

The Greater Boston Housing Report Card 2009

Positioning Boston in a Post-Crisis World

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

Citizens’ Housing and Planning Association

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

The Boston Foundation

The Boston Foundation, Greater Boston’s community foundation, is one of the oldest and largest community foundations in the nation, with assets of almost \$700 million. In Fiscal Year 2009, the Foundation and its donors made \$86 million in grants to nonprofit organizations and received gifts of over \$72 million. The Foundation is made up of some 900 separate charitable funds established by donors either for the general benefit of the community or for special purposes. The Boston Foundation also serves as a major civic leader, provider of information, convener, and sponsor of special initiatives designed to address the community’s and region’s most pressing challenges. For more information about the Boston Foundation, visit www.tbf.org or call 617-338-1700.

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Letter

Dear Friends,

One year ago, the Boston Foundation published its sixth annual *Greater Boston Housing Report Card* as the region looked into the eye of an economic storm of extraordinary force and significance. Judged the worst event of its kind since the Great Depression, the turbulence that began last fall erased years of economic growth and caused significant damage to employment rates, institutional endowments, personal portfolios and housing markets across the country.

It is into that landscape that the Foundation publishes its seventh *Housing Report Card*. The current report examines what has happened in the past 12 months and how Greater Boston and Massachusetts have been affected by this national crisis. And it offers a clear and compelling presentation of where we stand today.

For years, the high cost of housing in Greater Boston has been a serious concern to the region, threatening to undermine our economic competitiveness as it drove many young and well educated workers to less expensive parts of the country. At the same time, a trend toward ever more expensive housing helped expand a widening disparity between rich and poor as greater numbers of area families found themselves priced out of home ownership, a cornerstone of the American Dream and a traditional strategy for building family wealth.

Housing prices *have* declined in the past 12 months. And the national dislocation has temporarily stopped the out-migration of young residents. But that good news is only part of the whole story presented by Barry Bluestone, Dean of the School of Public Policy and Urban Affairs at Northeastern University, and his team, with significant support provided by the Warren Group. While housing prices have fallen in Greater Boston, at the same time, they have fallen much faster and further in urban areas elsewhere throughout the country that compete directly with Massachusetts for talented workers. And the foreclosure crisis has driven more residents of limited means into rental properties, driving up rents and imposing great strains on area residents who are already economically burdened.

How we proceed from where we stand today, in response to the Crash of '08, will have powerful consequences for the city and the region. Thanks to Barry Bluestone's leadership, we have an insightful and thoughtful analysis of the current situation and a credible guide to what lies ahead.



Paul S. Grogan
President and CEO
The Boston Foundation

Executive Summary

When we initiated the annual *Greater Boston Housing Report Card* series in 2002, home prices in the region had been rising for nearly seven years. The motivation behind that first report, and the five annual installments that followed, was to document how the Greater Boston region was coping with the issues of skyrocketing prices and housing affordability. As such, the content of those reports focused a great deal of attention on the amount of housing production in the region, the trend in prices and rents, and state and federal spending available to provide affordable housing in the Commonwealth.

Last year, we reported on the first significant bout of home price reductions and the rising tide of foreclosures. But that report came out only a few weeks after Lehman Brothers had declared bankruptcy and banks and mortgage companies were beginning to report multi-billion dollar losses. We were just beginning to recognize that the economic recession that had begun the previous December was not your ordinary garden-variety business cycle. What was happening in housing markets was not simply the *consequence* of the deepening recession; it was indeed one of the proximate *causes* of the deepening economic crisis.

Now, a year later, we have a much better understanding of just how deep and prolonged the economic crisis has been and the catastrophic effects it has visited on so many sectors of the economy and our community. As such, the deepening national recession and the rash of foreclosures has shifted our focus in this current report to a different set of housing issues: declining home values, rising foreclosures, new measures of affordability, and the impact of government attempts to stem the tide of families losing their homes and vulnerable neighborhoods facing the potential ravages of boarded up, vacant buildings. This year's report has added a full chapter on what has happened to home price and rental affordability, another on foreclosures, and the chapter on public policy has been expanded significantly to account for all of the new policies put in place at the federal and state level.

