The Greater Boston Housing Report Card 2005-2006:

An Assessment of Progress on Housing in the Greater Boston Area

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for

The Boston Foundation and

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The Citizens' Housing and Planning Association (CHAPA) is a statewide organization that represents the interests of all players in the housing field, including non-profit and for-profit developers, homeowners, tenants, bankers, real estate brokers, 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 three years, CHAPA has assisted in the funding and development of each of the Greater Boston Housing Report Cards.

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Preface

Since 2002 Northeastern University's Center for Urban and Regional Policy (CURP) has collaborated with the Boston Foundation and Citizens' Housing and Planning Association (CHAPA) to develop and produce *The Greater Boston Housing Report Card*, a diagnostic tool that provides an objective assessment of the region's annual progress toward providing housing opportunities for all of its citizens. The *Report Card* focuses on housing production in 161 cities and towns including and surrounding Boston[1] and examines trends in housing prices and rents, the preservation of affordable housing, and state and federal funding levels for subsidized housing.

Background

Housing production goals for the region were first established in a 2000 CURP report commissioned by the Roman Catholic Archdiocese of Boston and the Greater Boston Chamber of Commerce. That report, *A New Paradigm for Housing in Greater Boston*, warned that high housing costs and inadequate inventory were threatening the region's economic competitiveness, and its authors called for an ambitious social compact to increase the supply of housing by more than 80 percent over existing production levels. The *New Paradigm* projected that 15,660 units of housing were needed annually in the Boston PMSA[2] to meet housing needs and moderate the escalation in rents and home prices. Existing production was generating only about 8,500 units a year, of which an estimated 1,300 were designated for occupancy by low or moderate income households. To achieve the required production would mean increasing existing production levels by about 7,200 units per year. The equivalent number of units required for the somewhat larger region generally considered "Greater Boston,"[3] was estimated to be about 18,000 units.

CURP subsequently re-evaluated this estimate in light of the poor economic conditions that have prevailed since 2001. However, its conclusion remained that the region needs to increase housing production, especially housing that is attractive, affordable, and accessible to a growing workforce. Noting that Boston's recovery from the 1990-1992 recession began slowly but accelerated rapidly, CURP has reaffirmed that some 18,000 units per year are needed in the 161 cities and towns covered by the *Report Card*.

Purpose

The sponsors of the *New Paradigm* report also called for an objective system by which to measure the progress the region was making toward meeting its housing needs. The *Report Card* was designed to do that by annually performing the following tasks:

- Assessing economic trends and market conditions that affect current and projected housing needs;
- Collecting, consolidating, and reporting housing data from various public and private sources that can be used to assess the adequacy of production levels;
- Improving accessibility and utility of information so that policymakers, housing advocates, community leaders, realtors, housing developers, and others can evaluate performance;
- Measuring progress in key areas of housing development, including production of new housing and rehabilitation of the existing stock, housing affordability, and government support for housing.

What distinguishes *The Greater Boston Housing Report Card* from the many other excellent reports and studies that summarize trends at a macro level, or focus in depth on one particular aspect of the housing conundrum, is that it monitors activity *by type and location* and *evaluates annually* the region's progress toward meeting the housing needs of its existing residents and the newcomers that are needed to maintain a vibrant competitive workforce. By identifying trends early on, and clarifying their impact, the *Housing Report Card* galvanizes private and public support for meeting the housing challenges faced by the Greater Boston region.

Executive Summary

Despite a great deal of hand-wringing about the current Greater Boston housing market and dire warnings of a potentially deflating housing bubble, the market in 2005 and the first half of 2006 has actually remained fairly stable in the face of rising interest rates, a continued net out-migration of the region's population, and a relatively weak economy. While there has been a steady decline in the rate of increase of housing prices – in fact, the region experienced its first actual drop in housing prices in more than a decade in early 2006 – the decline was modest. Meanwhile, rents actually increased a bit, for the first time in three years, a likely response to the slowly improving job market.

Moreover, there is some good news on the production front. Overall permitting of new housing has continued to rise each year since the Boston Foundation and Citizens Housing and Planning Association (CHAPA) began to track it in the first of its *Greater Boston Housing Report Card* reports in 2002. Building permits were issued for nearly 16,000 housing units in 2005. This represented more than 91 percent of the annual target first established in 2000 in the *New Paradigm for Housing in Greater Boston* report and reaffirmed in the last three *Housing Report Cards*. That target represented an estimate of how much new housing would be needed each year for five years to bring supply and demand into alignment so that prices would not rise faster than the rate of general inflation.

Clear evidence of progress can be seen in the change in production as a percentage of target, over the course of the past few years. In 2002, production met only 56 percent of that year's target. In 2003, it met 70 percent of the target, and in 2004 that number climbed to 77 percent, before rising to 91 percent in 2005. Permitting through the first six months of 2006 is about 1 percent above the rate for the same time period in 2005.

However, the softening of an overheated market and improved annual production levels should not suggest to anyone that the region has met its housing challenge. In the big picture, Greater Boston continues to under-produce single-family homes in any but the highest price ranges, and the development process in Massachusetts remains broken. That construction starts are so slow to respond to increasing demand – and that they continue to increase even after demand ebbs – is symptomatic of the Commonwealth's flawed development permitting process. A four-to-seven year lead time to get a project into the ground is typical, for projects regardless of location, type and price. The nonprofit developer piecing together six or seven funding commitments to make a small project feasible, the large-scale developer assembling a site and securing approvals in a major city, and the developer using the "expedited" permitting process offered by the state's affordable housing statute (Chapter 40B) in a suburban town all face a similarly protracted process.

Even with the region's high home prices beginning to moderate – the year-over-year rate of appreciation dropped from 11.8 percent in the first quarter of 2005 to only 1.5 percent by the fourth quarter before turning negative in 2006 – Greater Boston remains one of the most expensive home buying markets in the nation with a median selling price of nearly $382,000. Likewise, it remains one of the costliest rental markets. With rents stabilizing at an average of $1,500 per month, more than half of all renters in the region are paying more than 30 percent of their incomes for rent and 21 percent are spending more than half.

Most importantly, while the region's housing supply is growing, the new production consists mainly of one and two-bedroom units in multifamily rental and condominium dwellings; housing restricted to those aged 55 and over; and large and expensive single-family homes. What continues to be missing in the mix, except where permitted under Chapter 40B, is "workforce housing:" single-family and townhouse units for young families with children. The lack of housing for this important market segment continues to discourage 25- to 34-year-olds from remaining in the region or moving here in the first place. And this raises a cautionary barrier to businesses that want to expand in the state or relocate here. The result: housing contin-

ues to be the No. 1 economic development challenge facing the Commonwealth.

The overall conclusion of *The Greater Boston Housing Report Card 2005-2006* is that significant progress is being made to increase new housing production in the region, but a great deal more remains to be done. We are building more of the housing for the demographic we are becoming – age-restricted for retirees and smaller apartments for young singles and couples before they have children – and not the housing for the demographic we need – young families and middle-income wage-earners – if we are to maintain a healthy economy with rapid employment growth.

It is also important to note that, since June of 2004, two significant pieces of legislation have been passed. These are designed to encourage the development of so-called Smart Growth housing in town centers and along transit lines (Chapter 40R), and to insure local communities against the cost to local school budgets caused by families moving into this new housing (Chapter 40S). More than 30 towns across the Commonwealth have expressed serious interest in using this legislation to produce new housing, and as of this writing, six of them have created 40R districts with the potential to create 1,700 units of housing. The town of Plymouth, for example, has approved plans for 700 new units of housing, under the terms of 40R and 40S. In the next *Greater Boston Housing Report Card*, we will begin to track production under this new legislation.

Key Findings

Current Market Conditions

Economic Update While the Massachusetts Economic Activity Index increased at a rate somewhat greater than the average for the nation in 2004, this spurt in economic activity was short lived. The index fell behind the national rate in 2005, with the Massachusetts index rising by only 2.7 percent compared with the nation's 3.5 percent. The same was true for the growth in personal income, which rose by 4.7 percent nationally (not adjusted for inflation) but by only 4.1 percent in the Commonwealth.

By the end of 2005, employment in Massachusetts was still down by 5 percent from its pre-recession (February 2001) peak, a deficit of 167,000 jobs. During the first five months of 2006, some 12,000 jobs were added to the state total, but this represented an expansion in employment substantially below the national rate.

The Boston metro area added 9,100 new jobs during 2005, and another 13,700 during the first five months of 2006. Still, there are 111,000 fewer people employed here than there had been at the pre-recession peak.

Demographic Update According to the most recent census data available (July 2004 to July 2005), Massachusetts experienced net domestic out-migration of more than 60,000 people for the second year in a row. This is nearly three times the net outflow that occurred between mid-2001 and mid-2002. With the rate of immigration now declining as well, the overall population of the state fell for the second straight year. The largest losses in the Greater Boston region are occurring among its young corps of workers, the 20-to-34-year-olds.

Growth within the region continues to be highly variable. Plymouth County and the Route 495 corridor registered high rates of growth, as did individual communities including Middleton, Raynham, Abington, Lakeville, Peabody and Hingham, where large multifamily developments have recently been completed. The growth in Peabody and Hingham is directly linked to the construction of large continuing-care retirement communities. The most substantial population growth in the larger regional economic market – the Consolidated Metropolitan Statistical Area (CMSA), which is still growing, though modestly – is occurring in Worcester County and New Hampshire's three southern tier counties.

The Impact of Housing Cost on Employment and Population Weak employment growth and a decline in population can be caused by many factors (e.g., a national recession, the loss of a key industry, etc.). But new statistical evidence developed by the Center for Urban and Regional Policy at Northeastern University, based on data from hundreds of metropolitan areas across the country, reveals that the cost of housing itself has a powerful impact on employment and population levels. The evidence is based on a sophisticated statistical analysis. The same point, however, can be made by simply dividing the nation's metro areas into housing cost deciles and comparing their economic growth patterns.

Across the top tenth of metro areas with the highest housing costs, employment growth averaged less than 1 percent between 2000 and 2004. The average employment growth in the next decile was three times higher at 2.9 percent growth while the next decile of metro areas averaged 2.3 percent job growth. Greater Boston, near the top of the top housing cost decile experienced a 4.9 percent job loss during this period, a strong suggestion that firms are deciding where to locate their operations at least partly based on housing costs and the impact of these costs on the wages they need to offer to attract a workforce.

The correlation between population growth and housing costs is even more striking. Those metro areas in the top decile of housing costs experienced an average net out-migration of 2.25 percent between 2000 and 2004. The next seven deciles all experienced net in-migration, averaging roughly 2.5 to 3.1 percent. Net migration out of Greater Boston to other regions during this period equaled 5.2 percent of its 2000 population, indicating again that people are deciding where to live at least partly based on housing costs.

Housing Production in the Region

Production by Location, Type, and Program Building permits for new housing units were up for the third straight year in 2005, rising 18 percent above 2004's level. Fifty-four percent of the communities covered by the *Report Card* permitted more housing in 2005 than they had the prior year. The increase continued to be driven by multifamily permitting,[4] which rose 38 percent. Single-family production was up by just 4 percent. Between 2000 and 2005, Massachusetts posted the 4th greatest increase in multifamily production among the 50 states. It ranked only 44th in terms of increased single-family production. This is in sharp contrast to the situation a decade ago when the blame for the state's housing shortage was attributed to its lackluster multifamily production.

Through June 2006, permitting is up 1 percent over the same period in 2005 and, again, multifamily is driving the production. Single-family permitting, representing less than 42 percent of the total, is down 9.2 percent through June, to its lowest level in five years.

As was the case in 2003 and 2004, four types of development contributed most of the 2005 production:

- multifamily production in Boston and other inner core communities
- suburban development permitted under 40B, including both single and multifamily rental and homeownership units
- age-restricted housing, including active adult developments and independent living apartments
- large, single-family detached homes, built at medium and low densities in the outer suburban ring or on infill lots in mature suburbs

Single-Family Homes Ninety of the region's 161 cities and towns are permitting fewer single-family residences than they were in 2000, and while single-family permitting was up in 76 others in 2005, age-restricted housing and housing permitted under Chapter 40B were responsible for much of that increase. Some of the new age-restricted housing is single-family development and the units are moderately priced, but they are not available to families unless at least one resident is age 55 or over. Similar housing is not being built for younger families. That this is a Massachusetts problem and not a national trend is evidenced by the fact that single-family production accounts for 78 percent of all housing units permitted nationally. In Greater Boston, they account for less than half (46%). The relationship between this lack of new housing and the loss of 25-34 years olds is inescapable.

Multifamily Housing In contrast to its deteriorating performance on single-family production, the region has experienced a remarkable turnaround on the multifamily front. Multifamily housing was permitted in 45 communities in 2005, unchanged from 2003 and 2004, but a substantial improvement over 1998 and 1999 when only 20 communities permitted any multifamily units. In 28 of the municipalities where there was multifamily construction, it was permitted under the provisions of Massachusetts General Law Chapter 40B.

It is estimated that 60 percent of 2005 multifamily starts were planned as rentals and 40 percent as condominiums. The split in 2003 and 2004 was 70/30 in favor of rental. In the past three years, construction has commenced on some 12,000 rental units and more than 7,000 condominium units[5] in multifamily structures. Rental production in the region is now at its

highest level since the 1970s. At the same time, the existing rental inventory is seeing an infusion of new capital, which is helping to extend its life and improve its competitiveness. But virtually all of the new production, with the exception of units specifically set aside for low or moderate income occupancy, is targeted to the high end of the market, and much of the investment in the existing inventory has been made with an eye toward converting the units to condominium ownership.

Condominium Conversion The conversion of existing rental housing to condominiums continued throughout 2005. This trend had accelerated in 2003 and 2004, spreading outward from the central city into working class neighborhoods with their abundant stock of triple deckers and suburban communities with garden and townhouse apartment complexes. While condominium ownership, in general, is a positive trend particularly for the region's cities where homeownership rates are relatively low, it often exacerbates the challenges facing renters. In all cases where the conversion removes existing rental units from the inventory, it offsets the gains achieved through new rental production.

Adaptive Reuse The combination of a soft commercial market and a tight housing market has resulted in the conversion to residential use of office space, especially Class B and C space in Boston's downtown. The conversion of vacant or underutilized industrial properties to residential or live / work space continued to gain momentum and the trend has spread beyond the well-established areas like Boston, Waltham, Cambridge, Somerville, and Lowell into Chelsea, Everett, Lawrence, and Worcester. That units gained through adaptive reuse are often not immediately factored into the Census Bureau's population estimates is a growing concern because it disadvantages this region more than most other parts of the country.

Production Versus Need Overall housing production in 2005 represented more than 91 percent of the target for that year established in the *New Paradigm* report of 2000, which estimated how much housing would be needed in Greater Boston to bring supply and demand into alignment so that prices did not rise appreciably faster than general inflation. This represents the strongest performance-against-target to date. In 2002, only 56 percent of the annual target was achieved; in 2003, 70 percent was achieved; and in 2004, 77 percent of the target was achieved. The *New Paradigm* report did not establish price points, tenure, type, or size for the market rate or subsidized units, however. That so much of the market rate production is high end; one and two bedroom, and / or age restricted; and concentrated in a handful of cities, and that so much of the subsidized production reaches only those households earning close to 80 percent of median income suggests that simply achieving the targets may not meet the challenge of housing a growing workforce.

Rents, Home Prices, and Sales

Summary of Current Market Conditions From 1998-2001, rents and home prices in Greater Boston rose in tandem. Once the economy began to decline in early 2001, however, rents moderated while the cost of purchasing a home continued to escalate. By the end of 2005, the situation had reversed. Now the rental market is tightening, and the home buying market is softening.

Effective Rents The rental market tightened steadily in 2005, with vacancies dropping to their lowest levels in more than three years and rents rising by a modest 2 percent. Reis.com, one of the tracking sources monitored by the *Housing Report Card*, pegged the median effective rent at $1,499 at year-end. By April 2006, rents appeared to have stabilized, rising insignificantly to $1,501. Nonetheless, this was the first time the median rent had surpassed the $1,500 mark since the second quarter of 2001. The number of units in the pipeline that will be coming on the market over the next three years suggests that rents may not increase much above this level, but even then Greater Boston will remain one of the nation's most expensive rental markets.

The greatest increase in rents is occurring in Class C properties, traditionally the most affordable. According to data from Northeast Apartment Advisors, rents in Class C buildings jumped 7.4 percent between February 2005 and March 2006. During the same period, Class B properties saw rents rise by 3.8 percent, while Class A properties, the most expensive, increased by less than 1 percent. As a result, by March 2006, rents in Class A properties were still 3.4 percent lower than they had been four years earlier and in Class B properties, they were less than 1 percent above that level. But

in Class C properties, rents were 4.3 percent higher than they had been four years earlier.

Advertised Rents While the rental market overall regained some stability in 2005, and landlords in many areas were able to raise rents modestly, there is considerable inconsistency within and among communities, and this is evident in the survey of advertised rents. What is clear is that the general decline in rents experienced between 2001 and 2004 appears to be over, at least for the time being. If the units now under construction and those permitted awaiting construction come into the market in 2006 or 2007, there is a chance that rents may once again decline modestly. But unless there is a substantial acceleration in population out-migration from the region, there is little reason to believe that rents will fall dramatically from their near record highs.

Rental Vacancy Rates Vacancy rates, which had changed little between from 2003 and 2004, began to shift in 2005 as the rental market tightened and the homeownership market softened. After hovering at the 6 percent mark for two years, the rental vacancy rate dropped to 5.1 percent by year-end, and as of April 2006, it stood at 4.3 percent.

The importance of vacancy rates cannot be overstated as they bear out the importance of matching housing demand to housing supply. When vacancy rates are at normal levels – 1.5-2 percent for owner occupied housing and 5-6 percent for renter-occupied housing – housing prices and rents tend to rise at rates no greater than the normal rate of inflation. At vacancy rates well above normal, prices tend to stagnate and eventually decline, albeit modestly unless vacancy rates rise sharply. At vacancy rates below normal, prices tend to rise sharply and the more the rates fall below normal, the more rapid housing price appreciation.

Greater Boston's rents follow this pattern almost precisely. When rental vacancy rates rose in 2003 and 2004 into the normal range of 5 to 6 percent, rents stagnated and then fell modestly. More recently, with the vacancy rate falling somewhat below normal, rents – as expected – began to rise again.

Rental Affordability Despite the fact that rent levels have fallen from their 2001 peaks and those tenants who can afford to pay in excess of $1,500 a month have a wider selection of units from which to choose, many Boston area renters are actually faring worse today than they had at the market's peak. Lower income renters, especially those seeking larger units, continue to have a difficult time.

More than half of all tenants in the Boston PMSA were paying more than 30 percent of their income for rent, including one in five who paid more than half their income for shelter. Because most of the cost-burdened tenants are those with the lowest incomes, they are left with little for other basic necessities like food, health care and child care. Renters face a twofold problem: first, their incomes, in general, are lower than those of homeowners; and second, the supply of privately owned low rent apartments is rapidly disappearing. There are more than 172,300 renter households in need of units priced below $500 per month, but by 2004 there were just over 96,000 units renting at that price level (55 percent of what is required). This represents a reduction of some 35,300 "affordable" units, a drop of more than 27 percent, since 2000.

Home Sales and Prices In contrast to the recent trends in rents, housing prices in Greater Boston continued to rise right through 2005, albeit at a continually decreasing rate since 2002. Then, during the first six months of 2006, the median price of a single-family house declined for the first time in 14 years. Even though the volume of sales of single-family homes in Greater Boston fell more than 9 percent in 2005, they remained at historically high levels. Condominium sales continued to rise, by 14 percent, to an all-time high in 2005. The median price of a single-family home rose to a record $394,874, but this represented just a 5.1 percent increase over 2004, the smallest increase in eight years. The median condominium price increased 6.4 percent to a record $300,146. In most locations and price points, buyers are finding a greater selection of homes to choose from. The exception is moderately priced housing suitable to attract and retain a young workforce.

The market has continued to soften in 2006. According to The Warren Group Publications, sales of single-family homes and condominiums were down nearly 10 and 7 percent, respectively, through June. The median price of a single-family home dropped 3.3 percent during the same six months to approximately $381,676. The median price of a condominium rose at its slowest rate in more than a decade, 0.8 percent, to $302,530.

Homeowner Vacancy Rates As was the case with rental housing, this softening in the market is consistent with the increasing vacancy rates experienced in 2005 and through the first months of 2006. Homeowner vacancy rates locally fluctuate more than rental rates do, but the correlation between vacancy rates and market activity is clear: sales slow when vacancy rates rise. With homeowner vacancy rates as low as 0.5 percent in the recent past, it was not surprising that prices skyrocketed often at double-digit annual rates. Similarly, with the sharp increase in vacancy rates into the normal range and slightly above (1.5 percent to 2.5 percent) in 2005 and early 2006, it was not surprising to see housing price appreciation come down sharply. This is a normal response well within the normal range of housing price activity.

Home Ownership Affordability The number of communities where the median single-family home would be affordable to a family earning that community's median household income, which had dropped from 148 municipalities in 1998 to only 27 in 2004, fell still further to just 19 in 2005. The situation was even worse for first-time homebuyers.

In last year's *Housing Report Card*, the town of Millville on the Massachusetts-Rhode Island border was the only town in the region that offered affordable housing to a first-time homebuyer (someone earning 80 percent of the town's median income trying to purchase a house priced at 80 percent of the median). This year, Millville lost that distinction, putting the number of towns in the region offering affordable housing to a first-time homebuyer at zero.

Affordable Housing Production

Continued Improvement Affordable housing production has increased each year since *The Greater Boston Housing Report Card* began tracking it in 1999. It reached its highest level yet in 2005 when construction began on developments that will provide 2,058 new units of housing for income eligible tenants or homebuyers. This represents an increase of 26 percent over 2004 and a more than tripling of the production levels of 1999 and 2000. More than 40 percent of the region's communities permitted some affordable housing in 2005. (Affordable housing is defined as units eligible for inclusion on the state's Subsidized Housing Inventory and restricted to occupancy by households earning 80 percent or less of the area median income, currently $59,550 for a family of three.)

Three mechanisms are being used to generate this new housing: the comprehensive permit provisions of Chapter 40B; traditional subsidized production carried out by a network of for-profit and nonprofit developers who specialize in affordable housing development; and inclusionary mandates under which a setaside of affordable units – or a payment in lieu of such units – is required of developers of market rate housing. The principal production engine is 40B, as has been the case for the past three years.

Production Under Chapter 40B Both the increased production and the improved regional distribution of affordable housing in 2005 reflects the expanded use of the comprehensive permit by traditional homebuilders and apartment developers in suburban communities. The comprehensive permit (Chapter 40B) was utilized in the production of 58 percent of all new affordable units and 71 percent of those created outside the City of Boston. This represents a 24 percent increase in 2005 in the number of units permitted under 40B. The share of units requiring the comprehensive permit declined, however, from 80 percent (excluding Boston) in 2004 to 71 percent in 2005 as communities like Cambridge, Burlington and Woburn approved major developments using other mechanisms such as inclusionary zoning.

Most 40Bs are market rate developments with an affordable component, typically 25 percent, made possible by the combination of a strong housing market and the increased density allowed under the statute. As such, 40B is now stimulating much of the region's market rate production as well as its affordable development. The 692 affordable rental units permitted in 2005 are part of larger developments that will result in 2,751 new apartments. Similarly, the 757 affordable ownership units will be part of mixed income communities totaling 3,013 homes.

Traditional Subsidies With construction costs escalating and public resources dwindling, the proportion of new affordable housing produced by the state's traditional subsidized housing developers, including its capable nonprofit network, is shrinking. Still, it is this group, working mostly in Boston and the region's other large cities, that continues to create housing for those with very low-incomes or other special needs. Often they work in the most distressed environments and under-

take the most challenging projects. Twenty-eight developments in a dozen Greater Boston communities received funding commitments under traditional subsidy programs in 2005. Once constructed, these developments will provide 800 new units of housing, will replace 166 seriously distressed public housing units with a new 166-unit mixed development, and will preserve and upgrade 350 units of existing housing. Approximately 80 percent of the units in these developments will be reserved for low-income households – just the opposite of the typical suburban 40B development – and half of those will be affordable to very low-income households.

Communities Achieve Important Benchmarks in 2005

Seven Greater Boston communities achieved the goal of having 10 percent of their year-round housing units qualify as subsidized on the State Subsidized Housing Inventory in 2005, bringing the total number of "10 percent communities" in the region to 27. Those Greater Boston communities reaching the 10 percent milestone in 2005 are: Bedford, Dedham, Franklin, Lexington, Peabody, Pembroke, and Revere. The Western Massachusetts towns of Stockbridge and Winchendon also surpassed 10 percent between March 2005 and March 2006.

Eight other Greater Boston cities and towns achieved an important milestone in 2005-2006 by receiving certification from the State Department of Housing and Community Development (DHCD) under the agency's Planned Production Regulation. This certification gives municipalities that are under the 10 percent threshold, but are making steady progress in producing affordable housing on an annual basis, more control over comprehensive permit applications. To gain certification, a municipality must have a DHCD-approved affordable housing plan *and* produce qualified affordable units equal to at least three-quarters of 1 percent of its year-round housing stock in a calendar year. The certified communities in Greater Boston include Acton, Bedford, Billerica, Bolton, Dracut, Dunstable, Lakeville and Westford. All eight certified communities achieved their certification as the result of production under the comprehensive permit. Forty-one others have had their plans approved, but have yet to meet their annual production goals. Two other towns beyond Greater Boston, Shrewsbury and Nantucket, also attained certification in 2005-2006. In total, 51 Massachusetts communities have approved Planned Production Plans on file with DHCD.

Public Spending and Support for Housing

State and Federal Funding Federal support for affordable housing in Massachusetts increased annually from FY1994 through FY2004, before dropping back slightly in FY 2005 and 2006. Little of the federal funding, however, goes to increase or even improve the supply of housing for low-income people. The overwhelming majority of federal funding takes the form of rental subsidies for tenants in existing housing, home heating assistance for low-income homeowners, and weatherization programs. That the dollars committed have increased over time simply reflects the increased cost of providing existing services, not an expansion of programs or services.

Total state spending for all DHCD programs, which had fallen to $188 million – a nine-year low – in FY 2004, has increased in each of the three subsequent budget cycles. Year-over-year increases of 7, 10, and 8 percent have brought the FY2007 state commitment to housing up to $240 million, its highest level since 1991. In inflation-adjusted dollars, however, this remains 64 percent below the $410 million committed in 1989. Moreover, the increases only begin to restore funding to programs that had been substantially diminished over the past few years or under funded. The budget supports relatively little new development and only the minimum necessary operating costs for existing developments.

Other State Support for Affordable Housing Several legislative and regulatory initiatives were undertaken in 2005-2006 that represent important gains for affordable housing. Particularly important were two referred to above that address the barriers that have limited new housing production. First, the legislature continued to preserve Chapter 40B, the affordable housing zoning law that has been responsible for most of the recent affordable housing gains as well as much of the market production.

Complementing that was the passage of a package of new incentives to encourage communities to adopt zoning measures that allow increased housing development as-of-right in Smart Growth districts. Chapter 40R, passed in June 2004, established a zoning overlay district option that provides communities with finan-

cial incentives to develop housing, including affordable units, in Smart Growth locations such as town centers or along transit lines. Its companion Chapter 40S, which just passed at the end of 2005, provides funding for increased school costs in those communities that build new housing under 40R.

Since the passage of Chapter 40S, six communities have adopted Smart Growth Districts, with the potential to create 1,700 units of new housing. Four of the communities adopting Smart Growth Districts under Chapter 40R are in the Greater Boston area: Chelsea, North Reading, Norwood, and Plymouth. The other two are Dartmouth in Southeastern Massachusetts and Lunenburg in Central Massachusetts.

Conclusion

In 2005 and the first half of 2006, the private sector and the Commonwealth began to take steps to address the critical housing issues the state, and the Greater Boston Region in particular, have faced for more than a decade. Increased production of new housing, including units built under Chapter 40B, have expanded the housing supply and helped bring vacancy rates closer to normal levels. Nonetheless, Greater Boston remains one of the highest cost housing markets in the nation. Even with stabilizing prices and rents, the region continues to face a serious housing challenge.

The good news is that, in terms of overall housing production in 2005, the region achieved 91 percent of the annual target established in the 2000 *New Paradigm* report. That target represented an estimate of how much housing would need to be built in Greater Boston each year for five years to bring supply and demand into alignment so that prices do not rise appreciably faster than general inflation. The region has earned a housing grade of B- in the past year, but it must do better if the state is to meet the challenge of maintaining a thriving economy and the moral responsibility of providing decent housing at affordable prices for all its residents.

Recent increases in state funding for housing, the preservation of Chapter 40B, and the passage of Chapters 40R and 40S will help, but substantially more money will be needed for housing subsidies and many more communities need to be encouraged to take advantage of the new Smart Growth Zoning laws. Maintaining an attractive and affordable housing supply is a crucial piece of the economic development puzzle, and Massachusetts needs to get it right.

1.
Introduction

When the *New Paradigm for Housing in Greater Boston* was released in 2000, the region was at the apex of an economic renaissance that brought more than 320,000 new jobs and nearly 130,000 additional households to the area. Housing supply, however, did not keep up with demand. As a result, rents skyrocketed and home prices experienced five uninterrupted years of double-digit appreciation. But three months after that report was issued, Boston – along with the nation – sank into recession. While the nation was officially in recession for just 8 months, the Massachusetts recession lasted for 27 months (December 2000 – March 2003). The state and region lost population and their economies have continued to grow more slowly than the nation as a whole.

More recently, housing production has picked up. Rents have stabilized and inventories of both new and existing property are rising. Housing costs have finally begun to level off. Still, Greater Boston remains – and is likely to remain – one of the most expensive markets in the country in which to live and do business. Affordable housing continues to be an important public policy issue, and the high cost of housing jeopardizes the region's economic competitiveness. The three prior report cards all concluded that the region's housing production remained inadequate to meet the needs of existing residents and to house the growing workforce required to support a vibrant economy. They have documented progress, however. Production in 2002 was found to have met only 56 percent of the target established in the *New Paradigm* report. In 2003, production met 70 percent of target, and by 2004 it had achieved 77 percent[6].

