2,000. By 2005 (the center bar in each price category), the distribution had already moved remarkably, so much so that the modal price grouping, which had been the $300-$599 category in 2000, was now $900-$1,249. Nearly a quarter of all of the region's apartments featured asking rents above $1,250. Moreover, by 2006 (the rightmost bar in each price category), the distribution of rents continued

TABLE 4.3

Median Apartment Rents in Boston Neighborhoods, 1998–2007

Neighborhood	1998	2001	2004	2005	2006	2007	%Change 1998–2001	%Change 2001–2007	% Change 2006–2007
Allston/ Brighton	$1,200	$1,500	$1,300	$1,300	$1,300	$1,400	25.0%	-6.7%	7.7%
Back Bay/ Beacon Hill	$1,900	$2,400	$2,250	$2,450	$2,600	$2,100	26.3%	-12.5%	-19.2%
Central	$2,200	$1,875	$2,200	$2,200	$2,300	$2,300	-14.8%	22.7%	0.0%
Charlestown	$1,400	$1,925	$1,650	$1,550	$1,650	$1,700	37.5%	-11.7%	3.0%
Dorchester	$800	$1,295	$1,300	$1,200	$1,200	$1,300	61.9%	0.4%	8.3%
East Boston	**	$1,200	$1,100	$1,100	$1,200	$1,000	**	-16.7%	-16.7%
Fenway/ Kenmore	$1,350	$1,900	$1,498	$1,225	$1,598	$1,725	40.7%	-9.2%	7.9%
Hyde Park	$850	$1,275	$1,250	$1,200	$1,200	$1,400	50.0%	9.8%	16.7%
Jamaica Plain	$1,100	$1,400	$1,325	$1,400	$1,525	$1,298	27.3%	-7.3%	-14.9%
Mattapan	**	$1,250	$1,200	$1,200	$1,100	$1,225	**	-2.0%	11.4%
Roslindale	$900	$1,300	$1,225	$1,225	$1,200	$1,300	44.4%	0.0%	8.3%
Roxbury	**	$1,300	$1,250	$1,200	$895	$1,200	**	-7.7%	34.1%
South Boston	$1,200	$1,500	$1,400	$1,400	$1,300	$1,200	25.0%	-20.0%	-7.7%
South End	$1,500	$2,000	$1,950	$2,200	$2,350	$1,850	33.3%	-7.5%	-21.3%
West Roxbury	$1,000	$1,400	$1,225	$1,250	$1,200	$1,150	40.0%	-17.9%	-4.2%

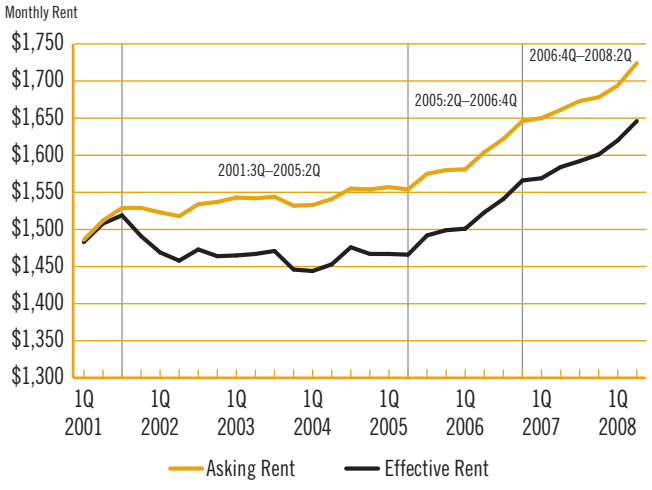
Source: *Boston Sunday Globe*, compiled by the Department of Neighborhood Development, City of Boston

** Number of cases too small for statistical significance.

Note: Data before 2007 are for median rents of 2-bedroom apartments. Data for 2007 are for median rents of 1-, 2-, and 3- bedroom apartments, so data are not directly comparable. Advertised apartments with parking are excluded from the sample.

FIGURE 4.2

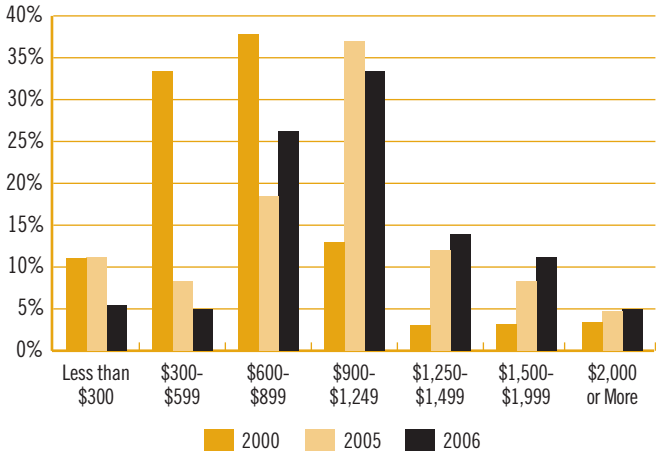
Asking Rents and Effective Rents in Greater Boston, 2001–2008



Source: Reis.com

FIGURE 4.3

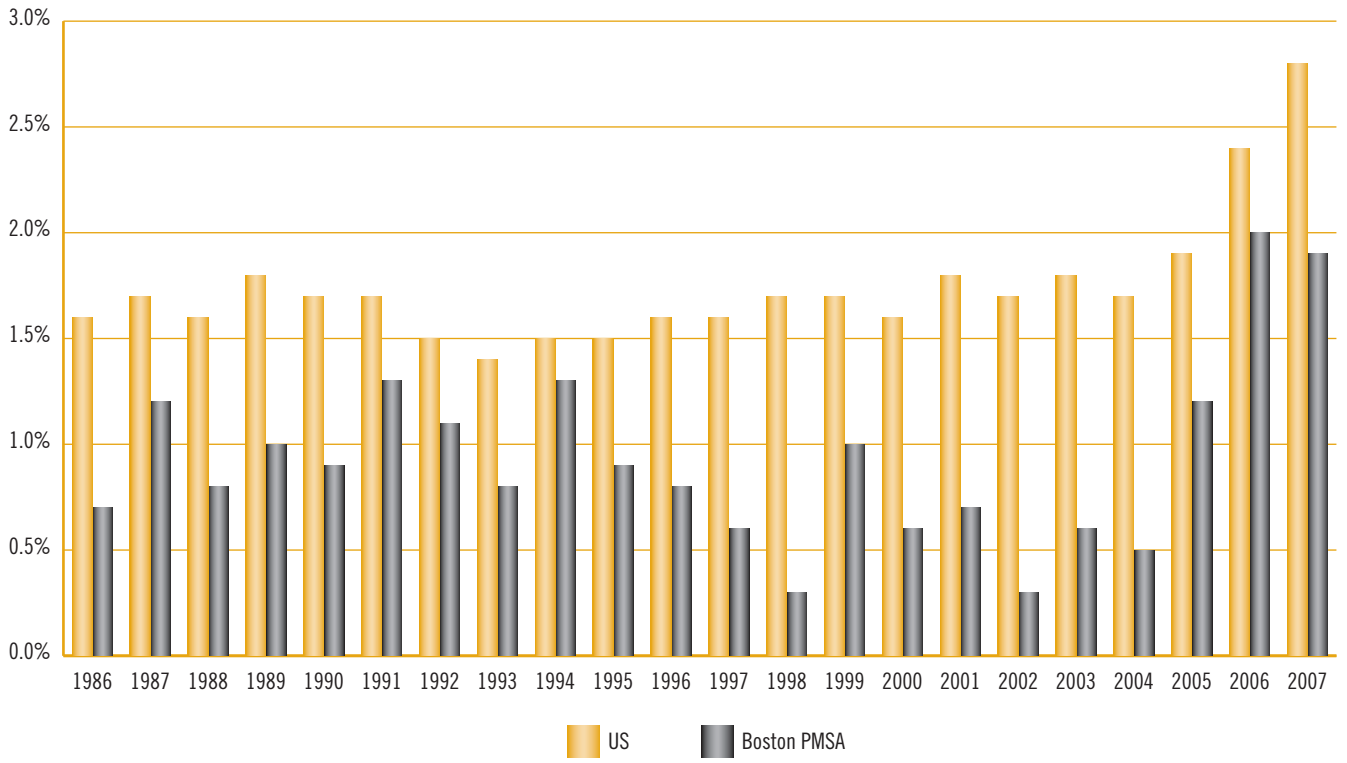
Distribution of Asking Rents in Greater Boston



Source: U.S. Census Bureau, Census 2000 and *American Community Survey* 2005 & 2006

FIGURE 4.4

Homeowner Vacancy Rates, Boston v. U.S.



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

its journey upward. Barely 10 percent of the region's apartments had asking rents below $600, while more than 30 percent had rents above $1,250. A comparison of the three series of bars across the price categories reveals just how rapidly the distribution of prices has shifted upward, like a rolling wave, in just six years.

Student Housing

Through August 2008, colleges and universities had either completed or were in the process of adding more than 4,500 new beds for students in Greater Boston. The two largest projects underway currently are a 1,200-bed dormitory under construction at Northeastern University and a 960-bed unit being built at Boston University, both set to open in the fall of 2009. In line with the methodology of the Boston Redevelopment Authority, which equates four dormitory beds with one private apartment unit, the 4,500 beds currently in some stage of production could potentially free up more than 1,100 units of rental housing in the region in the near future.

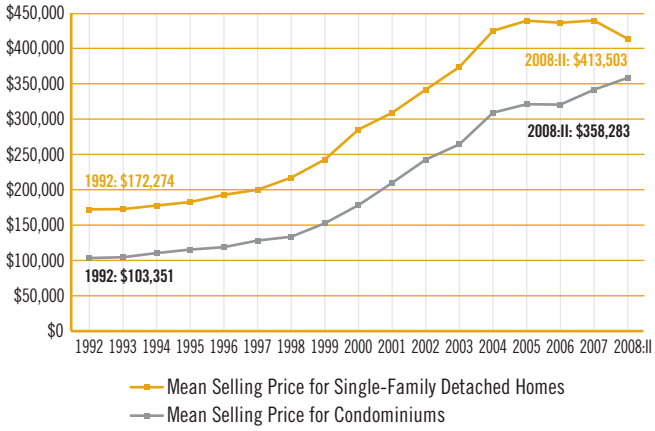
Homeownership Affordability

Despite softening home prices, affordability continues to be a critical challenge in the Greater Boston housing market. While recent data indicate that home prices have begun to fall from the astronomical levels of a few years ago, the Commonwealth (and Greater Boston in particular) continues to be among the most expensive places in the United States to live, work, and raise a family, as Table 4.1 illustrated.

Historically, the low vacancy rates on Boston-area homeowner housing units have contributed significantly to elevated prices in the region. In general, homeowner vacancy rates must stay between 1.5 and 2 percent in order to keep housing prices from rising faster than general inflation; lower vacancy rates imply a very tight housing market that can lead to rapidly

FIGURE 4.5

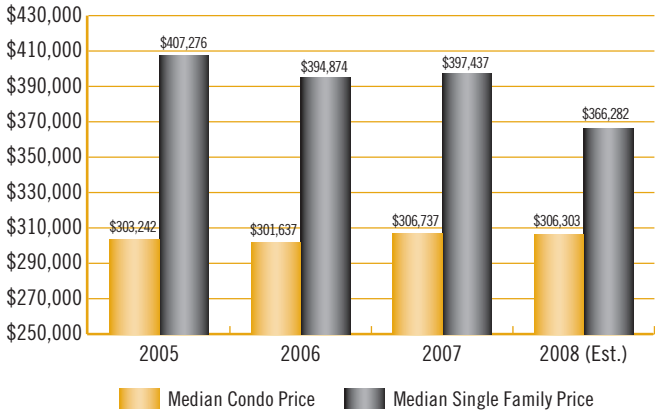
Annual Average Selling Prices for Single-Family Homes in Massachusetts



Source: Massachusetts Association of Realtors, Historical Residential Real Estate Market Data

FIGURE 4.6

Median Price of Single Family Homes and Condominiums in Greater Boston, 2005–2008



Source: The Warren Group

inflating prices. As **Figure 4.4** shows, vacancy rates in Greater Boston hovered around *1 percent* through the late 1980s and the 1990s, dipping to as low as 0.3 percent in 1998, and again in 2002. By comparison, national homeowner vacancy rates stayed between 1.5 and 2 percent every year between 1986 and 2005, with the exception of 1992.

In the past several years, homeowner vacancy rates have risen across the nation, and Boston has been part of this trend. Still, vacancy rates in Greater Boston trail those in other metropolitan regions. Between 2004 and 2006, vacancy rates rose in Boston from just 0.5 percent to a more healthy 2.0 percent; meanwhile, across the nation, they rose from 1.7 percent to 2.4 percent. In 2007, though, as vacancy rates continued to climb nationwide to 2.8 percent (the highest level in more than two decades), they actually fell in the Boston area, dipping one tenth of a percent to 1.9 percent. This figure is high enough to stave off rapid price escalation, but if vacancy rates continue to fall they could trigger another round of rising prices.

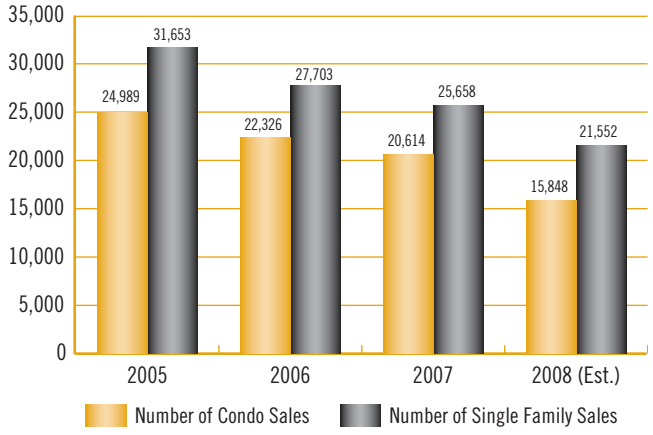
Statewide, the average (mean) price for single-family detached homes has leveled off since 2005 after more than a decade of sustained increases (see **Figure 4.5**) and in the first half of 2008 they finally dipped. The average statewide condominium price also climbed steadily throughout the 1990s and then leveled off after 2004. But unlike single-family detached homes, condo prices in Massachusetts have actually been rising since 2006. This probably reflects an increase in condo demand as older "empty-nesters" vie for condos after selling their larger homes. This is a second "twist" in the market, akin to the earlier shift from renting to home ownership. In this case, the twist induces an increase in condo prices while simultaneously reducing mean single family home prices.

Figure 4.6 complements Figure 4.5, by just considering the five-county Greater Boston region over the past four years and considering the trend in median home prices rather than the mean. These data, provided by the Warren Group, show median prices in Greater Boston declining slightly since 2005 for detached single-family homes, but holding steady for condominiums.[56] The median price of single-family homes dropped about $10,000 between 2005 and 2007. Based on data through June, the median price of homes sold in Greater Boston has fallen by another $30,000 just in the past year. By contrast, the median price for condominiums has been remarkably constant, hovering just above $300,000. Projections for 2008 indicate that this trend will continue.

The differences in price trajectories between Figures 4.5 and 4.6 are due to the different statistic used. While the mean price of single-family homes appears steady, and the mean price of condos seems to be going up, the median price of single-family homes is falling

FIGURE 4.7

Sales of Single Family Homes and Condominiums in Greater Boston, 2005–2008



Source: The Warren Group

slightly, and the median price of condos is flat. This disparity suggests that the most expensive homes in the region are holding their value or even appreciating, while the majority of Greater Boston's homes have lost some of their value.

Figure 4.7 presents data on the number of single-family and condominium sales since 2005. These data are even less ambiguous than the price trend data, and show a continual decline in the number of sales in the five-county region. In just two years, between 2005 and 2007, the number of single-family home sales fell by about 6,000 within these five counties. Meanwhile, the number of condominium sales fell by more than 4,000. If sales trends for the second half of 2008 match those for the first half, this precipitous decline will only worsen this year. Given data through June, detached home sales are projected to fall by another 4,000 from their 2007 level, while condominium sales plunge another 4,000, falling below 16,000 total sales.