In a nutshell, this report contains some very good news, but also some surprisingly disturbing news about home affordability, rents, and foreclosures.

The good news is that we now have some fairly strong indications that the current economic recession is drawing to an end nationally and regionally, and that at least in Massachusetts we believe we have seen the last of any major losses in jobs. We have also seen the first signs of an uptick in the housing market, with sales beginning to perk up along with home prices.

The bad news is that while housing has become more affordable relative to household incomes in Greater Boston, the region is now *less* affordable than ever compared with virtually every metro area we compete with across the country. Moreover, despite the recession, rents in Greater Boston are now substantially higher than before the recession began, and we have not seen any letup in the number of families falling behind in their mortgage payments and therefore becoming subject to the initiation of foreclosure activity.

In short, Greater Boston's "housing crisis" is far from over.

Specific Findings for 2008-2009

Economic and Demographic Trends in the Greater Boston Region

Employment Trends

While the current recession has resulted in a national unemployment rate of nearly 10 percent, its impact on Massachusetts has not been quite as severe.

- As of August 2009, the U.S. unemployment rate was 9.7 percent; in the Commonwealth, it was 9.1 percent.
- Since the beginning of the current recession in December 2007 (through July 2009), the U.S. has suffered a loss of 4.8 percent of its jobs; Massachu-

sets has lost only 3.2 percent and employment has been holding more or less steady since April.

- While Massachusetts has suffered a greater loss in construction jobs since the recession began (Mass: -18.9 percent vs. U.S.: -17.6 percent), it has benefited from actual growth in employment in the education and health sector and in the leisure and hospitality sector, and its loss of manufacturing jobs has been only 60 percent as steep as the nation's.

Demographic Trends

The last two years (2007 and 2008) have seen the population of Greater Boston increase by nearly 65,000 individuals, to 4.1 million. This increase in population resulted in the addition of nearly 23,000 new households, bringing the total to 1.55 million. The recession of the past year had already taken its toll on incomes.

- Median real household income in 2008 was up by just 0.28 percent over 2007.
- Over the longer run, real household income has grown very slowly since 2000, rising by only 3.25 percent overall.
- Virtually all of this gain was among homeowners, who experienced a 4.7 percent increase since 2000. Meanwhile, the median income of renter households has actually declined by 7 percent. This growing divergence between the incomes of homeowners and renters represents a long-term trend.

Production of New Housing

Housing starts in Greater Boston have come to a near stand-still in the last year. As a result of the economic downturn and the foreclosure crisis, the Dukakis Center projects that 2009 permitting could fall to less than a quarter of the 2005 level, with the largest reductions occurring in the production of larger multi-family units (those with five or more units). In 2008, 122 municipalities in Greater Boston permitted no new large multi-family units, the greatest number of communities with no such housing production since 2000.

- No more than 3,500 housing permits are expected to be issued in all of 2009 in Greater Boston, down from 6,500 in 2008 and over 15,000 in the peak year, 2005.

- Only 35 communities out of the 161 in the Greater Boston region permitted more units in 2008 than in 2007.
- While the city of Boston continued to permit the greatest number of units in the region, production was nearly half of what it had been a year ago.
- The one bright spot in housing production is university-based student housing: Northeastern University's newest dorm, which opened in September, houses 1,200 students; Boston University's new Student Village II has 960 beds; and Emerson College has opened a renovated 372-bed building on its campus. This new construction is helping to move students out of private rental housing in the area and into on-campus housing. This transition should reduce demand for rental units in these neighborhoods, thereby helping to moderate rents for the residents in these communities.

Home Prices and Rents

Home Prices in Greater Boston

Single-family home prices in Greater Boston reached their peak in 2005 and since then have been declining each year. Rising vacancy rates have contributed to this decline as the market has moved from a seller's market to a buyer's market. The first glimmer of a home price recovery can be seen in the monthly data for 2009 beginning in March of this year. Condo prices continued to rise through 2007 before beginning a retreat.