Highlights of the 2004 Report Card

The 2004 *Housing Report Card* found that the Greater Boston region was making progress on several fronts to increase the supply of housing but that total production remained below what was needed to bring housing costs into line with household incomes. Moreover, it noted that the types of housing being produced – age-restricted housing, luxury condominiums and rentals, and single-family housing for affluent households – did not address the shortage of moderately priced housing suitable to attract and retain a young workforce.

Affordable[7] production was up as well, but an increasing share of these units were being created as the result of the state's affordable housing zoning statute, Chapter 40B, and inclusionary zoning. Without additional subsidies to reduce the cost to produce and / or lower the cost paid by the tenant or homeowner, units created in this way mostly benefit households at the upper end of the eligibility spectrum (earning close to the 80 percent threshold) and not those any poorer. Furthermore, they depend on strong and rising market conditions to be successful.

Rents tended to stabilize in 2004, but Greater Boston remained one of the nation's most expensive rental markets. On the east coast, only New York City ranked higher. And even though the number of rental households had declined by 34,000 since 2000, the number paying in excess of 50 percent of their income for rent rose by 19,000.

Home prices continued to escalate, with the median price of a single-family home rising to $376,000 in the region in 2004. The rate of price escalation slowed relative to other parts of the country, but as with rents, home prices in Greater Boston remained among the highest in the nation, trailing only metropolitan New York and Fairfield County, Connecticut on the east coast. In only 27 of the region's 161 cities and towns could a family earning that community's median household income afford to buy its median priced single-family home. Just five years earlier, 148 communities had been considered affordable by this same analysis.

Perhaps the most sobering pronouncement of the 2004 *Report Card* was that newly released data from the Economic Policy Institute (EPI), a Washington, D.C. based think tank, had concluded that Greater Boston was the most expensive metro area in the nation in which to live.[8] A typical family of four with two adults

and two children living in the Boston region in 2004 required an annual family budget of $64,656 to meet their basic needs for food, shelter, clothing, transportation, and health and child care. This was more than $3,000 higher than in Washington, D.C., $6,000 more than in New York City, and $7,000 more than in San Francisco. In areas such as Raleigh-Durham, Chicago, Austin, and Miami the cost differential was more than $20,000 per year. EPI's calculations identified housing costs, child care, health care, and taxes as the factors that made Boston such an expensive place to live. Monthly housing costs were estimated to be 40 percent higher than in Austin, Chicago, and Miami and 63 percent higher than in Raleigh-Durham.[9]

And so, in spite of the increase in housing production, the 2004 *Report Card* concluded that much more was required to reduce barriers to housing production and to support the construction and preservation of housing that would contribute to the state's economic competitiveness.

What Has Changed Since Then

Many of the indicators monitored by the *Report Card* during the first nine months of 2005 performed much as they had in 2004. Job growth remained sluggish; the economy continued to improve, but slowly. The rental market was relatively stable. Home prices continued to rise, but more slowly than in prior years, and more slowly than in the nation as a whole. Inventories of existing property were increasing, and more new units were being permitted as a logjam of housing developments that had been stalled in the planning and permitting process moved into construction.

The welcome upturn in production was occurring, however, just as the market – at least the homeownership market – was softening. By the end of 2005, with interest rates rising and inventories increasing, consumers were taking a more cautious approach to home buying. The housing market had clearly shifted from a seller's market to a buyer's market. **Table 1.1** documents this softening of the housing market, which became more pronounced quarter by quarter. (Note that these are statewide figures. Comparable quarterly data for the 161 cities and towns covered by the *Report Card* were not available, but they would certainly exhibit a similar trend.) Beginning in the second quarter of 2005, home sales have fallen each quarter compared to the corresponding period a year earlier. The rate of housing price appreciation has similarly declined. From an 11.8 percent year-over-year increase in the first quarter of 2005, appreciation slowed to only 1.5 percent by the fourth quarter. By the end of the first quarter of 2006, the median single-family home price had actually declined from its first quarter 2005 level, the first such price decline since 1992. The drop became more pronounced in the second quarter of 2006.

TABLE 1.1

Change in Massachusetts Home Sales and Price by Quarter

Quarter	# of Sales	Median Price
1Q 2005	4.5%	11.8%
2Q 2005	-5.4%	6.4%
3Q 2005	-1.5%	5.7%
4Q 2005	-8.1%	1.5%
1Q 2006	-6.5%	-0.9%
2Q 2006	-10.6%	-1.3%

Source: Massachusetts Association of Realtors quarterly sales data

The rental market, by contrast, was actually showing signs of strengthening by year end with rents stabilizing after several years of price declines. But, with more new production queued up than at any point in the last 15 years – both rental and ownership, and much of it highly concentrated in locations or in specific market segments (e.g., high end rentals, luxury condos, age restricted housing) – the risk is growing that at least some of the new production will be off-cycle by the time it is brought to market.

Organization of Report

This year's report card examines these changes and reports on where progress has, and has not, been made. Because important shifts in the housing market that began to occur during the third and fourth quarter of 2005 have become much more pronounced in 2006, the 2005 *Report Card* has incorporated current year data wherever possible to provide the most timely and accurate assessment of current market conditions.

Like its predecessors, this report card follows the following format:

- Section 2 provides an overview of current market conditions based on an analysis of recent economic activity and the most up-to-date demographic data available from the U.S. Census and other sources.
- Section 3 describes changes in housing supply including where new production is taking place and what types of units are being developed. It also reviews changes in the existing inventory, including condominium conversions, and developments in the pipeline.
- Section 4 analyzes changes in rents, home prices, and housing affordability for the region as a whole and for specific towns and cities.
- Section 5 focuses specifically on affordable housing production and looks at where it is being built and for whom, who is building it, and what tools they are using. This year's report also focuses on what is required to preserve the existing subsidized inventory.
- Section 6 looks at what has happened to public funding levels and government support for housing since the last report card was issued.
- And finally, Section 7 provides a summary conclusion of how the region performed against the production targets set forth in the *New Paradigm Report*.

Three appendices are also a critical part of this report card. They provide key performance indicators for each of the region's 161 municipalities:

- **Appendix A** Based on a number of indicators including population growth, housing starts, wealth, oldest homeowners, youngest homeowners, etc., Appendix A presents the top and bottom 20 Greater Boston communities in each category.
- **Appendix B** presents the municipality-by-municipality results of the 2005 affordability gap analysis discussed in Section 4.
- **Appendix C** is the municipal scorecard, a diagnostic tool for local leaders to use in evaluating their own performance in the larger regional context. By aggregating housing production data from several sources, the scorecard facilitates comparison across individual municipalities of the contribution each is making to increase the supply of affordable housing (discussed in Section 5). Appendix C illustrates that some communities have responded proactively to the region's housing challenges while others continue to lag.

2.
Current Market Conditions

The region's overheated real estate market began an anticipated and overdue correction in 2005. Inventories rose, demand fell, price appreciation slowed, and – in many areas – turned negative. Still, Greater Boston continues to rank among the highest cost housing markets in the country. Intractably high housing prices, in addition to high child care, home heating and health care costs, have contributed to continued labor force out-migration. The economy showed some signs of improvement in 2005, but Boston's recovery continues to lag that of the nation. This section reports on recent economic activity, job growth, and population movement. It also examines the link between housing costs, employment and population movement.

Economic Update

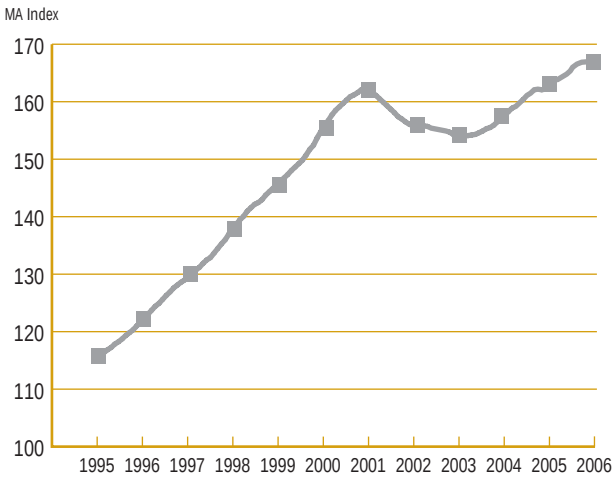
In 2004 the Massachusetts Economic Activity Index increased at a rate greater than the average for all 50 states, fueling optimism that the region was poised for a strong recovery in 2005. This monthly indicator, developed by economists at the Federal Reserve Bank of Philadelphia, is derived from total nonfarm employment, unemployment rates, average hours worked in manufacturing, and wage and salary disbursements. The index illustrates the pace of growth in real gross state product relative to the July 1992 levels for each of the 50 states. Indeed, Boston's economy did improve in 2005, but at a slower rate than the nation as a whole.

The Massachusetts Economic Activity Index registered a 2.7 percent rise in 2005 (**Figure 2.1**), compared to 3.5 percent for the nation. Nominal personal income was up by 4.1 percent and nominal per capita income rose 5.0 percent. The comparable figures nationally were 4.7 and 4.6 percent. Massachusetts, with its high concentration of very wealthy residents, ranks second in the nation behind Connecticut, in per capita income. And while the state continues to rank among the most affluent in terms of median household and median family income (#5 and #4 respectively, both in 2000 and 2004), income growth in these categories has lagged behind other states. Massachusetts' 10.2 percent increase in median household income over those five years earned the #11 ranking and its 11.4 percent increase in median family income earned #15. When adjusted for inflation, however, Massachusetts residents in both categories barely held their ground.

The unemployment rate dropped slightly, and remains just below that of the nation. Job growth remained elusive, however, and Massachusetts remains one of only 13 states that that are not back to their pre-recession peaks. It joins Louisiana, Mississippi and Michigan as the states that have the furthest to go to regain their prior employment levels. By the end of 2005, employment in Massachusetts was still down by 5 percent from its February 2001 peak, a deficit of 167,000 jobs. Employment has exhibited stronger growth in 2006 and by May the deficit, which had been as great as 205,000 lost jobs, had been reduced to 155,000. Professional and business services and education and health services were the big gainers in 2005, while manufacturing continued to shed jobs.[10] During the four and a half years that ended in December 2005, the Commonwealth lost nearly 35 percent of its manufacturing jobs.

FIGURE 2.1

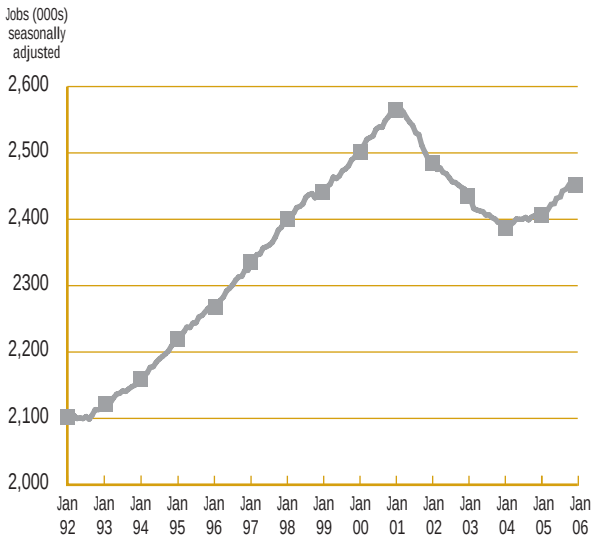
Massachusetts Economic Activity Index



Source: Federal Reserve Bank of Philadelphia (July 2000 = 100, not seasonally adjusted

FIGURE 2.2

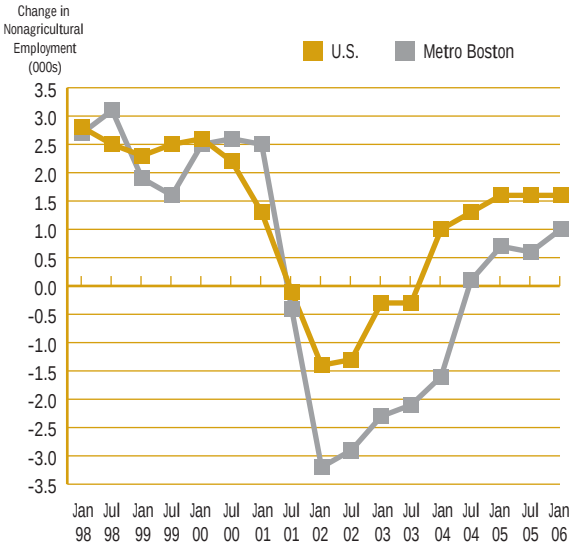
Employment Growth in Boston Metro Area



Source: U.S. Bureau of Labor Statistics, non-agricultural employment

FIGURE 2.3

Employment Growth U.S. v Boston Metro Area



Source: U.S. Bureau of Labor Statistics (Total employment in 000s, seasonally adjusted)

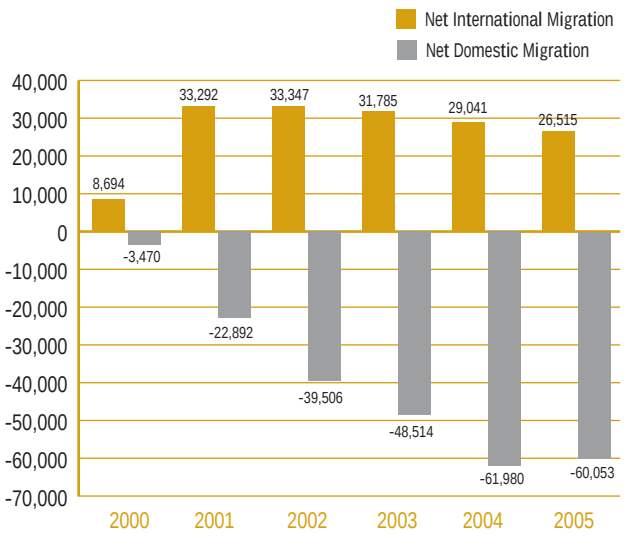
The Boston metro area added 9,100 new jobs during 2005, and another 13,700 during the first five months of 2006. Still, there are 111,000 fewer people employed here than there had been at the pre-recession peak. **Figure 2.2** documents the modest improvement. The companion **Figure 2.3**, which tracks year-over-year job growth for the Boston metro area and the nation, shows the greater volatility of the regional economy and its weaker recent performance. This figure illustrates that Boston took longer to recover from its deep recession of 1990-1992, then surged ahead of the nation in job creation, before falling faster and further in the recession of 2001-2003. Job growth since then has trailed the nation.

Demographic Update

The U.S. Census Bureau reports that the Boston PMSA and the state have experienced population loss in recent years. In fact, Massachusetts had the dubious distinction of being the only state in the nation to lose population in each of the past two years, and it has posted a gain of less than 1 percent since the 2000 Census (the lowest of any state except North Dakota and West Virginia). International immigration, which had been offsetting outward migration for a number of years, peaked in 2002 at 33,347 and has since fallen by 20 percent. Domestic out-migration, however, continued to increase with nearly 62,000 residents leaving Massachusetts between 2003 and 2004. As a result population growth turned negative in 2004. Out-migration between 2004 and 2005 was incrementally lower (3 percent), but with fewer immigrants arriving, the state registered a loss for the second straight year. **Figure 2.4** documents this trend. An improving economy may stem the decline, but the region's high and increasing cost of living and slow job growth will continue to be problematic.[11]

FIGURE 2.4

Massachusetts Net Migration 2000-2005



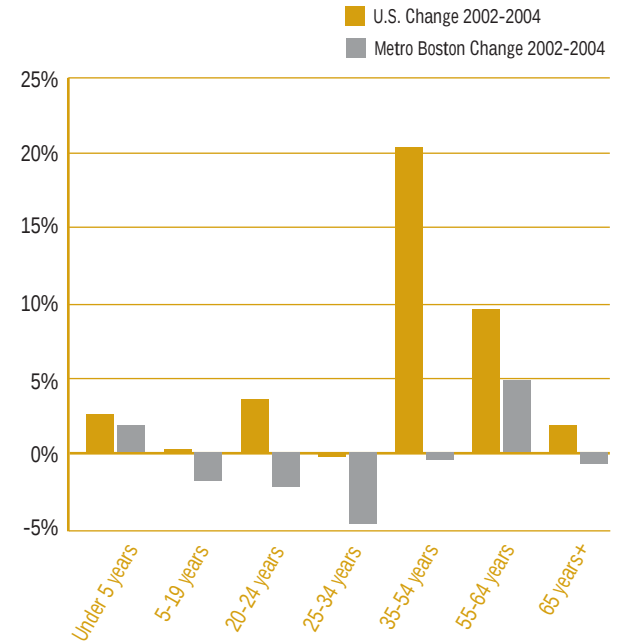
Source: U.S. Census Bureau, State Population Estimates, Components of Population Change

Figure 2.5, which depicts data from the *American Community Survey* (ACS) comparing 2002 and 2004 population counts for the Boston PMSA and the United States, illustrates the population change by age group. That a large proportion of those leaving Massachusetts are young people aged 20 to 34 appears to be supported by these population estimates. The ACS data do not separate migration from other demographic factors, but the magnitude of the the Boston PMSA's decline in the 20-24 and 25-34 year old cohorts over this two-year period compared to the nation's suggests that the migration documented in Figure 2.4 is a major factor. Between 2002 and 2004, the number of 20-24 year olds in the Boston PMSA declined by 2.3 percent while the number of 25-34 year olds fell by 4.8 percent. By comparison, the 20-24 year age cohort nationally increased by 3.9 percent while the 25-34 year cohort cohort dipped, but just by a modest 0.1 percent during the same period.

Moving beyond Greater Boston itself, a comparison with a competitor state like North Carolina suggests just how great Massachusetts' disadvantage is. North

FIGURE 2.5

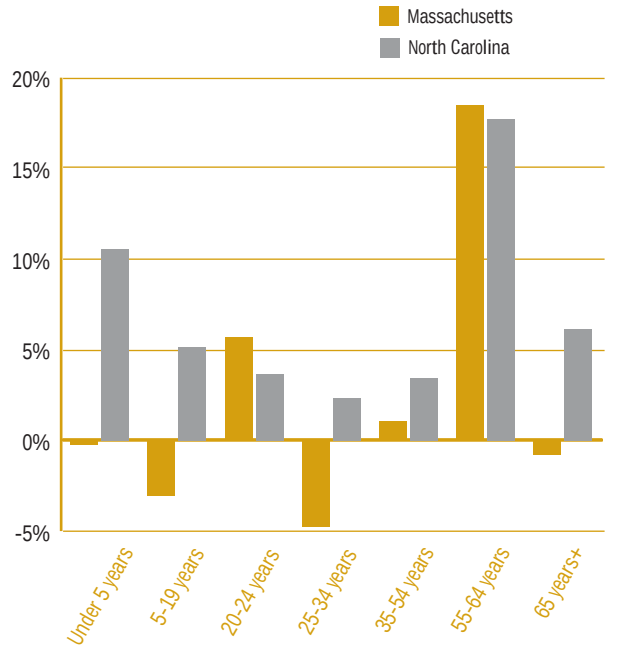
Population Change by Age Cohort U.S. v Metro Boston 2002-2004



Source: U.S. Census Bureau 2001, 2004 American Community Survey (ACS)

FIGURE 2.6

Population Change by Age Cohort Massachusetts and North Carolina



Source: U.S. Census Bureau 2000 Census, 2004 American Community Survey

Carolina's 25-34 year-old cohort grew by 2.3 percent between 2000 and 2004, compared to the 4.8 percent loss in Massachusetts. Moreover, there is a strong indication that young families with children are staying in North Carolina or moving there while younger families with children appear to be leaving Massachusetts and few are replacing them. Note that Massachusetts had fewer children and teenagers in 2004 than in 2000. Over the same time span, the fastest growing age cohorts in North Carolina, with the exception of those aged 55 and older, were children under age 5 and those aged 5 to 19.[12] (See **Figure 2.6**)

Population Shifts within the Region

Within the Greater Boston region, growth continues to be highly variable. The 128-municipality PMSA has registered population loss in each of the past three years, and its population is down 1.1 percent since 2000 according to Census Bureau estimates. Plymouth County and the Route 495 corridor, however, registered high rates of growth, as did individual communities like Middleton, Raynham, Abington, Lakeville, Peabody, and Hingham where large multifamily developments have recently been completed. (**Appendix A**, which identifies the top and bottom 20 municipalities in a number of categories, including population growth and housing production, documents these trends.) The growth in Peabody and Hingham is directly linked to the construction of major continuing care retirement communities.

Table 2.1 presents other demographic highlights from the 2004 ACS. While the Survey indicates that the PMSA continued to lose population, it shows an incremental increase in the number of households between 2003 and 2004 – reflecting the fact that the average size of households continued to decline. The growth continues to be among owner-occupied households (up 2 percent). The number of renter households fell by 3 percent during the same period, the most recent for which data are available. Since 2000, the number of homeowners has risen by 5 percent, while the number of renter households has fallen by more than 9 percent.

In terms of inflation-adjusted dollars, median household income in Greater Boston rose by 1.4 percent between 2003 and 2004. Between 2000 and 2004, in inflation adjusted dollars, it increased by just 9/10ths of one percent. While median family income declined in 2004, families have fared a bit better than all households since 2000.[13] Median family income has risen by 3.1 percent. Median renter income is substantially lower than median homeowner income, but renters have seen their income rise somewhat faster than owners since 2000.

The ACS reported a modest 0.5 percent increase in the number of families living in poverty, the smallest annual increase in four years. Since 2000, however, the number of families in poverty has grown by almost 25 percent. The Survey also reported that the number of cost burdened renter households – those paying more than 30 percent of income for rent – grew at a slower rate than in past years. In fact, it noted that the number of renters with severe cost burdens – those paying more than half their income for rent – actually declined in 2004. Both categories are up substantially since 2000, though. This mirrors a national trend: the proportion of rent burdened and severely rent burdened households increased in every state between 2000 and 2004.

In contrast to renters, the number of cost burdened, and severely cost burdened homeowners continued to increase in 2004 as well. Even homeowners with no mortgage, typically seniors, witnessed a jump in housing cost. Their median monthly housing costs (real estate taxes and homeowners insurance) rose at a faster rate than those of either renters or homeowners with a mortgage.

Table 2.2 illustrates the region's shifting profile by comparing changes over time in a series of concentric rings: the City of Boston; the balance of the Boston PMSA; and the CMSA, excluding the PMSA. The CMSA includes 34 communities covered by the *Report Card* that are not part of the Boston PMSA, as well as the rest of Worcester County and parts of southern New Hampshire. The ACS reported a population increase of 1.3 percent between 2001-2004 for the larger CMSA, as growth in the outer ring (up 4.8 percent) more than offset losses in the inner core, notably Suffolk County – which includes Boston, Chelsea, Winthrop and Revere – and neighboring municipalities such as Medford, Everett, Melrose, and Watertown. It is worth noting, however, that substantial new development has recently been completed, is currently under construction, or is in the planning stages in most of the communities for which the Census has estimated a population loss, and their numbers may reverse by the 2010 decennial census.

TABLE 2.1

Demographic Profile Boston PMSA, 2000-2004

Indicator*	2000	2002	2003	2004	% Change/ 2003-2004	% Change/ 2000-2004
Population	3,309,622	3,304,030	3,296,112	3,274,585	-0.7%	-1.1%
Households	1,310,885	1,303,824	1,299,196	1,300,412	0.1%	-0.8%
Real Median Household Income ($2004)	$60,784	$63,496	$60,466	$61,333	1.4%	0.9%
Real Median Family Income ($2004)	$74,691	$76,859	$77,567	$77,003	-0.7%	3.1%
Real Median Renter Income ($2004)	$38,342	$38,506	$36,594	$39,528	8.0%	3.1%
Real Median Homeowner Income ($2004)	$78,566	$80,494	$80,030	$78,724	-1.6%	0.2%
Families Below Poverty Level	44,156	53,278	54,787	55,034	0.5%	24.6%
Total Housing Units	1,379,582	1,382,290	1,393,631	1,392,381	-0.1%	0.9%
Occupied Units	1,310,885	1,303,824	1,299,196	1,300,412	0.1%	-0.8%
Vacant Units	68,727	78,466	94,435	91,969	-2.6%	33.8%
Overcrowded Housing Units	25,582	29,744	27,493	21,683	-21.1%	-15.2%
Owner Occupied Units	778,521	791,994	800,605	816,916	2.0%	4.9%
Renter Occupied Units	532,334	511,830	498,591	483,496	-3.0%	-9.2%
Median Value Owner Occupied Units	$239,426	$328,713	$369,878	$390,898	5.7%	63.3%
Median Gross Monthly Rent	$844	$968	$975	$1,020	4.6%	20.9%
Renter HHs Paying >30% of Income for Rent*	40.3%	43.3%	47.9%	51.2%	6.9%	27.0%
Renter HHs Paying >50% of Income for Rent*	18.4%	22.4%	23.4%	20.7%	-11.5%	12.5%
Median Monthly Owner Cost (w mortgage)	$1,626	$1,697	$1,800	$1,863	3.5%	14.6%
Median Monthly Owner Cost (w / o mortgage)	$456	$491	$550	$584	6.2%	28.1%
Homeowners (w mortgage) Paying >30%*	26.6%	31.8%	33.6%	37.5%	11.6%	41.0%
Homeowners (w mortgage) Paying >50%*	8.9%	10.0%	11.1%	14.5%	30.6%	62.9%

Source: U.S. Census Bureau American Community Survey (ACS) 2000-2002 Change Profile, 2003 and 2004 ACS Profile Boston PMSA

2000 income by tenure from Census 2000, Table HCT 12

Household, family, renter, and homeowner incomes are adjusted for inflation and presented in $2004

* Of those where cost burden was calculated

The most striking change documented in Table 2.2 is the increase in families with children in the outer ring and the corresponding decline in such families in the city.

Affordable single-family homes may be one attraction luring families to the outer lying suburbs, including Worcester County and southern New Hampshire, but until the most recent downturn, these areas were also experiencing significant job growth. (See **Table 2.3**)

Population Exodus from the Region

One third of the residents who left Massachusetts in 2002, the most recent year for which detailed migration information is available, moved to other New England states. Most settled in New Hampshire and Rhode Island (44 percent and 20 percent, respectively). While Massachusetts gains residents from the other New England states, as well as loses residents to them, on balance the Commonwealth is a net exporter to every other New England state. It is also a net exporter to other parts of the country. Twenty-four percent of

TABLE 2.2

Population Shifts in the Boston Region Between 2001-2004

Change in Number of –	City of Boston	Balance of PMSA	CMSA excluding PMSA
Total Population	-2.9%	-0.8%	4.8%
Households	1.4%	-3.0%	3.8%
Married couple families with children < 18	-22.0%	1.0%	5.9%
Households with one or more persons < 18	-13.6%	-0.2%	1.0%
Households with one or more persons > 65	1.0%	0.0%	6.7%
Total housing units	-0.3%	0.3%	4.5%
Owner occupied units	3.3%	1.9%	6.7%
Renter occupied units	0.4%	-12.2%	-2.0%
Population born in U.S.	-7.4%	-2.5%	3.8%
Foreign born	12.0%	10.3%	13.9%

Source: U.S. Census Bureau 2001 Supplemental Survey; 2004 American Community Survey

TABLE 2.3

Where People Work in the Greater Boston Region*

# of Jobs	Boston-Cambridge-Quincy	Brockton-Bridgewater-Easton	Framingham	Haverhill-North Andover-Amesbury	Lowell-Billerica-Chelmsford	Lynn-Peabody Salem	Nashua, NH	Worcester	Leominster Fitchbury-Gardner	New Bedford
Change 01-06	-5.2%	-2.2%	-1.3%	-3.9%	-4.9%	-2.6%	4.7%	-0.5%	-6.3%	-2.6%
Change 96-06	3.1%	6.0%	17.6%	4.2%	14.1%	2.0%	21.0%	7.8%	-1.4%	3.9%
# Employed (000)**	1,664.4	90.3	155.9	79	119.7	102.1	134.7	247	51	64.6
# Jobs added May 96-May 06	50.1	5.1	23.3	3.2	14.8	2	23.4	17.9	-0.7	2.4

* Total Nonagricultural employment NECTA divisions of Boston-Cambridge-Quincy Metropolitan NECTA and the Nashua, Worcester, Fitchburg, and New Bedford metro areas. Employment is reported in thousands, not seasonally adjusted.

** May 96-May 06

Source: U.S. Bureau of Labor Statistics.

migrating Bay Staters moved to the South Atlantic states (DE, DC, FL, GA, MD, NC, SC, VA, WV) and 15 percent moved to the Mid Atlantic states (NJ, NY, PA).[14]

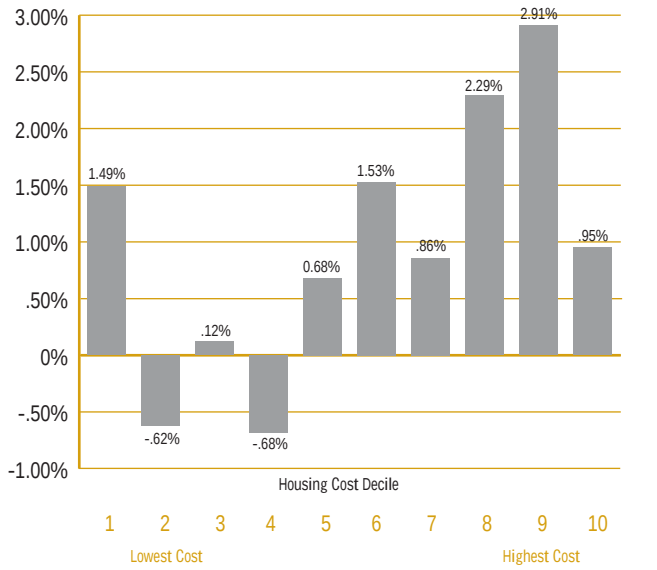
The Link between Housing Costs, Employment, and Population

The demand for housing is clearly dependent on employment growth and changes in population. Yet now we have strong evidence that the link between housing costs on the one hand and employment and population trends on the other also runs in the opposite direction. High housing costs can, and in many cases do, lead to slow employment growth and net out-migration. As a result, economic development in regions like Boston with very high housing costs is now in jeopardy.