Table 4.4 provides data on the price distribution of single family homes and condominiums for the five-county Greater Boston region for the period 2005 through 2008.[57] In 2005, the most expensive year for housing in the history of the region, about three in 10 cities and towns boasted median selling prices above $500,000 for single family homes. And four municipalities—Weston, Lincoln, Brookline, and Dover—had median prices above $1 million. Not a single community in Greater Boston had a median price below $200,000, a trend dating back to 2003. The most inexpensive place to buy a single family home was Lawrence, where the median price was $243,000. While condominiums were more affordable, there were still 12 communities where the typical condominium sold for more than $500,000 and just 16 where the median price was under $200,000.

By 2008, the housing price distribution for cities and town in Greater Boston, while still skewing upward, had become significantly more balanced. More than one in five municipalities had median single-family home sales prices below $300,000, and two cities (Lawrence and Lowell) featured median prices below $200,000. At the high end of the distribution, there were still four communities with median prices above $1 million (Weston, Lincoln, Brookline, and Wellesley, with Dover dropping just below $1 million), but far fewer with median prices in the $500,000–$1,000,000 range. The condo market had also become more reasonable, with only seven communities having median prices above $500,000. The most expensive community was Wenham, where the median price for a condo was $879,900 (but where only three condos were sold in the first half of 2008). The least expensive was Pepperell, at $87,500.[58]

TABLE 4.4

Home Price Distribution in Greater Boston, 2005–2008

# of Communities with Single Family Sales Price	2005	2006	2007	2008
Below $200,000	0	0	0	2
$200,000–$299,999	7	7	14	29
$300,000–$399,999	58	64	64	54
$400,000–$499,999	38	39	33	31
$500,000–$999,999	40	36	32	27
$1,000,000 and Above	4	1	4	4

# of Communities with Condominium Sales Price	2005	2006	2007	2008
Below $200,000	16	11	15	23
$200,000–$299,999	58	61	69	64
$300,000–$399,999	36	42	26	25
$400,000–$499,999	16	14	21	10
$500,000–$999,999	12	7	8	7
$1,000,000 and Above	0	0	0	0

% of Communities with Single Family Sales Price	2005	2006	2007	2008
Below $200,000	0.0%	0.0%	0.0%	1.4%
$200,000–$299,999	4.8%	4.8%	9.5%	19.7%
$300,000–$399,999	39.5%	43.5%	43.5%	36.7%
$400,000–$499,999	25.9%	26.5%	22.4%	21.1%
$500,000–$999,999	27.2%	24.5%	21.8%	18.4%
$1,000,000 and Above	2.7%	0.7%	2.7%	2.7%

% of Communities with Condominium Sales Price	2005	2006	2007	2008
Below $200,000	11.6%	8.1%	10.8%	17.8%
$200,000–$299,999	42.0%	45.2%	49.6%	49.6%
$300,000–$399,999	26.1%	31.1%	18.7%	19.4%
$400,000–$499,999	11.6%	10.4%	15.1%	7.8%
$500,000–$999,999	8.7%	5.2%	5.8%	5.4%
$1,000,000 and Above	0.0%	0.0%	0.0%	0.0%

Source: The Warren Group

Characteristics of Massachusetts Home Buyers

Each year the National Association of Realtors releases its *Profile of Home Buyers and Sellers* for the nation as a whole and for each of the individual states. This annual report is an important tool for tracking shifts in the demographic and economic characteristics of home buyers and in the types and prices of the homes they are buying. CURP uses these data each year to compare Massachusetts home buyers to their counterparts around the country. **Table 4.5** presents comparisons between the Commonwealth and the nation for 2007, and shows how these trends changed from the year before.

Buyers in Massachusetts continue to have higher incomes than those in other states. These higher incomes are necessary, of course, because the homes that Massachusetts buyers purchase tend to be significantly more expensive than those found in other parts of the country. While buyers in other states saw a slightly larger percentage increase in their annual income between 2006 and 2007, the median income of Massachusetts buyers remained over $10,000 higher than the median for the rest of the country.

At the same time, though, the median price of the homes purchased was $89,000 higher in the Bay State. Considering only previously owned homes, the difference was $106,000. The gap between Massachusetts and the rest of the states is shrinking however, as median prices fell significantly here while other states saw, on average, increases in new home prices and declines of less than 1 percent for previously owned homes.

There were also significant differences between the Commonwealth and the rest of the nation among first-time home buyers, but again these differences diminished slightly. In Massachusetts, first-time buyers are somewhat older and wealthier, and they buy more expensive homes (which also happen to be smaller, on average). Here again, though, buyers in other states began to catch up to those in Massachusetts in terms of income and home purchase price, while Massachusetts's first-time buyers saw lower incomes and bought less-expensive homes.

TABLE 4.5

Homebuyer Profile, Massachusetts v. U.S., 2006–2007

	2006		2007		Change 06–07	
	MA	US	MA	US	MA	US
All Homebuyers						
Median Income	$82,600	$71,800	$84,400	$73,960	2.2%	3.0%
% with Incomes <$45,000	12%	21%	9%	20%	-25.0%	-4.8%
% with Incomes <$55,000	19%	31%	18%	31%	-5.3%	0.0%
% with Incomes <$75,000	41%	52%	40%	51%	-2.4%	-1.9%
Median Age	38	41	39	39	2.6%	-4.9%
Median Price of Home Purchased	$325,000	$214,000	$306,000	$215,000	-5.8%	0.5%
Median Price–New Home	$400,000	$250,000	$360,000	$260,000	-10.0%	4.0%
Median Price–Previously Owned Home	$319,900	$200,000	$305,000	$199,000	-4.7%	-0.5%
Median % Financed	86%	91%	85%	91%	-1.2%	0.0%
% Purchasing Homes Price <$150,000	6%	28%	7%	28%	16.7%	0.0%
% Purchasing Homes Price <$200,000	18%	46%	21%	46%	16.7%	0.0%
% Purchasing Newly Constructed Home	11%	22%	11%	23%	0.0%	4.5%
Median Price of a Newly Constructed Home	$400,000	$250,000	$360,000	$260,000	-10.0%	4.0%
Of Newly Constructed Home Buyers, % Paying <$200,000	0%	32%	18%	29%	n/a	-9.4%
Of Newly Constructed Home Buyers, % Paying <$300,000	16%	62%	40%	59%	150.0%	-4.8%
Of Newly Constructed Home Buyers, % Paying >$500,000	37%	13%	14%	10%	-62.2%	-23.1%
% Purchasing Detached Single Family Home	65%	75%	63%	74%	-3.1%	-1.3%
% Purchasing Townhouse/Row House	8%	9%	8%	9%	0.0%	0.0%
% Purchasing Unit in Building with 2-4 Units	12%	3%	9%	2%	-25.0%	-33.3%
% Purchasing Unit in Building with 5 or More Units	13%	8%	18%	9%	38.5%	12.5%
Median Size (in Square Feet)	1,688	1,815	1,570	1,810	-7.0%	-0.3%
Price per Square Foot by Type of Home	$200	$118	$200	$116	0.0%	-1.7%
Detached Single Family	$200	$112	$193	$110	-3.5%	-1.8%
Townhouse	$176	$136	$204	$138	15.9%	1.5%
Unit in 2-4 Unit Structure	$202	$129	$287	$112	42.1%	-13.2%
Unit in Structure with 5 or More Units	$224	$189	$213	$199	-4.9%	5.3%

TABLE 4.5

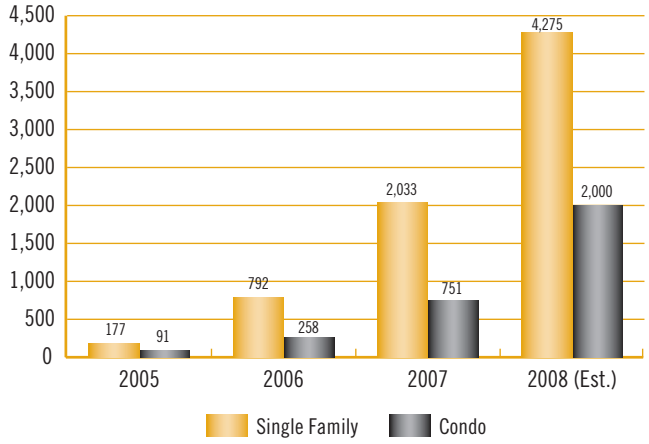
Homebuyer Profile, Massachusetts v. U.S., 2006–2007, continued

	2006		2007		Change 06–07	
	MA	US	MA	US	MA	US
First Time Homebuyers						
First Time Buyers as % of All Home Buyers	45%	36%	45%	39%	0.0%	8.3%
Median Age of First Time Buyers	32	32	32	31	0.0%	-3.1%
% < Age 25	7%	12%	6%	13%	-14.3%	8.3%
% Between 25-34	66%	51%	49%	52%	-25.8%	2.0%
Median Price of Home Purchased	$269,000	$165,000	$243,000	$165,000	-9.7%	0.0%
Size (in Square Feet) First Time Homebuyers	1,483	1,516	1,270	1,510	-14.4%	-0.4%
Median Income	$75,800	$58,300	$73,500	$58,573	-3.0%	0.5%
% with Incomes <$45,000	10%	32%	13%	30%	30.0%	-6.3%
% with Incomes <$55,000	25%	46%	25%	44%	0.0%	-4.3%
% with Incomes <$75,000	47%	70%	52%	68%	10.6%	-2.9%
% Purchasing Detached Single Family Home	63%	66%	53%	67%	-15.9%	1.5%
% Purchasing Townhouse/Row House	9%	13%	9%	12%	0.0%	-7.7%
% Purchasing Unit in Building with 2-4 Units	13%	3%	14%	3%	7.7%	0.0%
% Purchasing Unit in Building with 5+ Units	13%	11%	21%	13%	61.5%	18.2%
% Purchasing Home Costing < $150,000	5%	44%	11%	43%	120.0%	-2.3%
% Purchasing Home Costing < $200,000	22%	64%	32%	63%	45.5%	-1.6%
Repeat Homebuyers						
Median Price of Home Purchased by Repeat Buyers	$370,000	$249,000	$383,000	$250,000	3.5%	0.4%
Median Income Repeat Buyers	$91,900	$81,900	$106,800	$85,663	16.2%	4.6%
% with Incomes <$45,000	12%	15%	7%	14%	-41.7%	-6.7%
% with Incomes <$55,000	13%	23%	13%	14%	0.0%	-39.1%
% with Incomes <$75,000	32%	43%	30%	39%	-6.3%	-9.3%
% Over 55	31%	30%	25%	31%	-19.4%	3.3%
% Purchasing Detached Single Family Home	66%	80%	71%	79%	7.6%	-1.3%
% Purchasing Townhouse/Row House	7%	7%	6%	7%	-14.3%	0.0%
% Purchasing Unit in Building with 2-4 Units	11%	3%	5%	2%	-54.5%	-33.3%
% Purchasing Unit in Building with 5 or More Units	13%	6%	16%	7%	23.1%	16.7%

Source: National Association of Realtors, *2006 Profile of Home Buyers and Sellers Massachusetts Report, 2007 Profile of Home Buyers and Sellers Massachusetts Report*

FIGURE 4.8

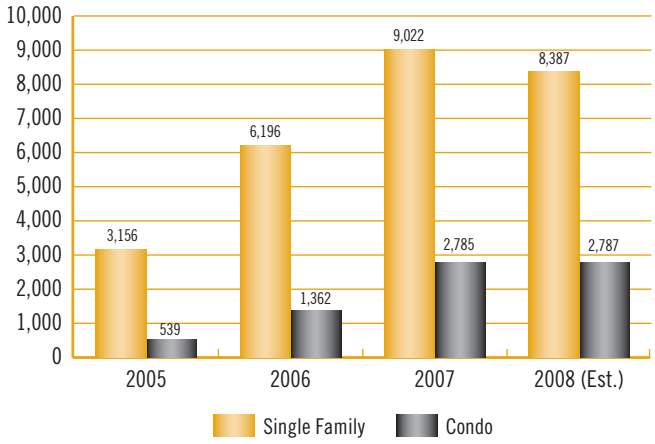
Foreclosure Deeds on Single Family Homes and Condos in Greater Boston, 2005–2008



Source: The Warren Group

FIGURE 4.9

Petitions to Foreclose on Single Family Homes and Condos in Greater Boston, 2005–2008



Source: The Warren Group

Foreclosures in Greater Boston

The rapid rise in foreclosure activity, both in Greater Boston and around the nation, has emerged as the premier challenge to the economy today. Newspaper headlines have chronicled the evolution of this crisis and the powerful adverse effects it has had on unfortunate borrowers, their families, and their neighbors; for whole communities; and for lenders, both large and small, facing the threat of insolvency due to foreclosures.

Greater Boston certainly has not been immune from this troubling trend. As **Figure 4.8** illustrates, the number of foreclosure deeds issued each year has risen by an order of magnitude in just three years. In 2005, in the entire five-county Greater Boston region, there were only 177 foreclosure deeds issued on single-family homes. By 2006, that number had climbed to 792—four and a half times higher than the previous year's total. The figure more than doubled again the following year, to 2,033 single-family foreclosure deeds. And if trends for the first half of 2008 are indicative of year-long performance, that number is set to double once more by the end of 2008, when we project a total of 4,275 foreclosure deeds in the region.

The region's older industrial cities have been hit the hardest by the foreclosure crisis. In these communities, an abundance of subprime and adjustable-rate mortgages, combined with falling home values and weak job prospects, has led to a glut of foreclosure deeds. In both 2006 and 2007, Brockton, Boston, Lynn, and Lowell experienced the highest foreclosure rates. Brockton's path has been the most discouraging of all. In 2005—just three years ago—there was not a single foreclosure deed issued on a single-family home in that city. The following year, the City of Champions led the region with 87 foreclosure deeds. In 2007, it stayed in front, increasing its foreclosure activity to 188 deeds. In the first half of 2008, the city had already eclipsed that figure. Through June of 2008, Brockton again led the whole region in the number of single family deeds issued, with 209. This was *more than the total number issued for all of Suffolk County during all 12 months of the previous year*.

While the rise in foreclosure deeds has not proven as steep for condo owners over the past three years, the trend has been equally troubling. Whereas fewer than 100 foreclosure deeds were issued on condos in the five counties in 2005, 258 such deeds were handed down in 2006. Last year, that figure jumped to 751, and in 2008 we expect to see 2,000 deeds.

When it comes to foreclosures on condos, Boston is far and away the regional leader. While it is to be expected that the region's largest city would be the site of the highest number of condo foreclosures, the more troubling statistic has been the rate at which Boston has

pulled away from all other surrounding communities. In 2005, Boston saw 29 foreclosure deeds on condos, about three times higher than the second ranked city, Haverhill. The following year, condo foreclosures in Boston doubled to,[59] again about three times higher than Haverhill, which again came in second. Last year, Boston had 211 condo foreclosure deeds; Haverhill, again in second place, had only *one sixth* as many (35). And through June of 2008, Boston has already witnessed 293 foreclosure deeds on condos. So far this year, the number two position has been taken by Framingham, with Haverhill third. Still, Framingham has endured only 42 condo foreclosures, *one seventh* as high as Boston's total.

There may be good reason to believe, however, that the worst of the foreclosure crisis is behind us. **Figure 4.9** displays data on the number of petitions to foreclose in the five-county region. Filing a petition to foreclose is the first step taken by a lender to reclaim property from delinquent borrowers. While not all petitions to foreclose result in the issuance of foreclosure deeds, the trajectory of petitions to foreclose can serve as an indicator of what to expect foreclosure deeds in the future.

The number of petitions to foreclose, both on single-family homes and on condos, rose substantially from their 2005 levels in both 2006 and 2007. In 2005, there were just over 3,000 petitions to foreclose on single-family homes, and just over 500 on condos. In 2007, by contrast, the region saw more than 9,000 single-family petitions, and nearly 2,800 condo petitions.

The petition rate has begun to slow, though. In the first half of 2008, there were 3,774 petitions to foreclose on single-family homes in Greater Boston; this figure was down 277 from the 4,051 petitions filed in 2007, though still significantly higher than the level in 2005 and 2006. By the end of 2008, we expect to see slightly fewer than 8,400 petitions to foreclose on single-family homes, and slightly fewer than 2,800 on condos. These numbers represent a leveling-off after several years of enormous growth in the amount of foreclosure activity, and they may indicate a return toward a semblance of normalcy in the region's housing market.