- The annual median selling price of a single-family home in Greater Boston was \$407,300 in 2005. By 2008, the median price had dropped to \$358,300, a decline of 12 percent. We estimate that the average median selling price during all of 2009 will be \$327,400 so that the total decline will reach nearly 20 percent.
- But beginning in April, we saw the beginning of a reasonably strong recovery in single-family home prices. By July 2009, the median price was back to \$363,200. While much of this reflects seasonal factors, we expect the selling price by the end of this year to exceed the selling price at the end of 2008.
- Annual condo prices peaked at \$306,600 in 2007. We estimate that for all of 2009, the average median

selling price will have dipped 9 percent to \$275,300. Here too, we see a stabilizing and then recovery in prices that began in January 2009.

- The last complete housing price cycle in Greater Boston began in July 1988. For 42 months, prices declined, dropping by 15 percent. The current cycle began in September 2005 and appears to have reached its trough 42 months later as well, with prices having dropped by about 19 percent. In the cycle that began in 1988, it took over five years (62 months) before single-family home prices returned to their previous peak. If the current cycle follows the same path as the previous one, home prices in the Greater Boston region as a whole will not return to the September 2005 peak level until sometime in 2014.

Rental Market

While home prices began to decline dramatically in 2005, effective rents (taking into account all discounts) actually increased and continued rising until the third quarter of 2008. Higher rents in 2005 resulted from a push of homeowners into the rental market, in large part because of the vast number of foreclosures, and from renters avoiding the move into homeownership as home values were declining. The increased demand for rental units resulted in higher effective rents, and it was not until late in the recession that they began to fall.

- Monthly effective rents in Greater Boston peaked in the third quarter of 2008 at \$1,658, up 15 percent since the first quarter of 2004.
- By the second quarter of 2009, the average effective rent was down to \$1,629, a decline of only 1.7 percent from their all-time peak.

Housing Affordability

Absolute Affordability

Absolute affordability in Greater Boston, defined as the ratio of the median selling price of single-family properties to median household income, has improved in 2008, after steadily declining over the preceding years. This was the result of significant reductions in home prices combined with moderate gains in household income in the region. In absolute terms, Greater Boston

is now as affordable as it was in 2002, before the peak of the housing bubble.

- In 2000, the ratio of median single-family home selling price to median household income was 4.72. By 2005, it was 6.52.
- The ratio held fairly stable in 2006 and 2007, but by 2008 it had retreated to 5.42, the same level as in 2002.

Relative Affordability

Relative affordability refers to the median selling price in Greater Boston compared to median selling prices in other metro areas. To the extent that families consider the relative cost of housing in deciding where to live, relative affordability can be as important as absolute affordability. While absolute affordability has improved significantly in Greater Boston since 2005, relative affordability has actually become worse as housing prices have fallen faster in other regions.

- Out of the 20 major metro regions followed in the highly regarded Case-Shiller home price index, Greater Boston's cost disadvantage increased between 2006 and 2009 relative to Atlanta, Chicago, Detroit, Las Vegas, Miami, Minneapolis, Phoenix, and Tampa.
- Greater Boston's cost advantage relative to Los Angeles, New York, San Diego, and San Francisco has diminished over the past three years.
- Over this period, Greater Boston's cost disadvantage improved slightly relative to Charlotte, Cleveland, Dallas, Denver, Portland, and Seattle.
- But since 2000, Greater Boston's relative affordability has declined against all metro regions with the exception of Los Angeles, New York, and Washington, D.C.

Rental Affordability

Absolute Affordability

For renters, absolute affordability in Greater Boston has actually declined since 2004 as a result of increased rents and stagnating incomes for renters.

- In 2001, households who earned the median renter income and were seeking to rent a unit had to spend 46 percent of their income to secure a rental housing

unit in Greater Boston priced at the average effective rent.

- Today, the median-income renter would need to spend more than half (51 percent) of his or her income to rent the average-priced rental unit.

Relative Affordability

When comparing rents in Greater Boston to those in other metropolitan areas, the only one of the Case-Shiller comparison regions that is now more expensive for renters is San Francisco. Boston is essentially tied with San Diego as the second most expensive city in which to rent, followed closely by Washington, D.C., New York City, and Los Angeles.

- Rents in Greater Boston are 85 percent higher than the national average.
- Rents in Greater Boston are 44 percent higher than in Seattle and 83 percent higher than in Charlotte.

