

Affordable Housing Study Reports

3. Review of Affordable Housing in Massachusetts

Why Affordable Housing Matters

Here are a few reasons why affordable housing matters to all of us.

- Without an adequate supply of affordable housing, many residents have to pay a disproportionate share of their income for housing at the expense of other basic necessities.
- Diverse communities are described as those that include people of all income levels and skills. Such communities are seen by many as healthy communities. Some see diversity as a social benefit allowing citizens to live in a community more like the world at large.
- Some see a diverse community as a practical necessity. Several recent news articles claim that the lack of affordable housing is causing skilled workers and seniors to look for housing out of the state. News articles and Gov. Romney claimed that the loss of skilled workers was having a negative effect on Massachusetts' ability to compete economically. Employees who work in many suburban communities often cannot afford to live where they work.
- More Massachusetts communities are becoming less diverse. The hometown of the past where peoples of all economic levels and skills lived within the same community is becoming obsolete.
- Decent housing, for all people including for those who can't pay market prices, maintains public health and satisfies aesthetic preferences for livable communities.

League members have already decided that affordable housing matters. This is how the League of Women Voters of the United States puts it: We believe that "every person and family should have decent, safe, and affordable housing."

Few deny the need for more affordable housing in Massachusetts. Housing is the largest single expense most households at all economic levels face. Most people agree that affordable housing for those with very low incomes and for the disabled is in very short supply here. Some claim that even those of moderate means are unable to find housing without cutting back on other necessities.

Economists define the maximum households can "afford" to spend on housing as the total household income less the amount needed to cover other basic needs (food, clothing, transportation and medical care). The federal government (the Department of Housing and Urban Development – HUD) calls housing affordable if it costs no more than 30-35% of a household's income.

In reality, because the cost of meeting basic needs is relatively fixed, most very-low-income households can afford to spend even less than 30%. Using HUD's definition, 21.5% of Massachusetts households had housing affordability problems in 1999.

In August 2006 the State House News Service reported that Massachusetts is adding new housing at one of the slowest rates in the nation. According to them, "Massachusetts added 15,953 units of housing between July 1, 2004 and July 1, 2005 or a 0.6 increase as compared to the 1.5 percent increase of overall growth in the nation." When one considers the housing lost through demolition or expiration of affordability restrictions, there has been a net loss of affordable housing statewide.

Definitions

Terminology is important because using the correct terms facilitates understanding and eliminates confusion. The following reviews some of the major terms used in these reports.

Affordable housing, for the purposes of our study, refers to rental or owner units developed under government programs for residents with limited incomes.

The study does not cover low-rent or low-purchase priced units that have no income restrictions.

These reports use the following definitions for income categories:

- very low income: at or below 30% of the area median income (AMI)
- low income: at or below 50% of the AMI
- moderate income: at or below 80% of the AMI

Area median income is calculated by the U. S. Bureau of the Census for regions within the state as established by the Department of Housing and Urban Development.

An arithmetic refresher: median is not the same as what many think of as an average. By average, we think of adding up a set of numbers (in our case, all the incomes made by a specific set of people) and dividing it by how many there are in the set. This is also known as the “mean.”

In contrast, median income is the middle value when income distribution is divided into two equal parts, one part having incomes above the median and the other having incomes below the median.

Eligibility requirements are developed and used by various regulatory agencies tailored to the program it administers. These requirements determine who is eligible for that particular program. Usually eligibility for affordable housing is stated as a percentage of the area median income. To be precise one must know which regulatory agency administers the program and refer to that agency’s guidelines. The internet can be used to access this information.

The Need in Massachusetts

The need for affordable housing is not new to our country or to our state. It has been documented as far back as 1890. In 1949 Congress passed the Housing Act in response to the nation’s crisis. The Act promised “a decent home and a suitable living environment for every American.” Massachusetts responded in 1969 to our state’s housing crisis with Chapter 774 of the Acts of 1969.

Consider these facts:

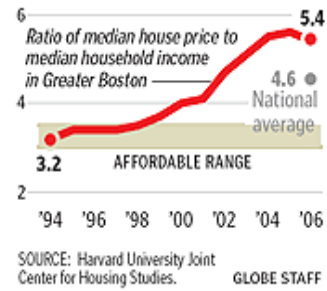
- Boston outpaced Washington D.C., San Francisco and New York City as having the most expensive housing costs in the country.
- Demand for housing has exceeded supply over the last 20 years.
- Massachusetts produces new housing units at one-half the rate of the nation and multi-family units at one-third the national rate.