All in all, then, we have seen a decline in Greater Boston housing prices, but no relief in terms of the monthly cost of rental units. This reflects the rise in homeownership vacancy rates to more normal levels while rental vacancies have actually declined since 2004—presumably as fewer renters have been able to move into homeownership and as foreclosed homeowners have been forced into rental housing. The home mortgage crisis has contributed to this process in that renters who might have liked to buy into the housing market have found this more difficult to do.

However, even with home prices declining, affordability has increased only marginally, in part because median household incomes have hardly risen and in many cases have fallen in Greater Boston.

The new wrinkle in the housing market has been the explosion in foreclosures that have contributed to rising vacancies and therefore falling prices. It looks as if the foreclosure crisis might be easing in the coming year, but too many factors related to adjustable mortgage rates and a weakening national economy suggest this might be a bit of wishful thinking.

5.
Public Spending and Support for Housing

As discussed earlier in this report, Greater Boston faces foreclosures and dropping home prices as a result of the sub-prime meltdown, but at the same time must continue to grapple with a long-term housing shortage that undermines the economic competitiveness of the region relative to other metropolitan regions. Such an economic environment complicates housing policy immensely. Falling prices slows market-driven housing production and undermines advocates' efforts to call for funding for new housing. During the housing recession of the early 1990's (1990–1994), total spending by the Department of Housing and Community Development ("DCHD", known as EOCD at the time) fell 55 percent. As a result, when the housing market strengthened, there was insufficient housing available to meet the new demand, resulting in higher prices.

At the same time, foreclosure puts stress not only on homeowners, but also on particular neighborhoods. The concentration of foreclosures in Greater Boston communities such as Brockton, Dorchester, Lawrence and others threaten to destabilize these communities and undermine long-term efforts by non-profits and local governments to restore these neighborhoods to health.

Given the increase of government activity around housing since mid-2007, this report expands its coverage of programmatic efforts to address Greater Boston's housing needs. Each year, this section examines the progress made to preserve and expand the supply of housing for low-income households; foster strong, sustainable neighborhoods; reduce the local barriers to new market rate housing; and establish smart growth as a guide to future development. This year, this section also outlines how government is responding to the challenge of addressing the foreclosure crisis while maintaining funding needed for Greater Boston's long-term housing needs.

Public Spending

Federal Funding

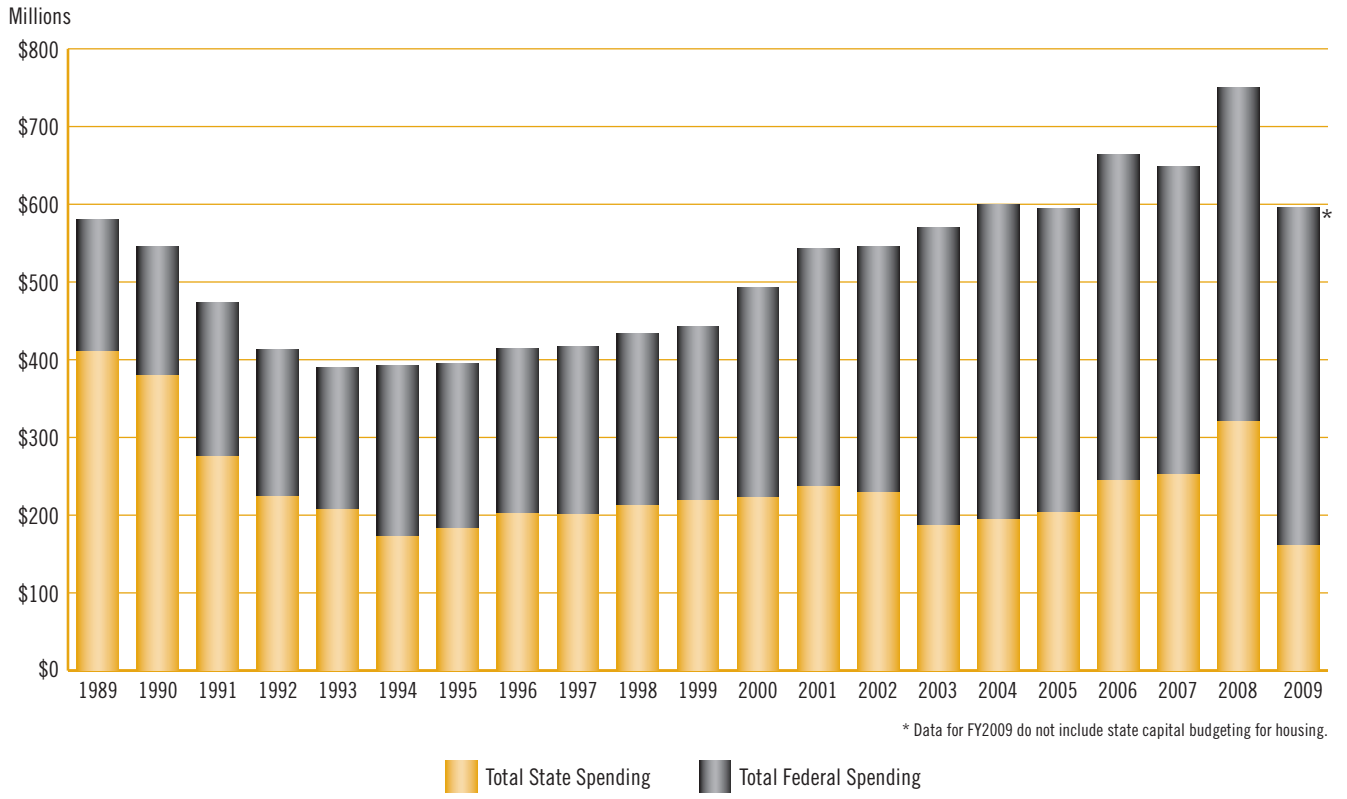
Funding from the Federal Department of Housing and Urban Development (HUD) flows through DHCD, Public Housing Authorities (PHAs), "entitlement" communities and through direct grants.[59] Direct grants go to both local organizations and national organizations with a local presence (e.g., YouthBuild and Habitat for Humanity). This report will focus on funds to DHCD as well as to communities through the Community Development Block Grant (CDBG), the HOME Investment Partnership (HOME), McKinney Homeless Grants, and the Housing Opportunities for People with AIDS program (HOPWA).

Funding to DHCD

Since 2004, the federal government has funded DHCD at approximately $400 million per year. Rent subsidies for low-income tenants in existing housing, home heating assistance and weatherization programs for low-income homeowners account for much of this funding (79 percent in FY2008[60]) as well as the variation in funding from year to year. For FY2009, the Commonwealth's Executive Office of Administration and Finance anticipates federal funding of $435 million, up one percent from $430 million in FY2008. From FY2008 to FY2009, Home Heating Assistance will experience the largest decrease ($32 million, or -26 percent) in federal spending, followed by a $0.8 million decrease (-87 percent) in the Lead Based Paint Control program. On a positive note, the combined HOME Investment Partnership and Technical Assistance programs will experience the largest increase ($17 million, or 54 percent), rent subsidies increase by $6 million (three percent) and the Small Cities Community Development Block Grant program increases by $7 million (18 percent). In addition, there will be a combined $3 million increase (23 percent) for the New Construction and Moderate Rehab Section 8 programs.[61] **Figure 5.1** tracks total DHCD spending from both the state and federal governments. Total spending from state and federal dollars declined from almost $600 million in

FIGURE 5.1

Total DHCD Spending, 1989–2009



Source: Massachusetts Department of Housing and Community Development

FY1989 to under $400 million in FY1993. Since then, funding in current dollars has increased every year through FY2008. (The FY2009 figures do not include DHCD capital spending since these figures have yet to be released.) State spending itself has increased by $125 million between FY2004 and FY2008, while federal spending through DHCD has decreased by about $31 million.

Federal funding for housing also passes through the Department of Transitional Assistance and directly to larger communities. A recent report from CHAPA reveals that for Federal Fiscal Year (FFY) 2008, only 31 percent of CDBG funds passed through DHCD. The remainder ($73.7 million) went to entitlement communities.[62] This amount represents a 19 percent drop from FFY2003 funding of $90.5 million. HOME grants to entitlement communities also declined, from $33.4 million in 2003 to $29.9 million (-10 percent) in FFY2008.[63]

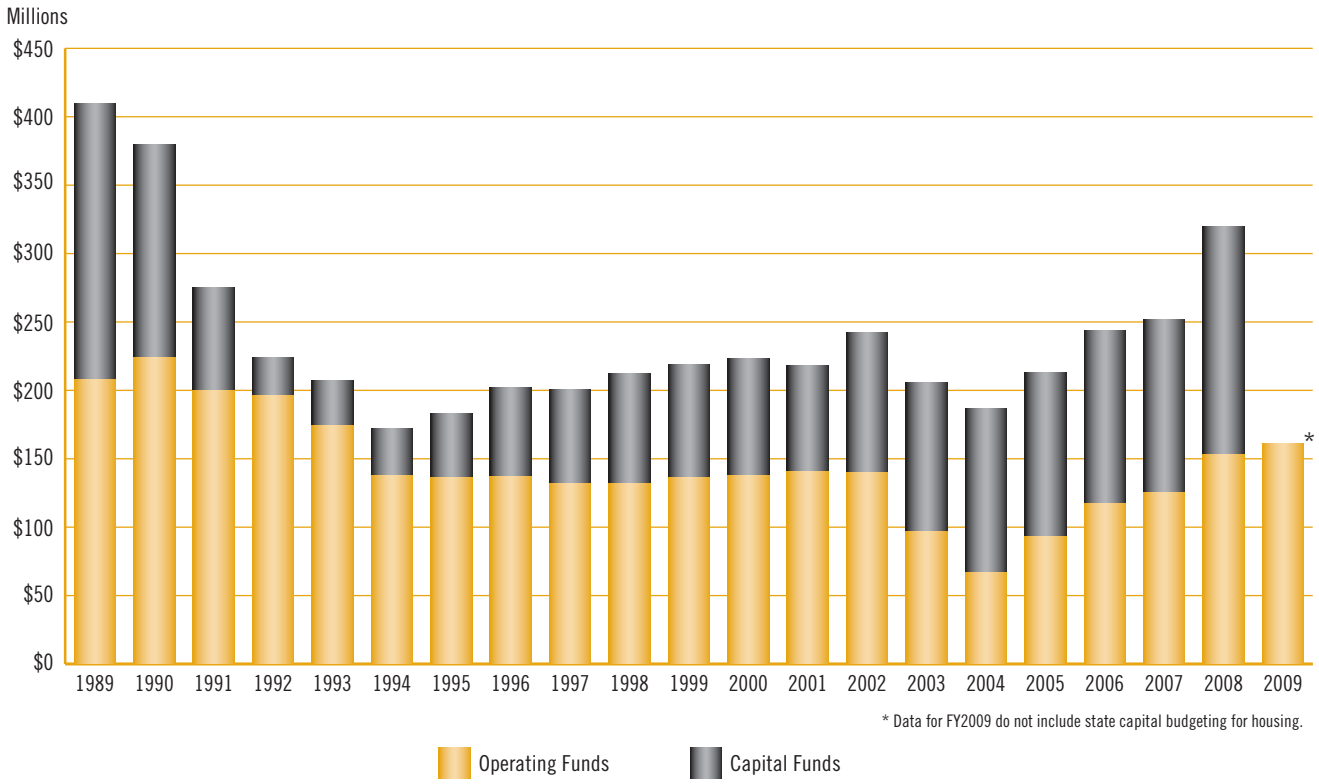
Final FFY 2008 McKinney Homeless and HOPWA grants have yet to be made and funding has varied from year to year. Last year, however, McKinney grants increased from $57.4 million in FFY2006 to $59.5 million in FFY2007. HOPWA grants also saw a modest increase from $5.8 million in FFY2006 to $6.2 million in FFY2007.[64]

State Funding

The news on the state front continues to be positive, as total state funding for DHCD programs has increased every year since a low of $187 million in FY2004 to a high of $320 million in FY2008. This represented the highest level of support from the state since 1991. In inflation adjusted dollars, however, the FY2008 spending level is only 74 percent of the 1991 level, and just 45 percent of the $410 million (actual dollars) committed in 1989.

FIGURE 5.2

DHCD Operating and Capital Spending, 1989–2009



Source: Massachusetts Department of Housing and Community Development

The Commonwealth's housing resources come from its operating and capital budgets and as **Figure 5.2** illustrates, operating funds continue to increase. From FY2006 to FY2007, the spending of operating funds increased $8 million. From FY2007 to FY2008, spending increased an additional $28 million, to $153 million. From FY2007 to FY2008, funding remained stable for the Homeless Housing Pilot Project, for Tenant Preservation, for Transitional Rental Assistance, and for the Service Coordinators program, but funding increased for most programs, including:

- $9.5 million for subsidies to public housing authorities, a 17 percent increase
- $2.5 million for the Massachusetts Rental Voucher program, a 9 percent increase
- $0.5 million for the Rental Subsidy Program for Department of Mental Health Clients, a 17 percent increase
- $0.4 million for Family Shelter/Transitional Housing, a 26 percent increase
- $0.25 million for the Soft Second (first-time homebuyer) mortgage program, an increase of 5 percent.

From FY2008 to FY2009, total operating spending is set to increase from $153 million to $161 million, with no program receiving a reduced allocation. The largest increases are $3.1 million (10 percent) for the Massachusetts Rental Voucher program, and $1.4 million (2 percent) for Subsidies for Public Housing Authorities. The Rental Subsidy Program for Department of Mental Health Clients, the Alternative Housing Voucher Program, state Low Income Housing Tax Credits, the Homeless Housing Pilot Project, and the Soft Second program will each receive modest $0.5 million increases for FY2009.

Capital funds for housing also increased in FY2008. After capital funding remained flat from FY2006 to FY2007, there was an increase of $40 million from FY2007 to FY2008. While operating funds are more targeted to subsidizing tenants and public housing projects, capital funds are essential to the physical

preservation of existing housing and construction of new affordable housing. While public housing modernization and renovation made up 43 percent of capital funds in FY2008, 26 percent of funding ($44 million) was set aside for housing development through the Affordable Housing Trust Fund, the Housing Innovations Fund, the Housing Stabilization Fund, and the Transit Oriented Development program.

Capital Planning and Budgeting

In May, 2008, a five-year, $1.275 billion housing bond bill was enacted, including $500 million for public housing modernization, $220 million for the Affordable Housing Trust Fund, $125 million for the Housing Stabilization Fund and $100 million for the Capital Improvement and Preservation Fund.

Although such a bill shows a strong commitment to housing, the housing bond bill only authorizes spending. Annual appropriations are limited by the bond volume cap set by the state's Executive Office of Administration and Finance. The federal housing legislation passed in July allows states to increase their bond caps exclusively for housing purposes, making full funding of capital-based projects more likely.