As a result of its weaker position in home price and rental relative affordability, Greater Boston is in danger of experiencing more out-migration of young working families. Domestic net out-migration has declined since Greater Boston home prices peaked in 2005, but a further decline in relative affordability could lead to another loss of population due to migration trends.

Foreclosures in Greater Boston

Foreclosure petitions, the first step in the foreclosure process, reached a peak in 2007, with over 300 foreclosure petitions filed each week in Greater Boston. This number declined in 2008, due in large part to the state's right-to-cure law, which provided homeowners 90 days to catch up on their missed mortgage payments before the mortgage company could file a foreclosure petition. During the last months of 2008 and the first half of 2009, the number of petitions has begun to climb again.

- Foreclosure petitions are likely exceed 15,000 in 2009, up from 4,645 in 2005 and just 696 in 2000.
- Multi-family units now account for over 30 percent of all foreclosures, meaning tenants are in danger of losing their housing in addition to owners.

While foreclosure petitions have increased in the last year, we forecast a decline in foreclosure deeds for 2009. In 2008, foreclosure deeds in Greater Boston reached a high of over 6,600, in addition to the more than 4,000 families who had lost their homes to foreclosure the previous year. Declines in the first half of 2009, leading to an estimated overall decline in foreclosure deeds for the entire year, are mainly due to a hold-up in the processing of foreclosure filings amidst greater pressure on mortgage holders and banks to refinance mortgages.

The number of foreclosure auctions began to increase in 2005, and peaked at nearly 9,500 in 2008. Using figures for the first half of 2009, we have predicted a decline in the total number of foreclosure auctions in 2009 along with a decline in foreclosure deeds. Still, the high level of auctions can result in home price depreciation, since these properties tend to sell at lower prices than in impacted neighborhoods their normal market values.

Public Policy and Spending in Support of Public Housing

New Federal and State Policies

A plethora of new state and federal policies was introduced in the last year in an attempt to alleviate the impact of the current housing crisis. With policies ranging from tax credits for first-time homebuyers to incentives for mortgage companies to refinance the mortgages of at-risk homeowners, these policies have been introduced to reduce actual foreclosures and increase housing sales. Moreover, there are now federal programs to rehabilitate vacant properties and to forestall the filing of a foreclosure petition. New policies have been created to assist in the reselling of bank-owned properties. The Federal Reserve Bank has also taken important steps to keep mortgage rates low by purchasing over \$1.5 trillion of mortgage-back securities. While it is still difficult to tell what the long-term effects of these programs may be, it is clear that all levels of government have worked to stabilize the housing market.

In addition, this year the Obama Administration has announced a new national focus on promoting renting rather than home purchases. More than \$4 billion has

been allocated by the U.S. Department of Housing and Urban Development toward the creation of additional affordable rental housing. This new effort could help provide assistance to many families who have lost their homes to foreclosure.

Public Spending on Housing in the Commonwealth

The loss of tax revenue in Massachusetts since the beginning of the recession has necessitated cuts in nearly all state budgets. Among these cuts has been a nearly \$40 million decline in the total amount of state-generated operating funds for the Department of Housing and Community Development (DHCD) between FY2008 and FY2010. This reduction in funding came about, in large part, through Section 9C cuts which were announced by Governor Deval Patrick in May 2009.

- Inflation-adjusted state-funds for DHCD operating expenses amounted to \$375 billion in FY1990; by FY2003 they had fallen to just \$75 million, before increasing again to \$155 million in FY2008. The FY2010 budget for DHCD operating expenses from state funds is down to \$115 million.

Meanwhile, federal spending for DHCD has seen dramatic increases since 2008, with a proposed FY2010 budget that is nearly \$200 million higher than it was in FY2008. In addition to this spending, the federal government has further supported DHCD through funds provided by the American Recovery and Reinvestment Act (ARRA). These additional funds total over \$300 million and bring the FY2010 budget to a level far higher than previous years. The ARRA funds are short-lived and will likely no longer be available to the state by FY2012.

Total state and federal spending for DHCD, including funds provided by ARRA, bring the FY2010 budget to \$1.244 billion. This is a dramatic increase from the total spending in FY2008 of \$761 million, suggesting that at least for now, there are public funds available to help meet some of the most severe housing problems we now face.