The evidence for this phenomenon is found in a number of studies.[15] Using a measure of housing costs for the typical four-person family in 245 metropolitan areas throughout the United States, Bluestone (2006) found that those metro areas in the top decile of housing cost experienced employment growth of just 0.95 percent between 2000 and 2004. (See **Figure 2.7**.) Those in the second decile had three times as much employment growth (2.91%) while those in the third decile had

FIGURE 2.7

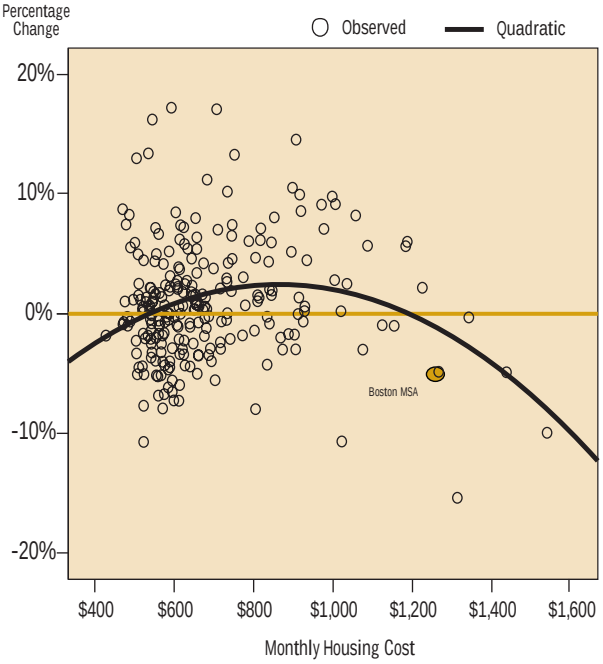
Housing Costs and Employment Growth in Major Metro Areas



Source: Barry Bluestone, "Sustaining the Mass Economy" 2006

FIGURE 2.8

Relationship Between Housing Costs and Employment Growth in Major Metro Areas



Source: Barry Bluestone, "Sustaining the Mass Economy" 2006

more than twice as much growth (2.29%). Regression analysis revealed a non-linear relationship between housing costs and employment growth so that generally the highest housing cost metro regions (e.g. Boston, San Francisco, San Jose, Nassau-Suffolk, New York) as well as those with the lowest housing cost (e.g. Flint, Michigan) had the slowest growth (or negative growth) in employment while those regions with more modest housing costs fared best in terms of job growth. (See **Figure 2.8**) Firms are now apparently shying away from very high cost of living areas as well as those where economic activity is so weak that workers are leaving and housing costs are falling as a result. Boston falls squarely in the top decile of housing costs and not surprisingly experienced at 4.9 percent loss in employment between 2000 and 2004.

Using a similar analysis, the same non-linear relationship was found to exist between housing costs and net internal migration – the type of domestic migration depicted in Figure 2.4 above. Only here the relationship was even more powerful. Across all the metro areas in the analysis, those in the top decile of housing costs experienced an average *out*-migration of population of 2.25 percent between 2000 and 2004. By contrast, the 7th, 8th, and 9th deciles all experienced strong *in*-migration of 2.72 percent, 3.05 percent, and 2.45 percent, respectively. (See **Figures 2.9** and **2.10**.) Even after controlling for changing employment levels, there was an independent effect of high housing costs on internal migration patterns.

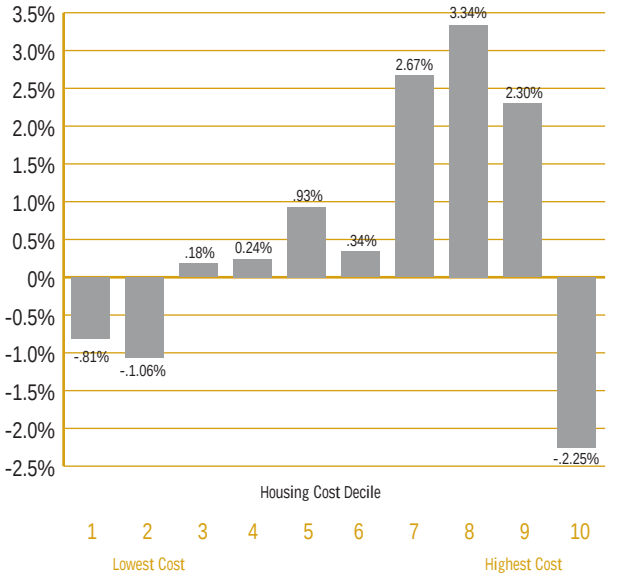
The unmistakable conclusion is that after a decade of extraordinary housing price appreciation from 1995 through 2005, Greater Boston is finally experiencing the effect of this cost of living phenomenon in the form of extremely sluggish job growth and population loss.

High Housing Costs and the Economic Roller Coaster

Massachusetts has been a high cost housing market for nearly 25 years. In fact, high home prices and a roller coaster economy have become hallmarks of the Commonwealth. **Figure 2.11** illustrates how dramati-

FIGURE 2.9

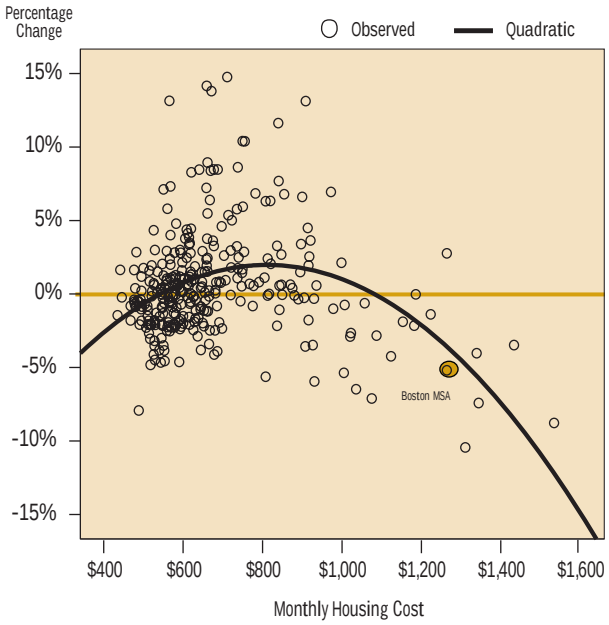
Housing Costs and Migration Patterns in Major Metro Areas



Source: Barry Bluestone, "Sustaining the Mass Economy" 2006

FIGURE 2.10

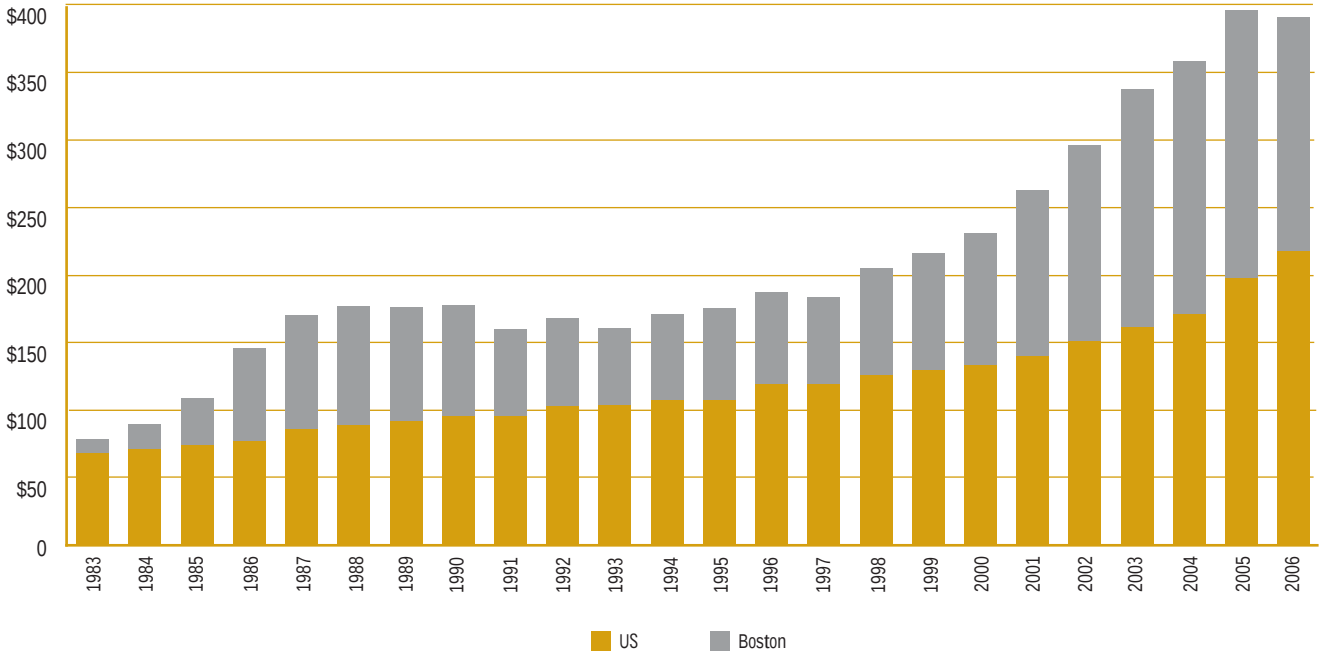
Relationship Between Housing Costs and Migration Patterns in Major Metro Areas



Source: Barry Bluestone, "Sustaining the Mass Economy" 2006

FIGURE 2.11

Median Price of Existing Single Family Homes Boston Metro v U.S.



Source: National Association of Realtors median sales price of existing single-family homes for metro areas

cally the state's home prices, which mirrored the national norm in 1983, have diverged since that time.

Between 1980 and 1989, when high tech, defense contracting, and construction were fueling the "Massachusetts Miracle," housing prices in greater Boston nearly tripled.[16] The state's flourishing economy added over 600,000 jobs, an increase of nearly 25 percent over a five year period. The number of housing units permitted annually nearly tripled, rising to more than 45,000 in 1987. The boom was short lived, however. By the end of the decade, the state was losing jobs as fast as it had added them just a few years earlier.

Once Massachusetts emerged from the 1990-1992 recession, and the excess housing supply from the 1980s boom was absorbed, home sales and prices resumed their upward trajectory. At the new millennium, 215,000 more people were working in Massachusetts than had been at the prior peak in 1988, and housing affordability was once again a major concern. But unlike that earlier period, when the state's economy began to falter in 2001, home sales and prices did not fall. They remained strong in spite of a weak economy through 2005. Only in the first half of 2006 did housing prices finally stop rising – five years after the economy began to weaken.

Outlook for Region

We noted in the 2004 *Report Card* that there was increasing concern about the housing market with respect to three potential, but contradictory, phenomena: (1) overbuilding in some market segments in the short term – particularly luxury rentals and condos and age restricted active adult housing; (2) the volatility of the market in the mid-term if the region's economic recovery failed to gain momentum but an improving national economy and inflation fears drove interest rates up; and (3) the region's long term prospects if it continued to under-produce the modest-priced owner-occupied housing it needs to attract and retain an adequate workforce. These issues remain a concern.

The softening of the overheated market and improved production levels are cause for neither alarm nor jubilation. The region's housing market is not on the verge of collapse. In fact, its economic prospects are improving as the region gained more jobs in the first four months of 2006 than in all of 2005. But neither has its structural housing problem been solved. Greater Boston continues to under-produce affordable housing, and the development process in Massachusetts remains broken even though we now have record high unsold inventories, moderating prices, a robust pipeline, rising interest rates, and a slow growing economy.

Last year's *Report Card* explored the issue of whether the region was experiencing a "housing bubble" after Boston had shown up on the "watch list" of a number of industry analysts. The authors cautioned that housing prices might indeed fall modestly if interest rates began to rise. More likely, production would slow and prices remain flat until local incomes caught up with housing prices and excess inventory was absorbed. Neither outcome, they stressed, was a solution to the region's structural problem of inadequate and unpredictable production over the long term.

The media has remained fixated on the notion of bubbles this year as more and more parts of the country have experienced cost run-ups that far outpace their income growth. According to the *2006 State of the Nation's Housing*, the most recent annual assessment of market conditions by Harvard University's Joint Center for Housing Studies, nationally weighted average home prices rose in line with median household income and general price inflation until 2000.

Since then, however, they have increased six times faster than income growth. By 2005 nominal house prices were rising at their fastest rate since 1978.[17] As interest rates began to climb late in 2005 and price escalation slowed, the question became, "Is this the bubble bursting?"

It is worth examining the Boston region's vulnerability again this year in light of its increased housing production, continued sluggish job and income growth, and rising interest rates. These are all factors analysts consider when assigning risk ratings to local markets. Other factors include changes in home price and affordability, the cost of renting compared to owning, the number of investor purchasers, risky lending practices or loan types, high debt levels, and excessive cash out refinancings.

In preparing the *2006 State of the Nation's Housing* report, the Harvard researchers analyzed 66 metropolitan areas that had experienced major house price declines or recent employment losses between 1980 and 2004 and documented the conditions that accompanied major price declines. They noted that price drops of more than 10 percent, while rare, do occur. In most such cases, the drop is triggered by significant job loss or a combination of overbuilding, modest job loss and population outflows. In metro areas that experienced major price declines, housing development levels in the three years preceding the drop exceeded the 20-year median by 74 percent.[18] Boston's recent (three year) construction exceeded its 20-year median by only about 40 percent. Investors and second home purchasers constitute a larger share of the Massachusetts home buying market than they did 15 years ago – mirroring a national trend – but their numbers remain well below national norms.[19] The region's job loss has been stemmed and employment is growing, though not as fast as in some other regions. Population loss, while troubling, is modest. The combination of these factors continues to suggest that the region's house price correction will be less steep than in the period between 1989 and 1992 when housing prices dropped by 9 percent. Adjusting for general price inflation, home prices fell fully 25 percent.[20] Assuming the economy continues to expand over the next 12 to 18 months, housing prices should stabilize or rise slowly. This will be good news for homeowners who might be interested in selling their properties, but will inevitably contribute to Greater Boston being a region where many young working families continue to be priced out of the market.

Ultimately, housing policy and regulations should enable the homebuilding industry to respond efficiently to demand, whether that demand is rising or falling, but this does not happen as a matter of course in the Commonwealth. A predictable consequence of the protracted permitting process that has become the state's hallmark is that homebuilders are unable to bring new housing to market in a timely manner when demand is rising; and if they are already invested in that process when demand wanes, they cannot easily scale back production.

It is also important to note that "fixing" the housing problem is just one of the challenges facing the Commonwealth given its status as an exceptionally high cost of living state – and Greater Boston's #1 ranking in this category nationwide. Attention also needs to be given to health care cost containment and to providing affordable child care for young families. More state aid to local communities could help reduce residential property taxes that have risen sharply in recent years. These, in addition to housing, are the key cost items where Massachusetts ranks among the top 10 in the U.S. and that survey research suggests are the chief reasons residents leave the state.

3.
Housing Production in the Region

This section of the *Housing Report Card* examines recent changes in the region's housing supply, including the type and location of housing permitted during 2005 and through the first six months of 2006. The primary source used to estimate housing production here and elsewhere is building permit data collected by the U.S. Census Bureau through its Building Permits Survey. CURP supplements and verifies these data with its own extensive tracking system for key market segments and targeted programs (e.g., subsidized housing, 40B production, other publicly supported initiatives, student housing, transit-oriented development, and age restricted housing).

2005 Overall Production Levels

Building permits in Greater Boston rose for the third straight year in 2005, increasing 18 percent above 2004. The improvement continued to be driven by multifamily (5+) permitting, which rose 38 percent. (See **Table 3.1**) Boston's multifamily performance was in stark contrast to the national trend, which registered only a 6 percent increase.

Single-family production locally was up by 4 percent, the average for the nation. But while single-family permitting nationally has increased by more than 40 percent since 2000, it has risen only 2 percent in the 161 cities and towns of Greater Boston and remains 15 percent below the levels permitted during the late 1990s. Single-family production accounts for 78 percent of the housing units being permitted nationwide but less than 46 percent in Greater Boston. Between 2000 and 2005, Massachusetts posted the 4th greatest increase in multifamily production among the 50 states. It ranked only 44th in terms of increased single-family production. This is in sharp contrast to the situation a decade ago when the blame for the state's housing shortage was attributed to its lackluster multifamily production.

Through June 2006, permitting is up 1 percent over the same period in 2005 and, again, multifamily is driving

TABLE 3.1

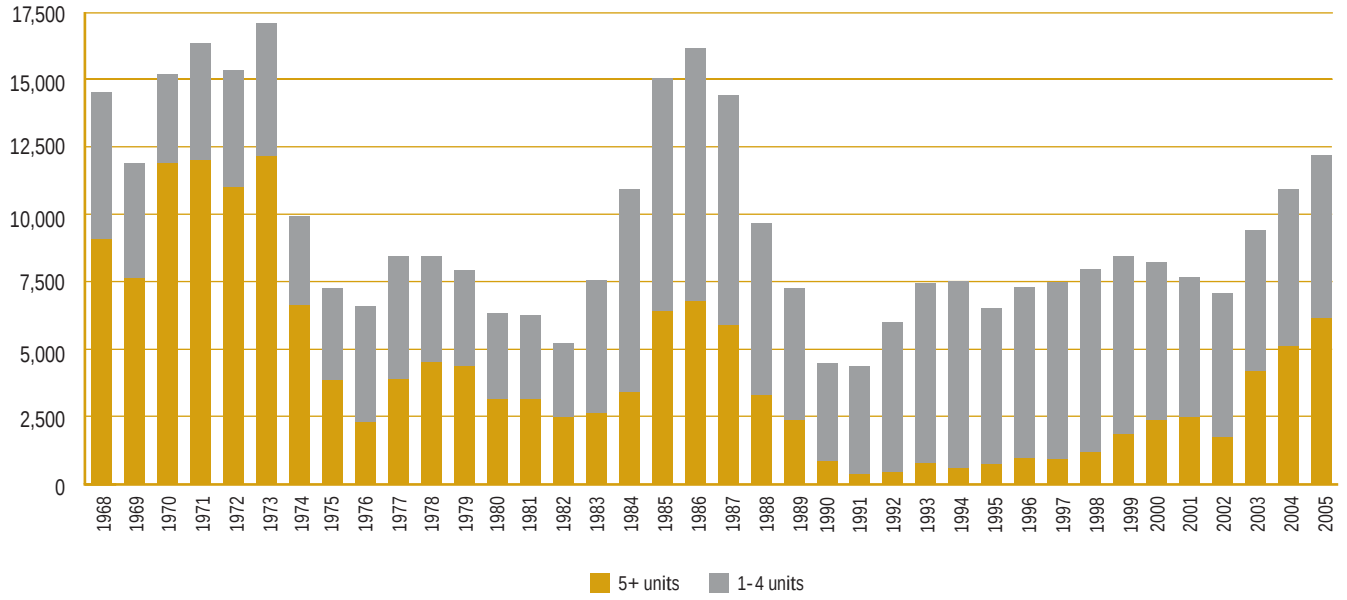
Housing Units Permitted: Single-Family Structures v Multifamily

Year	Total Units	Change Over Prior Year (Total Units)	Units in Single Family Structures	Change Over Prior Year (SF Units)	Single Family as % of Total	Units in 2-4 Unit Structures	Units in 5+ Unit Structures	Change Over Prior Year (Units in Buildings w 5+ units)
1998	10,846		8,639		79.7%	574	1,633	
1999	10,662	-1.7%	7,775	-10.0%	72.9%	746	2,141	31.1%
2000	10,342	-3.0%	7,102	-8.7%	68.7%	701	2,539	18.6%
2001	9,701	-6.2%	6,313	-11.1%	65.1%	686	2,702	6.4%
2002	9,520	-1.9%	6,408	1.5%	67.3%	764	2,348	-13.1%
2003	12,121	27.3%	6,020	-6.1%	49.7%	1,093	5,003	113.1%
2004	13,556	11.8%	7,000	16.3%	51.6%	994	5,562	11.2%
2005	15,945	17.6%	7,270	3.9%	45.6%	1,015	7,660	37.7%
Change 2005/1998		**47.0%**		**-15.8%**				**369.1%**

Source: Census Bureau Building Permit Data for the MA portions only of the Boston, Brockton, Lawrence, and Lowell metro areas, 1998 - 2005.

FIGURE 3.1

Housing Units Permitted, Boston PMSA



Source: U.S. Census Bureau Building Permits; data pre-1980 compiled by J. Avault and P. Leonard, BRA

the production. Single-family permitting, representing less than 42 percent of the total, is down 9.2 percent through June, to its lowest level in five years.

Figure 3.1 portrays building permit data for the past 35 years *for just the Boston PMSA*.[21] We include this figure each year because it provides a useful historical context for understanding current production levels. While overall production remains well below the levels of the late 1960s, early 1970s and mid-1980s, production[22] has continued to increase – despite the region's lackluster economy – as development projects that had been in the planning stages for several years finally commenced construction. That construction starts are so slow to respond to increasing demand and that they continue to increase even after demand ebbs is symptomatic of the Commonwealth's flawed development permitting process. A four to seven year lead time to get a project into the ground is typical, affecting projects across location, type, and price point. The nonprofit developer stringing together the seven or eight funding commitments required to make a project feasible; the large scale developer assembling a site and securing approvals in a major city; and the 40B developer using the "expedited permitting" that statute provides in a suburban town all face a similarly protracted process.

Figure 3.1 illustrates that multifamily permitting in 2005 nearly matched the 1980s peak level, but single-family units were permitted at just 62 percent of the peak year, 1986. This chart also serves as an important reminder of just how much of the region's rental housing – 39 percent – was built in the 1960s and 1970s. Much of its subsidized and public housing was produced during the same era.

2005 Production by Type and Location

Permitting of new housing units in 2005 was up over 2004 levels in over half (88) the communities in Greater Boston. Single-family permitting rose in 76 communities. Still, 84 of the region's 161 cities and towns are now permitting fewer single-family residences than they were in 2000.

Multifamily housing was permitted in 48 communities in 2005, essentially unchanged from 2003 and 2004, but

a substantial improvement over 1998 and 1999 when only 20 communities permitted any multifamily units. In more than 50 municipalities, including 22 of those that permitted multifamily housing, production is occurring under the provisions of MGL Chapter 40B.

Development continues to be unevenly distributed throughout the region and, as was the case in 2004, four categories of development contributed to the production in 2005 and through the first quarter of 2006:

- multifamily production in Boston and other inner core communities (Cambridge, Quincy, Malden, Medford, Revere);
- suburban development permitted under 40B, including both single and multifamily rental and homeownership units;
- age restricted housing, including active adult developments and independent living apartments;
- large, single-family detached homes, built at medium and low densities in the outer suburban ring or on infill lots – often replacing older, smaller dwellings – in mature suburbs. This category rarely builds up a surplus because it tends to be permitted only when a homebuyer is identified.

Table 3.2 lists the communities that led the region in permitting new housing in 2005 and those that permitted the fewest new homes. Most of the municipalities permitting substantial numbers of new units achieved their numbers by approving large multifamily developments. The exceptions are Plymouth, Lowell, Haverhill, and Dracut, all of which routinely lead in the permitting of single-family homes.

Most also include the production of affordable housing in the mix (defined as units that are eligible for inclusion on the state's Subsidized Housing Inventory and income restricted to households earning no more than 80 percent of the HUD area median income). In such suburban communities as Burlington, Billerica, Marlborough, Andover, Braintree, Pembroke, and Dracut, major developments were permitted under 40B. Boston and Cambridge actively support an experienced network of nonprofit and for profit developers who specialize in the production and management of subsidized housing and both aggressively implement inclusionary zoning policies that result in significant additions to their affordable inventory. Peabody, Lowell, Quincy, Revere, and others also have inclusionary ordinances, but they have not been as successful in gaining units as Boston and Cambridge. The role of 40B and inclusionary zoning is discussed in Section 5, Affordable Housing Production.

Single-Family Homes

Single-family development has become more highly concentrated in a smaller number of communities as economic and environmental considerations, local land use regulations, and the dictates of the market – not necessarily in that order – have resulted in more municipalities "opting out" of new development altogether. The number of municipalities permitting *only* single-family homes, which had declined from 60 percent in 2001 to 47 percent in 2004, increased in 2005 to 55 percent.

Multifamily Homes[23]

The region has experienced a remarkable turnaround on the multifamily front. The rental and condominium markets have responded to pent-up demand in the higher price ranges. Much of the new production is concentrated in Smart Growth locations, including vacant or underutilized land in Boston and surrounding inner core cities. Many of the new developments are mixed use, offering commercial and retail space, restaurants, health and fitness facilities, in addition to a variety of housing types.

It is estimated that 60 percent of 2005 multifamily starts were planned as rentals and 40 percent as condominiums. The split in 2003 and 2004 was 70/30 in favor of rental. In the past three years, construction has commenced on some 12,000 rental units and more than 7,000 condominium units[24] in multifamily structures. Multifamily condominium production swung into high gear in 2003, with the permitting of more than 1,500 such units. By 2005, that number had doubled.

Rental production in the region is now at its highest level since the 1970s. At the same time, the existing rental inventory is seeing an infusion of new capital, which is helping to extend its life and improve its competitiveness. But virtually all of the new production, with the exception of units specifically set aside for low or moderate income occupancy, is targeted to the high end of the market, and much of the invest-

TABLE 3.2

Municipalities Adding the Most and Fewest Number of Housing Units in 2005

2005 Rank	5 Year Rank 2000-2004	Municipality	Total Units Permitted 2005
Top 15			
1	1	Boston	1156
2	16	Cambridge	996
3	2	Quincy	702
4	41	Burlington	674
5	10	Billerica	605
6	3	Plymouth	508
7	4	Peabody	446
8	7	Marlborough	365
9	19	Lowell	311
10	27	Andover	310
11	52	Braintree	305
12	37	Pembroke	300
13	12	Revere	295
14	8	Haverhill	262
15	35	Dracut	261
Bottom 15			
14	19	West Newbury	10
14	2	Winthrop	10
12	27	Manchester	9
12	30	West Bridgewater	9
10	3	Avon	8
10	18	Maynard	8
9	10	Swampscott	7
6	14	Essex	6
6	15	Sherborn	6
6	4	Topsfield	6
4	13	Plympton	4
4	5	Chelsea	4
1	11	Hamilton	3
1	1	Nahant	3
1	6	Wenham	3

2005 Rank	5 Year Rank 2000-2004	Municipality	Single Family Units Permitted 2005
Top 15			
1	1	Plymouth	453
2	11	Billerica	285
3	7	Lowell	191
4	12	Taunton	137
5	64	Salisbury	128
6	20	Dracut	117
7	3	Wareham	112
8	10	Raynham	111
8	4	Middleborough	111
10	14	Milford	105
10	6	Haverhill	105
12	110	Rockland	99
13	91	Tyngsborough	97
13	2	Boston	97
15	8	Norton	89
Bottom 15			
14	85	Salem	8
14	3	Avon	8
11	28	Revere	7
11	4	Watertown	7
11	1	Winthrop	7
7	23	Essex	6
7	9	Medford	6
7	11	Sherborn	6
7	10	Topsfield	6
6	12	Swampscott	5
4	17	Maynard	4
4	20	Plympton	4
1	24	Hamilton	3
1	2	Nahant	3
1	14	Wenham	3

2005 Rank	5 Year Rank 2000-2004	Municipality	Multifamily Units Permitted 2005
Top 15			
1	7	Cambridge	949
2	1	Boston	817
3	2	Quincy	644
4	19	Burlington	629
5	3	Peabody	402
6	6	Marlborough	341
7	26	Billerica	294
8	29	Braintree	266
9	23	Andover	250
10	NA	Pembroke	240
11	13	Revere	216
12	21	Hudson	201
13	42	Melrose	199
14	48	Tewksbury	180
15	20	Saugus	168
Bottom 15			

NA – Most of the region's communities do not permit any multifamily housing

Source: CURP analysis of building permit data from U.S. Census Bureau

ment in the existing inventory has been made with an eye toward converting the units to condominium ownership.

Major rental developments completed in 2005 include Station Landing at the Wellington Circle stop of the Orange Line in Medford, Chestnut Farm in Raynham, Munroe Place in Quincy, Jefferson at Dedham Station, and The Residences at Union Place in Franklin. Scheduled to open as the *Report Card* was going to press were two Boston developments, Archstone Boston Common in Chinatown and the Trilogy in the Fenway neighborhood. Under Boston's inclusionary ordinance, both developments include a setaside of affordable units. Even on these, however, the rent for a two-bedroom will run about $1,500 to $1,800 a month. Comparable rents on the market rate units are expected to begin at $2,400 a month.

Other projects under construction include North Point in Cambridge (mostly condominium) and Oak Grove on the Malden / Melrose line. In the pipeline, major developments are planned for Needham and Westwood and along Boston's waterfront from South Boston to East Boston. The State has stepped up its efforts to encourage Smart Growth development in recent years with an array of financial and regulatory incentives including financial assistance to communities that are hosting large scale new development in Smart Growth locations. However, virtually everything currently under construction, and even much of what is in the permitting stage, had been on the drawing boards since before the millennium. With the exception of the Boston, Cambridge, Quincy, and Malden projects, the others were all permitted under the state's comprehensive permit statute, Chapter 40B.

Condominium Conversion

By all accounts, the pace of condominium conversion accelerated in 2005. While condominium ownership, in general, is a positive trend, particularly for the region's cities where homeownership rates are relatively low, it often exacerbates the challenges facing renters. In all cases where the conversion removes existing rental units from the inventory, it offsets the gains achieved through new rental production.