Local Funding

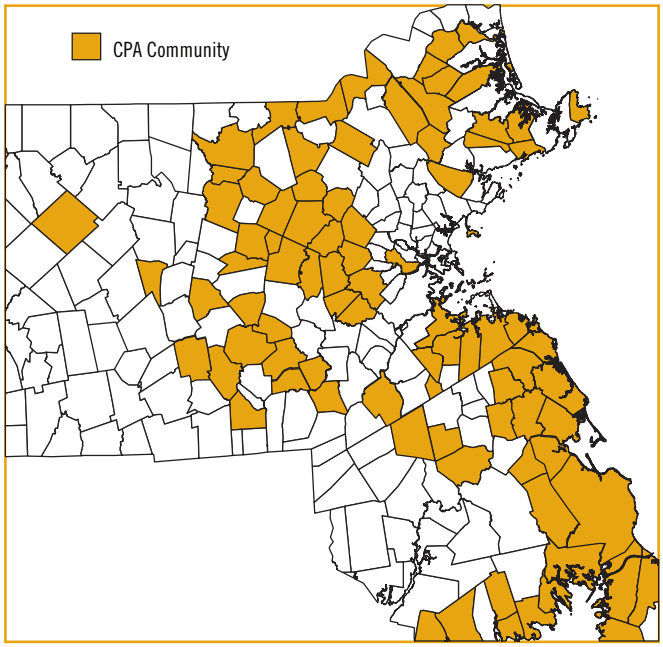
Schools and basic city services are the primary mission of Massachusetts municipalities, which spend little to no operating funds on housing initiatives. In this respect, the Community Preservation Act (CPA) has created a method for cities and towns to raise and spend funds dedicated to housing, open space, recreation and historic preservation. The CPA became law in 2000 and allows Massachusetts municipalities to levy a property tax surcharge of up to 3 percent. As of mid-2008, 133 towns and cities had passed CPA ballot questions, of which 74 of these are Greater Boston towns covered by this report. Of these, Hanson, Plympton, Stoughton and West Bridgewater passed the CPA in early 2008. Of the remaining towns and cities in Greater Boston included in the Municipal Scorecard, 50 have not held CPA votes, and votes have failed in 36 municipalities, including Boston (although Gloucester is scheduled for a second vote in November 2008).[65]

At time of publication, the Community Preservation Coalition had gathered preliminary spending information for FY2002 through FY2008. This data is not complete and needs to be verified. An estimated $551 million in funds has been raised by CPA towns and cities in combination with state matching funds raised from registration fees on real estate transactions to support housing, open space, recreation and historic preservation. Participation in the CPA program has increased to the level that, according to the Community Preservation Coalition, municipalities will no longer get a 100 percent match of funds in the October 2008 distribution.

Every town enacting CPA must use at least 10 percent of its CPA funds in each area under the Act: housing, open space and historic preservation. Towns are free to set the overall priority for the funds and housing is not the primary goal of every town. From FY2002 through most of FY2008, housing got the largest piece of this pie, at 32 percent of CPA appropriations, compared to 29 percent for open space uses (see **Figure 5.3**).[66]

MAP 5.1

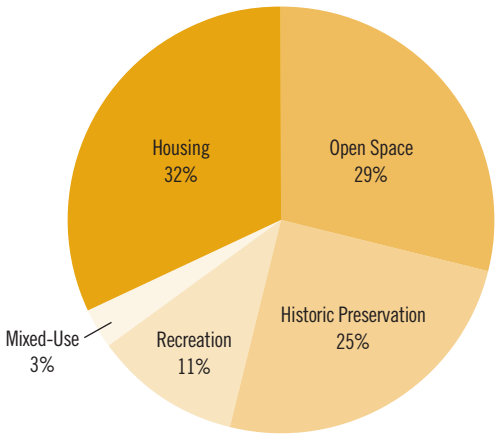
Passage of the Community Preservation Act among Massachusetts Municipalities.



Source: Community Preservation Coalition

FIGURE 5.3

Community Preservation Act Appropriations by Use, FY2002–FY2008



Source: Preliminary data from the Community Preservation Coalition. Chart does not include $151 million in "bonded" projects, which could be in any of the four spending areas.

Addressing Specific Problems

Foreclosures

The 2006/2007 *Housing Report Card* cautioned that rising mortgage delinquencies and foreclosures could be the harbinger of a market disruption similar to what Greater Boston experienced in the early 1990s. As outlined in this year's report (Chapter 4), foreclosures continued to increase, and certain cities, neighborhoods and individuals streets have been adversely affected. This section outlines the public response to the foreclosure crises. Although the section is organized by level of government (federal, state and local), these responses will be discussed in terms of responses that address:

- *Current homeowners* threatened by foreclosure,
- *Current renters* facing displacement from foreclosed properties,
- *Future buyers/borrowers* in need of a reliable and affordable system of mortgage finance,
- *Neighborhoods* adversely affected by the concentration of foreclosed properties, and
- *The national financial institutions* that form the backbone of the mortgage finance system.

The Federal Response

Before the passage of the Housing and Economic Recovery Act of 2008 (the Federal Act) in July 2008, the Federal response to foreclosures had been piecemeal. The Federal Act may not have all the solutions to the sub-prime meltdown and the foreclosure crises, but it represents an important step towards softening the blow and putting into place the most far-reaching changes to the mortgage finance system in a generation.

Current Homeowners

Among the first actions by the Bush administration to address foreclosures was the creation of FHA Secure in August 2007. FHA was given new flexibility to insure mortgages for those refinancing out of sub-prime loans when the initial adjustable interest rate was going to reset.[67] Eligibility was expanded in April 2008 to include more distressed homeowners.[68]

The HOPE NOW program followed in October 2007. This voluntary program links mortgage servicers with counselors and mortgage lenders in an attempt to provide loan work-outs for subprime borrowers.[69] According to the most recent HOPE NOW data available, 13,102 Massachusetts sub-prime borrowers received repayment plans or loan modifications from the fourth quarter of 2007 to the second quarter 2008.[70] Increasingly, borrowers are obtaining loan modifications, and are thus more likely to keep their homes, with loan modifications increasing from 10 percent of workouts in the second quarter of 2007 (prior to the program launch) to 52 percent in the second quarter 2008.

Federal legislation passed in December 2007 provided $180 million in one-time funding for the Neighborhood Reinvestment Corporation's National Foreclosure Mitigation Counseling Program, which funded 14 Greater Boston organizations to assist low- and moderate-income homeowners.[71] The Federal Act (mid-2008) provided an additional $180 million for this program, of which $30 million can be used for homeowner legal assistance.[72]

Also in December, the Federal Reserve Bank of Boston, in conjunction with five local banks, launched the mortgage relief initiative to help Massachusetts homeowners refinance their sub-prime loans. Deteriorating

home prices have made it more difficult to provide refinancing for borrowers who now have negative equity, but the Boston Fed remains committed to the program, and in conjunction with the Massachusetts Bankers Association, announced an expansion of the program to 50 lenders in June 2008.[73] In addition, the Boston Fed, in conjunction with the New England Patriots Charitable Foundation, hosted an event August 12 at Gillette Stadium to bring together homeowners with their lenders for face-to-face workout consultations.[74]

Incremental responses continued in February 2008, with the Economic Stimulus Act of 2008, which increased the loan limits on mortgages purchased by Fannie Mae and Freddie Mac and for the purchase of FHA insurance.

By July of this year, the Federal Act began to address distressed homeowners with declining home values through the $300 billion HOPE for Homeowners program. The program allows homeowners who cannot afford their mortgages to refinance into an FHA insured mortgage. The program will be in effect for three years beginning October 1.[75]

Current Renters

Despite the potential displacement of renters living in foreclosed properties, federal action has not addressed this group, and no efforts appear to be underway at this time.

Protections and Programs for Future Buyers/Borrowers

In July 2008 the Federal Reserve finalized new mortgage lending regulations, banning certain advertising and servicing practices, requiring more prompt and detailed good faith estimates (required in all mortgage transactions), ended pre-payment penalties, and increased income qualification standards for high interest loans. The new regulations will apply to loan applications made after October 1, 2009.[76]

The Federal Act addressed the safety of the mortgage origination system, called for additional requirements for good faith estimates of credit worthiness, and required that all loan originators be licensed.[77] Although the states are still responsible for the licensing process, the Federal Act sets a floor on standards, including pre- and post-licensure education, and requires use of the Nationwide Mortgage Licensing System and Registry (NMLS), which was operationalized in January, with Massachusetts a founding member.[78]

The Federal Act encourages homeownership through a temporarily available tax credit of up to $7,500 for first-time buyers, and includes a number of reforms to FHA loan limits, downpayment requirements, product types, fees and homeowner counseling.[79]

Neighborhoods

The Federal Act provides $3.92 billion for a Neighborhood Stabilization program. Until HUD finalizes the funding formula, it is unclear how much Massachusetts will receive and whether the funds will go through the state or through cities and the state, as with CDBG funds. These funds are to be used to revive abandoned and foreclosed homes through mechanisms such as soft second loans that will encourage the purchase of such homes by new owners, and the purchase of abandoned properties by local entities that can renovate these units and return them to the market, either for rent or purchase. The program requires that homes are purchased at less than *current* market value, so it is not clear if these funds will be useable for purchase except in the most distressed neighborhoods.

Financial Institutions

The Federal Act required that Government Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac pay into a new Affordable Housing Trust (HUD) and contribute to Capital Magnet (Treasury) funds. In the short term, proceeds will be used to repay the costs of the HOPE Homeowners program, but in the long term Affordable Housing Trust Fund money will be used for housing for very low-income households (less than 50 percent of area median income). Capital Magnet funds will be used to attract matching funds for affordable housing and economic development projects in distressed areas.[80] The Federal Act also merged and strengthened the oversight of Freddie Mac, Fannie Mae, and the Federal Home Loan Bank system into one agency, the Federal Housing Finance Agency (FHFA).

Investors in Freddie Mac and Fannie Mae mortgage-backed securities have long assumed that the

government would come to the rescue of Freddie and Fannie. In perhaps the Federal Act's most far-reaching provision, the Treasury Department was given the power to lend to these GSEs.[81] On September 7th, the Treasury announced it will use this new power in conjunction with FHFA acting as conservator for Fannie Mae and Freddie Mac.[82] This rapid change in the financial landscape throws doubt upon the future of Freddie, Fannie and their commitments to affordable housing and the new Affordable Housing Trust Fund. In the short term, interest rates are likely to stabilize and Freddie and Fannie will be allowed to increase the size of their portfolios to meet the current credit crunch, but both agencies will be downsized over the long term.[83]

State Responses to Foreclosures

The outlines of the foreclosure crisis could be seen in 2006, and given the slow Federal response, states began to act on their own to address foreclosures. A study by the Pew Charitable Trusts found that as of January 31, 2008:[84]

- Nine states had created mortgage broker regulations requiring that the broker consider the interest of the borrower,
- Twenty-four states have statewide consumer education campaigns,
- Thirteen states had statewide consumer education hotlines in place, and
- Fourteen states had a statewide foreclosure task force.

Massachusetts, Minnesota and Ohio were the only states that had put all four of these responses into place.

As such, Massachusetts is a leader in efforts to address the foreclosure crisis. Individual state agencies have initiated efforts to address sub-prime lending and foreclosure prevention, but the Division of Bank's Mortgage Summit held in November 2006 served as a turning point, bringing together representatives from the lending industry, non-profits, and local, state and federal governments. This led to a more cohesive effort by the Commonwealth to address the problem. Two working groups were established and the recommendations of these groups were released in April, 2007,[85] and served as the outline for the *Act Protecting and Preserving Homeownership* (the "2007 Act"), that passed the legislature and was signed by Governor Patrick into law in November, 2007.[86]

Current Homeowners

In June 2007, Attorney General Martha Coakley released emergency consumer regulations banning certain types of foreclosure rescue schemes. Schemes ranged from expensive (but non-existing) foreclosure prevention services to complex real estate transactions that promised to save the home from foreclosure but only resulted in the loss of the home.[87] This was quickly followed by the announcement of the MassHousing Home Saver mortgage. MassHousing agreed to provide $250 million in mortgage funds to refinance homeowners who were not immediately facing foreclosure out of unaffordable loans.[88]

The 2007 Act provided foreclosure prevention counseling funds and created a new 90-day window for homeowners to resolve a mortgage default before foreclosure proceedings began. The Act took effect on May 1, 2008, and Massachusetts foreclosure petitions dropped by 84 percent between June 2007 and June 2008.[89]

In February 2008, the Attorney General filed a lawsuit against one of the largest subprime lenders, Fremont, placing a temporary stay on the foreclosures for many Fremont borrowers.[90] This was followed by a similar lawsuit against Option One in June.[91] In June and July 2008, foreclosure fairs were held in Brockton, Lawrence, Springfield and Worcester, intended to bring together borrowers and eight major lenders/loan servicers in order to try to find refinancing options that would prevent foreclosure.[92]

Current Renters

Although no funds were allocated in the 2007 Act to address the displacement of renters from foreclosed properties, the tenant's right to be considered a "tenant at will" in a foreclosed property was clarified and strengthened. In Massachusetts, tenants can only be evicted through a judicial process, providing extra time for the tenant to find another home.

Protections and Programs for Future Buyers/Borrowers

In October 2007, the state Attorney General released revised mortgage lending regulations that clarified and extend prohibited lending practices and required mortgage lenders to take the borrower's ability to pay into account.[93]

The 2007 Act created further protections by providing $3 million to the Division of Banks for a new system of licensing mortgage originators. As a part of this, Massachusetts was one of the seven states that launched the National Mortgage Licensing System, later made a requirement by the Federal Act. In addition, the Division received $2 million for a combination of foreclosure prevention and first-time homebuyer counseling, and for studies of best lending practices.

Neighborhoods

In July 2008, Governor Patrick announced the formation of a $20 million Neighborhood Stabilization Loan Fund. The Massachusetts Housing Investment Corporation and the Massachusetts Housing Partnership will provide $17 million in funds, with an additional $3 million from the Boston Foundation and the Hyams Foundation. Funds are to be used to purchase and rehab abandoned and foreclosed properties in neighborhoods with a high number of foreclosures. The national funding for neighborhood stabilization found in the Federal Act mirrors this program.[94]

Local Responses

Massachusetts cities and towns are grappling with increased costs, from fuel and energy costs to continued increases in health care costs. Foreclosed and abandoned buildings only add to these problems by undermining property tax receipts and increasing the need for basic services including public safety. Outside of the federal and state resources described above, municipalities have few dedicated sources of funding to address foreclosures. Despite this, a few cities have made valiant efforts to address the problem, and the Foreclosed Properties Task Force (a collaborative effort of non-profits and government/quasi-government entities) is working to find ways for non-profits and municipalities to address the neighborhood impact of foreclosures.

Boston

In 1999, the City of Boston and the Massachusetts Community & Banking Council (MCBC) created the Don't Borrow Trouble campaign. Created to steer borrowers away from predatory lending products, the program joined marketing efforts to the city's Boston Home Center and mortgage counseling/foreclosure prevention services. Cited as a model program, Freddie Mac spread this program to 47 cities by mid-2008,[95] and MCBC helped to establish the program in an additional eight Massachusetts communities.[96]

In early 2006, the City of Boston Department of Neighborhood Development's ongoing research revealed an alarming increase in foreclosure activity. The city responded with a new foreclosure prevention initiative that included increased funding for foreclosure prevention services, outreach to homeowners with sub-prime loans, and the innovative First Choice Lenders program.[97]

While the Foreclosure Prevention Initiative focused primarily on homebuyers and homeowners, the City of Boston responded to the concentration of foreclosures in certain neighborhoods through the Foreclosure Intervention Team (FIT). Launched in February 2008, FIT gathered the efforts of multiple city agencies to address streets hardest hit by foreclosure, starting with Dorchester's Hendry Street. In a house-by-house approach, emergency board-ups and cleanings were followed by the Boston Redevelopment Authority purchase of several homes and assignment of a developer for rehab/resale. Both homeowners and renters received services to keep them in their homes, and owner occupant homebuyers have been found for other properties. The City is attempting to apply the same practices to two other foreclosure concentrations, and is making a portion of the $5 million it has allocated in FY2009 for housing towards this effort. In addition, a new city ordinance requires the registration and maintenance of foreclosed properties.

Other Localities

CHAPA's March 2008 report on foreclosures reports the following activities by other Greater Boston cities:[98]

- Brockton has created a task force on housing and foreclosure prevention and is focusing on foreclosure prevention counseling, but is also working

with partners to purchase six distressed three-family homes for rental housing.

- Chelsea has joined with the Chelsea Restoration Corporation to provide foreclosure prevention services.
- Lawrence provides foreclosure prevention counseling and has created a task force to secure abandoned buildings and register foreclosed properties with the city.
- Lowell's foreclosure prevention task force was established in 2006, and has made funds available to assist distressed homeowners complete a refinance.

Increasing Supply

While dealing with foreclosures has been the number-one priority of state and local housing efforts during the past two years, long-standing efforts to generate new affordable housing continued despite attempts to repeal the state's longest standing affordable housing legislation, Chapter 40B.

Chapter 40B

Chapter 40B allows developers to seek a comprehensive permit for construction of new housing in municipalities where less than 10 percent of the units are affordable, in exchange for the construction of a minimum number of units affordable to households earning less than 80 percent of the HUD-determined area median income. The current HUD income limits for most of the cities and towns included in the Housing Report Card are $46,300 for a single-person household; $52,950 for a two-person household; $59,550 for a three-person household; and $66,150 for a four-person households. These income limits are unchanged from 2007.