Here are some additional statistics about the housing problem in Massachusetts:

- The cost of buying the median-priced single family home in Massachusetts doubled from 1998 to 2005.
- In 2005, households earning the median income of their community could afford its median priced single-family house in only 19 of the 161 cities and towns in the Boston region. Three years before that, there were 77 communities in which these households could afford to buy a median-priced home.

- Currently, 81,000 low-income people are on Housing Authority lists waiting for the availability of housing they can afford.

The chart to the right is another way to explain how much more unaffordable housing has become in the Boston area. It shows that in 1994 a family earning the household median income would have had to pay 3.2 times its annual income to buy a median-priced house in the area. In 2006, a family making the median income would have had to pay 5.4 times its annual income to buy a median-priced house.



The need – ownership. Income limits for both rental and ownership programs vary according to the number of people in a household. Rental housing more often includes units set aside for those with incomes of 30 to 50% of area median income. But ownership programs are more often for those at 80% of area median income. This is because it costs more to own and maintain a home than to rent one.

The HUD regional area median incomes cover a very diverse number of communities, so the Lawrence regional area, for example, also includes Andover, Methuen and other communities in eastern Essex county. Communities are grouped into HUD regional areas by proximity, not by their sharing like demographics, for example. The chart below shows how the use of regional data can affect the affordability of homes in different communities. Area median household incomes for each community could not be obtained, so in this chart a single person household is used. While families having more than one income can better afford to purchase a house, this table at least shows the diversity of earning and buying power of a single person household.

	Massachusetts	Lawrence	Andover
Median house/condo value	\$361,500	\$237,700	\$599,300
Median income for single person household	\$57,184	\$31,604	\$97,200
Max. 30% of income for housing	\$17,155	\$9,481	\$29,160
20% down payment-median house/condo	\$72,000	\$48,000	\$120,000
Mortgage amount to borrow	\$289,500	\$189,700	\$479,300
Monthly payments/30 yr./7% rate	\$1,926	\$1,258	\$3,189
Annual mortgage payments	\$23,112	\$15,096	\$38,268
% of income allocated to housing	40%	48%	39%

Median house/condo values range from a high of \$600,000 in Andover to a low of approximately \$238,000 in Lawrence.

The median income in Andover, which again is based on income for a single person household, is more than three times that of Lawrence. If a person, earning the Lawrence median income, wanted to purchase in Lawrence, the down payment on a \$238,000 home would be more than \$47,000 – not easily achieved on an income of just over \$31,000 – and the monthly payment, based on a 30 year mortgage at 7% interest, would be over \$1,200 or over \$15,000 annually, excluding taxes, insurance and maintenance. This represents 48% of that person’s income allocated to housing.

By comparison, a person earning the Andover median income of \$97,000, who purchases a median priced home in Andover at \$600,000, would have a mortgage payment of \$3200 per month, with a down payment of \$120,000 and would be paying out 40% of his/her income in housing.

In all three cases – the state, Andover, and Lawrence – the housing burden is significantly higher than the HUD recommended 30 to 35% of income.

The need – rental. The chart below, extracted from a report by CHAPA, shows the changes in rents and rent burdens from 2000 to 2005. The first important number to note is that the median gross rent increased by more than 30% from 2000 to 2005.

The other two significant numbers are that in 2005 over 46% of renters in Massachusetts were paying more than 30% of their income for rent, while over 23% were paying more than 50% of their income.

	2000 Census	2005 ACS*	% change
MA median renter income	\$30,682	\$31,820	3.7%
MA median gross rent	\$684	\$902	31.9%
US median renter income	27,362	28,251	3.2%
US median gross rent	602	728	20.9%
MA rank among 50 states	7	4	
**Renter households paying >30%	321,683	408,793	87,110
% of all MA renters	34.4%	46.4%	
% of all US renters	*	45.7%	
MA rank among 50 states	15	9	
**Ma renter households paying >50%	156,166	204,299	
% of all MA renters	16.7%	23.2%	
% of all US renters	*	23.2%	

* U.S. Census Bureau American Community Survey

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