Among the established rental properties to convert in 2005 was Brookline's 277-unit landmark, Longwood Towers. Units that rented for $2,000-2,200 a month, have reportedly been offered to the existing tenants at insider prices of $600,000 and up. In Allston's Union Square, units that rented for $2,000 are priced between $250,000 and $450,000. Other conversions include the three-year old 168-unit Spicket Commons in Methuen and the conversion of 52 duplexes into the 104-unit Residences at Winchester.

The conversion of 2-4 unit structures also continued throughout 2005. This trend had accelerated in 2003 and 2004, spreading outward from the central city into working class neighborhoods with their abundant stock of triple-deckers and into suburban communities with garden and townhouse apartment complexes. The Census reported that there were 262,906 rental units in 2-4 unit structures in Greater Boston in 2000; by 2004 the number had dropped to 235,650, a loss of 27,256 units. Symptomatic of the frenzied triple-decker conversion activity was the sales activity of 2-4 unit properties in neighborhoods like Dorchester, South Boston, Waltham, Somerville, Quincy, and even extending out as far as Worcester and Fall River. Sales and prices rose to their highest levels ever in 2003 and 2004. While prices continued to escalate in 2005 by 8 percent – they had doubled during the five preceding years – the number of sales statewide dropped by 15 percent. Even so, 2005 was the third most active sales year since at lease 1992.

Industry analysts say the run-up in 2-4 family properties reflected what was happening in the single-family and condominium markets. Homebuyers who were priced out of those markets found that condominiums in converted triple-deckers were an attractive and affordable alternative. Developers, including many first-time developers, seized on the opportunity this provided. Because such properties can be bought, fixed-up, and flipped relatively quickly, the market may become glutted, as it was in the early 1990s.

The City of Boston reported that nearly 1,000 units in 2-4 family structures and 200 rental apartments were converted to condominiums between 1999 and 2004.[25] In 2005, another 500 were converted. The situation is similar across the region. Cambridge reported that more than 400 units were converted in 2004, the most recent year for which figures are available, and Somerville more than 500.

While there is no central clearinghouse of condo development, conversions, and sales, the state Department of Revenue (DOR) annually reports the number of

properties by class and by municipality. DOR records indicate that over 12,000 condominium units were added to the assessing rolls in Greater Boston municipalities in fiscal year (FY) 2006, up from approximately 7,500 in FY 2005 and 5,300 in FY 2004.

Adaptive Reuse

The combination of a soft commercial market and a tight housing market has resulted in the conversion to residential use of office space, especially Class B and C space in Boston's downtown. Properties being converted through the adaptive reuse of commercial and industrial buildings include the 85-unit Lincoln Plaza and 54-unit Virgin Records Building at 360 Newbury Street, construction on which began in 2005. The conversion of vacant or underutilized industrial properties to residential or live / work space continued to gain momentum and the trend has spread beyond well-established areas like Boston's Fort Point Channel and South End neighborhoods, Waltham, Cambridge, Somerville, and Lowell to include East Boston, Chelsea, Everett, Lawrence, and Worcester. The successful recycling of functionally obsolete buildings, most often for reuse as housing, has been one of the region's greatest development success stories for more than three decades.

Targeted Markets

In the *New Paradigm* report of 2000, its sponsors and authors established production goals for two specific target markets in addition to an overall market production goal: student housing and affordable housing. Affordable housing was defined as subsidized and / or income restricted to occupancy by low-income households.

Student Housing The impact of students living off-campus, competing with non-students for a limited supply of affordable rental housing – and driving up rents – was an especially critical concern during the late 1990s when Boston had the tightest rental market in the nation. The permitting of university-sponsored student housing equal to 718 new apartments[26] per year between 1999-2001 (514 of them in the high impact cities of Boston, Cambridge and Medford) is believed to have helped ease the rental housing crunch as those units came on line beginning in 2001. Production has slowed in the last three years, but 2005 represented a marked improvement over 2004 with two new graduate student housing developments, housing a total of 500 students, under construction at Harvard University. Northeastern opened a new residence hall this fall for 229 students (previously counted as a construction start).

The student housing pipeline remains strong. Both Northeastern and Boston University have projects on the drawing board that have been approved by the Boston Redevelopment Authority the two new residence halls at Northeastern are scheduled to house 1,800 students.

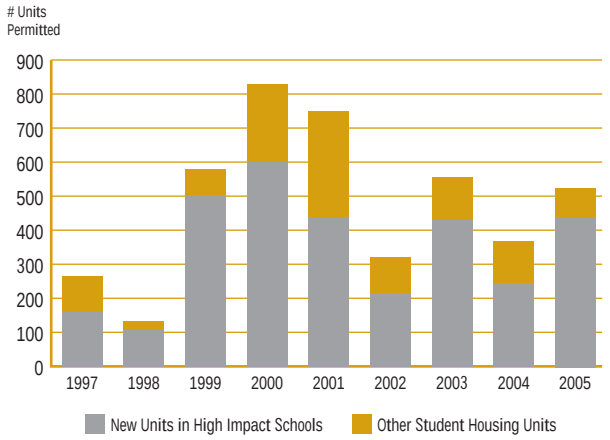
One trend that has been slow to catch on in Boston but has taken hold in other parts of the country is that of privately owned dormitories. That may be starting to change. In 2004 Harvard University agreed to lease 124 units for graduate students in the Trilogy, a major new mixed use development on Boston's upper Boylston Street. The 31 units of student housing on which Wellesley's Babson College broke ground in 2005 (housing 126 students) are being built by commercial developer Trammel Crow. And recently, Berklee College of Music was reported to be seeking a partner to develop the dorm space or apartments it needs for the more than 300 students it wants to house in the next 5 years. These units are not to accommodate a growing student body, but to meet the school's goal of eventually providing housing for half (1,200) of its students.

Figure 3.2 illustrates the variability of student housing production year to year. It documents improvement in 2005 over 2004, but well below that achieved between 1998 and 2001.

Affordable Subsidized Housing Affordable housing production, including rehabilitation and preservation efforts, is addressed in detail in Section 5, but **Table 3.3** summarizes the progress made in 2005 in adding affordable units to the State's Subsidized Housing Inventory (SHI, or the "40B" list). New developments begun in 2005, with an affordable component,[27] created more than 6,000 new units of housing, counting both market rate and affordable units. They will result in the addition of 4,119 units to the SHI. Nearly 62 percent will serve low-income households. The affordable, income restricted units are about evenly split between rental (52 percent) and ownership (48 percent). Production was up for a fourth straight year.

FIGURE 3.2

New Student Housing by Year Permitted



Source: Data provided by individual schools and universities

The Housing Pipeline

The housing pipeline remains strong even though the process – a four- to seven-year permitting period, as noted above – is still broken. CURP is tracking nearly 27,000 units within the 40B pipeline in Greater Boston communities, down about 5 percent from last year, and another 3,000 units in the federal and state subsidy pipeline. Major market rate developments have been proposed that could add more than 20,000 new housing units, nearly half of them in the City of Boston. Most of these are for multifamily development in urban areas or along transit corridors. Not included in this number are more than 10,000 units of age restricted housing. The 40B and age restricted pipelines are concentrated in the suburbs. The state's newest initiative for stimulating housing development, Chapter 40R Smart Growth Zoning is already beginning to develop a considerable pipeline.[28] Section 6 includes an update on Chapter 40R and its companion, Chapter 40S.

The status of 300+ Greater Boston developments in the 40B pipeline at the end of June 2006 was as follows:

- Over 3,500 units were approved but not yet under construction;
- 15,000 units were still in process, either at the local level, the Housing Appeals Committee, or in the courts;
- 125 developments (7,000 units) were preparing to apply or had recently applied to MassHousing for a determination of site eligibility, the first step in filing for a comprehensive permit.

While the 40B pipeline is still substantial, fewer new developments are being added to it. (See Section 5 for details.). History suggests that about 60 percent of the pipeline is likely to get built, but extreme caution must be exercised when assessing the likelihood that planned projects will move into production. Even under 40B, the permitting process typically takes several years to navigate, and with housing inventories increasing and interest rates rising, some of the planned projects may not move forward. Others may be postponed.

TABLE 3.3

Affordable Housing Production Summary

Year	New Affordable Units	New Homeowner Units	Affordable Homeowner Units	New Rental Units	Affordable Rental Units	Units that count on Subsidized Inventory (40B list)
2002	1,427	815	246	1,681	1,181	1,927
2003	1,889	1,512	510	2,758	1,379	3,268
2004	1,997	2,006	638	3,160	1,359	3,798
2005	2,523	3,095	1,205	2,931	1,303	4,119

Source: CURP analysis of DHCD, MassHousing, MassDevelopment, MHP, MHIC reports and data provided by municipalities

4.
Rents, Home Prices, and Sales

From 1998-2001, rents and home prices in Greater Boston rose in tandem. Once the economy began to decline in early 2001, however, rents moderated while the cost of purchasing a home continued to escalate. By the end of 2005, the situation had reversed. Now the rental market is tightening, and the home buying market is softening. This section reports on these and other market dynamics.

Rental Market Recovers in 2005

CURP monitors the region's rental market by analyzing data from several sources:

- ***Average rents and vacancies*** for the region from Reis.com, a national source of commercial real estate trends and analytics.[29] Reis provides asking and effective rent data going back to 1990. (Effective rents take into account any concessions provided by landlords such as a month's free rent.) The data are based on quarterly surveys of professionally managed apartment complexes of 40 or more units throughout the metro area and provide a good historical overview of the market.
- ***Effective rent levels by property class*** as compiled by Acton-based Northeast Apartment Advisors (NAA). NAA surveys nearly 500 professionally-managed market rate developments every six months and reports its findings, which also take into account any rent concessions, by property class.
- ***Median advertised rents*** for two-bedroom apartments in 15 Boston neighborhoods and 25 surrounding communities compiled by the City of Boston's Department of Neighborhood Development (DND) from the Boston Sunday Globe real estate section. Advertised rents only relate to units new to the market or to units that are changing hands, but permit us to observe what is happening to rents across twenty individual towns and cities in the immediate Boston area.

The Trend in Greater Boston Rents: Reis.com

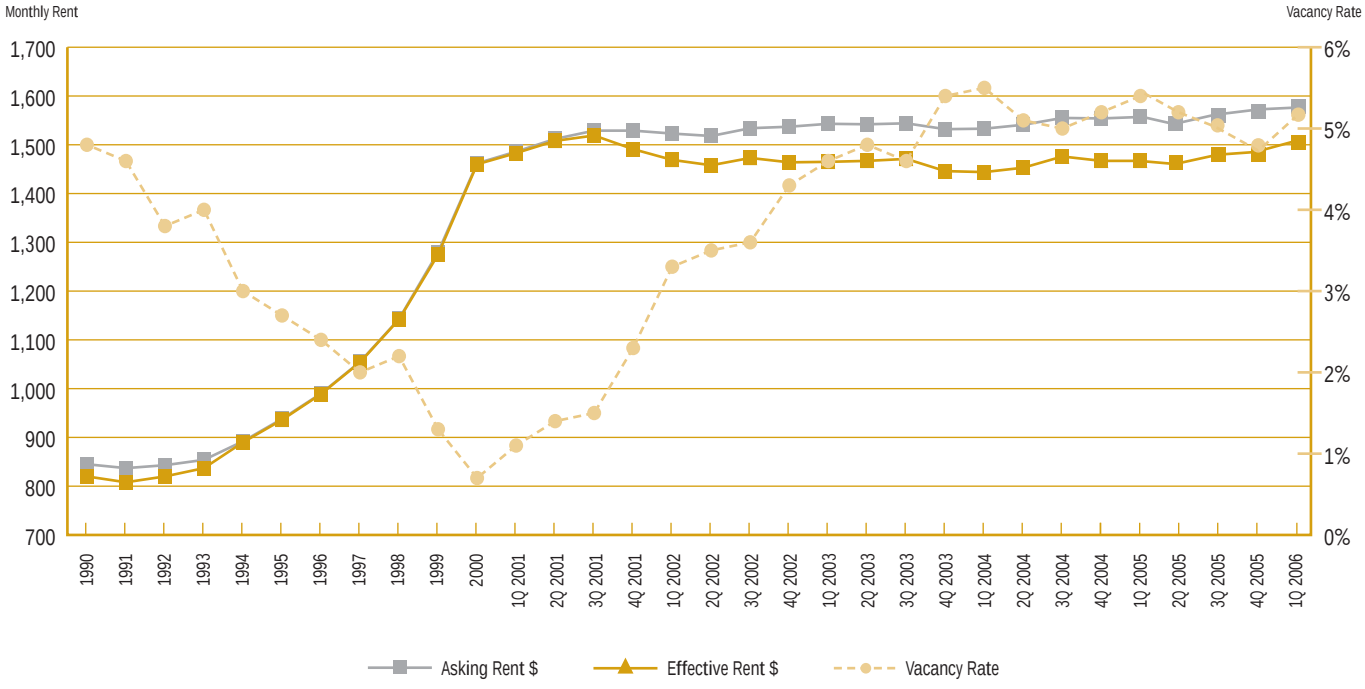
As the rental vacancy rate declined steadily throughout the 1990s, rents in the Greater Boston region rose sharply. According to Reis.com, the vacancy rate of rental units declined from a "normal" level of 5 percent in 1990 to little more than 0.5 percent in 2000. The response was a near doubling of monthly rents from about $825 to $1,500 (See **Figure 4.1**). But beginning in the first quarter of 2001, just as the Massachusetts economy began to slip into recession, vacancy rates began to increase and they did so at a rate much faster than the previous decline. In just two years, the rental vacancy rate was back to "normal." By the fourth quarter of 2004, it had reached 5.5 percent.

The price response was almost immediate. Asking rents stopped increasing and effective rents declined. Depending on the source – asking rents vs. effective rents vs. advertised rents – and the community, rents declined between 2001 and the end of 2004 by anywhere from about 3 percent to 14 percent or more. This decline was welcome news to many renters, but did little to make apartments affordable to low and moderate income tenants.

However, as interest rates rose and household incomes stagnated, the demand for rental units increased. Individuals and families who might have been ready to purchase their first home deferred their purchase, taking a "wait and see" attitude toward home prices. This behavior increased demand for rental units. At the same time, the supply of rental units was diminished by the continued conversion to condos. The result was that for the first time since 1999 vacancy rates declined – from a little over 5.5 percent in the first quarter of 2004 to just 5.0 percent in the last quarter of 2005. With this slight tightening in the rental market, rents began once again to increase in at least some cities and towns in Greater Boston and in some City of Boston neighborhoods. Overall, according to Reis.com, the median effective rent reached $1,501 in April 2006, the first time it had reached the $1,500 mark since the second quarter of 2001.

FIGURE 4.1

Historic Apartment Rent and Vacancy Data



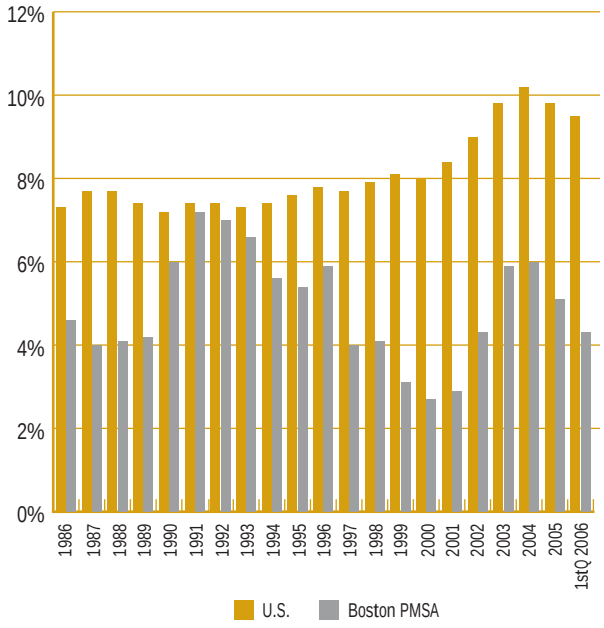
Source: Reis.com

There are between 7,500 and 8,000 new rental units under construction and more than 10,000 in the planning and permitting process. If all of these are ultimately built and brought to market over the next three years, vacancies may rise and rents could subsequently level off again. Even then, Greater Boston is likely to remain one of the nation's most expensive rental markets.

As **Figure 4.2** demonstrates, even in recovery, Boston's rental vacancy rates remain well below national levels. Not since 1990-1992 have rental vacancy rates in Boston been close to the national rate. In the second quarter of 2006, they were back down to 4 percent compared with a national rate in excess of 9 percent. Production in the region will have to increase still further or demand decline even more for vacancy rates in Greater Boston to approach national levels.

FIGURE 4.2

Rental Vacancy Rates U.S. v Boston PMSA



Source: U.S. Census Bureau Quarterly Vacancy Survey

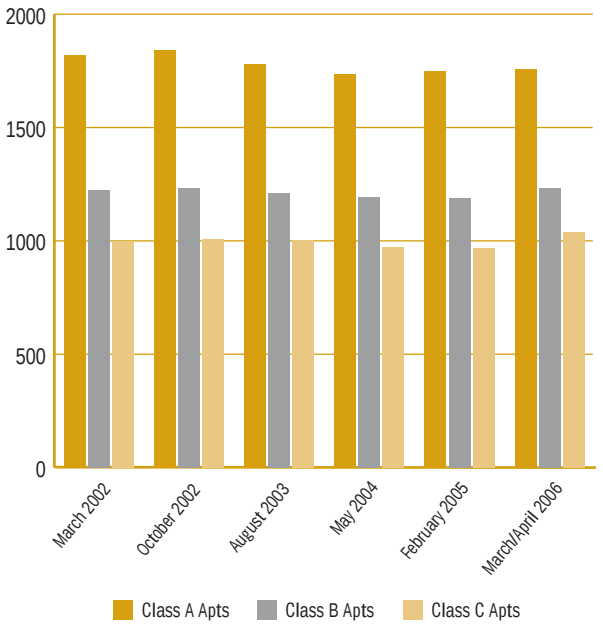
NAA Estimates by Property Class

The data from Northeast Apartment Advisers (NAA) provides a breakdown in effective rents for Class A, B, and C apartments with Class A being the most expensive. The NAA survey results bear out the trends documented in the Reis.com data and add insight into the variation in rent patterns across the different classes of property.

Following the rapid run-up documented in Figure 4.1, rents across all classes slowed to just about 1 percent in 2002, before declining modestly for two years. Between October 2002 and May 2004 rents in Class A properties declined by 5.7 percent, while rents in Class B and C properties fell 3.4 percent. Between May of 2004 and February 2005 rents again stabilized, with Class A properties posting an increase of less than 1 percent and Class B and C dropping by less than 1 percent. Rents rose again between February 2005 and March 2006 but while the increase was quite modest in Class A properties – again less than 1 percent – Class B properties saw rents rise by 3.8 percent. In class C properties, the most affordable inventory, rents jumped by 7.4 percent. As a result, by March 2006 rents in Class A properties were still 3.4 percent lower than they had been four years earlier and in Class B properties, they were less than 1 percent above that level. But in Class C properties rents were 4.3 percent higher than they had been four years earlier. (See **Figure 4.3**).

FIGURE 4.3

Effective Rents by Property Class



Source: Northeast Apartment Advisors, Inc. "Boston Metro Apartment Market Research Report"

Boston Globe Advertised Rents

The City of Boston Department of Neighborhood Development's (DND) survey of advertised rents in The Boston Sunday Globe provides a good indicator of market conditions faced by those currently seeking to rent an apartment. Most of the 25 surveyed communities saw rents rise sharply between 1998 and 2001, before dropping back modestly (See **Table 4.1**). In each of the communities for which there was sufficient data in both years, rents increased by more than 20 percent. Most experienced substantially higher increases: over 50 percent in three communities and between 30-50 percent in nine others. As the market softened between 2001 and 2004, and rents fell, the decline was much more modest. Advertised rents dropped in all but one community, in nine cases by less than 10 percent and in seven by 10-15 percent. In only two towns the drop was greater than 15 percent.

While most agreed that the rental market had regained some stability, landlords and tenants alike have reported that market trends were much less consistent within and among communities in 2005, and the DND survey supports this conclusion. In 13 communities, the median advertised rent for a two-bedroom apartment in 2005 was within 5 percent of its 2004 level, with three communities unchanged, four edging up, and six dropping. Three others dropped by more than 5 percent while four rose by that amount. The most dramatic increase – more than 25 percent – was in Chelsea, the city with the lowest income of the surveyed communities.

A similar pattern was evident in the City of Boston's neighborhoods. Asking rents rose sharply between 1998 and 2001; their decline since has been at a much more modest pace. (See **Table 4.2**) With the exception of the highest cost Central (downtown) area, all Boston neighborhoods witnessed at least a 25 percent increase in advertised rents between 1998 and 2001. In four of the 15 neighborhoods, the increase exceeded 40 percent. Between 2001 and 2004, the situation reversed

TABLE 4.1

Median Advertised Rents for 2-Bedroom Apartments in Boston Area Cities and Towns 1998 - 2005

City/Town	1998	2001	2002	2003	2004	2005	%Change 1998-2001	%Change 2001-2004	%Change 2004-2005
Arlington	$1,100	$1,500	$1,400	$1,350	$1,300	$1,250	36.4%	-13.3%	-3.8%
Belmont	$1,225	$1,600	$1,450	$1,395	$1,350	$1,350	30.6%	-15.6%	0.0%
Brookline	$1,400	$1,800	$1,700	$1,600	$1,650	$1,838	28.6%	-8.3%	11.4%
Cambridge	$1,400	$1,750	$1,650	$1,600	$1,550	$1,600	25.0%	-11.4%	3.2%
Canton	n/a	**	$1,200	$1,250	$1,300	**	**	**	**
Chelsea	$1,100	$1,350	$1,200	$1,200	$1,195	$1,500	22.7%	-11.5%	25.5%
Dedham	$1,000	$1,275	$1,300	$1,250	$1,100	$1,200	27.5%	-13.7%	9.1%
Everett	$775	$1,200	$1,100	$1,100	$1,100	$975	54.8%	-8.3%	-11.4%
Lexington	$1,300	$1,648	$1,800	$1,800	$1,600	$1,500	26.8%	-2.9%	-6.3%
Malden	$850	$1,250	$1,250	$1,200	$1,175	$1,190	47.1%	-6.0%	1.3%
Medford	$950	$1,400	$1,325	$1,250	$1,200	$1,200	47.4%	-14.3%	0.0%
Melrose	$950	$1,400	$1,300	$1,249	$1,275	$1,295	47.4%	-8.9%	1.6%
Milton	n/a	**	$1,500	$1,400	$1,400	**	**	**	**
Needham	n/a	**	$1,400	$1,400	$1,350	$1,475	**	**	9.3%
Newton	$1,300	$1,600	$1,500	$1,450	$1,450	$1,400	23.1%	-9.4%	-3.4%
Quincy	$850	$1,250	$1,375	$1,300	$1,300	$1,250	47.1%	4.0%	-3.8%
Revere	$788	$1,288	$1,200	$1,200	$1,100	$1,098	63.5%	-14.6%	-0.2%
Saugus	n/a	n/a	$1,275	**	$1,150	**	**	**	**
Somerville	$1,050	$1,400	$1,350	$1,300	$1,298	$1,200	33.3%	-7.3%	-7.6%
Stoneham	n/a	n/a	$1,200	$1,200	$1,225	**	**	**	**
Waltham	$975	$1,350	$1,300	$1,175	$1,250	$1,200	38.5%	-7.4%	-4.0%
Watertown	$1,200	$1,500	$1,400	$1,300	$1,300	$1,250	25.0%	-13.3%	-3.8%
Westwood	n/a	**	**	**	$1,200	**	**	**	**
Winchester	$1,050	$1,750	$1,500	$1,350	$1,350	$1,373	66.7%	-22.9%	1.7%
Winthrop	$900	$1,228	$1,300	$1,300	$1,200	$1,200	36.4%	-2.3%	0.0%
Lynn						$1,000			**
Framingham						$1,075			**

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

TABLE 4.2

Median Advertised Rents for 2-Bedroom Apartments in City of Boston Neighborhoods 1998 – 2005

City/Town	1998	2001	2002	2003	2004	2005	%Change 1998-2001	%Change 2001-2004	%Change 2004-2005
Allston / Brighton	$1,200	$1,500	$1,450	$1,350	$1,300	$1,300	25.0%	-13.3%	0.0%
Back Bay / Beacon Hill	$1,900	$2,400	$2,100	$2,250	$2,250	$2,450	26.3%	-6.3%	8.9%
Central	$2,200	$1,875	$1,998	$2,100	$2,200	$2,200	-14.8%	17.3%	0.0%
Charlestown	$1,400	$1,925	$1,800	$1,700	$1,650	$1,550	37.5%	-14.3%	-6.1%
Dorchester	$800	$1,295	$1,300	$1,250	$1,300	$1,200	61.9%	0.4%	-7.7%
East Boston	**	$1,200	$1,200	$1,150	$1,100	$1,100	**	-8.3%	0.0%
Fenway / Kenmore	$1,350	$1,900	$1,613	$1,650	$1,498	$1,225	40.7%	-21.2%	-18.2%
Hyde Park	$850	$1,275	$1,250	$1,325	$1,250	$1,200	50.0%	-2.0%	-4.0%
Jamaica Plain	$1,100	$1,400	$1,500	$1,400	$1,325	$1,400	27.3%	-5.4%	5.7%
Mattapan	**	$1,250	**	$1,350	$1,200	$1,200	**	-4.0%	0.0%
Roslindale	$900	$1,300	$1,300	$1,250	$1,225	$1,225	44.4%	-5.8%	0.0%
Roxbury	**	$1,300	$1,398	$1,350	$1,250	$1,200	**	-3.8%	-4.0%
South Boston	$1,200	$1,500	$1,450	$1,400	$1,400	$1,400	25.0%	-6.7%	0.0%
South End	$1,500	$2,000	$1,800	$1,900	$1,950	$2,200	33.3%	-2.5%	12.8%
West Roxbury	$1,000	$1,400	$1,300	$1,300	$1,225	$1,250	40.0%	-12.5%	2.0%

Note: ** indicates there were fewer than 10 advertised rents in the sample; medians and changes in volume are not calculated.

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

itself: advertised rents dropped in 13 neighborhoods, while remaining essentially unchanged in Dorchester. The Central district was again the exception with advertised rents there rising regardless of the trend elsewhere. As was the case in the surrounding communities, the drop in asking rents in Boston was modest compared to their steep rise over the prior four years: four registered a drop of less than 5 percent, five between 5 and 10 percent and just three saw rents decline by 10 to 15 percent. Only in the Fenway / Kenmore neighborhood did the drop exceed 20 percent.

Likewise, the 2005 trend within the city was much as it was in the communities surveyed outside of Boston. Advertised rents were down in five neighborhoods, unchanged in six and up in four. In most, the change from 2004 was minimal: two dropped by less than 5 percent and one rose by that amount. In three of the city's highest cost rental markets – Back Bay / Beacon Hill, Jamaica Plain and the South End – advertised rents were up by more than 5 percent in 2005, in the South End by nearly 13 percent. In three neighborhoods asking rents dropped by more than 5 percent: Charlestown, Dorchester and Fenway / Kenmore. Advertised rents in Fenway / Kenmore in 2005 were 35 percent below their 2001 peak.

In sum, while the trend in rent varies substantially between communities, the general decline in rents experienced between 2001 and 2004 appears to be over – at least for the time-being. If the units now under construction and those permitted awaiting construction come into the market in 2006 or early 2007, there is a chance that rents will stabilize again and may once again decline modestly. But unless there is a substantial acceleration in population out-migration from Greater Boston, there is little reason to believe that rents will fall dramatically from their near record highs.

Rental Affordability

Despite the fact that rent levels have fallen from their 2001 peaks and those tenants who can afford to pay in excess of $1,500 a month have a wider selection of units from which to choose, many Boston area renters are actually faring worse today than they had at the market's peak. Low-income renters, especially those seeking larger units, continue to have a difficult time. The 2004 Census-based *Annual Community Survey* documented the fact that by 2004 over half of all tenants in the Boston PMSA were paying more than 30 percent of their income for rent, including 20 percent who paid in excess of 50 percent. Because most cost burdened tenants are those with the lowest incomes, they are left with little for other basic necessities like food, health care and child care.

The problem is twofold. First, renters in general have lower incomes than homeowners. (Refer to Table 2.1.) And second, the supply of privately owned low rent apartments is rapidly disappearing. **Tables 4.3** and **4.4** illustrate the problem. Table 4.3 portrays the income distribution of the region's households, both renters and homeowners. Its companion, Table 4.4 indicates the number of apartments in various price ranges in 2000 and in 2004. While the income categories do not align with the rent categories, the tables clearly illustrate the mismatch. There are more than 172,300 renter households in need of units priced below $500 per month, but by 2004 there were just over 96,000 units renting at that price level (55 percent of what is required).

In its most recent annual assessment of least affordable rental markets, *Out of Reach 2005*, the National Low-income Housing Coalition (NLIHC) ranked Massachusetts 3rd, after California and Hawaii. The Commonwealth has held one of the top four positions since 2000. The Boston-Cambridge-Quincy metro area ranked 7th. (It has ranked between 5th and 7th since 2000.) California metro areas dominate the list; the only other east coast metro areas that regularly appear on the least affordable list are Stamford-Norwalk, Connecticut and Westchester County and Nassau-Suffolk, New York.

In its prior year's assessments, the NLIHC focused attention on America's lowest income wage earners – those making the minimum wage – and the impact of high rents on this segment of the population. For 2005, it compared rent levels to the mean renter wages in each locality, shifting the analysis beyond those on the lowest rung of the economic ladder to the larger issue of workforce housing. By this standard, a renter earning the average Boston wage of $18.41 per hour could "afford" to pay $957, considerably less than the HUD fair market rent levels, which were $1,128 for a one-bedroom apartment and $1,324 for a two-bedroom apartment in 2005.

While Boston is noteworthy for its extremely high rent levels, tenants in many parts of the country lost purchasing power between 2000 and 2004. This was true in the Commonwealth as well. In 2000, 38.7 percent of Massachusetts renters were cost burdened and 18.3 percent were severely cost burdened. By 2004, 45.5 percent of Bay Staters were cost burdened and 21.4 percent were severely cost burdened.