Chapter 40B remained in the spotlight in the last year. In December 2007, signatures were submitted to the Secretary of State's office in an attempt to repeal 40B at the November 2008 election. The initiative failed to get enough signatures to be placed on the ballot.

In February 2008, DHCD released revised 40B regulations that combined previous regulations and addressed decisions made both by the courts and the Housing Appeals Committee. This has not stopped criticism of the program, as complaints that some developers of 40B properties may be getting excessive profits led to the August 2008 announcement by the Senate Post Audit and Oversight Committee that a hearing will be held on the matter in September, 2008.[99]

Progress in Meeting 40B Affordability Goals

A number of Greater Boston communities have made headway in increasing the supply of housing for low-income people in the recent years. Municipalities can take a proactive approach to meeting 40B affordable housing production goals by adopting a five-year Housing Production Plan (HPP). Seven Greater Boston municipalities received DHCD approval of their HPPs between August 2007 and July 2008 (down from 12, as reported in the 2006/2007 *GBHRC*), bringing to 60 the number approved through July 2008.

However, some the earliest plans are now expiring. Plans have already expired in Abingdon, Lincoln and Tyngsborough. Lincoln has now met the 10 percent affordability threshold, but Abingdon and Tyngsborough have not. An additional nine plans will expire by the end of July 2009, and of these, only Bedford and Peabody have met the 10 percent affordable housing goal. Just nine of the communities with approved plans are currently certified as having made adequate progress under those plans. To comply with a 40B plan and obtain a DHCD compliance certificate giving a one year reprieve from comprehensive permit petitions, a municipality must demonstrate that new affordable housing equal to at least three-quarters of 1 percent of its year round housing stock has been permitted in the past calendar year. The nine communities certified in Greater Boston as of August 2008 include Bedford, Berlin, Boxborough, Ipswich, Lakeville, Sharon, Stoughton, Tewksbury and Wakefield.

The Municipal Scorecard (**Appendix A**) details the progress each community made, if any, to expand affordable housing opportunity in 2007 and what tools they used. Currently the subsidized housing inventory credits 33 Greater Boston municipalities with being at 10 percent affordable or better, with three having achieved that milestone since last year's Report Card. From July 2007 to July 2008, Boxborough, Lincoln and Randolph went over the 10 percent threshold. One former 10 percent community—Bellingham—dropped below that threshold during the past year.

During the year, the Subsidized Housing Inventory reported a net increase of 2,277 units of housing that

qualified toward their host community's 10 percent requirement in the 161 municipalities covered by the Report Card. This increase was concentrated in relatively few municipalities. There was a net increase of affordable units in only 38 municipalities, and 84 percent of the increase occurred in only ten towns. This list is lead by Tewksbury (409 additional units), Randolph (287 units), Boxborough (245 units) and Bedford (188 units). Given the severe slow-down in the housing market, the increase for FY 2008 is encouraging, but this good news must be tempered by the fact that many of these were projects already on the drawing board before the credit squeeze began in August 2007. In addition, towns are credited for units that have been permitted. Given current market conditions, some of these units may not be completed, and would be removed from the inventory before the next release of the Housing Report Card.

Adding Affordability in the City of Boston

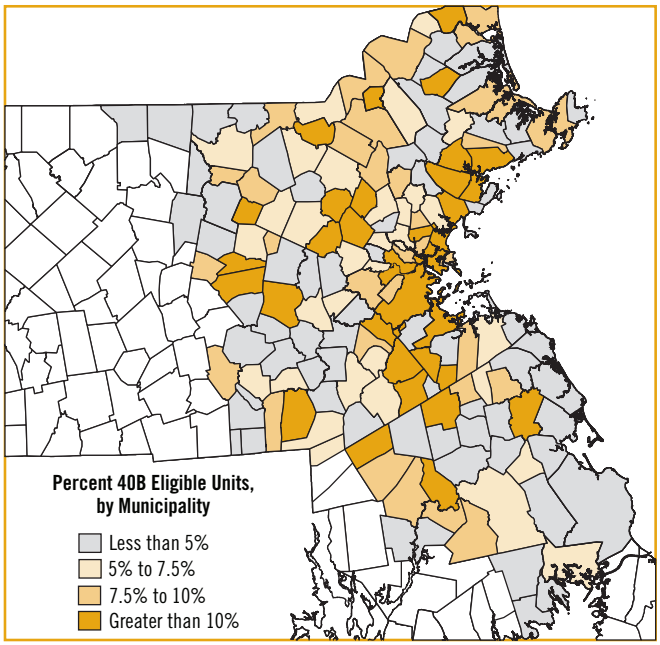
With approximately 20 percent of Boston's housing classified as affordable under 40B guidelines, developers do not have the option of using a comprehensive permit to expedite the development process – although they may request that the city support a "friendly 40B." Despite the housing slump, Boston continued to build new housing in 2007, adding 2,022 total units, of which 232 were affordable to those making less than 80 percent of area median income. The Leading the Way II housing production strategy ended in June 2007, but the city did not slow its efforts with 1,081 of these units permitted after July 1, 2007.[100]

Smart Growth Housing— Chapter 40R and Chapter 40S

In 2004, Chapter 40R was signed into law in Massachusetts, paving the way for new housing construction in Smart Growth districts – higher-density, mixed-use, areas with convenient access to mass transit – in cities and towns across the Commonwealth. To allay concerns that the additional housing created in these Smart Growth districts would overwhelm municipal budgets through increased school costs, the legislature followed up by approving Chapter 40S, which authorizes the state to pick up the additional financial burden placed on local budgets by the new Smart Growth districts.

MAP 5.2

Affordable Housing Inventory in Greater Boston, 2008



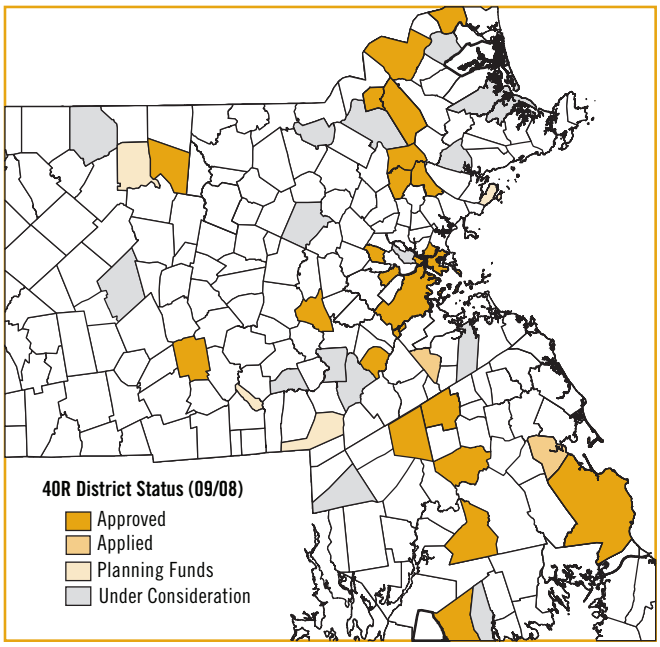
Source: Massachusetts Department of Housing and Community Development

Through August 2008, 24 cities and towns in Massachusetts, including 18 in the 161-community Greater Boston region, had approved Smart Growth Districts under Chapter 40R. This year alone, districts were approved in Boston (Olmsted Green), Easton (Queset Commons), and Lawrence (Arlington Mills), as well as in the western Massachusetts city of Pittsfield. Upon completion, all of the 40R districts approved to date will add 8,829 new units of housing across the state, including 7,429 in Greater Boston. Included among these new housing units will be an estimated 1,852 units of affordable housing (1,571 affordable units in Greater Boston). Still, most of these promised units have yet to be constructed. The majority of approved 40R projects have not begun construction yet, and only two (in North Reading and Norwood), have been completed.[101]

The most important contribution of Chapter 40R, though, is the flexibility it provides. Once a Smart Growth district has been approved by DHCD and the municipal government, construction can begin once demand picks up. As of August 2008, there were 26 additional municipalities, including 17 in Greater

MAP 5.3

40R/40S Smart Growth Districts in Greater Boston, September 2008



Source: Community Housing Task Force

Boston, at some stage in the process of applying for or approving new 40R districts. Upon approval in city councils and town meetings, these proposed districts have the potential to add thousands more units to the ready supply that can be constructed quickly and efficiently to meet demand and to make the communities of Greater Boston more affordable.

In addition to Chapters 40R and 40S, the state government has taken a number of initiatives aimed at producing new housing in smart-growth areas. These include an effort to promote transit-oriented development—high-density, pedestrian-friendly areas, all built near heavily trafficked transit corridors.[102] State financing for transit-oriented development encourages the construction of housing, as well as vehicle and bicycle parking facilities near public transit stations. The most recent transportation bond bill, filed by Governor Patrick in November 2007, included $20 million for transit oriented development.

Preservation of Existing Affordable Housing

With the supply/demand equation so out of balance at the time the first Greater Boston Housing Report Card was initiated in 2002, its focus has been on production. While that remains a priority, preservation has become an increasingly critical concern. The region's existing subsidized housing stock is threatened on several fronts. Rental developments built during the 1960s to the 1980s with federal or state subsidized mortgages and/or project-based rental assistance may be converted from low income to market rate housing once the restrictions that limited their occupancy to low-income residents expire. Some more recent projects are, or will be, affected as well. These projects are often referred to as "expiring use" projects. According to CEDAC, Massachusetts has lost a net of 5,616 subsidized housing units in expiring use properties and another 19,475 are at risk by the end of 2010.[103]

Units most at risk are located in neighborhoods with strong rental markets. Even in today's overall weak housing market, there are still neighborhoods where the conditions are ripe for a conversion of affordable units to market rents. At conversion, the long-term affordability of the units is lost, but current low-income tenants are rarely evicted. Typically, qualified residents are provided HUD rent subsidies called enhanced vouchers that enable them to remain in their homes, while providing the full market rent for their unit. These vouchers are only made available to tenants in projects where the mortgage is pre-paid. Tenants in projects with mortgages that have reached their original expiration term (typically 40 years), do not have such protections. As time passes, this is becoming a bigger concern for residents and affordable housing advocates.[104]

At the federal level, there were preservation initiatives among the many provisions of the Federal Act (July 2008). These included the extension of enhanced Section 8 vouchers to tenants at the Heritage Apartments in Malden, an increase in the maximum Section 8 contract terms for use by public housing authorities from 10 to 15 years, and allowance of Section 8 moderate rehab assistance to be used in conjunction with Low Income Housing Tax Credits, opening the doors to additional financing options for preservation.[105]

At the state level, Massachusetts has made preservation a priority for its federal and state Low Income

Housing Tax Credits, the Affordable Housing Trust Fund, the Housing Stabilization Fund, and the Capital Improvement and Preservation Fund (which is dedicated to preservation activities).[106] Of these, the last three benefited from the 2008 housing bond bill. In addition, in June 2008 MassHousing received a unique waiver from HUD that will make it possible to finance $100 million in the next year and $250 million total to preserve 30 developments by 2010.[107]

In July 2008, *An Act Preserving Publicly Assisted Affordable Housing* was proposed in the Massachusetts Senate (S. 2799). This bill would have given DHCD (or its agent) a right of first refusal to purchase an expiring use property, and gave extra rights to low-income tenants living in such properties. Although support exists for this bill, it did not pass before the end of the 2008 legislative session.[108]

Homelessness

In January 2008, the state's Special Commission Relative to Ending Homelessness in the Commonwealth released its final report.[109] The report calls for a shift from shelter-based care to one focused on homelessness prevention and provision of permanent housing, and establishes a plan that would end homelessness in Massachusetts by 2013. Recommendations fall into three categories: prevention; affordable housing production and access; and asset development. Local agencies would be given the flexibility to tailor individual service plans for individuals and families facing homelessness. The long term goal is to reduce the reliance on high-cost shelter beds and replace it with prevention and long-term housing.

Rather than create a new agency to provide homeless services, it called for the use of a uniform assessment tool and closer tracking of consumers, along with better coordination of existing services across the spectrum of agencies. With this in mind, the Interagency Council on Housing and Homelessness (ICHH) was charged with coordinating the implementation of the Commission's recommendations.[110] The ICHH is currently identifying six regional networks that will implement demonstration programs, to be funded for January 2009 to June 2010. These demonstrations will be assessed to guide and refine further policy and program responses.

A long-term decline in the number of shelter beds (currently 2,900 beds for individuals and 1,900 family units) should result in cost savings for the state, but in the short-term, $10 million in state and MassHousing funds have been allocated for the demonstration portion of the project.

Rising Energy Costs

Rising energy costs threaten to destabilize Greater Boston's households. Between July 2005 and July 2008, fuel and utility costs increased 59 percent.[111] In late July, ABCD, citing the potential for a "human tragedy," found that Massachusetts will need $250 million in additional funding for fuel assistance to help those most in need. Despite these warnings, federal funding for Massachusetts fuel assistance initially decreased from $120 million last year to $83 million this year,[112] but $11.5 million of this funding was restored in September 2008, when the Bush administration announced the release of emergency heating assistance funds.[113]

Summary: Government Action to Deal with the Housing Paradox

The last year has been a busy one for Greater Boston's housing community. **Table 5.1** attempts to make sense of the enormous array of measures used by varying levels of government to address this report's premise that Greater Boston faces a paradox in which housing is still not affordable to many households, despite the falling prices caused by the sub-prime induced foreclosure crisis. As one can tell, as the housing situation has deteriorated, every level of government has attempted to implement policies to reduce the threat of a real housing market meltdown. This next year will tell how well these new policies have fared.

TABLE 5.1

Government Action to Deal with the Housing Paradox

	Local Government	State Government	Federal Government
Foreclosure Crisis	• Boston Foreclosure Intervention Team • Purchase of foreclosed properties • "First Choice" Lenders Program • Secure and register foreclosed properties • Building code enforcement • Abandonment fees • Foreclosure prevention counseling	• MassHousing Home Saver Mortgage program • Banning of foreclosure rescue schemes • Foreclosure prevention counseling funds • 90-day waiting period before filing foreclosure petitions • Lawsuits against Fremont and Option One • Strengthened tenant protections • Neighborhood Stabilization Loan Fund for CDCs to purchase foreclosed properties	• FHA Secure Program • HOPE NOW program • National Foreclosure Mitigation Counseling Program • Federal Reserve of Boston Mortgage Relief Fund • $300 billion HOPE for Homeowners Program* • $3.92 billion Neighborhood Stabilization Program*
Long-term Housing Market Stabilization	• Homebuyer /Financial Education • Continued pressure on universities & colleges to provide student housing	• State regulation/licensing of mortgage lenders & brokers • Homebuyer counseling funds	• New Federal Reserve regulation of mortgage lenders • Loan originator licensing/ registration* • Tax Credit for First-Time Homebuyers* • Creation of the FHFA to oversee Fannie Mae, Freddie Mac and Federal Home Loan Banks.* • Federal takeover of Fannie Mae and Freddie Mac
Housing Affordability	• Community Preservation Act • Increase share of CPA funds for housing • Expanded use of Chapter 40B • Expanded use of Chapter 40R and 40S	• Expanded rental vouchers • New Chapter 40B regulations • Preservation of Existing Affordable Housing • Expanded Low Income Housing Tax Credits • State Affordable Housing Trust Fund • Housing Stabilization Fund • Capital Improvement and Preservation Fund • Housing Bond Bill	• Increased Fannie Mae and Freddie Mac loans limits • Increased Low Income Tax Credit allocations* • Federal Affordable Housing Trust Fund*

*Included in the Housing and Economic Recovery Act of 2008.

6.
Conclusion

Since we began studying the Greater Boston housing market in 2000 and reporting each subsequent year on progress made toward resolving the housing challenges we face, we have never encountered a period like the present. With financial markets in more turmoil than at any time since the Great Depression, and with growing weakness throughout the national economy, it is difficult to forecast what might happen to housing prices or to the ability of homeowners to hold on to their homes in the immediate future. It is possible that markets will be calmed by the recent historic actions taken by the U.S. Secretary of the Treasury and by the Federal Reserve Board. If the federal takeover of Fannie Mae and Freddie Mac; the bailout of the American International Group (AIG) insurance company; the forced acquisition or liquidation of a host of large, venerable banking institutions; the imposition of a battery of new regulations in credit markets; and federal assistance to reduce housing foreclosures works to buoy investor confidence, we may yet see a soft landing and a reestablishment of normal mortgage markets. This could help reverse the downward cycle in housing prices that has developed over recent months, and it could help to rein in the rash of housing foreclosures. Stabilization of housing prices could go a long way toward stabilizing the entire U.S. economy.