Home Prices and Sales Fall as Inventories Rise

In contrast to the recent trends in rents, housing prices in Greater Boston continued to rise right through 2005, albeit at a continually decreasing rate since 2002. Then, during the first six months of 2006 the median price of a single-family house declined for the first time in 14 years. Even though sales of single-family homes in Greater Boston fell more than 9 percent in 2005, they remained at historically high levels. Condominium sales continued to rise, by 14 percent, to an all-time high in 2005.[31] The median price of a single-family home rose to a record $394,874, but this represented just a 5.1 percent increase over 2004, the smallest increase in eight years. The median condominium price increased 6.4 percent to a record $300,146. In most locations and price points, buyers are finding a greater selection of homes to choose from. The exception is moderately priced housing suitable to attract and retain a young workforce.

The market has continued to soften in 2006. According to The Warren Group Publications, sales of single-family homes and condominiums were down nearly 10 and 7 percent, respectively, through June. The median price of a single-family home dropped 3.3 percent during the same six months to approximately $381,676. The median price of a condominium rose at its slowest rate in more than a decade, 0.8 percent, to $302,530.[32] (See **Figure 4.4**).

TABLE 4.3

Income Distribution of Greater Boston Households

Income	Homeowners		Renters		"Affordable" Housing Payment @ 30% of Income	
Bracket	Number	Cumulative	Number	Cumulative	Low End	High End
Less than $5,000	15,734	1.5%	34,913	6.0%	$0	$125
$5,000 to $9,999	15,764	2.9%	52,194	15.1%	$125	$250
$10,000 to $14,999	29,957	5.7%	52,855	24.2%	$250	$375
$15,000 to $19,999	27,638	8.3%	32,345	29.8%	$375	$500
$20,000 to $24,999	34,196	11.5%	31,180	35.2%	$500	$625
$25,000 to $34,999	62,559	17.4%	66,539	46.7%	$625	$875
$35,000 to $49,999	124,970	29.1%	90,417	62.3%	$875	$1,250
$50,000 to $74,999	201,988	47.9%	106,810	80.8%	$1,250	$1,875
$75,000 to $99,999	179,793	64.8%	51,859	89.7%	$1,875	$2,500
$100,000 to $149,999	215,377	84.9%	41,641	96.9%	$2,500	$3,750
$150,000 or more	161,523	100.0%	17,811	100.0%	$3,750	>$3,750

Source: U.S. Census Bureau, ACS 2004

TABLE 4.4

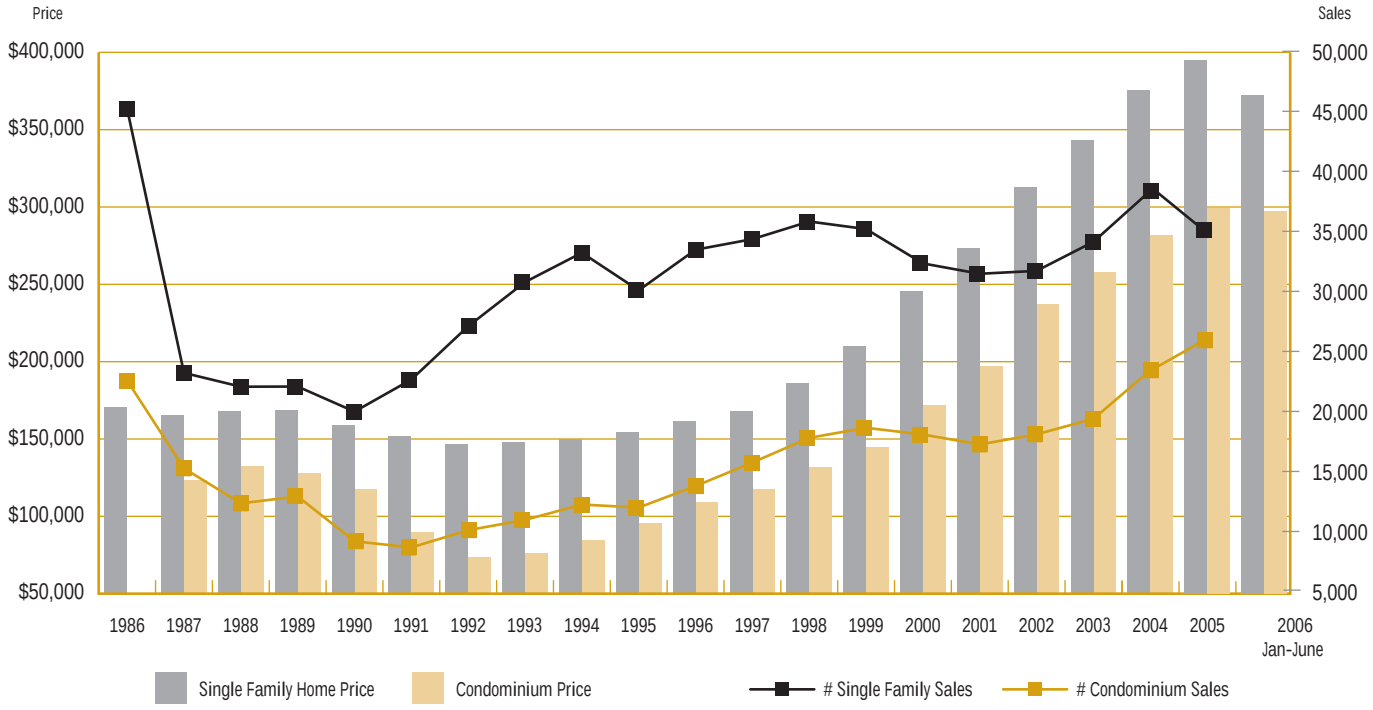
Greater Boston Rental Inventory by Rent Level 2000 – 2004

Gross Rent	2000	2004	Change 2000-2004	% in Price Range 2004
Total	**543,574**	**470,550**	-13.4%	
Less than $300	76,432	57,749	-24.4%	12.3%
$300 to $499	55,087	38,437	-30.2%	8.2%
$500 to $749	131,592	52,386	-60.2%	11.1%
$750 to $999	185,591	82,189	-55.7%	17.5%
$1,000 to $1,499	66,530	155,837	134.2%	33.1%
$1,500 or more	28,342	83,952	196.2%	17.8%

Source: 2000 U.S. Census SF3 Table H62, 2004 ACS Table 25063

FIGURE 4.4

Number of Sales and Median Price of Single-Family Homes and Condominiums



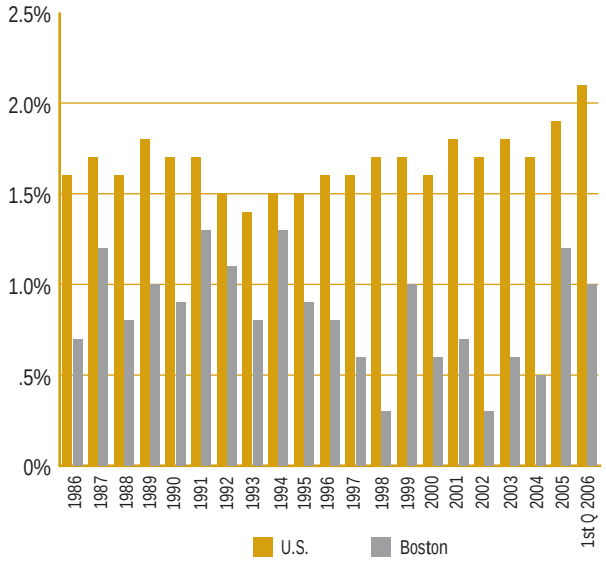
Source: The Warren Group Publications

This softening of the market is consistent with the increasing vacancy rates experienced in 2005 and through the first months of 2006. **Figure 4.5**, the companion to Figure 4.2, tracks homeowner vacancy rates in the Boston PMSA against national norms. Homeowner vacancy rates locally fluctuate more than rental rates do. In general, though, there is a direct correlation between vacancy rates and market activity: sales slow when vacancy rates rise. This is what is happening now on the national level as well as locally, as Figure 4.5 illustrates. And as was the case with rental vacancy rates, Boston's homeowner vacancy rates remain well below national norms. Not since 1994 has the Greater Boston homeowner vacancy rate come close to the national rate. As of June of 2006, the rate was half that prevailing nationwide.

It is worth noting here that housing prices in the second half of 2005 and the first half of 2006 have followed closely the forecasts of the New England Economic Partnership (NEEP), a nonprofit organization that provides objective economic analyses and

FIGURE 4.5

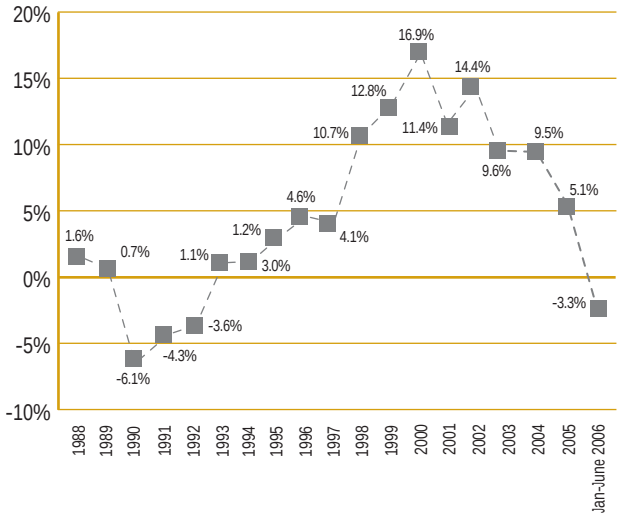
Homeowner Vacancy Rates U.S. v Boston PMSA



Source: U.S. Census Bureau Quarterly Vacancy Survey

FIGURE 4.6

Year-Over-Year Change in Median Single-Family Home Prices



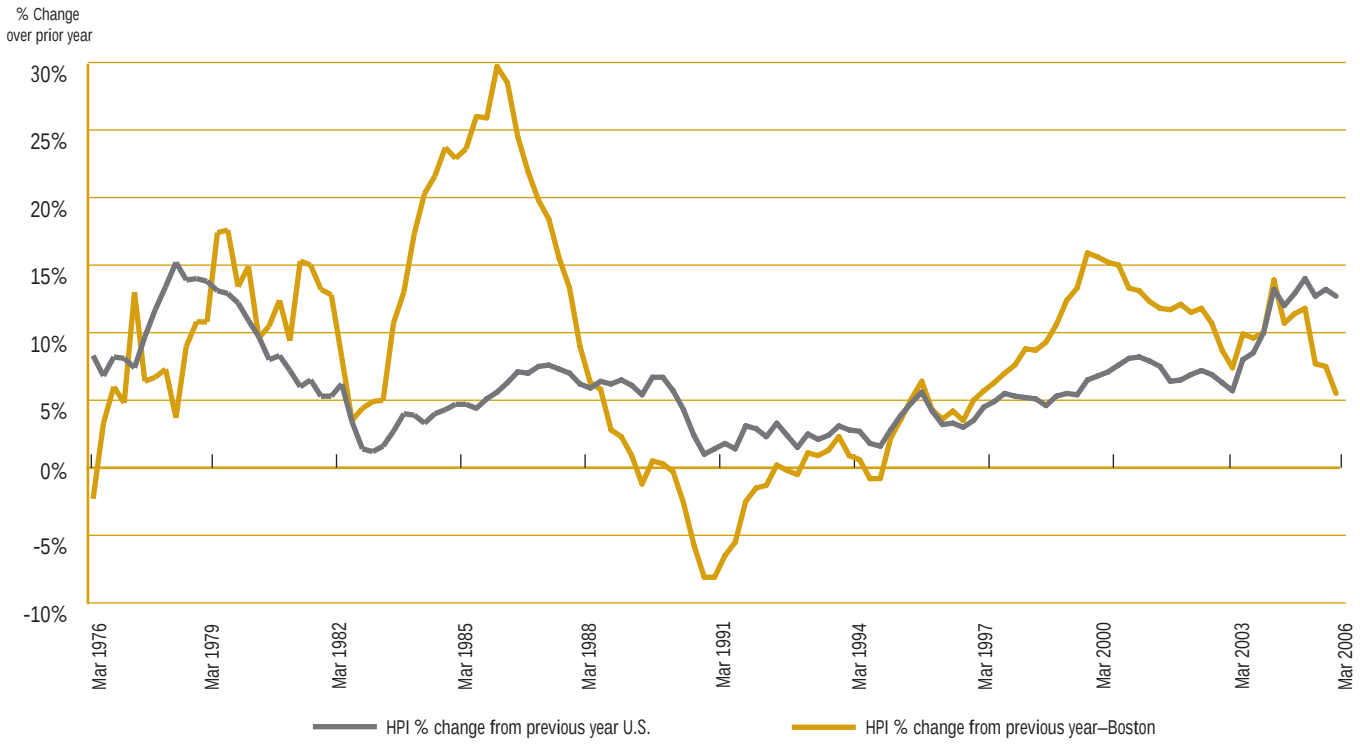
Source: The Warren Group

forecasts to financial institutions, utilities, insurance providers, government agencies, academic institutions, business services firms, health care organizations, and others. Prepared by in-house economic experts, NEEP's forecasts are based on econometric models prepared by Economy.com, a leader in analyzing the U.S. economy, financial markets, and regions.

Taking into consideration such factors as an expected weakening in the labor market and increases in interest rates, the NEEP model predicted a steady decline in housing price appreciation from the second quarter of 2005 through the third quarter of 2006, with prices falling slightly, beginning in the second quarter of this year. The model also suggests that prices will stop falling in the second quarter of 2007. What this means is that general economic conditions can explain the recent pattern of housing prices and that no burst housing bubble is on the horizon – unless, of course, the economy deteriorates dramatically.

FIGURE 4.7

Home Price Index Boston Metro v U.S.



Source: Office of Federal Housing Enterprise Oversight House Price Index

TABLE 4.5

Home Price Distribution Shifts Upward

# of Communities with Median Single-Family Sales Price	1998	2000	2001	2002	2003	2004	2005
Below $100,000	4	0	0	0	0	0	0
$100,000 - $199,999	82	41	14	5	0	0	0
$200,000 - $299,999	50	68	74	62	43	19	7
$300,000 - $399,999	16	32	42	52	61	74	71
$400,000 - $499,999	4	10	12	22	30	33	40
$500,000 - $999,999	4	9	18	19	25	35	39
$1,000,000 and Above	0	0	0	0	1	1	4

% of Communities with Median Single-Family Sales Price	1998	2000	2001	2002	2003	2004	2005
Below $100,000	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
$100,000 - $199,999	51.3%	25.6%	8.8%	3.1%	0.0%	0.0%	0.0%
$200,000 - $299,999	31.3%	42.5%	46.3%	38.8%	26.9%	11.9%	4.4%
$300,000 - $399,999	10.0%	20.0%	26.3%	32.5%	38.1%	46.3%	44.4%
$400,000 - $499,999	2.5%	6.3%	7.5%	13.8%	18.8%	20.6%	25.0%
$500,000 - $999,999	2.5%	5.6%	11.3%	11.9%	15.6%	21.9%	24.4%
$1,000,000 and Above	0.0%	0.0%	0.0%	0.0%	0.6%	0.6%	2.5%

% of Communities with Median Single-Family Sales Price	1998	2000	2001	2002	2003	2004	2005
Below $300,000	85.0%	68.1%	55.0%	41.9%	26.9%	11.9%	4.4%
$300,000 - $499,999	12.5%	26.3%	33.8%	46.3%	56.9%	66.9%	69.4%
$500,000 and Above	2.5%	5.6%	11.3%	11.9%	16.3%	22.5%	26.9%

Source: The Warren Group Publications

Figure 4.6 presents the percentage change in the median single-family home price from 1988 on. This figure illustrates that during the previous economic downturn from 1989 to 1992 housing prices actually declined for three years in a row, losing about 14 percent of their value. Despite the 2001 economic downturn and subsequent period of lackluster economic growth, price appreciation remained in positive territory – until the first half of 2006.

Figure 4.7 illustrates what was happening in terms of price appreciation on a national level. That Massachusetts, and Greater Boston in particular, experienced the highest level of home price appreciation since 1980 is a frequently cited statistic. What is less well understood is how much of that increase was driven by the frenzied price rises of the 1980s, increases that were off a 1980 baseline price that closely resembled the national average. Over the past five years, Boston's rate of price appreciation ranked 84th out of 275 metro areas. For the year ending March 31, 2006, Boston ranked 190th; and for the first quarter of 2006, it fell to 201st. This does not, however, diminish the affordability challenge

TABLE 4.6

Snapshot of Massachusetts' Shifting Housing Market

Single Family Homes	Supply in Months	% Change	# of Listings	% Change	# of SF Homes Sold	% Change	Median Sales Price	% Change in Median Price from Prior Yr	Avg Listing Time (days)	% Change
Jun-04	5.0	-18.0%	29,712	-4.5%	6,051	24.7%	$360,000	12.8%	NA	NA
Jun-05	5.9	18.0%	35,820	20.6%	6,115	1.1%	$373,750	3.8%	84	NA
Jun-06	7.6	28.8%	38,664	7.9%	5,105	-16.5%	$370,000	-1.0%	111	32.1%

Condominiums	Supply in Months	% Change	# of Listings	% Change	# of Condos Sold	% Change	Median Sales Price	% Change in Median Price from Prior Yr	Avg Listing Time (days)	% Change
Jun-04	5.0	-20.6%	11,662	12.7%	2,329	44.5%	$265,000	12.8%	NA	NA
Jun-05	5.5	10.0%	15,362	31.7%	2,781	19.4%	$286,750	8.2%	66	NA
Jun-06	7.5	36.4%	17,830	16.1%	2,382	-14.3%	$283,500	-1.1%	98	48.5%

Source: Massachusetts Association of Realtors Monthly Reports

the region's high prices pose, or the threat to its economic competitiveness. It does, however, put the local run-up in prices into its proper national context.

Table 4.5 underscores how dramatically the sales price profile of the region has shifted. In 1998 the median price of a home was less than $300,000 in 136 cities and towns. That number has dropped year by year. By 2005, the median single-family home sold for less than $300,000 in only seven municipalities – less than 5 percent of the region's 161 communities. At the other end of the spectrum, the number of communities with median single-family home prices above $500,000 increased during the same period, from 4 to 43; in four of these communities the median price topped $1,000,000 in 2005.

Industry analysts consider the Massachusetts market to be at equilibrium for buyers and sellers when 7.5 to 8.5 months of housing supply exists. At the end of 2004, a year in which single-family home sales reached an 18-year high, there was a 5.8 month supply of housing available for sale. A year later it stood at 8.3 months. It rose to an extraordinary 10.7 months in May of 2006, before dropping back to 7.6 percent in June as many discretionary sellers took their homes off the market. **Table 4.6** illustrates this shifting market, using statewide data from the Massachusetts Association of Realtors.

Home Ownership Affordability

Median home prices, which ranged from $243,950 in Lawrence to $1.2 million in Weston, rose in 147 communities between 2004 and 2005, and dropped in 13, similar to 2004's performance. Comparing January–May 2006 with the same five months in 2005, however, only 65 communities registered increases in their median home price; in 96 others, the median home price was unchanged or declined. (Municipalities with the highest and lowest home prices are included in **Appendix A**.)

As it has done in past years, CURP has prepared a town by town "affordability gap" analysis for the 2005-2006 *Report Card*. This analysis estimates the number of communities that would be affordable to their existing residents if those residents were attempting to purchase a home there in 2005. A municipality's housing is considered "affordable" for this analysis if the annual cost of supporting a mortgage, real estate taxes, and homeowners insurance does not exceed one-third of the annual median income of households in that community. CURP also estimated the affordability gap for those unable to come up with a 20 percent down payment. Considered a "first time homebuyer" analysis, the calculation is the same but both the homebuyer's household income and the purchase price of

TABLE 4.7

Summary of Affordability Gap Analysis

Year	Median Income Homebuyer Purchasing Median Priced House (20% downpayment)	Percent Affordable	First Time Homebuyer Earning 80% of Median Purchasing House Priced at 80% of Median (10% downpayment)	Percent Affordable
1998	148	92%	116	72%
2000	101	63%	87	54%
2001	86	53%	42	26%
2002	77	48%	17	11%
2003	59	37%	5	3%
2004	27	17%	1	<1%
2005	19	12%	0	0%

Source: The Warren Group Publications

the home are estimated to be just 80 percent of the median for the community and the down payment is assumed to be 10 percent.

The number of communities where the median single-family home would be affordable to a family earning that community's median household income, which had dropped from 148 municipalities in 1998 to only 27 in 2004, fell still further to just 19 in 2005. The situation was even worse for first-time homebuyers. The one community that had been affordable to a first time homebuyer lost that distinction in 2005. Ninety-two percent of the region's communities were considered "affordable" by this analysis in 1998. By 2005, only 12 percent were. (See **Table 4.7**). The detailed listing is included in **Appendix B**.

Condominiums have historically provided a more affordable alternative for homebuyers, and that is generally still true in Greater Boston. In preparing the 2005 affordability gap analysis, CURP examined whether condominiums represented an affordable option in those cities and towns where single-family homes were not. In 50 communities, the median priced condominium was not an affordable option, and in 14 of those where it was, the median single-family home was also affordable. In 22 others, there were either no condo sales or they represented less than 10 percent of all sales. But in 85 Greater Boston cities and towns, condominium ownership *may* represent an affordable option. (This analysis did not ascertain the size or condition of the properties sold, or whether they were age restricted.)

Interest rates for much of 2005 were comparable to what they were in 2004. The recent rate run-up, which has now added nearly a full point to borrowing costs, did not begin until the final quarter of the year, about the same time that prices began to soften. CURP reran its affordability analysis for the first five months of 2006 to determine whether rising interest rates would more than offset dropping home prices, resulting in a further erosion of affordability, or whether the situation would have improved. At a 6 percent interest rate, eight more communities slip into the *unaffordable* category. Fifteen communities, however, became more affordable. These tended to be high income, affluent towns where the median price dropped significantly. Many of these towns had just a small number of sales during the first five months; it is unlikely that the value of their homes over the course of the full year will be so dissimilar to neighboring towns or the region as a whole.

TABLE 4.8

2005 Profile of Homebuyers, Massachusetts v U.S.

All Home Buyers	MA	U.S.
Median Income	$87,700	$71,600
Median Price of Home Purchased	$352,000	$195,000
Median % Financed	81%	87%
% Purchasing Homes Price <$150,000	4%	33%
% Purchasing Homes Price <$200,000	14%	52%
% Purchasing Newly Constructed Home	11%	23%
Median Price of a Newly Constructed Home	$418,500	$226,300
Of Newly Constructed Home Buyers, % Paying <$200,000	0%	41%
Of Newly Constructed Home Buyers, % Paying <$300,000	25%	70%
Of Newly Constructed Home Buyers, % Paying >$500,000	32%	9%
% Purchasing Detached Single-Family Home	69%	75%
% Purchasing Townhouse / Row House	7%	9%
% Purchasing Unit in Building with 2-4 Units	7%	7%
% Purchasing Unit in Building with 5 or More Units	11%	2%
Price per Square Foot by Type of Home		
Detached Single-Family	$206	$106
Townhouse	$224	$124
Unit in 2-4 Unit Structure	$277	$100
Unit in Structure with 5 or More Units	$252	$163

First Time Home Buyers	MA	U.S.
Median Income	$80,200	$57,200
Median Price of Home Purchased	$296,000	$150,000
Median % Financed	81%	87%
% with Incomes <$45,000	12%	32%
% with Incomes <$55,000	19%	47%
% with Incomes <$75,000	27%	16%
First Time Buyers as % of All Home Buyers	43%	40%
Median Age of First Time Buyers	32	32
% < Age 25	5%	14%
% Purchasing Detached Single-Family Home	65%	69%
% Purchasing Townhouse / Row House	5%	11%
% Purchasing Unit in Building with 2-4 Units	16%	9%
% Purchasing Unit in Building with 5+ Units	7%	3%

Source: National Association of Realtors

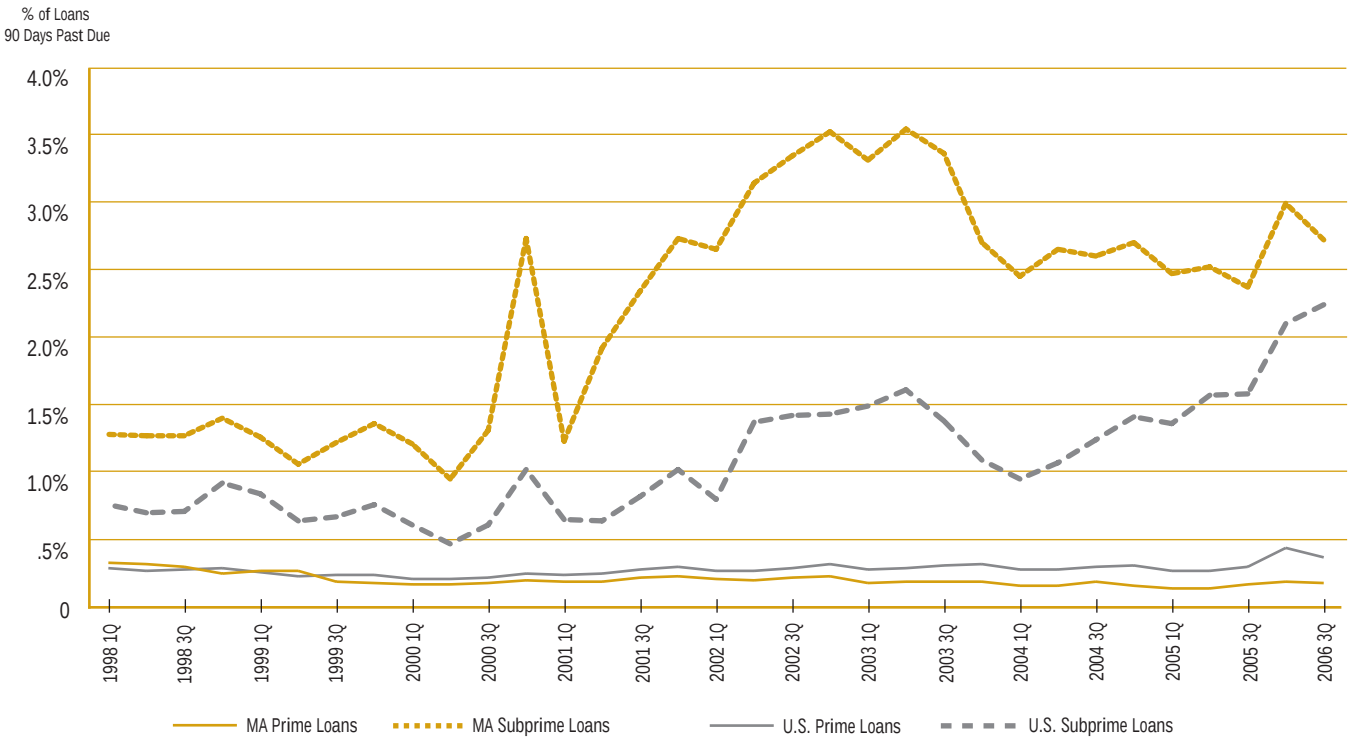
How Do Homebuyers in Massachusetts Compare to Those Elsewhere?

For several years CURP has examined industry surveys and reports to ascertain if, and how, Massachusetts homebuyers differ from their counterparts in other parts of the country. We were particularly interested in understanding how the state's high home prices were affecting first time home buyers. One valuable resource is the *Profile of Home Buyers and Sellers*, an annual survey undertaken by the National Association of Realtors in cooperation with their state affiliates, including the Massachusetts Association of Realtors. The most recent Profile is based on an eight-page questionnaire mailed to 4,000 Massachusetts consumers who bought a home between August 2004 and July 2005. The survey yielded 348 usable responses, a 4 percent rate.

Table 4.8 highlights some of the findings of the survey. While the typical household in Massachusetts had an income which was no more than 23 percent higher than the typical household nationwide ($87,700 vs. $71,600), the median price of a Massachusetts home was 80 percent higher ($352,000 vs. $195,000). While a third of homes purchased nationwide sold for less than $150,000, only 4 percent did so in Massachusetts. While over half (52%) of homes purchased nationwide sold for less than $200,000, only one in seven (14%) did so in the Commonwealth. The price of a newly constructed home in Massachusetts averaged 85 percent higher than the typical new house elsewhere – and this was not because homes here were larger. On a price per square foot basis, the price ranged from nearly double to nearly triple the U.S. rate. And because of the lower price, nearly three times as many first time homebuyers were less than 25 years old in the U.S. as in Massachusetts.

FIGURE 4.8

Mortgage Delinquencies, Massachusetts v U.S.



Source: Mortgage Bankers Association of America

Are Massachusetts Home Buyers Over-Extended?

To help homebuyers qualify for financing, the mortgage industry in recent years has designed and marketed a host of new products with features that reduce or eliminate the down payment; make it easier for those with little or no credit history, or a blemished credit history, to qualify for a loan; and / or reduce the monthly payment in the early years of the mortgage. Home sales rose to record levels nationwide as interest rates remained at, or near, historic lows. Many parts of the country experienced much higher levels of investment and second home purchases than Boston, although such purchases have increased here as well.

With interest rates rising and home price inflation moderating – in some cases dropping – an increasing number of homeowners who bought recently with alternative types of mortgage financing are at risk. Boston area mortgage delinquencies and foreclosures remain well below the national average, but they have increased significantly. This is illustrated in **Figure 4.8** which tracks mortgage delinquencies in Massachusetts and for the nation as a whole. In addition to their impact on home buyers, easy credit and interest rates that remain relatively low have encouraged more and more existing homeowners to take equity out of their homes, many through subprime loans. Figure 4.5 also includes delinquency data for subprime loans. While Massachusetts loans in this category perform better than the national average in this category as well, it is clear that they present a higher risk and greater volatility than conventional loans.

It is important to understand that responsible subprime lending can benefit borrowers – existing homeowners as well as those wishing to buy – who might not otherwise be able to access credit. Subprime loans carry a higher interest rate and fees to compensate the lender for the increased risk attendant in lending to those with poorer credit. However, many reports and government investigations have revealed that a great deal of subprime lending does not fall into the category of responsible lending; and much of it would be considered predatory. Beginning in 2004, mortgage lenders were required to report information on loan pricing on certain higher cost loans called HALs (high annual percentage rate (APR) loans).[33] Analysis of lending patterns from 2004, the most recent year for which data are available, confirms earlier reports that black and Latino borrowers and neighborhoods are much more likely than their white counterparts to receive such loans.[34]

Foreclosure is almost always distressing for the homeowner involved. What makes the recent increase in HALs – many of which are also adjustable rate, or no down payment – a particular concern for local officials and policy makers is their high concentration in a limited number of minority neighborhoods. In Boston, the greatest concentration of such lending has been in Mattapan, Roxbury, Dorchester, and Hyde Park, the neighborhoods with the highest percentages of minority residents. Elsewhere in the region, Lawrence, Brockton and Lowell also saw high shares of HALs.

5.
Affordable Housing Production

This section is devoted to affordable housing production in Greater Boston in 2005: what was produced, for whose benefit, where, and with what tools. Affordable housing is defined here as housing that is eligible for inclusion on the state's Subsidized Housing Inventory *and* restricted to occupancy by households earning 80 percent or less of the area median income (currently $46,300 for a single person household; $52,950 for a 2-person household; $59,550 for a 3-person household; and $66,150 for a 4-person household). This year's report also looks at the region's existing supply of affordable housing and the challenges facing that inventory and the population it serves. In addition, **Appendix C** details by community the progress each made, if any, to expand affordable housing opportunity in 2005 and what tools they used. For example, looking up Cambridge, the reader would see that the city produced new affordable units, increased its overall housing production over prior years, gained units through a successful inclusionary zoning program, and generates substantial sums of money from the Community Preservation Act for housing, among other activities.

Counting Affordable Housing

The Department of Housing and Community Development (DHCD) maintains the state's official tally of affordable housing on its Subsidized Housing Inventory (SHI, or "40B" list). These are the units that count toward a municipality's 10 percent goal under Massachusetts General Law Chapter 40B, the State's Comprehensive Permit Statute.[35] To be included on the SHI, housing must involve some government subsidy, even if just in the form of technical assistance. What constitutes an eligible "subsidy program" has changed over time, as have the production tools, but it is now broadly defined to include local initiatives that involve only minimal technical support provided by DHCD as well as developments financed by conventional lenders under the Federal Home Loan Bank of Boston's New England Fund.

The inventory includes rental as well as ownership housing, group homes for populations with special needs, and existing homes that are repaired or upgraded using state or federal resources, as long as the occupant is income eligible. In rental projects, all units count, including the market rate ones; in homeownership projects, only the affordable units count. As the definition of what counts has expanded over the years, more existing units have qualified for inclusion on the inventory. At the same time, more new rental developments have been added in which only 20-25 percent of the units are reserved for low-income tenants. As a result, it appears that the region is doing a better job of adding to its affordable inventory than it really is.

The March 2006 affordable inventory enumerated nearly 163,000 units in Greater Boston, of which the City of Boston accounts for more than 48,000, or nearly 30 percent. The reported increase between March 2005 and March 2006 was 7,400 units. More than half the additions, however, resulted from the inclusion of existing group homes serving clients of the Massachusetts Departments of Mental Health and Mental Retardation that had not previously been counted and existing owner-occupied homes that were repaired or rehabilitated under municipal programs using federal funds. Both are important housing resources to provide and to keep track of, but neither expands the supply of housing.

CURP estimates that 85 percent of the 163,000 units that count are restricted to occupancy by low-income households, and about 95 percent of these – 130,000 units – are rental.[36] When housing advocates stress the need to preserve the existing supply of affordable housing, it is these 130,000 rental units to which they are most often referring. They represent the mainstay of the region's affordable housing stock, including both its public housing and privately owned subsidized units.

Communities Achieve Important Benchmarks in 2005

Twenty Greater Boston communities had achieved the 10 percent threshold according to the March 2005 State Subsidized Housing Inventory. A year later, 27 had. The seven communities that attained that milestone in 2005 are: Bedford, Dedham, Franklin, Lexington, Peabody, Pembroke, and Revere.[37]

Eight other Greater Boston cities and towns achieved an important milestone in 2005-2006 when they received certification by DHCD under the agency's Planned Production regulation. Planned Production was introduced in 2002 to encourage communities to take a proactive approach to affordable housing development. It gives municipalities that are under the 10 percent threshold, but are making steady progress in producing affordable housing on an annual basis, more control over comprehensive permit applications.

A municipality that has a DHCD approved affordable housing plan *and certification from the agency that it has complied with that plan by having produced qualified units equal to at least ¾ of 1 percent of its year round housing stock in a calendar year* can get a one year reprieve from comprehensive permit petitions that are inconsistent with their plan. The certified communities in Greater Boston include Acton, Bedford, Billerica, Bolton, Dracut, Unstable, Lakeville, and Westford. Most received their certification in 2005. Forty-one others have had their plans approved, but have yet to meet their annual production goals. All eight certified communities achieved their certification as the result of production under the comprehensive permit.

2005 Performance Overview

Affordable housing production has increased each year since the *Housing Report Card* began tracking it in 1999. It reached its highest level yet in 2005 when construction began on developments that will provide 2,508 new units of housing for income eligible tenants or homebuyers. This represents an increase of 26 percent over the 1,997 units permitted in 2004 and a 77 percent increase over 2002's 1,427 units. It is more than triple the production levels of 1999 and 2000. More than 40 percent of the region's communities permitted at least some affordable housing in 2005, double the number that did in 2000.

The City of Boston, the perennial leader in affordable housing production, adds on average over 500 new affordable units per year, in addition to maintaining an aggressive preservation program. As other communities in the region have stepped up their efforts, Boston's share of new affordable production has dropped from 39 percent of the total in 2002 to 19 percent in 2005. Boston Mayor Tom Menino had issued a challenge to the suburban communities when he announced his most recent 3-year housing strategy, *Leading the Way II*, to increase their affordable housing production, and many have done so. The City, though, continues to produce most of the housing for the region's very low and extremely low-income households.

Three mechanisms are being used to generate new affordable housing: the comprehensive permit provisions of Chapter 40B; traditional subsidized production carried out by a network of for-profit and nonprofit developers who specialize in affordable housing development; and inclusionary mandates under which a setaside of affordable units – or a payment in lieu of such units – is required of developers of market rate housing. The principal production engine is 40B, as **Table 5.1** illustrates.

Fifty of the communities that permitted new affordable housing in 2005 did so under the comprehensive permit, 13 gained units through inclusionary or incentive zoning (or negotiation), and nine employed traditional subsidies. (See **Appendix C**.) The comprehensive permit was utilized in the production of 58 percent of all new affordable units and 71 percent of those created outside the City of Boston. This represents a 24 percent increase in 2005 in the *number* of units permitted under 40B. The *share* of units requiring the comprehensive permit declined, however, from 80 percent (excluding Boston) in 2004 – and 83 percent in 2003 – to 71 percent in 2005. The difference was the increasing use of the other mechanisms, notably inclusionary zoning, by communities like Cambridge, Burlington and Woburn in 2005.

Previous report cards have detailed how the shift away from traditional government support for low and moderate income housing to a reliance on market interventions like 40B and inclusionary mandates have led to major changes in the type and location of housing being developed and the participants

TABLE 5.1

New Affordable Housing Production

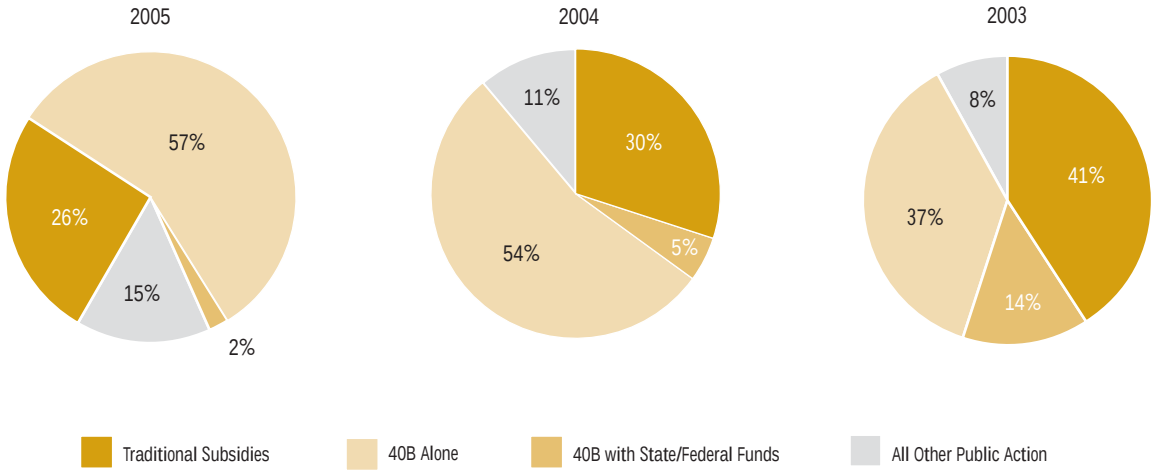
Year	Total Affordable Units	Affordable Homeownership Units	Affordable Rental Units
2005			
City of Boston	472	232	240
Elsewhere in Greater Boston Region	2,036	973	1,063
Elsewhere - 40B Comp Permit	1,449	757	692
Elsewhere - All Others	587	216	371
Total New Affordable Production	2,508	1,205	1,303
% of total using 40B Comprehensive Permit	58%	63%	53%
% using 40B Comp Permit excluding Boston	71%	78%	65%
All new units other than those using 40B	1,059	448	611
2004			
City of Boston	511	58	453
Elsewhere in Greater Boston Region	1,486	580	906
Elsewhere - 40B Comp Permit	1,185	475	710
Elsewhere - All Others	301	105	196
Total New Affordable Production	1,997	638	1,359
% of total using 40B Comprehensive Permit	59%	74%	52%
% using 40B Comp Permit excluding Boston	80%	82%	78%
All new units other than those using 40B	812	163	649
2003			
City of Boston	703	153	550
Elsewhere in Greater Boston Region	1,186	357	829
Elsewhere - 40B Comp Permit	989	343	646
Elsewhere - All Others	197	14	183
Total New Affordable Production	1,889	510	1,379
% of total using 40B Comprehensive Permit	52%	67%	47%
% using 40B Comp Permit excluding Boston	83%	96%	78%
All new units other than those using 40B	900	167	733
2002			
City of Boston	551	68	483
Elsewhere in Greater Boston Region	876	178	698
Elsewhere - 40B Comp Permit	468	166	302
Elsewhere - All Others	408	12	396
Total New Affordable Production	1,427	246	1,181
% of total using 40B Comprehensive Permit	33%	67%	26%
% using 40B Comp Permit excluding Boston	53%	93%	43%
All new units other than those using 40B	959	80	879

* Includes units that are eligible for inclusion on the state Subsidized Housing Inventory and are restricted to occupancy by households earning < 80 percent of the area median income.

Source: CURP analysis of SHI, 40B tracking reports and production reported by municipalities

FIGURE 5.1

Affordable Housing Production by Type of Public Support



Source: CURP analysis of DHCD, MassHousing, MHP, MassDevelopment, and data provided by municipalities

involved. We reported last year that the proportion of new affordable housing being produced by the state's traditional subsidized housing developers, using state and federal resources, was shrinking. The new affordable housing is being produced by a much more diverse group that includes small local homebuilders and large national real estate investment trusts. In short, anyone who wanted to build market rate housing in Massachusetts was expected to include affordable units in the mix as well. **Figure 5.1**, which illustrates the changing share of affordable housing production supported by each of the various mechanisms, documents that the shift became even more pronounced in 2005.

In many communities, 40B remains the key to entry for anyone wishing to build there. But by the end of 2005 and the beginning of 2006, an increasing number of cities and towns were permitting developments under other zoning mechanisms if they were consistent with their planning goals, including the goal of increasing affordable housing.

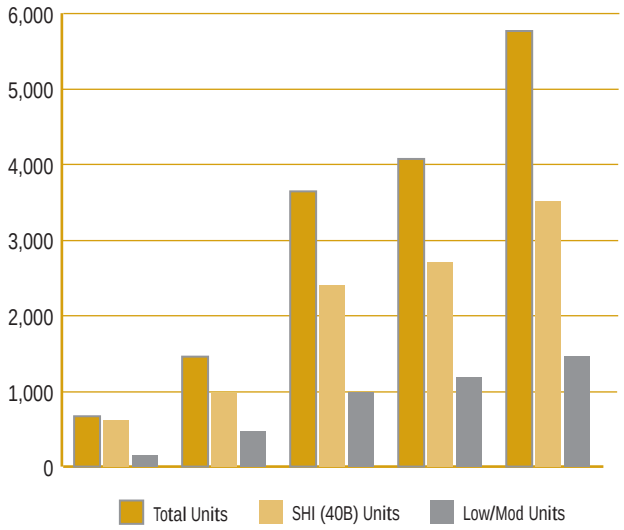
40B Drives Both Market and Affordable Production

Developments permitted under Chapter 40B usually receive only modest interest rate concessions through MassHousing, the Federal Home Loan Bank of Boston's New England Fund or one of the state's other quasi-public housing entities. For the most part, they are market rate developments with an affordable component, typically 25 percent, made possible by the combination of a strong housing market and the increased density allowed under the statute. As was the case in prior years, both the increased production and the improved regional distribution of affordable housing in 2005 reflects the expanded use of the comprehensive permit by traditional homebuilders and apartment developers in suburban communities.

Figure 5.2 illustrates the nearly tenfold increase in housing permitted under comprehensive permits, from 666 units in 2001 to 5,764 in 2005. The high overall level of production under 40B is what supports the affordable units, in most cases with no additional public subsidy other than the density bonus associated with the comprehensive permit. But this same dynamic is one of the most contentious aspects of the 40B process: many, if not most, communities resent the fact that they have to accommodate three market rate units for each affordable one.

FIGURE 5.2

Housing Units Built Under Comprehensive Permits in Greater Boston



Source: CURP analysis of DHCD 40B pipeline

This aversion to growth in general is a major reason the region suffers from chronically high prices and insufficient new production. Other than age restricted housing, little has been built without 40B in many of the communities that offer the best access to employment opportunities, good schools and other public amenities, and land. Imperfect though it may be, the 40B statute is now responsible for much of the region's *market rate* development as well as its affordable development. The 692 affordable rental units permitted in 2005 are part of larger developments that will result in 2,751 new apartments. Similarly, the 757 affordable ownership units will be part of mixed income communities totaling 3,013 homes.

Because it is market driven, the level of 40B activity tends to mirror what is happening in the larger marketplace. As the region's housing market started to cool and inventories of new as well as existing homes began to swell, the number of new 40B proposals has slowed. There were 20 percent fewer requests for site approval letters from state agencies – the first step in the 40B process – in 2005 than there had been the year before. Requests were down another 55 percent in the first four months of 2006.

TABLE 5.2

Requests for 40B Site Approval Letters

	Full Year	Jan-Apr
2001	102	12
2002	153	40
2003	118	44
2004	128	47
2005	102	36
2006	NA	16

Source: CURP analysis of DHCD 40B Pipeline

TABLE 5.3

40B Cases Appealed to the Housing Appeals Committee

Year	# Appeals Statewide
2000	13
2001	23
2002	38
2003	34
2004	32
2005	27
Jan-June 2006	9

Source: CURP analysis of HAC caseload

Similarly, the number of 40B cases being appealed to the State's Housing Appeals Committee (HAC) – often the final step in the process, prior to construction – has peaked. In the first six months of 2006, just nine new appeals were filed. A recent high of 38 appeals were filed in 2002, well below the 48 filings in 1989, the all-time peak year. Still, there were 62 cases, representing more than 6,000 units – 30 percent of them designated affordable – either at the HAC or on appeal in the courts as of July 1, 2006. Eighty percent of these were Greater Boston cases. Another 8 cases had recently been closed. In all but one of these the comprehensive permit was granted. These cases involved a total of 441 units, 124 affordable.

Subsidies Are Essential

The good news about the expanded use of 40B and inclusionary zoning is that more housing in general is being produced, as well as more units that are affordable to households earning 70-80 percent of the area median income. The bad news is that the market in Massachusetts is not able to produce housing for this particular income group *without* 40B and inclusionary zoning. The other bad news is that the units that are being produced, unless they receive additional subsidies, tend not to serve the neediest households.

To produce new units, or even to preserve existing units, for very low-income families requires public subsidies. It is the region's traditional subsidized housing developers, including its capable nonprofit network, that continue to meet the challenge of creating housing for those with very low-incomes or other special needs. Often they work in the most distressed environments and undertake the most challenging projects. With costs escalating and resources dwindling, however, they are contributing an ever smaller share of the new housing that qualifies for the Subsidized Housing Inventory.

Despite the difficulties of creating and managing housing for low-income families and individuals in an era of dwindling public resources and rising costs, competition for the subsidy programs that remain is intense. DHCD, the agency responsible for allocating most of the public resources, attempts to strike a balance among competing needs in selecting which projects it funds. The agency tries to accommodate a range of household types and needs, achieve an equitable geographic distribution, and provide funds to preserve the existing affordable inventory as well as to expand it.

On average, about 30 Greater Boston projects a year receive funding from one or more of the following programs: the federal Low-income Housing Tax Credit and HOME Programs; the federal 202 and 811 Programs; the state Housing Innovations Fund, Housing Stabilization Fund, Facilities Consolidation Fund, Housing Development Support Program, and the Affordable Housing Trust Fund. Projects that receive funding awards under many of these programs may also receive financing from one of the state quasi-public agencies, such as MassHousing, MassDevelopment, and the Massachusetts Housing Partnership. In the past year and a half, the State Legislature and various agencies have established additional funding pools, most to support development in Smart Growth locations.

Twenty-eight developments in a dozen Greater Boston communities received funding commitments from these sources in 2005. Once constructed, these developments will provide 800 new units of housing, replace 166 seriously distressed public housing units with a new 166-unit mixed development, and preserve and upgrade 350 units of existing housing. Approximately 80 percent of the units in these developments will be reserved for low-income households, and half of those will be affordable to very low-income households.

Why Subsidies Are Essential

The Massachusetts Housing Partnership prepared the graph that appears as Figure 5.3 to illustrate the equity, or subsidy, required to achieve various rent levels. Under the conventional rule of thumb that deems housing affordable if it consumes no more than 30 percent of a household's income, a family earning

FIGURE 5.3

Subsidy/Equity Required to Achieve Various Rent Levels

Source: Massachusetts Housing Partnership. (Assumes 85% loan-to-value ratio, debt service coverage of 1.10, 5% vacancy, $4,500/unit annual operating expenses)

30 percent of the Boston area median income – about $25,000 – can afford a monthly rent of only $625. Figure 5.3 advises that a unit with a total development cost of $200,000 would require nearly the entire amount in equity or subsidy if it is to be affordable to that family. In other words, that unit could not support any debt. To be affordable to a household earning $44,000, and able to contribute $1,100 a month in rent, would still require a subsidy of $120,000.

Furthermore, it is not uncommon for new construction in a high cost area like the City of Boston to result in total development costs *in excess* of $300,000 per unit.

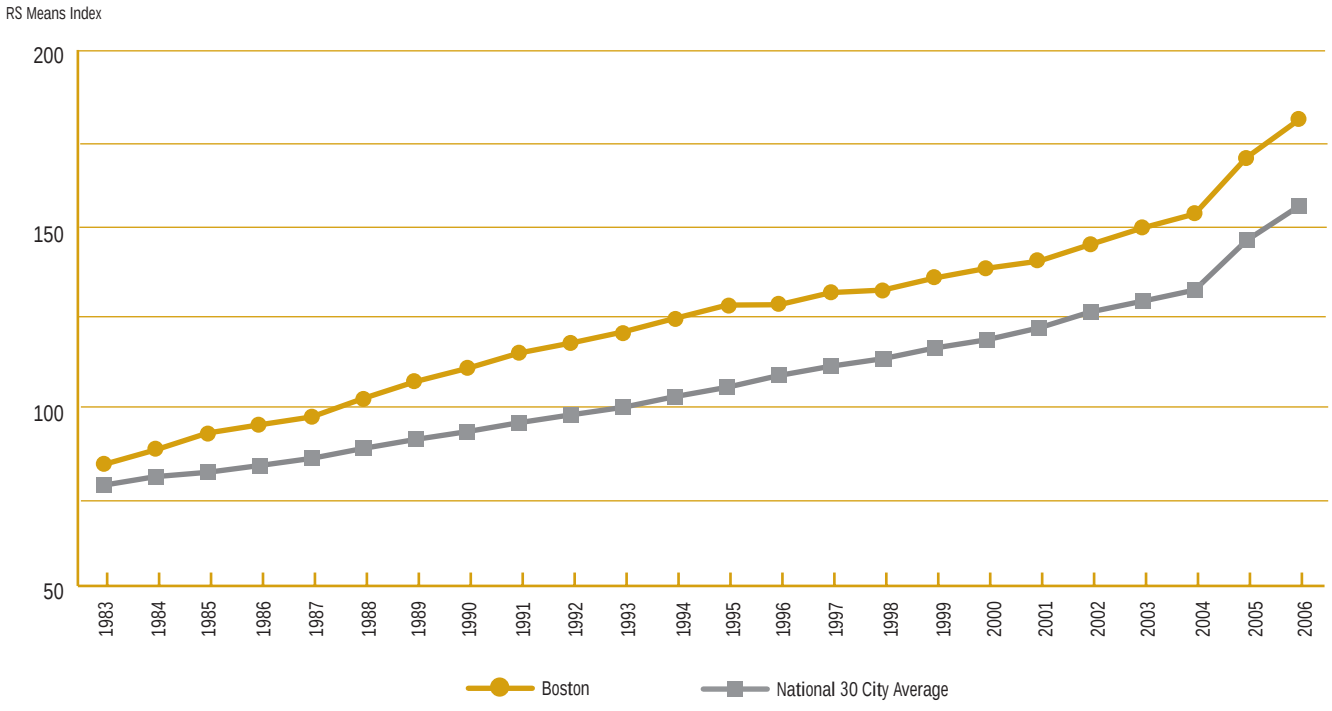
Escalating construction costs have been a challenge for all housing producers for the past two years, but rising costs are especially problematic for the producers of low-income housing, who cannot pass the additional cost along to the consumer. The R.S. Means Company produces a cost index that measures change in construction costs over time and in different parts of the country. The index, which includes labor and material, but not land or other peripheral expenses (e.g. architectural or engineering fees), registered a 10.3 percent increase for Boston during 2004. This was the largest increase in its 25-year history. The increase for the 30-city average was even higher. The situation improved, but only modestly, between January 1, 2005 and January 1, 2006. Construction costs rose another 6.2 percent in Boston and 6.5 percent for the 30-city average. These 2005 increases were the second highest on record. (See **Figure 5.4.**)

Balancing New Production and Preservation

With the supply / demand equation so out of balance at the time the *Housing Report Card* was initiated, 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

FIGURE 5.4

Historical Construction Costs Boston v National 30 City Average



Source: R.S. Means Historical Cost Index

and/or state subsidies may be converted from low-income to market rate housing once the restrictions that limited their occupancy to low-income residents expire. Such units are often called "EURs," or properties with "expiring use restrictions." Low-income units are also lost when older public housing developments become functionally obsolete and their units remain vacant for extended periods. Some units are sacrificed when a property is rehabilitated to meet current needs, or is demolished, without a one-for-one unit replacement.

Between 2001 and 2005 fewer than 300 units in expiring use properties were lost as affordable housing resources. Between now and 2010, however, more than 18,000 affordable units in 42 Greater Boston communities are at risk. In addition, 140 of the region's municipalities include state public housing units in their affordable inventory, and much of this stock requires investment to preserve its functionality and extend its life. State public housing represents more than 23 percent of the low-income rental housing in the region, and the expiring use inventory represents another 14 percent. Hence, more than a third of the affordable housing inventory is in some potential jeopardy.

Preserving the existing affordable stock is usually more cost effective than replacing it with new construction. Furthermore, preservation often provides spin-off benefits to the surrounding neighborhood. And it avoids the challenge of locating new sites for affordable housing.

6.
Public Spending and Support for Housing[25]

For more than 50 years, Massachusetts has been a leader in the development of subsidized affordable housing. Even now, with the federal government out of the business of funding new housing for low-income residents, the state's Department of Housing and Community Development, quasi-public agencies, local and regional housing authorities, and a wide array of private for profit and nonprofit housing developers and owners struggle to preserve and expand the supply of affordable housing. Still, their collective efforts are falling short.

There are two fundamental problems. The first is that additional public investment is required. As Figure 5.3 illustrated so clearly, subsidies are essential if the housing needs of those at the lowest income levels are to be adequately met. Very little federal support is available for new housing, and while state funding has risen nearly 28 percent over the past four years, it is still less than 60 percent of what was being spent in 1989, without even adjusting for inflation. The second problem is that most people, including most poor people, do not live in subsidized housing. They live in housing provided by the private market, and the market has not been working well in Massachusetts in large part because of the barriers that limit new production.

This section examines recent progress, or lack thereof, on both fronts: providing the financial resources to preserve and expand the supply of housing for poor people, and reducing local barriers to new market rate production.

Public Spending[38]

Federal Funding

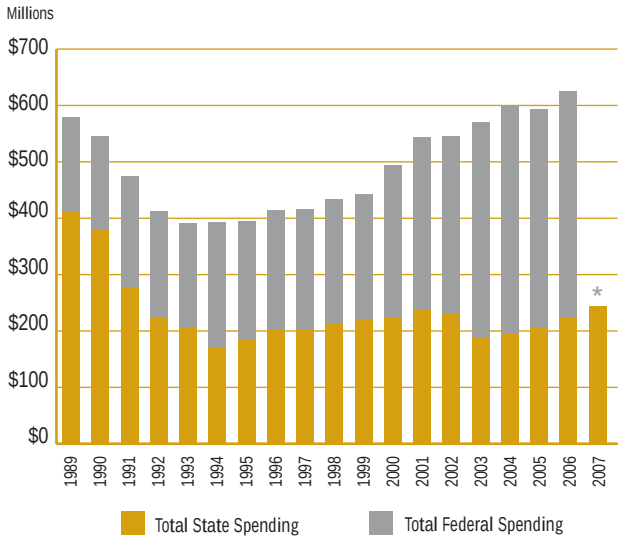
Federal support for affordable housing in Massachusetts increased annually from FY 1994 through FY 2004, before dropping back slightly in FY 2005 and 2006. (FY 2007 federal figures are not yet available.) Little of the federal funding, however, goes to increase or even improve the supply of housing for low-income people. The overwhelming majority of federal funding takes the form of rental subsidies for tenants in existing housing, home heating assistance for low-income homeowners, and weatherization programs. That the dollars committed have increased over time simply reflects the increased cost of providing existing services, not an expansion of programs or services. (See **Figure 6.1**)

State Funding

Total state spending for all Department of Housing and Community Development (DHCD) programs, which had fallen to $188 million – a nine-year low – in FY 2004, has increased in each of the last three budget cycles (FY 2005-6-7). Year-over-year increases of 7 percent, 10 percent, and 8 percent have brought the FY 2007 state commitment to housing up to $240 million, its highest level since 1991. In inflation adjusted dollars,

FIGURE 6.1

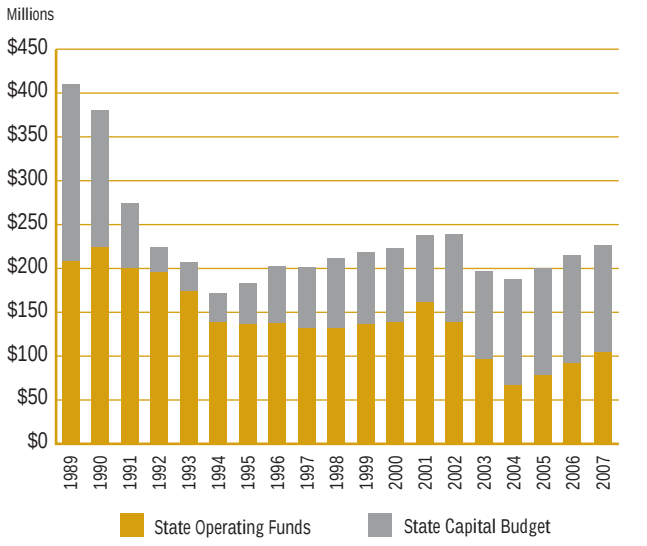
Total DHCD Spending, State and Federal Funds, 1989 - 2006



Source: DHCD Budget Office

FIGURE 6.2

Total State Funding for Housing, 1989 - 2006



Source: DHCD Budget Office

however, the current spending level is 42 percent less than it was in 1991, and fully 64 percent below the $410 million committed in 1989. (See **Figure 6.2**)

The Commonwealth's resources come from its operating and capital budgets and, as Figure 6.2 illustrates, both have increased since FY 2005. Funding from the operating budget is up by $32 million and from the capital budget by $7 million. Even with this additional funding, individual line items in the DHCD budget are funded at levels insufficient to meet demonstrated need. The increases only begin to restore funding to programs that had been drastically diminished over the past few years or under funded. The budget supports relatively little new development and only the minimum necessary operating costs for existing developments. The aging state public housing stock is in need of capital improvement and private subsidized housing faces a lack of capital for both modernization efforts and subsidies that are expiring, threatening to send properties built with state support into the open market.

Important initiatives that did receive increased funding support, including one that may begin to address the needs of the state's public housing inventory, are the following:

Housing Bond Bill The legislature passed a $200 million bond bill that recapitalizes key programs including the Affordable Housing Trust Fund and the Housing Stabilization fund. These funds are available for modernizing state-assisted public housing and for developing new housing. The Community Based Housing (CBH) program was allotted $5 million to develop integrated housing units for people with disabilities, a new initiative providing housing for a population that is not otherwise targeted with existing development funds.