If these measures do not work, however, then just the opposite could occur. The number of foreclosures could rise dramatically, accelerating the adverse housing price spiral, jettisoning thousands of more families from their homes, and leading to additional neighborhood blight, where abandoned properties encourage increased vandalism and rapidly falling property values. The overall economy will suffer as families cut back on spending, businesses reduce their capital investments, and we face a full-blown economic recession.

Nevertheless, once the current crisis is resolved by the more benign federal bailout or by a full-scale recession that finally hits bottom, the economy of Massachusetts and Greater Boston will begin to grow again, possibly at a very healthy rate. That could raise the specter of the other component of the housing paradox: sharply rising home prices. Unless we have zoning in place that will permit developers to match housing supply to expanded housing demand, we will see vacancy rates decline to the point where housing prices begin to rise at rates well above normal inflation. Even as the current decline in home prices has not led to sufficient housing affordability in Greater Boston, faster economic growth could exacerbate the region's ability to offer housing at competitive prices. Not only will the absolute affordability of housing in the region decline, relative affordability will likely decline, as well. The gap in home prices between Greater Boston and competing regions of the country could expand rapidly, compromising the region's ability to retain young families in the region and to attract others from various parts of the country. We will be right back in a situation where high housing prices begin to undermine Greater Boston's economy prosperity.

Some Good News

Despite increasingly bad news about the national economy, the Greater Boston region has fared better than many other regions of the country. Unlike places like Las Vegas, Miami, and Phoenix, our region has experienced very little speculative housing construction over the past five years. Because we did not have sufficient production, expanding housing demand led to skyrocketing prices from 1995 through 2005. But when housing markets suddenly weakened, as they have over the past two years, the region did not suffer anywhere near as serious a drop in prices as other metro areas.

We have also benefited from early, proactive policies initiated by both the City of Boston and the Commonwealth. The city focused its attention on concentrated foreclosures in low-income neighborhoods, buying up foreclosed properties so that they could be rehabbed and returned to occupancy. The state has moved to provide homeowners in jeopardy of foreclosure with assistance in refinancing their mortgages. Now the

federal government is stepping in with huge amounts of money that can be used to shore up the housing market and help homeowners refinance out of subprime mortgages. Most importantly, after doing almost nothing to stabilize the housing market until we began to see the collapse of major financial institutions, the federal government is now taking the most dramatic action since the Great Depression to support the housing market. Stabilizing home values is seen as the most critical action that can now be taken to keep the entire national economy from following the Japanese example of the 1990s, when a massive speculative housing bubble led to a collapse in housing values, which in turn triggered a full decade of slow economic growth and a decline in living standards.

Alternative Housing Futures for Greater Boston

Between December 2007 and July of this year, Greater Boston's civilian unemployment rate has increased from 3.7 to 4.8 percent. More than 30,000 additional jobless workers have joined 91,000 who were already unemployed. As long as the economy remains this weak, there will be little upward pressure on home prices or rents in most parts of the region.

But we can expect that sometime in 2009, if the extraordinary federal measures now being implemented work, we will begin to see a recovery in the national economy that will benefit the region as well. Even if the recovery is so weak that employment grows at little more than 0.1 percent per year, we will need to boost housing production by about 15 percent above the average production level that Greater Boston experienced between 1998 and 2007 if home prices are to rise no faster than general inflation. If the recovery is much stronger, however, and employment grows on the order of 0.775 percent per year, our estimates of housing demand suggest that we will have to provide substantial additional supply, ultimately increasing annual production by about 50 percent over recent levels. While this seems like a large increase in needed units, it is significantly smaller than the increase called for in 2000, when the original *New Paradigm* report was released.

Being Vigilant and Being Prepared

With markets in such great flux, it is difficult to anticipate exactly what will be needed to assure that households in Greater Boston will be able to afford their mortgages, pay their rent, or purchase their first home. In such times and under such circumstances, the best we can do is offer short-term assistance to those in need and set in place the pre-conditions necessary to assure that we will have an adequate and appropriately priced housing stock in the future.

In the short-run this means providing assistance to homeowners who are at risk of losing their homes because of a combination of falling property values and rising mortgage rates. It also means finding additional ways to focus federal, state, and local resources on purchasing recently foreclosed and abandoned properties so that they can be salvaged and resold in order to keep them occupied.

For those who cannot afford a mortgage in a market that will inevitably require a better credit score to qualify, we need to assure an increased supply of rental units at monthly costs that do not overly strain household budgets. That will require more production as well as an increase in rental subsidies for those whose incomes are too low to afford market rates.

Finally, we need to continue to increase the number of communities adopting Chapter 40R and maintain Chapter 40B so that sufficient appropriately zoned land will be readily available for development when the economy begins to grow again.

If we can somehow remain vigilant and prepared, we will weather the current housing paradox under which housing prices are too high and falling too fast. From there, we will be better able to provide the housing we still need in order both to meet our moral obligation to provide affordable, decent shelter for all and to respond to the economic necessity of having sufficient affordable housing to remain competitive in our struggle to retain and attract the young families necessary to maintain the region's economic prosperity.

Endnotes

[1] U.S. Census building permit data consistently understate the number of units permitted each year in the city of Boston. According to data from the City of Boston Department of Neighborhood Development, there were 2,022 permits issued in Boston in 2007.

[2] The data on median selling price for existing one-family homes in Greater Boston are based on data compiled for the Case-Shiller Index. The 48.3 percent increase in selling price occurred between March 1995 and March 2000. Data on effective apartment rents are from Reis.com.

[3] Barry Bluestone, Charles C. Euchner, Gretchen Weismann, *A New Paradigm for Housing in Greater Boston* (Boston, MA.: Center for Urban and Regional Policy, Northeastern University, February 2001.)

[4] See Robert Kuttner, *Obama's Challenge* (White River Junction, VT: Chelsea Green Publishing, August 2008).

[5] The maximum home price that is affordable to a median income household in a given community is one on which the annual principal and interest payments on a 30-year mortgage for 80 percent of the purchase price, plus real estate taxes and homeowners insurance, does not exceed one third (33 percent) of the household's gross annual income. The interest rates used in this calculation were those prevailing in Greater Boston for a 30-year fixed mortgage. Taxes and insurance were estimated at 1.5 percent of the purchase price. See Bonnie Heudorfer and Barry Bluestone, *The Greater Boston Housing Report Card 2005–2006* (Boston: Center for Urban and Regional Policy, The Boston Foundation, and Citizens' Housing and Planning Association, September 2006).

[6] *The Greater Boston Housing Report Card 2006–2007*, Table 2.3, p. 23.

[7] These relative housing cost figures are taken from the Case-Shiller index and refer to the ratio of Greater Boston's median price of a single family home divided by Greater Boston per capita income in each year to the same calculated figure in other metro regions.

[8] Using a series of statistical techniques, this research demonstrated that metro areas in the top decile of housing cost experienced employment growth of just 0.95 percent between 2000 and 2004. Those in the second decile had three times as much employment growth (2.91 percent) while those in the third decile had more than twice as much growth (2.29 percent). The relationship between housing costs and domestic out-migration was shown to be even more powerful and existed even after controlling for employment growth. Those metro areas in the top decile of housing costs experienced an average *out*-migration of population of 2.25 percent between 2000 and 2004. By contrast, those in the 7th, 8th, and 9th deciles all experienced strong *in*-migration of 2.72 percent, 3.05 percent, and 2.45 percent respectively. See Bonnie Heudorfer and Barry Bluestone, *The Greater Boston Housing Report Card 2005–2006: An Assessment of Progress on Housing in the Greater Boston Area* (Boston: The Center for Urban and Regional Policy, The Boston Foundation, and the Citizens' Housing and Planning Association, September 2006), pp. 21–23.

[9] *The Greater Boston Housing Report Card 2006–2007*, Figure 2.6, p. 24.

[10] According to revised U.S. Census *Annual Population Estimates*, the five county Greater Boston metro region (Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties) had a population of 4,048,334 in 2002. In 2005, the population was 4,035,675, representing a net loss of over 12,600 residents.

[11] *The Greater Boston Housing Report Card 2006–2007*, Figure 2.7, p. 24.

[12] These data are for the Boston-Cambridge-Quincy, MA-NH Metropolitan NECTA area as compiled in the *Current Employment Statistics* (CES-790) data set from the Massachusetts Executive Office of Labor and Workforce Development (August 2008). (http://lmi2.detma.org/lmi/lmi_ces_a.asp#aTimeFrame)

[13] See The *Greater Boston Housing Report Card 2006–2007: An Assessment of Progress on Housing in the Greater Boston Area*, Table 4.1, p. 36; Figure 4.2, p. 37, and Figure 4.7, p. 44.

[14] These population estimates refer to the five county region that we now use to define the Greater Boston metropolitan area (Essex, Middlesex, Suffolk, Norfolk, and Plymouth). Data for the number of households, real median income, and total housing units are summarized in Table 2.3 of Bonnie Heudorfer, Barry Bluestone, Chase Billingham, and Lauren Nicoll, The *Greater Boston Housing Report Card 2006–2007: An Assessment of Progress on Housing in the Greater Boston Area* (Boston, MA: Center for Urban and Regional Policy, The Boston Foundation, Citizens' Housing and Planning Association, October 2007)

[15] *The Greater Boston Housing Report Card 2005–2006*, Figure 6.2, p. 57.

[16] *A New Paradigm for Housing in Greater Boston*, Table 2, p. 8.

[17] *The Greater Boston Housing Report Card 2006–2007*, Table 3.1, p. 25.

[18] ibid., Figure 4.4, p. 43.

[19] ibid., Figure 4.2, p. 37.

[20] ibid., Table 3.1, p. 25.

[21] ibid., Figure 2.6, p. 24. This figure was created from data on the components of population change available from the U.S. Census Bureau, State Population Estimates, various years.

[22] See, for example, Andrew Sum, Ishwar Khatiwada, Joseph McLaughlin, Jacqui Motroni, Sheila Palma, and Paulo Tobar, *Mass Jobs: Meeting the Challenges of a Shifting Economy* (Boston, MA.: MassInc, Northeastern University Center for Labor Market Studies, November 2007); Barry Bluestone, Don Walsh, Lauren Nicoll, and Chase Billingham, *Staying Power: The Future of Manufacturing in Massachusetts* (Boston, MA.: Center for Urban and Regional Policy, July 2008); Larry Hugick, Dawn Crossland Sumners, Stacy DiAngelo, and Dana Ansel, *Great Expectations: A Survey of Young Adults in Massachusetts* (Boston, MA: MassInc and Princeton Survey Research Associates International, July 2008).

[23] *The Greater Boston Housing Report Card 2006–2007*, Table 3.1, p. 25.

[24] Perhaps the most extreme example of this speculative overbuilding has occurred in Merced, California, a working class agricultural city, 115 miles east of San Jose with a population of 80,000. According to the *New York Times*, developers working on "spec" have built nearly 4,400 new homes in new Merced neighborhoods, some costing half a million dollars. Between January 2000 and early 2005, the median sales price in this community nearly quadrupled. Then the bottom fell out with the median sales price falling by 50 percent. Eight-five percent of homeowners who bought homes in Merced over the past five years now have negative equity. The number of foreclosures has quadrupled to a record 523 over the past year. See David Streitfeld, "Ruins of an American Dream," *The New York Times*, August, 24, 2008, Business Section, p. 2.

[25] There are actually a number of definitions used to define a subprime borrower. In the United States, a subprime borrower typically refers to an individual with a FICO score (based on Fair Isaac Corporation methods) below 620 and who has become delinquent on some form of debt repayment in the previous 12 to 24 months or has filed for bankruptcy in the last few years. The U.S. Department of Housing and Urban Development (HUD) defines a "high cost" loan to be a mortgage with an initial interest rate that is at least 3 percentage points higher than the yield on a U.S. treasury bill with a comparable maturity period. These definitions are provided in 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.

[26] See Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2008* (Cambridge, MA.: Harvard University, 2008), Table A-6, p. 39.

[27] ibid., p. 18.

[28] ibid., Table A-3, p. 36.

[29] See Kristopher Gerardi, Adam Hale Shapiro, and Paul S. Willen, op. cit. The 82 percent success rate for subprime borrowers compares with a success rate of 97 percent for borrowers who financed their home purchase with a prime rate mortgage.

[30] ibid., p. 3.

[31] These data were compiled from Kai-yan Lee, "Foreclosures in Massachusetts and New England," Public and Community Affairs Department, Federal Reserve Bank of Boston, June 5, 2008. The original data were collected by the Mortgage Bankers Association and Haver Analytics.

[32] ibid., p. 4.

[33] ibid., p. 5.

[34] See Ricardo Borgos, Prabal Chakrabarti, and Julia Reade, "Understanding Foreclosures in Massachusetts," Discussion Paper, Community Affairs Department, Federal Reserve Bank of Boston, #07–1, March 2007, pp. 2–3.

[35] Kristopher Gerardi, Adam Hale Shapiro, and Paul S. Willen.

[36] Kristopher Gerardi, Adam Hale Shapiro, and Paul S. Willen, op. cit., p. 1.

[37] These foreclosure rates per 100 home sales are based on ibid, Table 1, p. 48.

[38] U.S. Census Bureau, *Housing Vacancies and Homeownership (CPS/HVS),* "Annual Statistics 2007."

[39] The data on median selling price for existing one-family homes in Greater Boston are based on data compiled for the Case-Shiller Index.

[40] Using a different methodology from Case-Shiller, the Warren Group reports that the median selling price of single-family homes in Massachusetts fell 12.3 percent over the past year (July 2007-July 2008), marking "the sharpest decline in monthly home prices since the Warren Group began tracking the housing market in 1987." According to this source, the median price of single-family homes sold in Greater Boston in July 2008 had dropped to $324,000. In the five counties of the Greater Boston region, July over July prices were down as much as 21 percent in Suffolk County and between 13 and 14 percent in Norfolk and Essex. Middlesex and Plymouth fared somewhat better (down 7.4 percent and 11 percent, respectively). Overall, single family home prices in Greater Boston were down 12.6 percent over the past year and, and down 18 percent from their peak through July. See The Warren Group, "Bay State Home Prices Post Steep Decline in July," Boston, MA, August 26, 2008.

[41] Data on the number of new housing units produced annually in individual metro areas are available from the U.S. Census, "New Privately Owned Housing Units Authorized–Unadjusted Units by Metropolitan Area." Data on the change in the number of households are available from U.S. Census, SOCDS data set.

[42] These data were provided by Alan Clayton-Matthews, the chief forecaster for the New England Economic Partnership (NEEP), August 28, 2008.

[43] The Warren Group, "Bay State Home Prices Post Steep Decline in July," Press Release, August 26, 2008. Emphasis added.

[44] For the methodology the U.S. Census uses to make its population projections see Frederick W. Hollmann, Tammany J. Mulder, and Jeffrey E. Kallan, "Methodology and Assumptions for the Population Projections of the United States: 1999–

2100," Population Division Working Paper No. 38, Population Projections Branch, Population Division, Bureau of the Census, U.S. Department of Commerce, Washington, D.C. 20233, January 2000.

[45] These projections are based on Barry Bluestone, Bonnie Heudorfer, and Marc Horne, "Projections for Needed Workforce Housing in New England (2006–2017)," (Boston, MA: Center for Urban and Regional Policy, Northeastern University, March 2008).

[46] U.S. Census Bureau, "Housing Vacancies and Homeownership (CPS/HVS) Annual Statistics, 2007."

[47] This calculation is based on an estimate of 560,369 renter occupied units and 965,434 owner-occupied units of housing in 2006 in the 5-county Greater Boston region. These data are from the U.S. Census, *American Community Survey*, 2007.