Affordable Housing Trust Fund The FY07 budget allotted an additional $2 million in operating funds to the trust, as had the FY05 budget. The FY06 budget did not provide this funding, which is earmarked for preservation of expiring use units and homeownership in the FY07 budget.

Rental Assistance The two rental assistance programs serving households below 30 percent of AMI received FY07 funding increases. The Mass Rental Voucher Program (MRVP) received a modest increase that will fund a small number of additional vouchers, but the Alternative Housing Voucher Program (AHVP) received a 17 percent boost, which will provide a significant increase in the number of vouchers for individuals with disabilities – though not the originally intended 800 vouchers.

Costs Exceeding Support

Three years ago the Commonwealth Housing Task Force called for an increase of $670 million in state funding over 10 years and an increase in the housing bond cap from 9 to 15 percent of the total state bond cap. Virtually none of that funding has materialized. In the meantime, construction costs have escalated dramatically. Massachusetts is now approaching a critical juncture where it must either reinvest in existing subsidized housing or risk losing this valuable resource.

Losing this stock not only represents a decrease in the overall number of state funded housing units but a decrease in housing for the poorest households in the state, those who earn less than 30 percent of area median income. For these low-income families and seniors, public housing is the main source of decent, affordable housing. Increased funding for preservation of state-aided public housing is a critical concern. Since deep subsidies are not widely available for new development, any decrease in units currently serving extremely low-income households – those earning under 30 percent of the area median income – will mean a permanent loss that cannot be made up by new production.

Other State Support for Affordable Housing

Several legislative and regulatory initiatives were undertaken in 2005-2006 that represent important gains for affordable housing. They include:

Regulatory Relief for Local Housing Authorities Given significant increases in the cost of utilities, public housing funds essentially remained level with the prior year in real terms. To address the gap between state funding and increasing critical capital needs of state public housing, DHCD developed new regulations allowing local housing authorities increased ability to fundraise from private sources to support the renovation of existing public housing units and the creation of new units on local housing authority surplus land.

Mixed Income Housing Development The legislature continued to preserve Chapter 40B, the affordable housing zoning law, and the four public and quasi public authorizing agencies continued to approve site plans for new developments throughout the Commonwealth.

Smart Growth Affordable Housing Supporting last year's passage of Chapter 40R, a zoning overlay district option providing communities with financial incentives to develop affordable housing, Chapter 40S, funding for increased school costs, passed and is providing communities with an added incentive to develop affordable housing for members of their communities.

Additionally, the legislature appropriated $30 million to recapitalize the Brownfields Redevelopment Fund. It also continued the brownfields tax credit, which can be used for site remediation for new affordable housing development, and broadened its applicability to make it more useful for nonprofit developers.

Because this is the first report card issued since the passage of the innovative Smart Growth Zoning legislation, we include the following, more detailed update on that initiative.

Smart Growth Zoning Gains Momentum – Chapter 40R and 40S

The state's most recent initiative to encourage local communities to adopt zoning measures that would allow increased housing development – while at the same time protect the environment – was passed by the legislature and signed by the Governor in 2004 and 2005. Chapter 40R and Chapter 40S of the Massachusetts General Laws, called Smart Growth Zoning, fundamentally alter the zoning approval process in local communities that adopt its provisions. Numerous studies have documented that restrictive zoning is the most significant barrier to the production of modest priced new housing in communities across the state and that this production shortfall relative to the demand for new housing has been the driving force in pushing up housing prices.

Chapter 40R provides four important incentives to communities that zone for higher density housing in Smart Growth locations under its provisions:

1. An incentive payment to the community when the zoning is passed of approximately $1,000 per housing unit allowed (the amount moves up a sliding scale from $10,000 to $600,000, depending on the number of units);
2. A bonus payment equal to $3,000 per housing unit when a building permit is issued;
3. Increased priority for requests for state capital funds for communities that have passed 40R districts; and
4. Most significantly, a companion school funding provision, Chapter 40S, provides insurance to communities so that if the cost of educating children living in new housing in a Smart Growth District

exceeds approximately 50 percent of the new property taxes from that District, the State will make annual payments to cover the difference.

Smart Growth Zoning is accomplished by a local community establishing one or more overlay zoning districts that allow densities of at least eight units per acre for single-family homes, 12 units per acre for two and three family homes, and 20 units per acre for multifamily homes. The zoning must be as-of-right, must be enacted by a two-thirds vote of town meeting or, in cities, of the city council, and must be in Smart Growth locations. Communities are encouraged to incorporate design standards that will apply to any new construction in the Smart Growth Districts.

Since Chapter 40S was passed in November 2005, six communities have adopted Smart Growth Districts with the potential to create 1,700 units of new housing. In several cases the votes were unanimous. The combination of incentives plus a clear process for achieving acceptable design standards resulted in far more cooperative dynamics in the approval process than normally accompany zoning changes. Four of the communities adopting Smart Growth Districts under Chapter 40R are in the Greater Boston area: Chelsea, North Reading, Norwood, and Plymouth. In addition, Brockton and Kingston have been awarded funding under the state's Priority Development Fund to further develop their Smart Growth proposals. This marks a reasonably good outcome to date for this unique new housing legislation. Whether it can fulfill the designers' intent of producing 30,000 new units of housing over the next decade – with a significant number for young working families – is still to be ascertained.

7.
Conclusion

In 2005, the private sector and the Commonwealth began to take steps to address the critical housing issues which the state – and the Greater Boston region in particular – has faced for more than a decade. Production of new housing units, including units built under Chapter 40B, have increased the stock of housing and helped bring vacancy rates closer to normal levels. This increased production – coupled with the sluggish economy and continued population out-migration – has resulted in a sharp decline in housing price appreciation and, in the first six months of 2006, the first reduction in the median price of a home in more than a decade. Rents remained stable with only modest appreciation in 2005 and early 2006.

Nonetheless, Greater Boston remains one of the highest cost of housing regions in the nation. New evidence strongly suggests that these high housing costs are at least partly responsible for slow employment growth in the metro area and continued net out-migration – especially of young working families with heads of households 25-34 years of age. Housing prices are still well out of range for many of these young families while rents take a disproportionate share of these young household incomes. Even with stabilizing prices and rents, Greater Boston continues to face a serious housing challenge.

Modest increases in state funding of housing and the passage of Chapters 40R and 40S will help, but substantially more money will be needed for housing subsidies and more communities need to be encouraged to take advantage of the new Smart Growth Zoning laws.

Performance Against The New Paradigm Production Targets

The good news is that overall housing production in 2005 represented 91 percent of the target established in the *New Paradigm* report of 2000, adjusted to encompass all 161 cities and towns covered in this report card. The target represented an estimate of how much housing would be needed in Greater Boston to bring supply and demand into alignment so that prices do not rise appreciably faster than general inflation. The 2005 production levels represent the strongest performance-against-target to date. In 2002, only 56 percent of the target was achieved; in 2003, 70 percent; and in 2004, 77 percent (see **Table 7.1**)

TABLE 7.1

Performance Against *New Paradigm* Targets

Category	Target Production	2002	2003	2004	2005	Change 2004-2005
Market Rate	14,000	8,294	10,232	11,559	13,422	1,863
% of Need		59%	73%	83%	96%	22%
Subsidized New Construction	3,000	1,427	1,889	1,997	2,523	526
% of Need		48%	63%	67%	84%	37%
Student Housing	1,000	321	556	371	523	152
% of Need		32%	56%	37%	52%	47%
Total 3 Categories	18,000	10,042	12,677	13,927	16,468	2,541
% of Need		56%	70%	77%	91%	25%

Source: CURP update of earlier Report Cards and analysis of 2005 production

The *New Paradigm* report did not specify price points, tenure, type, size, or location for the new housing, and much of the new market-rate production consists of high end, one- and two-bedroom units, often with age restrictions. Similarly, within the subsidized inventory, no targets were specified for low-, very low-, or extremely-low-income units, and much of that production is only reaching households close to the 80 percent of median income threshold. This suggests that simply achieving the targets may not meet the challenge of housing for a growing workforce. Overall, Greater Boston has raised its housing grade to perhaps a B-, but it must do better to meet the economic challenge of economic development and the moral responsibility of providing decent housing at affordable prices for all its residents.

Endnotes

[1] At the time this project was launched, these 161 municipalities comprised the Massachusetts portion of the Boston, Brockton, Lawrence, and Lowell Metropolitan Statistical Areas (MSAs). Metro areas have recently been redefined by the federal Office of Management and Budget, but in the interest of facilitating comparisons over time, the authors have continued to report on the original 161 municipalities.

[2] The Housing Report Card covers the 25 cities and 136 towns that comprise the Massachusetts portion of the Boston, Brockton, Lawrence, and Lowell Metropolitan Statistical Areas (MSAs). The New Paradigm report projected needs only for the Boston Primary Metropolitan Statistical Area (PMSA), an area that encompasses 128 municipalities.

[3] Including the Brockton metro area and the Massachusetts portions of the Lawrence and Lowell metro areas. This expanded footprint comprises the 161 cities and towns that have been tracked by The Greater Boston Housing Report Cards.

[4] Units in structures with 5 or more units

[5] The number of condominium units created is considerably greater as it includes most of the units in new 3-4 units structures, units created through the adaptive reuse of commercial and industrial properties, and units created from the conversion of existing rental properties.

[6] These are the performance figures for the 161 cities and towns covered by the Housing Report Card. The corresponding figures for just the Boston PMSA – the area that was the focus of The New Paradigm report – are 51 percent, 61 percent and 72 percent.

[7] As used throughout this report, affordable housing means units eligible for inclusion on the State's Subsidized Housing Inventory and restricted to occupancy by households with incomes at or below 80 percent of the area median

[8] See Economic Policy Institute, "Basic Family Budget Calculator" (Washington, D.C., 2005). According to EPI, "the basic family budget is indeed 'basic.' It comprises only the amounts a family needs to spend to feed, shelter, and clothe itself, get to work and school, and subsist in 21st century America. Hence, it includes no savings, no restaurant meals, no funds for emergencies – not even renters' insurance to protect against fire, flood, or theft."

[9] EPI has not updated its findings for 2005. While the order among the top tier metro areas might shift from year to year, the conclusion certainly has not: Boston remains one of a handful of high cost-of-living metro regions, if not the most costly. As such, the region will remain challenged to provide the quality of life, amenities and public services for which young families would be willing to pay.

[10] New England Economic Indicators, Federal Reserve Bank of Boston, May / June 2006

[11] It is worth noting that there is some dispute over the extent to which the City of Boston and Greater Boston more generally have lost population since the last U.S. decennial census in 2000. There are several possible sources of error in the American Community Survey (ACS) estimates for 2001 through 2005. One is a likely undercount of undocumented immigrants. Because Massachusetts has been one of the primary destinations for immigrants, it is likely to be one of the states with a larger undercount. Second, it is possible that the ACS does not capture the full number of college and university students living on campuses and off-campus. Because Boston is home to more institutions of higher education than anywhere else in the U.S., the undercount may be larger here. Greater Boston has also been a location where developers have been particularly imaginative and successful in the "adaptive reuse" of commercial and industrial property -- turning old warehouses and retail space into housing units. To the extent that the Census has not yet enumerated all of these properties, their residents have not yet been counted. In private conversation, Andy Sum of Northeastern University's Center for

Labor Market Studies suggests that in the City of Boston the population may have fallen by no more than 4,000-6,000 since 2000, far less than the 30,000 population loss estimated by the ACS. In this case, instead of giving up all of its population growth between 1980 and 2000, the City lost only between 13 and 20 percent of the previous two decade's population gain.

[12] Also note that while Boston metro's 20-24 year old cohort declined between 2001 and 2004, this cohort actually grew statewide (over the slightly longer period 2000 to 2004). This is at least partly the result of younger individuals and families moving to communities in the state beyond Greater Boston and partly the result of young immigrants moving into communities like Springfield and Holyoke.

[13] Households include all family units plus single-person housing units plus units with unrelated individuals and can include more than one family. Families are defined as units with two or more members all of whom are related in some fashion.

[14] Data provided by Carrie Conaway, The England Public Policy Center, Federal Reserve Bank of Boston

[15] See Barry Bluestone, "Sustaining the Mass Economy: Housing Costs, Population Dynamics, and Employment," Prepared for the Boston Federal Reserve Bank / Rappaport Institute Conference on Housing and the Economy, May 22, 2006; Edward Glaeser, "The Economic Impact of Restricting Housing," Rappaport Institute for Greater Boston, May 2006.

[16] FreddieMac index of repeat home sales

[17] 2006 State of the Nation's Housing, Joint Center for Housing Studies of Harvard University

[18] Ibid.

[19] Federal Reserve Economist Glenn Canner, basing his estimate on Home Mortgage Disclosure Act filings, reports that nationally the share of home purchase mortgages going to non-occupants (i.e., investors and second home buyers) rose from 6.6 percent in 1990 to 14.9 percent in 2004. In states such as Florida and Nevada, the share was much greater. During the same period, their share in Massachusetts rose from 5.2 percent to10.7 percent.

[20] Eric Belsky, Joint Center for Housing Studies, Harvard University, quoted in The Boston Globe, July 27,2003

[21] Historical data were not available for all 161 communities, but the 128-municipality Boston PMSA is a reasonable proxy for the larger area.

[22] Based on units permitted

[23] Defined as units in structures of 5 or more units

[24] The number of condominium units created is considerably greater as it includes most of the units in new 3-4 units structures, units created through the adaptive reuse of commercial and industrial properties, and units created from the conversion of existing rental properties.

[25] Fiscal years 2000 to 2005

[26] It is assumed that the production of four student beds is the equivalent of one apartment unit. While we track and report on student housing throughout the 161 communities, the addition of dormitory beds in most communities has little or no impact on the housing market. In fact, 182 of the 2004 "units" were built at Needham's Olin College, a newly chartered engineering college.

[27] Market rate units in mixed income developments permitted under Chapter 40B comprehensive permits or other subsidy programs where at least 25 percent of the units are restricted to low-income occupancy are included in Table 3.3 as New Homeownership or New Rental units. If the affordable units were local initiative "LIP units only" or inclusionary units, the market rate units in the development are not included. This is consis-

tent with SHI guidelines. New Homeownership Units + New Rental Units = Total Development Units on the SHI.

[28] Many of the projects in the 40R pipeline had been proceeding under 40B, special permits or other zoning mechanisms.

[29] M / PF Research, another national tracking firm, reported that Boston-area rents rose 1.5 percent in 2005 to an average of $1,300 a month. The 2005 increase was the first since 2001, when average apartment costs peaked at $1,379 a month.

[30] Details on NAA's competitive classification system for apartments can be found on its website @ www.boston-apartmentmarket.com

[31] Based on sales in its five principal counties: Essex, Middlesex, Norfolk, Plymouth, and Suffolk

[32] The Warren Group Publications, parent of Banker and Tradesman

[33] Under the Home Mortgage Disclosure Act (HMDA) lenders are required to compare the annual percentage rate (APR) on each mortgage loan to the current rate on U.S. Treasury securities of the same maturity. If the spread between the loan's APR and the interest rate on the corresponding Treasury securities is above a certain threshold – 3 percent for first mortgages and 5 percent for second, or junior, lien mortgages – the spread must be reported in the institution's HMDA filing.

[34] James Campen, Borrowing Trouble? VI: High Cost Mortgage Lending in Greater Boston, 2004 prepared for the Massachusetts Community and Banking Council. For additional information on this subject, including other reports by Dr. Campen, visit www.masscommunityandbanking.org

[35] MGL Chapter 40B (Sections 20-23) allows developers of subsidized housing where at least 20-25 percent of the units are affordable to apply for all necessary local approvals in the form of a single "comprehensive permit" and to request overrides of local zoning and other restrictions if necessary to make the housing economically feasible. In communities where less than 10 percent of the year-round housing is subsidized and little progress has been made in recent years, developers can ask the State Housing Appeals Committee to overturn local denials of a comprehensive permit or the imposition of conditions they believe make a project infeasible absent a finding that the project presents serious health or safety hazards. For this reason, 10 percent has become a very important threshold for Massachusetts cities and towns wishing to avoid overrides of their zoning and land use regulations.

[36] Almost 64,000 of these units existed in 1972 when the state's first Subsidized Housing Inventory was published.

[37] If the inventory counted only those units that were restricted to occupancy by low-income households just nine communities would be over 10 percent: Boston, Beverly, Brockton, Cambridge, Chelsea, Lawrence, Lowell, Lynn, and Salem.

[38] Prior years' Report Cards have detailed the drop in real spending levels over the past quarter century and the shift in sources and uses of funds that has resulted in only a small portion of current total funding being available to support new production. Those reports are available at www.curp.neu.edu

Appendix A: Community Rankings

Top 20

	Percent of Homeowners under Age 34		Percent of Homeowners over Age 65		Estimated Population Growth 2000-2004 (%)		New Housing Units Permitted Between 2000-2005 (as a % of 2000 Yr end Units)		Median Home Price 2005		% Low-ncome Households	
1	Berkley	18.5%	Avon	37.0%	Middleton	14.9%	Middleton	25.5%	Weston	$1,200,000	Boxford	10.7%
2	Bellingham	17.2%	Rockport	36.0%	Raynham	12.9%	Raynham	19.3%	Lincoln	$1,141,500	Bolton	11.2%
3	Lawrence	16.9%	Everett	35.0%	Berlin	11.7%	Dunstable	17.8%	Brookline	$1,090,000	Dover	11.2%
4	Amesbury	16.8%	Watertown	34.9%	Abington	10.7%	Berlin	16.4%	Dover	$1,057,500	Weston	13.0%
5	Dracut	16.5%	Lincoln	34.6%	Berkley	9.7%	Upton	15.7%	Wellesley	$950,000	Harvard	13.3%
6	Millville	16.5%	Norwood	34.2%	Upton	8.8%	Groveland	15.2%	Carlisle	$828,444	Sudbury	14.3%
7	Haverhill	16.5%	Wenham	32.6%	Dunstable	8.8%	Groton	15.1%	Cohasset	$751,250	Sherborn	15.4%
8	Ayer	16.4%	Westwood	32.5%	Southborough	8.1%	Lancaster	14.7%	Sherborn	$740,000	Westford	15.8%
9	Whitman	16.0%	Saugus	32.1%	Groton	7.9%	Abington	14.6%	Newton	$736,400	Medfield	16.1%
10	Lowell	15.8%	Belmont	31.8%	Mendon	7.8%	Berkley	13.5%	Winchester	$726,675	Dunstable	16.2%
11	Mansfield	15.8%	Medford	31.2%	Millville	7.2%	Burlington	13.2%	Cambridge	$717,500	Boxborough	16.7%
12	Boston	15.6%	Holbrook	31.1%	Georgetown	7.1%	Pembroke	12.9%	Concord	$712,000	Carlisle	17.2%
13	Milford	15.5%	Nahant	31.0%	Groveland	6.9%	Salisbury	12.8%	Belmont	$699,500	Hopkinton	17.3%
14	Tyngsborough	15.5%	Revere	30.7%	Dighton	6.7%	Georgetown	12.4%	Lexington	$691,500	Norfolk	17.4%
15	Taunton	15.2%	Braintree	30.3%	Lakeville	6.5%	Hingham	12.3%	Sudbury	$681,000	Wayland	17.6%
16	Norton	15.1%	Woburn	30.1%	Hingham	6.3%	Hudson	11.8%	Manchester	$670,000	West Newbury	17.6%
17	Franklin	14.9%	Wareham	30.1%	Norton	5.8%	Lakeville	11.3%	Hingham	$655,000	Duxbury	17.9%
18	Pembroke	14.4%	Arlington	30.1%	Norwell	5.8%	Plymouth	10.9%	Boxford	$650,000	Wellesley	18.3%
19	Halifax	14.3%	Manchester	30.1%	Middleborough	5.4%	Billerica	10.6%	Needham	$649,000	Winchester	18.5%
20	Middleborough	14.2%	Quincy	29.8%	Bolton	5.4%	Ashland	10.4%	Duxbury	$610,000	Stow	18.5%

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Appendix A: Community Rankings

Bottom 20

Percent of Homeowners under Age 34		Percent of Homeowners over Age 65		Estimated Population Growth 2000-2004 (%)		New Housing Units Permitted Between 2000-2005 (as a % of 2000 Yr end Units)		Median Home Price 2005		% Low-Income Households	
142 Marblehead	6.3%	142 Pembroke	13.8%	142 Ayer	-1.2%	142 Maynard	1.8%	142 Carver	$319,000	142 Cambridge	42.5%
143 Ipswich	5.9%	143 Wrentham	13.7%	143 Watertown	-1.2%	143 Lynn	1.7%	143 Ayer	$317,750	143 Haverhill	42.7%
144 Carlisle	5.9%	144 Bellingham	13.2%	144 Avon	-1.4%	144 Everett	1.7%	144 Holbrook	$317,750	144 Quincy	42.7%
145 West Newbury	5.9%	145 Groton	12.9%	145 Lowell	-1.5%	145 Watertown	1.7%	145 Rockland	$317,750	145 Methuen	43.3%
146 Sharon	5.6%	146 Rowley	12.9%	146 Reading	-1.5%	146 Westwood	1.6%	146 Chelsea	$317,000	146 Gloucester	43.5%
147 Wellesley	5.5%	147 Norton	12.7%	147 Walpole	-1.6%	147 Randolph	1.5%	147 Whitman	$315,000	147 Somerville	44.2%
148 Boxford	5.4%	148 Pepperell	12.5%	148 Brookline	-1.6%	148 Reading	1.5%	148 Halifax	$314,000	148 Salisbury	44.5%
149 Wenham	5.3%	149 Westford	12.4%	149 Malden	-1.8%	149 Arlington	1.4%	149 Haverhill	$314,000	149 Ayer	45.3%
150 Rockport	4.9%	150 Townsend	12.1%	150 Arlington	-2.0%	150 Avon	1.3%	150 Dighton	$312,500	150 Malden	46.6%
151 Nahant	4.7%	151 Georgetown	12.0%	151 Framingham	-2.0%	151 Lawrence	1.1%	151 Dracut	$307,600	151 Salem	47.6%
152 Belmont	4.6%	152 Harvard	11.7%	152 Stoneham	-2.0%	152 Swampscott	1.0%	152 Bellingham	$306,250	152 Taunton	48.9%
153 Harvard	4.6%	153 Dunstable	11.6%	153 Everett	-2.2%	153 Belmont	1.0%	153 Millville	$301,000	153 Boston	52.6%
154 Dover	4.4%	154 Bolton	11.4%	154 Melrose	-2.2%	154 Brookline	1.0%	154 Taunton	$300,000	154 Wareham	52.7%
155 Lexington	4.3%	155 Hopkinton	11.3%	155 Somerville	-2.4%	155 Framingham	0.9%	155 Blackstone	$288,500	155 Everett	52.9%
156 Lincoln	4.1%	156 Mansfield	10.8%	156 Revere	-2.4%	156 Nahant	0.9%	156 Lynn	$286,000	156 Brockton	54.1%
157 Weston	4.0%	157 Upton	10.7%	157 Belmont	-2.4%	157 Somerville	0.8%	157 Townsend	$282,950	157 Lowell	55.4%
158 Topsfield	3.6%	158 Norfolk	10.4%	158 Medford	-2.8%	158 Stoneham	0.7%	158 Brockton	$274,450	158 Revere	56.7%
159 Concord	3.1%	159 Tyngsborough	9.4%	159 Boston	-3.4%	159 Chelsea	0.3%	159 Lowell	$265,500	159 Lynn	58.4%
160 Sherborn	2.8%	160 Boxborough	9.0%	160 Winthrop	-4.6%	160 Medford	0.3%	160 Wareham	$259,500	160 Chelsea	66.7%
161 Manchester	2.5%	161 Berkley	8.6%	161 Chelsea	-5.3%	161 Winthrop	0.3%	161 Lawrence	$243,950	161 Lawrence	71.2%

Source: Economic Policy Institute Family Budget Calculator

Appendix B Affordability Gap

City/Town	Estimated Median Household Income 2005	Median Single-Family Home Price 2004	Median Single-amily Home Price 2005	Median Single-amily Home Price Jan-May 2006	% Change in Median Sales Price 2004-2005	% Change in Median Sales Price 2005* v Jan-May 2006	Max. Home Price Affordable to Median Income Household 2005	Affordable in 2005?	Affordable in 2006?
Abington	$66,844	$314,900	$339,900	$315,000	7.9%	-7.3%	$303,837	N	N
Acton	$107,260	$532,750	$525,000	$480,000	-1.5%	-8.6%	$487,544	N	N
Amesbury	$60,764	$322,650	$335,000	$316,500	3.8%	-5.5%	$276,199	N	N
Andover	$102,646	$525,000	$576,000	$495,500	9.7%	-14.0%	$466,573	N	N
Arlington	$75,324	$469,000	$493,000	$502,800	5.1%	2.0%	$342,383	N	N
Ashland	$80,063	$385,000	$403,900	$431,500	4.9%	6.8%	$363,923	N	N
Avon	$58,890	$289,000	$319,000	$295,954	10.4%	-7.2%	$267,680	N	N
Ayer	$54,575	$272,000	$317,750	$291,000	16.8%	-8.4%	$248,066	N	N
Bedford	$102,973	$509,000	$503,250	$512,500	-1.1%	1.8%	$468,058	N	N
Bellingham	$75,502	$286,215	$306,250	$304,000	7.0%	-0.7%	$343,192	Y	Y
Belmont	$93,997	$675,000	$699,500	$727,500	3.6%	4.0%	$427,261	N	N
Berkley	$77,608	$312,500	$340,000	$325,000	8.8%	-4.4%	$352,765	Y	Y
Berlin	$76,873	$400,000	$395,000	$426,000	-1.3%	7.8%	$349,423	N	N
Beverly	$63,196	$375,000	$381,950	$370,000	1.9%	-3.1%	$287,256	N	N
Billerica	$79,369	$345,000	$369,900	$341,250	7.2%	-7.7%	$360,768	N	Y
Blackstone	$64,577	$285,000	$288,500	$242,000	1.2%	-16.1%	$293,530	Y	Y
Bolton	$120,341	$505,000	$557,000	$400,000	10.3%	-28.2%	$547,002	N	Y
Boston	$46,392	$370,000	$427,936	$426,404	15.7%	-0.4%	$210,871	N	N
Boxborough	$102,570	$530,000	$567,500	$550,000	7.1%	-3.1%	$466,227	N	N
Boxford	$132,532	$636,500	$650,000	$555,000	2.1%	-14.6%	$602,417	N	Y
Braintree	$72,334	$365,000	$375,000	$372,500	2.7%	-0.7%	$328,793	N	N
Bridgewater	$76,465	$350,500	$375,000	$380,000	7.0%	1.3%	$347,566	N	N
Brockton	$46,249	$250,000	$274,450	$275,000	9.8%	0.2%	$210,222	N	N
Brookline	$78,095	$975,000	$1,090,000	$980,000	11.8%	-10.1%	$354,978	N	N
Burlington	$88,080	$393,500	$410,000	$400,000	4.2%	-2.4%	$400,362	N	N
Cambridge	$56,167	$615,000	$717,500	$845,000	16.7%	17.8%	$255,303	N	N
Canton	$81,079	$445,000	$490,000	$485,000	10.1%	-1.0%	$368,542	N	N
Carlisle	$151,963	$730,000	$828,444	$850,000	13.5%	2.6%	$690,742	N	N
Carver	$62,637	$305,500	$319,000	$320,000	4.4%	0.3%	$284,713	N	N
Chelmsford	$82,188	$350,000	$370,000	$365,000	5.7%	-1.4%	$373,581	Y	N
Chelsea	$35,308	$302,500	$317,000	$284,259	4.8%	-10.3%	$160,491	N	N
Cohasset	$98,517	$682,500	$751,250	$877,500	10.1%	16.8%	$447,806	N	N
Concord	$112,262	$709,563	$712,000	$735,000	0.3%	3.2%	$510,281	N	N
Danvers	$68,810	$372,250	$390,500	$372,500	4.9%	-4.6%	$312,771	N	N
Dedham	$72,228	$375,000	$392,250	$390,250	4.6%	-0.5%	$328,309	N	N
Dighton	$68,600	$290,000	$312,500	$335,000	7.8%	7.2%	$311,819	N	N
Dover	$166,019	$884,000	$1,057,500	$1,190,000	19.6%	12.5%	$754,633	N	N
Dracut	$67,518	$287,500	$307,600	$297,000	7.0%	-3.4%	$306,902	N	N
Dunstable	$101,417	$396,000	$565,325	$415,000	42.8%	-26.6%	$460,986	N	Y
Duxbury	$113,698	$602,500	$610,000	$510,000	1.2%	-16.4%	$516,810	N	N
E Bridgewater	$70,603	$315,000	$343,500	$341,200	9.0%	-0.7%	$320,923	N	N
Easton	$80,943	$390,000	$415,125	$370,000	6.4%	-10.9%	$367,925	N	N
Essex	$69,717	$495,000	$425,000	$516,000	-14.1%	21.4%	$316,895	N	N