[48] Barry Bluestone, Don Walsh, Lauren Nicoll, and Chase Billingham, with Alan Clayton-Matthews, Marc Horne, David Streim, and David Soule. *Staying Power: The Future of Manufacturing in Massachusetts*. Boston, MA: The Boston Foundation, 2008.

[49] The Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area, used by the Census Bureau, includes large portions of Worcester and Plymouth Counties in Massachusetts and Rockingham and Strafford Counties in New Hampshire. Using this unit of analysis would produce results that were totally incommensurate with those presented in previous reports. By contrast, the five-county region comprises 147 municipalities, including 142 of the 161 communities (88 percent) tracked in the *Greater Boston Housing Report Card* since 2002. The five-county region omits Berkley, Berlin, Blackstone, Bolton, Dighton, Easton, Harvard, Hopedale, Lancaster, Mansfield, Mendon, Milford, Millville, Norton, Raynham, Southborough, and Taunton, and includes five communities not in the original 161: Abington, Ashby, Marion, Mattapoisett, and Rochester.

[50] Dollar figures in Table 2.2 represent averages (weighted according to unit of analysis) of the medians of each of the five counties.

[51] U.S. Census building permit data consistently understate the number of units permitted each year in the city of Boston. According to data from the City of Boston Department of Neighborhood Development, there were 2,022 permits issued in Boston in 2007.

[52] If the housing market continues to soften, as most experts predict, then these estimates are likely to overstate the number of permits issued in each region. As a result, the percentage decline from 2008 may actually be more severe than these conservative figures predict.

[53] Sam Roberts, "By 2025, Planners See a Million New Stories in the Crowded City," *The New York Times*, February 19, 2006. Retrieved August 21, 2008 (http://www.nytimes.com/2006/02/19/nyregion/19population.html).

[54] Steve Friess, "Up with the New: A Second Center City for Las Vegas," *The New York Times*, April 23, 2008. Retrieved September 15, 2008 (http://www.nytimes.com/2008/04/23/us/23vegas.html?pagewanted=1&_r=1&ref=us).

[55] Figure 4.3 uses the metropolitan statistical area as its geographical unit of analysis. Because the U.S. Census Bureau altered its definition of the Boston Metropolitan Area between 2000 and 2005, data are not perfectly comparable. 2000 data refer to the Boston, MA-NH Primary Metropolitan Statistical Area, while data for 2005 and 2006 refer to the Boston-Cambridge-Quincy, MA-NH Metropolitan Area.

[56] Figures for median prices are averages (weighted by the number of sales) of the median selling price in Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties.

[57] Figures for 2008 represent sales data through June.

[58] Between 10 and 20 communities in the region have no condo sales in any given year. These tend to include smaller and more rural communities like Boxford, Ashby, Dunstable, and Mattapoisett. For that reason, the total number of communities counted for median condo prices is not the same from year to year.

[59] "Entitlement communities" include principal cities of a metropolitan area, cities of 50,000 or more, and certain urban counties with populations greater than 200,000. See the HUD website at www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/#eligiblegrantees.

[60] Because of the immediacy of material presented in Chapter 5, some dates will be flagged as referring to fiscal year (FY), rather than calendar year, reflecting budget allocations.

[61] Spending/funding analysis depends on previous analysis by CURP for the *Housing Report Card*, as well data collected from the most recent Commonwealth of Massachusetts General Appropriations Act (data available at www.mass.gov/bb/gaa/fy2008/app08/dpt08/hocd.htm), and from the Department of Housing & Community Development budget office.

[62] Citizens' Housing and Planning Association, *Affordable Housing Guidebook for Massachusetts*, July, 2008. Available online at www.chapa.org/pdf/HousingGuidebookJuly2008.pdf.

[63] Ibid. pp. 23–24.

[64] Ibid. p. 25.

[65] See www.communitypreservation.org for more information on the Community Preservation Act, including the list of CPA votes and participating towns at www.communitypreservation.org/CPAVotes.cfm.

[66] Data made available by the Community Preservation Coalition. Starting with this fiscal year, communities are required to submit more timely and accurate reports on CPA spending that should allow for better tracking of housing uses in the future.

[67] Department of Housing and Urban Development, "Bush Administration To Help Nearly One-Quarter Of A Million Homeowners Refinance, Keep Their Homes", August 31, 2007. Available online at www.Hud.Gov/News/Release.Cfm?Content=Pr07–123.Cfm.

[68] Department of Housing and Urban Development, "Bush Administration To Expand Mortgage Help For Struggling Families", April 9, 2008. Available online at www.Hud.Gov/News/Release.Cfm?Content=Pr08–050.Cfm.

[69] HOPE NOW, "HOPE NOW Alliance Created to Help Distressed Homeowners", October 10, 2007. Available on-line at www.fsround.org/hope_now/pdfs/AllianceRelease.pdf.

[70] CURP analysis of state level data available from HOPE NOW at www.hopenow.com/site_tools/data.php.

[71] For more information, see the Neighborworks website at http://www.nw.org/network/nfmcp/default.asp.

[72] Citizens' Housing and Planning Association, *Summary of Housing and Economic Recovery Act of 2008*, July 28, 2008, pp. 21. Available at www.chapa.org.

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[77] CHAPA, *Summary of Housing and Economic Recovery Act of 2008*, July 28, 2008. p. 22. Available at www.chapa.org.

[78] Ibid, pp 13–14.

[79] Ibid, pp 15–17.

[80] Ibid, pp. 5–7.

[81] Ibid. p. 2.

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[84] The Pew Charitable Trusts, *Defaulting on the Dream: States Respond to America's Foreclosure Crisis*, 2008, pp. 39–40. Available on-line at www.pewtrusts.org/our_work_report_detail.aspx?id=37964.

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Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2007	Number of Single Family Home Sales Through June 2007	Number of Single Family Home Sales Through June 2008	Percent Change in Number of Single Family Sales, June 2007–June 2008	Median Single Family Home Selling Price Through June 2007	Median Single Family Home Selling Price Through June 2008	Percent Change in Median Single Family Sales Price, June 2007–June 2008
Abington	5,332	151	56	38	-32%	$330,450	$290,000	-12%
Acton	7,645	70	80	74	-8%	$509,000	$482,150	-5%
Amesbury	6,570	23	71	43	-39%	$346,000	$277,500	-20%
Andover	11,513	29	163	132	-19%	$575,000	$535,150	-7%
Arlington	19,358	48	153	119	-22%	$465,000	$495,000	6%
Ashland	5,781	45	62	53	-15%	$392,500	$407,500	4%
Avon	1,737	5	18	13	-28%	$304,000	$289,900	-5%
Ayer	3,141	38	27	19	-30%	$279,000	$240,000	-14%
Bedford	4,692	223	67	33	-51%	$492,450	$485,000	-2%
Bellingham	5,632	15	69	58	-16%	$313,000	$265,500	-15%
Belmont	9,936	3	85	73	-14%	$710,000	$717,000	1%
Berkley	1,870	15						
Berlin	891	67						
Beverly	16,150	13	133	120	-10%	$370,000	$355,000	-4%
Billerica	13,055	58	179	132	-26%	$345,000	$315,000	-9%
Blackstone	3,321	13						
Bolton	1,472	20						
Boston	250,367	1,041[b]	598[c]	429	-28%	$372,500[c]	$350,000	-6%
Boxboro	1,900	2	16	7	-56%	$612,500	$545,000	-11%
Boxford	2,602	3	45	33	-27%	$580,000	$590,000	2%
Braintree	12,924	359	124	104	-16%	$371,000	$337,500	-9%
Bridgewater	7,639	46	74	55	-26%	$376,250	$303,000	-19%
Brockton	34,794	57	279	273	-2%	$255,000	$204,000	-20%
Brookline	26,224	53	96	77	-20%	$965,000	$1,065,000	10%
Burlington	8,395	34	97	66	-32%	$402,500	$367,500	-9%
Cambridge	44,138	611	62	41	-34%	$832,500	$885,000	6%
Canton	8,129	134	70	56	-20%	$410,000	$463,700	13%
Carlisle	1,647	7	32	25	-22%	$755,000	$850,000	13%
Carver	4,063	23	46	47	2%	$315,000	$310,000	-2%
Chelmsford	12,981	23	132	120	-9%	$345,350	$319,500	-7%
Chelsea	12,317	6	7	13	86%	$310,000	$220,000	-29%
Cohasset	2,752	5	61	40	-34%	$789,000	$729,000	-8%
Concord	6,095	27	90	76	-16%	$775,500	$705,000	-9%
Danvers	9,712	61	89	70	-21%	$393,200	$358,450	-9%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units			
	Petitions to Foreclose, 2007	Foreclosure Auctions, 2007	Foreclosure Deeds, 2007	Foreclosure Deeds (2007) as a Percentage of Total Units (2000)	Total Units in Subsidized Housing Inventory (SHI)[a]	Percent of Total Units in SHI	Adoption of Community Preservation Act	Expiring Use Units at Risk—2010
Abington	67	69	73	1.37%	458	8.6%		0
Acton	24	27	30	0.39%	501	6.6%		0
Amesbury	68	81	92	1.40%	729	11.1%		0
Andover	46	55	59	0.51%	1,027	8.9%		0
Arlington	29	35	37	0.19%	1,071	5.5%		0
Ashland	52	58	60	1.04%	248	4.3%	Y	96
Avon	17	17	17	0.98%	74	4.3%		0
Ayer	25	29	32	1.02%	271	8.6%	Y	0
Bedford	16	17	17	0.36%	857	18.3%	Y	0
Bellingham	101	108	115	2.04%	532	9.4%		0
Belmont	21	23	23	0.23%	321	3.2%		0
Berkley					15	0.8%		0
Berlin					68	7.6%		40
Beverly	80	84	92	0.57%	1,859	11.5%		332
Billerica	171	183	192	1.47%	649	5.0%		0
Blackstone					123	3.7%		48
Bolton					49	3.3%		0
Boston	1,375	843	362	0.14%	49,759	19.9%		5,460
Boxboro	20	29	32	1.68%	268	14.1%		0
Boxford	24	24	24	0.92%	19	0.7%	Y	0
Braintree	89	99	104	0.80%	1,140	8.8%	Y	194
Bridgewater	72	72	73	0.96%	241	3.2%	Y	0
Brockton	792	815	832	2.39%	4,464	12.8%		817
Brookline	32	41	43	0.16%	2,050	7.8%		131
Burlington	43	43	43	0.51%	977	11.6%		0
Cambridge	53	78	86	0.19%	6,976	15.8%	Y	268
Canton	70	80	84	1.03%	934	11.5%		0
Carlisle	6	6	6	0.36%	20	1.2%	Y	18
Carver	92	93	93	2.29%	118	2.9%	Y	0
Chelmsford	97	103	110	0.85%	885	6.8%	Y	0
Chelsea	92	117	133	1.08%	2,116	17.2%		115
Cohasset	9	9	10	0.36%	89	3.2%	Y	0
Concord	14	15	16	0.26%	330	5.4%	Y	0
Danvers	86	93	98	1.01%	1,007	10.4%		0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2007	Number of Single Family Home Sales Through June 2007	Number of Single Family Home Sales Through June 2008	Percent Change in Number of Single Family Sales, June 2007–June 2008	Median Single Family Home Selling Price Through June 2007	Median Single Family Home Selling Price Through June 2008	Percent Change in Median Single Family Sales Price, June 2007–June 2008
Dedham	8,893	136	132	104	-21%	$361,250	$375,000	4%
Dighton	2,261	28						
Dover	1,874	11	32	24	-25%	$947,500	$968,750	2%
Dracut	10,597	68	76	88	16%	$293,650	$264,000	-10%
Dunstable	933	18	12	11	-8%	$461,500	$413,000	-11%
Duxbury	5,103	41	83	63	-24%	$600,000	$610,000	2%
East Bridgewater	4,423	58	37	29	-22%	$330,000	$300,000	-9%
Easton	7,596	40						
Essex	1,357	9	11	11	0%	$450,000	$425,000	-6%
Everett	15,886	135	41	46	12%	$314,000	$261,750	-17%
Foxborough	6,260	23	59	50	-15%	$399,000	$375,000	-6%
Framingham	26,588	28	261	214	-18%	$369,000	$345,000	-7%
Franklin	10,296	101	150	116	-23%	$437,282	$363,500	-17%
Georgetown	2,601	36	49	27	-45%	$453,000	$350,000	-23%
Gloucester	12,997	57	83	81	-2%	$390,000	$380,000	-3%
Groton	3,339	16	47	36	-23%	$464,900	$403,750	-13%
Groveland	2,090	75	28	20	-29%	$434,750	$404,789	-7%
Halifax	2,804	12	19	25	32%	$315,000	$282,000	-10%
Hamilton	2,717	1	39	34	-13%	$413,000	$550,000	33%
Hanover	4,440	30	62	51	-18%	$473,750	$385,000	-19%
Hanson	3,167	35	43	42	-2%	$340,000	$280,000	-18%
Harvard	2,156	15						
Haverhill	23,675	117	163	149	-9%	$303,000	$270,000	-11%
Hingham	7,307	88	147	80	-46%	$610,000	$609,580	0%
Holbrook	4,145	9	46	35	-24%	$305,000	$236,900	-22%
Holliston	4,861	19	98	56	-43%	$398,200	$345,000	-13%
Hopedale	2,284	5						
Hopkinton	4,521	37	102	69	-32%	$601,000	$555,000	-8%
Hudson	7,144	41	64	44	-31%	$350,000	$294,000	-16%
Hull	4,679	13	58	48	-17%	$378,500	$345,000	-9%
Ipswich	5,414	17	49	34	-31%	$519,000	$379,500	-27%
Kingston	4,370	16	56	49	-13%	$369,750	$350,000	-5%
Lakeville	3,385	44	49	29	-41%	$340,000	$309,000	-9%
Lancaster	2,103	15						