Appendix B: Affordability Gap

City/Town	Estimated Median Household Income 2005	Median Single-Family Home Price 2004	Median Single-amily Home Price 2005	Median Single-amily Home Price Jan-May 2006	% Change in Median Sales Price 2004-2005	% Change in Median Sales Price 2005* v Jan-May 2006	Max. Home Price Affordable to Median Income Household 2005	Affordable in 2005?	Affordable in 2006?
Everett	$47,600	$332,000	$349,900	$345,000	5.4%	-1.4%	$216,363	N	N
Foxborough	$75,300	$389,900	$395,000	$366,000	1.3%	-7.3%	$342,272	N	N
Framingham	$63,552	$361,900	$380,000	$375,000	5.0%	-1.3%	$288,874	N	N
Franklin	$83,320	$399,900	$422,500	$400,000	5.7%	-5.3%	$378,727	N	N
Georgetown	$89,274	$413,500	$400,000	$420,000	-3.3%	5.0%	$405,790	Y	N
Gloucester	$55,866	$365,000	$380,000	$352,000	4.1%	-7.4%	$253,935	N	N
Groton	$97,011	$447,500	$470,000	$390,000	5.0%	-17.0%	$440,957	N	Y
Groveland	$80,970	$355,000	$375,000	$363,000	5.6%	-3.2%	$368,047	N	N
Halifax	$66,745	$317,000	$314,000	$287,500	-0.9%	-8.4%	$303,385	N	Y
Hamilton	$84,287	$479,500	$510,000	$462,500	6.4%	-9.3%	$383,122	N	N
Hanover	$86,438	$395,000	$429,450	$435,000	8.7%	1.3%	$392,902	N	N
Hanson	$73,385	$322,250	$356,250	$296,000	10.6%	-16.9%	$333,566	N	Y
Harvard	$126,353	$585,000	$596,000	$673,000	1.9%	12.9%	$574,332	N	N
Haverhill	$58,337	$299,900	$314,000	$283,095	4.7%	-9.8%	$265,168	N	N
Hingham	$97,185	$612,500	$655,000	$588,650	6.9%	-10.1%	$441,750	N	N
Holbrook	$63,706	$298,000	$317,750	$305,000	6.6%	-4.0%	$289,571	N	N
Holliston	$91,418	$404,200	$435,000	$379,250	7.6%	-12.8%	$415,538	N	Y
Hopedale	$70,445	$335,000	$340,000	$380,000	1.5%	11.8%	$320,205	N	N
Hopkinton	$104,517	$497,500	$549,000	$604,000	10.4%	10.0%	$475,077	N	N
Hudson	$68,540	$330,000	$355,000	$337,500	7.6%	-4.9%	$311,547	N	N
Hull	$61,315	$349,500	$351,000	$374,000	0.4%	6.6%	$278,705	N	N
Ipswich	$67,060	$450,000	$477,000	$440,000	6.0%	-7.8%	$304,816	N	N
Kingston	$62,958	$350,000	$370,000	$359,900	5.7%	-2.7%	$286,171	N	N
Lakeville	$82,525	$331,000	$351,000	$303,700	6.0%	-13.5%	$375,114	Y	Y
Lancaster	$71,119	$292,500	$325,000	$342,000	11.1%	5.2%	$323,270	N	N
Lawrence	$32,758	$230,000	$243,950	$244,000	6.1%	0.0%	$148,901	N	N
Lexington	$113,348	$650,000	$691,500	$639,950	6.4%	-7.5%	$515,219	N	N
Lincoln	$92,485	$924,750	$1,141,500	$875,000	23.4%	-23.3%	$420,386	N	N
Littleton	$83,566	$390,000	$446,025	$396,000	14.4%	-11.2%	$379,844	N	N
Lowell	$45,880	$248,900	$265,500	$256,688	6.7%	-3.3%	$208,546	N	N
Lynn	$43,740	$265,000	$286,000	$272,500	7.9%	-4.7%	$198,819	N	N
Lynnfield	$94,385	$494,900	$557,000	$492,500	12.5%	-11.6%	$429,022	N	N
Malden	$53,445	$333,950	$355,000	$340,000	6.3%	-4.2%	$242,931	N	N
Manchester	$86,004	$561,000	$670,000	$690,000	19.4%	3.0%	$390,928	N	N
Mansfield	$78,346	$375,250	$415,000	$370,000	10.6%	-10.8%	$356,117	N	N
Marblehead	$86,591	$527,250	$570,000	$573,500	8.1%	0.6%	$393,594	N	N
Marlborough	$66,585	$324,950	$351,250	$342,000	8.1%	-2.6%	$302,661	N	N
Marshfield	$77,858	$395,038	$409,100	$385,000	3.6%	-5.9%	$353,898	N	N
Maynard	$71,190	$330,000	$344,250	$339,250	4.3%	-1.5%	$323,589	N	N
Medfield	$114,429	$522,000	$601,500	$481,250	15.2%	-20.0%	$520,131	N	Y
Medford	$61,431	$383,950	$390,000	$388,500	1.6%	-0.4%	$279,232	N	N
Medway	$87,957	$399,950	$430,000	$382,450	7.5%	-11.1%	$399,804	N	Y
Melrose	$73,530	$407,500	$423,000	$430,000	3.8%	1.7%	$334,226	N	N

Appendix B: Affordability Gap

City/Town	Estimated Median Household Income 2005	Median Single-Family Home Price 2004	Median Single-amily Home Price 2005	Median Single-amily Home Price Jan-May 2006	% Change in Median Sales Price 2004-2005	% Change in Median Sales Price 2005* v Jan-May 2006	Max. Home Price Affordable to Median Income Household 2005	Affordable in 2005?	Affordable in 2006?
Mendon	$83,308	$392,500	$459,000	$427,500	16.9%	-6.9%	$378,673	N	N
Merrimac	$68,708	$405,000	$362,500	$320,000	-10.5%	-11.7%	$312,308	N	N
Methuen	$58,096	$279,000	$320,000	$315,000	14.7%	-1.6%	$264,072	N	N
Middleborough	$61,758	$305,000	$321,000	$318,500	5.2%	-0.8%	$280,717	N	N
Middleton	$95,285	$445,250	$530,000	$400,000	19.0%	-24.5%	$433,114	N	Y
Milford	$59,535	$323,000	$350,000	$331,950	8.4%	-5.2%	$270,612	N	N
Millis	$73,524	$349,900	$380,000	$366,000	8.6%	-3.7%	$334,199	N	N
Millville	$66,727	$220,000	$301,000	$250,000	36.8%	-16.9%	$303,305	Y	Y
Milton	$92,464	$455,000	$469,900	$450,000	3.3%	-4.2%	$420,290	N	N
Nahant	$74,982	$445,000	$544,750	$491,250	22.4%	-9.8%	$340,830	N	N
Natick	$81,659	$415,750	$449,400	$395,000	8.1%	-12.1%	$371,176	N	N
Needham	$103,110	$609,000	$649,000	$598,250	6.6%	-7.8%	$468,681	N	N
Newbury	$87,607	$430,000	$444,000	$470,000	3.3%	5.9%	$398,213	N	N
Newburyport	$68,550	$430,000	$450,000	$445,000	4.7%	-1.1%	$311,590	N	N
Newton	$100,737	$691,400	$736,400	$725,000	6.5%	-1.5%	$457,895	N	N
Norfolk	$100,855	$470,000	$475,000	$407,750	1.1%	-14.2%	$458,432	N	Y
North Andover	$85,139	$500,000	$550,000	$550,000	10.0%	0.0%	$386,996	N	N
North Reading	$90,096	$416,250	$440,000	$375,000	5.7%	-14.8%	$409,525	N	Y
Norton	$75,879	$325,000	$339,000	$337,500	4.3%	-0.4%	$344,906	Y	N
Norwell	$102,311	$525,000	$543,750	$636,500	3.6%	17.1%	$465,052	N	N
Norwood	$68,391	$380,000	$400,000	$370,500	5.3%	-7.4%	$310,866	N	N
Peabody	$64,186	$358,000	$372,000	$350,000	3.9%	-5.9%	$291,753	N	N
Pembroke	$76,151	$349,950	$346,500	$361,500	-1.0%	4.3%	$346,140	N	N
Pepperell	$76,282	$334,950	$359,450	$309,000	7.3%	-14.0%	$346,736	N	Y
Plainville	$66,909	$347,500	$361,500	$435,000	4.0%	20.3%	$304,130	N	N
Plymouth	$64,008	$325,450	$339,900	$330,000	4.4%	-2.9%	$290,944	N	N
Plympton	$81,998	$392,000	$380,000	$413,250	-3.1%	8.8%	$372,719	N	N
Quincy	$55,162	$353,250	$372,250	$360,000	5.4%	-3.3%	$250,737	N	N
Randolph	$64,684	$312,000	$344,500	$322,000	10.4%	-6.5%	$294,019	N	N
Raynham	$70,765	$332,000	$337,575	$357,600	1.7%	5.9%	$321,657	N	N
Reading	$90,209	$418,750	$435,000	$410,000	3.9%	-5.7%	$410,042	N	N
Revere	$43,392	$315,000	$335,000	$330,000	6.3%	-1.5%	$197,239	N	N
Rockland	$59,250	$304,950	$317,750	$300,000	4.2%	-5.6%	$269,319	N	N
Rockport	$59,306	$440,000	$416,450	$400,000	-5.4%	-4.0%	$269,574	N	N
Rowley	$72,733	$354,000	$432,500	$518,000	22.2%	19.8%	$330,602	N	N
Salem	$51,547	$319,500	$345,000	$320,000	8.0%	-7.2%	$234,306	N	N
Salisbury	$57,725	$310,000	$322,500	$322,250	4.0%	-0.1%	$262,385	N	N
Saugus	$64,738	$345,000	$366,000	$346,000	6.1%	-5.5%	$294,264	N	N
Scituate	$82,962	$454,500	$510,000	$460,000	12.2%	-9.8%	$377,098	N	N
Sharon	$104,488	$425,000	$445,000	$411,250	4.7%	-7.6%	$474,944	Y	Y
Sherborn	$142,460	$734,000	$740,000	$795,000	0.8%	7.4%	$647,545	N	N
Shirley	$62,447	$314,950	$323,250	$347,000	2.6%	7.3%	$283,851	N	N
Somerville	$54,219	$381,000	$415,000	$380,000	8.9%	-8.4%	$246,449	N	N
Southborough	$120,561	$489,500	$545,000	$695,800	11.3%	27.7%	$548,003	Y	N
Stoneham	$66,265	$393,000	$420,000	$400,000	6.9%	-4.8%	$301,203	N	N

Appendix B: Affordability Gap

City/Town	Estimated Median Household Income 2005	Median Single-Family Home Price 2004	Median Single-amily Home Price 2005	Median Single-amily Home Price Jan-May 2006	% Change in Median Sales Price 2004-2005	% Change in Median Sales Price 2005* v Jan-May 2006	Max. Home Price Affordable to Median Income Household 2005	Affordable in 2005?	Affordable in 2006?
Stoughton	$67,708	$339,900	$349,900	$339,900	2.9%	-2.9%	$307,764	N	N
Stow	$112,722	$437,000	$455,000	$466,500	4.1%	2.5%	$512,372	Y	Y
Sudbury	$138,815	$630,125	$681,000	$542,000	8.1%	-20.4%	$630,975	N	Y
Swampscott	$83,220	$439,000	$500,000	$455,000	13.9%	-9.0%	$378,274	N	N
Taunton	$50,258	$283,000	$300,000	$290,000	6.0%	-3.3%	$228,447	N	N
Tewksbury	$80,541	$348,100	$376,000	$355,000	8.0%	-5.6%	$366,094	N	N
Topsfield	$112,886	$532,250	$530,000	$475,000	-0.4%	-10.4%	$513,117	N	Y
Townsend	$72,282	$275,000	$282,950	$283,500	2.9%	0.2%	$328,554	Y	Y
Tyngsborough	$81,732	$352,000	$360,000	$307,250	2.3%	-14.7%	$371,511	Y	Y
Upton	$92,007	$407,500	$415,000	$415,000	1.8%	0.0%	$418,215	Y	N
Wakefield	$77,400	$395,000	$425,000	$400,000	7.6%	-5.9%	$351,818	N	N
Walpole	$87,514	$399,675	$438,750	$407,000	9.8%	-7.2%	$397,792	N	N
Waltham	$63,227	$397,450	$424,750	$405,000	6.9%	-4.6%	$287,395	N	N
Wareham	$47,320	$249,900	$259,500	$249,900	3.8%	-3.7%	$215,091	N	N
Watertown	$69,963	$450,000	$461,500	$422,500	2.6%	-8.5%	$318,012	N	N
Wayland	$118,278	$567,500	$590,000	$565,500	4.0%	-4.2%	$537,627	N	N
Wellesley	$133,087	$876,738	$950,000	$920,000	8.4%	-3.2%	$604,939	N	N
Wenham	$105,972	$542,300	$473,900	$661,500	-12.6%	39.6%	$481,691	Y	N
W Bridgewater	$65,507	$320,750	$349,900	$350,000	9.1%	0.0%	$297,760	N	N
W Newbury	$108,669	$462,000	$482,500	$660,000	4.4%	36.8%	$493,951	Y	N
Westford	$115,042	$457,000	$500,000	$419,000	9.4%	-16.2%	$522,919	Y	Y
Weston	$180,184	$1,202,500	$1,200,000	$1,100,000	-0.2%	-8.3%	$819,019	N	N
Westwood	$102,308	$525,000	$595,000	$547,000	13.3%	-8.1%	$465,036	N	N
Weymouth	$60,482	$325,000	$340,000	$330,000	4.6%	-2.9%	$274,917	N	N
Whitman	$64,740	$295,000	$315,000	$317,500	6.8%	0.8%	$294,275	N	N
Wilmington	$82,709	$355,000	$374,750	$395,000	5.6%	5.4%	$375,949	Y	N
Winchester	$110,098	$670,000	$726,675	$735,000	8.5%	1.1%	$500,448	N	N
Winthrop	$62,187	$355,000	$375,000	$350,000	5.6%	-6.7%	$282,669	N	N
Woburn	$64,265	$360,000	$385,000	$362,000	6.9%	-6.0%	$292,115	N	N
Wrentham	$91,361	$420,000	$395,000	$394,950	-6.0%	0.0%	$415,278	Y	Y

* Full year

Note: 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% of the purchase price, plus real estate taxes and homeowners insurance, does not exceed 33% of the household's gross annual income. The assumptions are similar for a first time homebuyer except that both the homebuyer's income and the purchase price of the home are estimated to be just 80% of the median for the community. The down payment is assumed to be 10% with private mortgage insurance. Median household incomes in 2005 were estimated to be 2% above those reported in the 2004 American Community Survey. An interest rate of 6.00% was assumed for 2005 and 6.75% for 2006. Taxes and insurance were estimated in both years at 1.5% of the purchase price.

Source: Median single-family home prices, the Warren Group Publications

Appendix C: Municipal Scorecard

Municipality	Total Housing Units Permitted	# Soft Second Mortgages	# Mass Housing Purchase Mortgages	# Mass Housing Home Impvt Loans	CDBG HO/ Rental Units Rehabbed	Est. # New Low-Income Units-Total	Est % New Low Income Units Using Comp Permit	CPA	Approved Planned Production Plan (PPP)	Year Certified Under Planned Production	% Affordable on SHI (Based on 2000 Census)	Est % Restricted to Low Income	SHI % Includ New Production Since 2000	* = at 10% Y = Achieved 10% threshold in 2005	Expiring Use Units at Risk 2005-2010
Ashland	91	1	2					Y			3.9%	3.9%	3.8%		162
Avon	8		2								4.0%	4.0%	4.2%		
Ayer	63	1			6	52	0%	Y			7.7%	6.5%	8.1%		
Bedford	210	1	3			53	100%	Y	Y	2004	8.8%	6.2%	12.2%	Y	
Bellingham	84		1		17						9.3%	5.5%	8.8%		
Belmont	48	2									2.7%	2.7%	3.2%		
Berkley	25		1								1.8%	1.8%	1.9%		
Berlin	21	1	1			8	100%				4.8%	4.8%	4.1%		40
Beverly	48		8		16						10.9%	10.1%	11.0%	*	332
Billerica	605	1	6			92	95%		Y	2005	3.5%	2.4%	5.5%		
Blackstone	22		2								3.1%	3.1%	3.5%		48
Bolton	0								Y	2005	3.6%	3.5%	4.8%		
Boston	1,156	292	55			472	0%				18.9%	17.0%	18.8%	*	8,275
Boxborough	16		2						2006		1.2%	1.2%	1.1%		
Boxford	13							Y	Y		0.7%	0.7%	0.7%		
Braintree	305	6	4			82	100%	Y			10.2%	7.0%	10.0%	*	
Bridgewater	76		4			4	100%	2005	Y		2.7%	2.4%	2.9%		
Brockton	221	3	25			18					12.5%	12.4%	12.6%	*	
Brookline	33	3	5			43	81%				8.0%	7.0%	7.9%		
Burlington	674		1			93	55%				10.6%	3.6%	9.9%	*	
Cambridge	996	28	4			153	0%	Y			15.8%	14.1%	15.2%	*	2,239
Canton	143	1	6			61	100%				10.2%	6.3%	10.4%	*	56
Carlisle	19					2	100%	Y	2005		1.1%	1.1%	1.0%		18
Carver	53							2006			2.0%	2.0%	2.5%		
Chelmsford	64	7	5					Y	2005		5.6%	3.6%	5.5%		
Chelsea	4	16	9								17.6%	16.5%	17.1%	*	121
Cohasset	22							Y			2.8%	2.8%	3.1%		
Concord	24	1						Y	2005		4.5%	3.5%	4.6%		
Danvers	36		1								8.3%	5.1%	9.0%		
Dedham	22										8.7%	5.4%	11.6%	Y	
Dighton	0					20	100%				5.7%	4.8%	5.3%		
Dover	14		1			6	100%				0.9%	0.9%	0.9%		
Dracut	261	7	5			44	100%	Y	Y	2005	5.3%	3.6%	5.2%		
Dunstable	30								Y	2005	0.0%	0.0%	2.7%		

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Duxbury	35							Y			3.4%	3.4%	3.4%		
East Bridgewater	79		2			22	100%				3.3%	3.3%	3.2%		
Easton	78		6					Y	2005		3.1%	3.1%	3.1%		
Essex	6										2.9%	2.9%	2.8%		
Everett	186	4	8								8.2%	8.2%	8.1%		
Foxborough	29		3								3.9%	3.9%	3.9%		64
Framingham	44	5	2								10.1%	9.3%	10.1%	*	939
Franklin	210	1	2			16	100%		Y		9.6%	4.8%	9.3%	Y	58
Georgetown	59				5			Y			13.7%	8.0%	12.4%	*	
Gloucester	104	3	1			20	100%				7.3%	7.3%	7.4%		80
Groton	79					20	55%	Y	2005		5.5%	3.6%	4.7%		
Groveland	85					3	100%	Y	2005		3.3%	2.8%	3.1%		
Halifax	24		1								1.0%	1.0%	0.9%		
Hamilton	3							2005			2.8%	2.7%	3.0%		
Hanover	56							Y			7.7%	5.6%	7.7%		
Hanson	58		2			8	100%				3.8%	3.3%	4.2%		
Harvard	11					13	100%	Y	Y		2.5%	2.5%	2.6%		
Haverhill	262		13								8.5%	7.8%	8.1%		149
Hingham	198					1	100%	Y			3.3%	3.1%	4.4%		60
Holbrook	13	1	2		20						10.9%	8.3%	10.5%	*	
Holliston	50					20	100%	Y	2005		3.3%	3.3%	3.2%		
Hopedale	16		1								3.5%	3.5%	4.4%		
Hopkinton	51					35	100%	Y	Y		3.6%	2.8%	3.3%		
Hudson	261		4								10.0%	7.3%	9.0%	*	
Hull	40		1		18						3.4%	3.4%	3.4%		
Ipswich	66		3								7.6%	6.2%	7.4%		
Kingston	60							2005	Y		3.3%	3.3%	3.5%		
Lakeville	43		3			100	100%		Y	2005	3.6%	3.6%	7.6%		
Lancaster	70	1	1			26	100%				4.5%	4.5%	3.9%		
Lawrence	69	6	14			10	0%				14.8%	14.0%	14.6%	*	785
Lexington	65		1			12	0%	2006			7.3%	4.4%	10.9%	Y	
Lincoln	25							Y	Y		8.7%	6.2%	8.4%		
Littleton	45					11	100%				8.6%	6.7%	8.5%		
Lowell	311	15	24			33	0%				13.1%	12.7%	13.0%	*	661

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Lynn	104	34	45								12.9%	12.5%	12.9%	*	547
Lynnfield	12								2006		2.0%	2.0%	2.3%		
Malden	40	7	6								11.5%	9.0%	11.4%	*	428
Manchester	9	1						2005			4.7%	4.6%	4.5%		
Mansfield	124	4	1			16	100%		Y		8.6%	3.9%	8.7%		
Marblehead	82	1	1			5	100%				3.8%	3.8%	3.7%		
Marlborough	365	5	1		6	75	100%				10.2%	6.0%	9.6%	*	
Marshfield	88	1	3					Y	Y		4.5%	3.7%	4.4%		
Maynard	8				16						7.8%	7.5%	7.9%		
Medfield	12										4.6%	4.6%	4.6%		
Medford	16	3	4			7	0%				7.0%	5.4%	7.1%		93
Medway	32		1					Y			5.6%	5.6%	5.1%		
Melrose	210	2	3								7.1%	7.1%	7.0%		
Mendon	23					19	100%	Y			2.6%	2.6%	2.4%		
Merrimac	41		2						2005		6.8%	4.8%	9.3%		
Methuen	62	3	6			74	100%				6.1%	5.3%	6.1%		
Middleborough	127	2	1		25				2005		5.0%	4.9%	4.9%		
Middleton	51		1			8	100%	Y			5.8%	5.7%	4.9%		
Milford	105		1		4						6.9%	4.6%	6.7%		61
Millis	25		1								3.4%	3.4%	3.4%		
Millville	13		1								1.9%	1.9%	1.9%		
Milton	24		1								4.2%	4.2%	4.1%		139
Nahant	3							Y			2.9%	2.9%	2.8%		
Natick	67	1	2								5.1%	5.1%	5.2%		
Needham	62					5	100%	Y			3.9%	3.9%	4.5%		60
Newbury	14				5						3.6%	3.6%	3.4%		
Newburyport	45	4	2		12			Y			8.2%	8.2%	8.2%		
Newton	79	4	2			104	88%	Y			6.6%	4.5%	7.3%		70
Norfolk	57							Y			2.9%	2.9%	3.2%		
North Andover	135	2	5			29	100%	Y			5.8%	5.8%	5.6%		
North Reading	32	1	1			7	100%				1.7%	1.7%	2.0%		
Norton	89		2			8	100%				6.3%	6.0%	6.4%		
Norwell	29							Y			3.5%	3.5%	3.8%		
Norwood	39	1	5		5						5.6%	4.7%	5.8%		

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Peabody	446	1	12		11	21	0%	Y	Y		9.7%	8.0%	9.3%	Y	172
Pembroke	300	1	3			60	100%				4.8%	4.8%	9.5%	Y	
Pepperell	27										3.0%	3.0%	3.0%		
Plainville	61		3		4						4.7%	4.1%	5.3%		
Plymouth	508	1	8					Y			4.1%	4.1%	4.0%		158
Plympton	4										4.6%	4.6%	4.7%		
Quincy	702	4	12			20	0%		Y		9.2%	8.2%	8.8%		349
Randolph	25	3	5		20			2005			6.9%	6.0%	7.1%		159
Raynham	111		2								11.3%	7.6%	9.6%	*	
Reading	30	2	1			70	76%				7.8%	4.7%	8.0%		113
Revere	295	12	8		10						8.9%	8.6%	10.0%	Y	
Rockland	99	3	5								6.1%	5.7%	6.2%		204
Rockport	10		1					Y			4.5%	4.5%	4.4%		
Rowley	36	2	3					Y			3.9%	3.9%	3.6%		
Salem	36	6	13								12.8%	10.7%	12.4%	*	250
Salisbury	138	4	1						2006		5.1%	5.1%	4.4%		
Saugus	205	1	6								6.4%	6.4%	6.5%		
Scituate	72					10	100%	Y			4.4%	4.4%	4.4%		
Sharon	18		2					Y	2005		3.8%	3.8%	3.7%		
Sherborn	6										2.3%	2.3%	2.2%		
Shirley	36										2.7%	2.7%	2.6%		
Somerville	19	7	3			80	10%				9.0%	8.5%	9.5%		43
Southborough	26					8	100%	Y	Y		3.6%	3.0%	3.3%		
Stoneham	13		4								5.4%	5.4%	5.5%		
Stoughton	160		4			37	100%		2005		7.7%	6.8%	9.6%		207
Stow	29		1			24	100%	Y	Y		5.6%	4.5%	5.3%		
Sudbury	22							Y			3.9%	3.9%	3.7%		
Swampscott	7	2	3								3.3%	2.6%	3.6%		
Taunton	159	2	31								7.9%	7.4%	8.3%		247
Tewksbury	207	1	3			8	100%	2006	2006		4.4%	3.7%	4.6%		
Topsfield	6	1	1								6.1%	6.1%	6.4%		
Townsend	36		2		5				2005		2.5%	1.6%	2.5%		50
Tyngsborough	97		1					Y	Y		6.9%	5.8%	6.8%		
Upton	55		1			2	100%	Y			8.5%	8.5%	7.4%		

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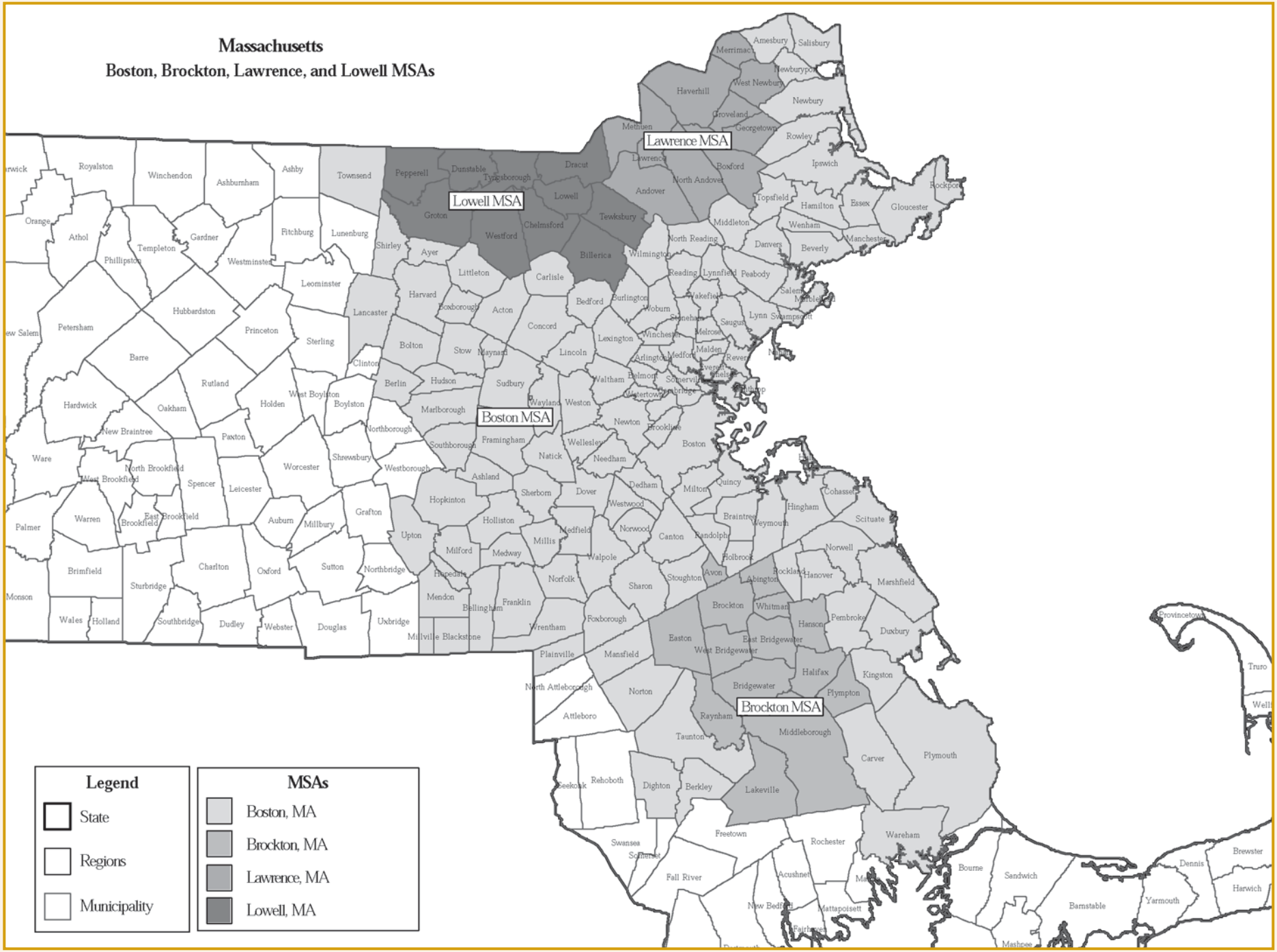
Wakefield	77	3	2		16	32	100%		Y		5.7%	4.4%	5.5%		104
Walpole	79		1								5.4%	3.6%	5.3%		
Waltham	63	1	2					2005			5.8%	5.4%	7.0%		
Wareham	142	1	4		22	17	100%	Y	Y		6.0%	6.0%	5.8%		
Watertown	34	3	2			3	0%				6.0%	0.0%	6.3%		
Wayland	20							Y	2005		3.2%	3.2%	3.1%		
Wellesley	74							Y			4.7%	4.4%	4.5%		125
Wenham	3	1	1					2005			9.0%	9.0%	8.6%		
West Bridgewater	9		5			10	100%				1.9%	1.9%	2.0%		
West Newbury	10								2005		1.8%	1.8%	1.7%		
Westford	60	2	4			15	0%	Y	Y	2005	2.2%	1.9%	3.3%		
Weston	51					4	100%	Y			3.3%	3.1%	3.1%		42
Westwood	11					35	100%				7.4%	4.9%	7.3%		32
Weymouth	88	3	13					2005			8.1%		7.9%		289
Whitman	69		5								4.1%	4.1%	4.3%		
Wilmington	65		2			14	100%		Y		9.4%	4.4%	9.3%		
Winchester	23	2									1.8%	1.8%	1.7%		
Winthrop	10	3	2								7.4%	6.2%	8.0%		
Woburn	38	2	3			49	0%				8.1%	4.7%	8.2%		
Wrentham	0		1						2005		4.2%	4.2%	4.4%		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Boston, Brockton, Lawrence, and Lowell MSAs
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