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units			
	Petitions to Foreclose, 2007	Foreclosure Auctions, 2007	Foreclosure Deeds, 2007	Foreclosure Deeds (2007) as a Percentage of Total Units (2000)	Total Units in Subsidized Housing Inventory (SHI)[a]	Percent of Total Units in SHI	Adoption of Community Preservation Act	Expiring Use Units at Risk–2010
Dedham	77	78	79	0.89%	1,092	12.3%		0
Dighton					110	4.9%		0
Dover	6	6	6	0.32%	17	0.9%		0
Dracut	147	165	178	1.68%	614	5.8%	Y	0
Dunstable	5	5	5	0.54%	0	0.0%	Y	0
Duxbury	21	21	21	0.41%	172	3.4%	Y	0
East Bridgewater	65	71	75	1.70%	154	3.5%		0
Easton					248	3.3%	Y	0
Essex	7	7	7	0.52%	40	2.9%	2007	0
Everett	134	168	185	1.16%	1,302	8.2%		0
Foxborough	54	54	54	0.86%	270	4.3%		64
Framingham	270	323	352	1.32%	2,724	10.2%		875
Franklin	84	97	102	0.99%	1,058	10.3%		58
Georgetown	26	26	26	1.00%	361	13.9%	Y	0
Gloucester	66	68	70	0.54%	1,032	7.9%		80
Groton	20	20	20	0.60%	192	5.8%	Y	0
Groveland	31	33	35	1.67%	74	3.5%	Y	0
Halifax	45	48	49	1.75%	28	1.0%		0
Hamilton	8	8	9	0.33%	90	3.3%	Y	0
Hanover	35	35	35	0.79%	375	8.4%	Y	0
Hanson	43	43	43	1.36%	143	4.5%	2008	0
Harvard					61	2.8%	Y	0
Haverhill	273	331	366	1.55%	2,153	9.1%		149
Hingham	26	27	27	0.37%	433	5.9%	Y	60
Holbrook	76	78	80	1.93%	2	0.3%		0
Holliston	47	54	56	1.15%	168	3.5%	Y	0
Hopedale					110	4.8%		0
Hopkinton	40	44	46	1.02%	143	3.2%	Y	0
Hudson	53	57	59	0.83%	726	10.2%	2007	0
Hull	53	54	54	1.15%	204	4.4%		0
Ipswich	29	32	35	0.65%	492	9.1%		0
Kingston	63	64	64	1.46%	216	4.9%	Y	20
Lakeville	44	44	44	1.30%	287	8.5%		0
Lancaster					103	4.9%		0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2007	Number of Single Family Home Sales Through June 2007	Number of Single Family Home Sales Through June 2008	Percent Change in Number of Single Family Sales, June 2007–June 2008	Median Single Family Home Selling Price Through June 2007	Median Single Family Home Selling Price Through June 2008	Percent Change in Median Single Family Sales Price, June 2007–June 2008
Lawrence	25,540	39	96	78	-19%	$222,250	$175,548	-21%
Lexington	11,274	91	180	159	-12%	$666,000	$720,000	8%
Lincoln	2,076	50	27	20	-26%	$1,150,000	$1,140,000	-1%
Littleton	3,018	21	43	27	-37%	$375,000	$340,000	-9%
Lowell	39,381	114	203	183	-10%	$265,000	$196,000	-26%
Lynn	34,569	26	195	171	-12%	$265,000	$217,000	-18%
Lynnfield	4,249	31	72	47	-35%	$521,500	$490,000	-6%
Malden	23,561	84	106	77	-27%	$335,000	$300,000	-10%
Manchester	2,219	11	24	31	29%	$825,250	$710,000	-14%
Mansfield	8,083	211						
Marblehead	8,746	10	113	81	-28%	$540,000	$518,000	-4%
Marlborough	14,846	26	122	111	-9%	$343,750	$319,000	-7%
Marshfield	9,117	37	136	94	-31%	$397,500	$386,000	-3%
Maynard	4,398	31	42	41	-2%	$330,750	$331,880	0%
Medfield	4,038	15	76	49	-36%	$620,000	$525,000	-15%
Medford	22,631	13	129	112	-13%	$385,000	$360,000	-6%
Medway	4,243	11	70	55	-21%	$386,250	$339,000	-12%
Melrose	11,200	39	122	85	-30%	$420,000	$410,000	-2%
Mendon	1,870	10						
Merrimac	2,281	37	13	10	-23%	$400,000	$283,400	-29%
Methuen	16,848	80	186	162	-13%	$299,900	$278,700	-7%
Middleborough	7,195	83	79	71	-10%	$309,000	$281,900	-9%
Middleton	2,337	35	33	22	-33%	$450,000	$430,000	-4%
Milford	10,682	72						
Millis	3,060	14	27	34	26%	$415,000	$322,500	-22%
Millville	956	10						
Milton	9,142	5	146	118	-19%	$447,500	$445,000	-1%
Nahant	1,676	1	16	10	-38%	$468,750	$365,000	-22%
Natick	13,337	47	155	109	-30%	$419,000	$390,000	-7%
Needham	10,793	88	230	142	-38%	$617,825	$632,000	2%
Newbury	2,614	18	38	34	-11%	$462,500	$400,500	-13%
Newburyport	7,717	37	101	79	-22%	$427,000	$460,000	8%
Newton	31,857	115	317	276	-13%	$752,500	$741,950	-1%
Norfolk	2,851	33	59	55	-7%	$405,000	$475,000	17%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units			
	Petitions to Foreclose, 2007	Foreclosure Auctions, 2007	Foreclosure Deeds, 2007	Foreclosure Deeds (2007) as a Percentage of Total Units (2000)	Total Units in Subsidized Housing Inventory (SHI)[a]	Percent of Total Units in SHI	Adoption of Community Preservation Act	Expiring Use Units at Risk–2010
Lawrence	240	264	276	1.08%	3,713	14.5%		463
Lexington	23	24	24	0.21%	1,279	11.3%	Y	0
Lincoln	3	3	3	0.14%	218	10.5%	Y	0
Littleton	21	21	21	0.70%	271	9.0%	2007	0
Lowell	405	472	504	1.28%	5,231	13.3%		319
Lynn	413	437	460	1.33%	4,510	13.0%		333
Lynnfield	24	25	25	0.59%	118	2.8%		0
Malden	168	182	196	0.83%	2,694	11.4%		202
Manchester	13	13	13	0.59%	105	4.7%	Y	0
Mansfield					947	11.7%		0
Marblehead	50	53	54	0.62%	332	3.8%		0
Marlborough	190	227	244	1.64%	1,564	10.5%		0
Marshfield	119	126	129	1.41%	431	4.7%	Y	0
Maynard	24	25	27	0.61%	355	8.1%	Y	0
Medfield	11	12	13	0.32%	193	4.8%		0
Medford	105	110	114	0.50%	1,623	7.2%		93
Medway	30	30	30	0.71%	227	5.3%	Y	0
Melrose	46	48	51	0.46%	878	7.8%		0
Mendon					49	2.6%		0
Merrimac	24	25	25	1.10%	148	6.5%		24
Methuen	179	190	191	1.13%	1,564	9.3%		0
Middleborough	93	94	94	1.31%	358	5.0%		16
Middleton	14	15	16	0.68%	99	4.2%	Y	48
Milford					744	7.0%		61
Millis	38	39	40	1.31%	108	3.5%	Y	0
Millville					20	2.1%		0
Milton	74	75	75	0.82%	427	4.7%		139
Nahant	9	10	10	0.60%	48	2.9%	Y	0
Natick	58	59	59	0.44%	992	7.4%		0
Needham	25	29	30	0.28%	498	4.6%	Y	61
Newbury	12	12	12	0.46%	94	3.6%		0
Newburyport	28	31	34	0.44%	658	8.5%	Y	0
Newton	61	65	67	0.21%	2,434	7.6%	Y	41
Norfolk	26	26	26	0.91%	111	3.9%	Y	0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2007	Number of Single Family Home Sales Through June 2007	Number of Single Family Home Sales Through June 2008	Percent Change in Number of Single Family Sales, June 2007–June 2008	Median Single Family Home Selling Price Through June 2007	Median Single Family Home Selling Price Through June 2008	Percent Change in Median Single Family Sales Price, June 2007–June 2008
North Andover	9,896	19	122	85	-30%	$477,500	$500,500	5%
North Reading	4,839	1,249	65	45	-31%	$369,000	$392,000	6%
Norton	5,942	57						
Norwell	3,299	17	58	60	3%	$623,000	$643,900	3%
Norwood	11,911	65	84	69	-18%	$373,750	$359,000	-4%
Peabody	18,838	31	143	134	-6%	$350,000	$335,000	-4%
Pembroke	5,834	69	76	53	-30%	$344,000	$329,000	-4%
Pepperell	3,905	15	35	25	-29%	$366,000	$310,000	-15%
Plainville	3,088	41	39	18	-54%	$344,500	$337,500	-2%
Plymouth	19,008	191	304	254	-16%	$325,000	$313,750	-3%
Plympton	865	8	18	9	-50%	$330,000	$280,000	-15%
Quincy	39,912	419	228	195	-14%	$347,500	$330,000	-5%
Randolph	11,497	9	121	107	-12%	$315,000	$262,900	-17%
Raynham	4,197	29						
Reading	8,811	22	99	80	-19%	$405,000	$394,500	-3%
Revere	20,102	26	84	67	-20%	$303,500	$250,000	-18%
Rockland	6,632	57	58	41	-29%	$288,750	$279,900	-3%
Rockport	3,652	12	25	28	12%	$415,000	$414,150	0%
Rowley	1,985	5	22	22	0%	$475,000	$417,500	-12%
Salem	18,103	16	90	56	-38%	$311,000	$303,500	-2%
Salisbury	3,456	49	12	19	58%	$251,000	$305,000	22%
Saugus	10,111	177	120	107	-11%	$341,000	$305,000	-11%
Scituate	6,869	55	89	97	9%	$500,000	$420,000	-16%
Sharon	6,006	139	91	94	3%	$452,500	$343,000	-24%
Sherborn	1,449	4	20	12	-40%	$640,500	$857,750	34%
Shirley	2,140	22	24	12	-50%	$344,000	$369,725	7%
Somerville	32,389	4	46	30	-35%	$441,475	$390,500	-12%
Southborough	2,988	29						
Stoneham	9,231	11	82	69	-16%	$420,000	$378,000	-10%
Stoughton	10,429	32	91	102	12%	$338,000	$301,000	-11%
Stow	2,108	55	33	20	-39%	$415,700	$410,000	-1%
Sudbury	5,582	79	101	78	-23%	$695,000	$549,350	-21%
Swampscott	5,804	10	81	46	-43%	$470,000	$437,050	-7%
Taunton	22,874	100						

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units			
	Petitions to Foreclose, 2007	Foreclosure Auctions, 2007	Foreclosure Deeds, 2007	Foreclosure Deeds (2007) as a Percentage of Total Units (2000)	Total Units in Subsidized Housing Inventory (SHI)[a]	Percent of Total Units in SHI	Adoption of Community Preservation Act	Expiring Use Units at Risk–2010
North Andover	54	66	73	0.74%	581	5.9%	Y	0
North Reading	41	43	43	0.89%	134	2.8%		0
Norton					590	9.9%		24
Norwell	12	12	12	0.36%	144	4.4%	Y	0
Norwood	53	56	57	0.48%	711	6.0%		0
Peabody	162	171	180	0.96%	1,957	10.4%	Y	411
Pembroke	74	75	75	1.29%	632	10.8%	Y	0
Pepperell	22	23	24	0.61%	122	3.1%		40
Plainville	23	24	26	0.84%	185	6.0%		0
Plymouth	334	347	357	1.88%	844	4.4%	Y	158
Plympton	12	12	12	1.39%	43	5.0%	2008	0
Quincy	187	207	227	0.57%	4,063	10.2%	Y	349
Randolph	251	251	262	2.28%	1,146	10.0%	Y	0
Raynham					480	11.4%		0
Reading	36	37	41	0.47%	738	8.4%		113
Revere	257	298	321	1.60%	2,108	10.5%		0
Rockland	101	104	104	1.57%	426	6.4%		204
Rockport	11	11	11	0.30%	135	3.7%	Y	0
Rowley	18	21	23	1.16%	88	4.4%	Y	0
Salem	124	146	171	0.94%	2,389	13.2%		250
Salisbury	37	39	43	1.24%	288	8.3%		0
Saugus	121	125	126	1.25%	737	7.3%		0
Scituate	57	59	60	0.87%	311	4.5%	Y	0
Sharon	56	57	58	0.97%	380	6.3%	Y	0
Sherborn	5	5	5	0.35%	34	2.3%		0
Shirley	13	14	14	0.65%	61	2.9%		0
Somerville	47	58	65	0.20%	3,075	9.5%		30
Southborough					105	3.5%	Y	0
Stoneham	57	61	62	0.67%	510	5.5%		0
Stoughton	135	145	150	1.44%	1,319	12.6%	2008	207
Stow	11	11	11	0.52%	132	6.3%	Y	0
Sudbury	29	31	31	0.56%	266	4.8%	Y	0
Swampscott	42	45	46	0.79%	211	3.6%		0
Taunton					1,838	8.0%		244

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2007	Number of Single Family Home Sales Through June 2007	Number of Single Family Home Sales Through June 2008	Percent Change in Number of Single Family Sales, June 2007–June 2008	Median Single Family Home Selling Price Through June 2007	Median Single Family Home Selling Price Through June 2008	Percent Change in Median Single Family Sales Price, June 2007–June 2008
Tewksbury	10,125	48	97	92	-5%	$345,900	$319,450	-8%
Topsfield	2,126	4	27	19	-30%	$517,645	$473,000	-9%
Townsend	3,162	29	52	38	-27%	$275,000	$252,250	-8%
Tyngsborough	3,784	80	38	29	-24%	$373,000	$328,750	-12%
Upton	2,083	37						
Wakefield	9,914	57	105	75	-29%	$385,000	$375,000	-3%
Walpole	8,202	24	106	69	-35%	$420,000	$400,000	-5%
Waltham	23,749	113	166	126	-24%	$409,950	$405,000	-1%
Wareham	8,650	97	118	90	-24%	$263,750	$224,250	-15%
Watertown	14,959	15	47	44	-6%	$472,500	$440,000	-7%
Wayland	4,703	17	63	58	-8%	$600,000	$509,000	-15%
Wellesley	8,789	69	202	171	-15%	$966,250	$1,084,500	12%
Wenham	1,310	18	21	17	-19%	$600,000	$480,000	-20%
West Bridgewater	2,507	11	35	22	-37%	$348,000	$288,500	-17%
West Newbury	1,414	12	27	19	-30%	$465,000	$570,000	23%
Westford	6,877	140	99	73	-26%	$460,000	$430,000	-7%
Weston	3,796	39	91	69	-24%	$1,169,265	$1,210,000	3%
Westwood	5,218	88	98	74	-24%	$522,250	$539,050	3%
Weymouth	22,471	63	197	130	-34%	$330,000	$288,750	-13%
Whitman	5,100	48	47	39	-17%	$310,000	$257,000	-17%
Wilmington	7,141	32	110	68	-38%	$367,385	$331,000	-10%
Winchester	7,860	31	133	118	-11%	$649,900	$757,500	17%
Winthrop	8,009	0	34	23	-32%	$345,000	$361,000	5%
Woburn	15,312	24	94	116	23%	$338,650	$330,000	-3%
Wrentham	3,477	17	69	38	-45%	$435,000	$430,000	-1%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units			
	Petitions to Foreclose, 2007	Foreclosure Auctions, 2007	Foreclosure Deeds, 2007	Foreclosure Deeds (2007) as a Percentage of Total Units (2000)	Total Units in Subsidized Housing Inventory (SHI)[a]	Percent of Total Units in SHI	Adoption of Community Preservation Act	Expiring Use Units at Risk—2010
Tewksbury	97	104	110	1.09%	921	9.1%	Y	0
Topsfield	13	13	13	0.61%	114	5.4%		0
Townsend	45	48	50	1.58%	86	2.7%		0
Tyngsborough	42	45	50	1.32%	292	7.7%	Y	0
Upton					178	8.5%	Y	0
Wakefield	63	64	66	0.67%	736	7.4%		104
Walpole	49	52	53	0.65%	472	5.8%		0
Waltham	70	72	74	0.31%	1,767	7.4%	Y	0
Wareham	173	174	174	2.01%	559	6.5%	Y	0
Watertown	32	36	39	0.26%	979	6.5%		0
Wayland	22	23	24	0.51%	150	3.2%	Y	0
Wellesley	30	30	30	0.34%	480	5.5%	Y	125
Wenham	9	9	9	0.69%	116	8.9%	Y	0
West Bridgewater	21	21	21	0.84%	63	2.5%	2008	0
West Newbury	13	13	13	0.92%	26	1.8%	Y	0
Westford	32	33	34	0.49%	306	4.4%	Y	0
Weston	14	15	16	0.42%	132	3.5%	Y	0
Westwood	9	9	9	0.17%	490	9.4%		32
Weymouth	212	229	237	1.05%	1,827	8.1%	Y	289
Whitman	78	79	80	1.57%	243	4.8%		0
Wilmington	73	73	73	1.02%	707	9.9%		0
Winchester	31	34	34	0.43%	148	1.9%		0
Winthrop	44	49	53	0.66%	641	8.0%		0
Woburn	107	111	113	0.74%	1,134	7.4%		0
Wrentham	33	34	34	0.98%	192	5.5%		0

Notes

a. The Subsidized Housing Inventory keeps track of how many units are available in each municipality to meet the target of having at least 10% of each community's housing units be affordable.

b. U.S. Census building permit data consistently understate the number of units permitted each year in the city of Boston. According to data from the City of Boston Department of Neighborhood Development, there were 2,022 permits issued in Boston in 2007.

c. Median sales price for Boston through June 2007 is an average of the median for the first and second quarters. Data for this figure and for number of sales through June, 2007 in Boston provided by the Department of Neighborhood Development, City of Boston.

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 numbers apply on to single-family homes and condominiums.

Data on building permits are taken from the U.S. Census Building Permits Survey (see Note a.).

Subsidized Housing Inventory data come from the Massachusetts Department of Housing and Community Development, Chapter 40B Subsidized Housing Inventory. Retrieved September 19, 2008 (http://www.mass.gov/Ehed/docs/dhcd/hd/shi/shiinventory.htm).

Data on Expiring Use Units at Risk come from the Community Economic Development Assistance Corporation (CEDAC), Expiring Use Database, available from the Citizens' Housing and Planning Association (http://www.chapa.org/pdf/ExpUseDatabase2008.pdf).

The Greater Boston Housing Report Card 2008 Communities