Conclusion

Overall, 2008 and the first half of 2009 has been an extremely difficult period for the Greater Boston economy and for the region's housing market. Housing sales plummeted; home sale prices declined. Many families faced the fear of foreclosure; many faced foreclosure itself. Neighborhoods were stressed as vacancies and abandonments increased. At the same time, despite the weakness in the housing market, rents continued to increase during much of this period and while absolute affordability increased for homebuyers, it declined for renters. Overall, after the national home price bubble grew and then burst, Greater Boston ended up being relatively less affordable than it was five years ago.

There is some good news to report. Although we cannot say for certain what the future will hold, it appears as though the current economic crisis is nearing an end. Given that housing played a significant role in the current economic crisis, more so than in any other recession, the apparent bottoming out of the housing market provides hope that the worst may be over. Home prices have stopped declining in many areas of the country, after having sustained staggering losses in some markets since 2005. Here in Greater Boston, prices have already begun to firm up, and in many communities they have increased. The "bottom" in single-family home prices seems to have occurred around March of this year, while condominium prices appear to have stabilized as early as January. Sales of single-family properties and condominiums exhibit a similar pattern, with steady increases for the last five months. These indicators are some of the first signs that the worst of the crisis may have passed.

But the "good news" could ultimately exacerbate Greater Boston's existing housing affordability problem. Unless housing production picks up to match demand in a recovering economy, we could once again see home prices and rents spiraling up, reducing the region's attractiveness to the young working families that we will need to sustain our prosperity. Maintaining and expanding housing programs that promote the development of sufficient housing to meet the region's needs is every bit as important today as it was when housing prices last peaked in 2005.

1. Introduction

The Economic and Demographic Context for Understanding the Housing Market

When last year's *Greater Boston Housing Report Card* debuted in October 2008, the nation had already been in recession for 10 months. National unemployment stood at 6.6 percent, while the jobless rates in Massachusetts and Greater Boston were 5.8 and 5.0 percent, respectively. It had been a bad year, but it had only been a month since Lehman Brothers had declared bankruptcy, which preceded a string of reports of multi-billion-dollar losses at many of the largest financial institutions in the world. Yet, even with the financial crisis only a month old, we reported that

Foreclosures are skyrocketing; vacancy rates are rising, home prices are falling, and those who have recently bought homes worry that their homes are worth less than their mortgages. In lower income neighborhoods, concentrated foreclosures on a single street lead to fears of widespread abandonment, vandalism, and sharply dropping property values for those on the same street who have dutifully paid their mortgages on time but bear the brunt of neighborhood deterioration. Nationally, the collapse in housing values is seen as the worst since the Great Depression.¹

Beginning soon after the release of last year's report, things got much worse.

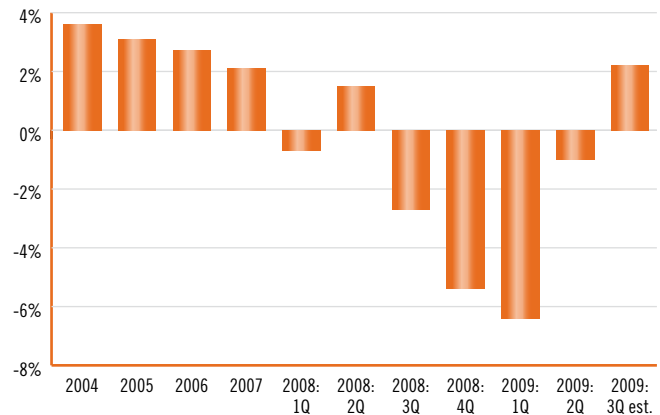
National Economic Trends

By 2008, the U.S. economy had already been slowing for four years. As **Figure 1.1** reveals, real Gross Domestic Product (GDP) declined in each successive year from 2004's rate of 3.6 percent to a loss of 0.7 percent in the first quarter of 2008. By the time that

last year's *Housing Report Card* appeared in the third quarter of that year, GDP was falling more than four times as quickly, at a 2.7 percent annual rate.² The National Bureau of Economic Research (NBER), the official arbiter of when recessions begin and end, had just crunched all the numbers and had concluded that the nation had already been in recession since December 2007.

FIGURE 1.1

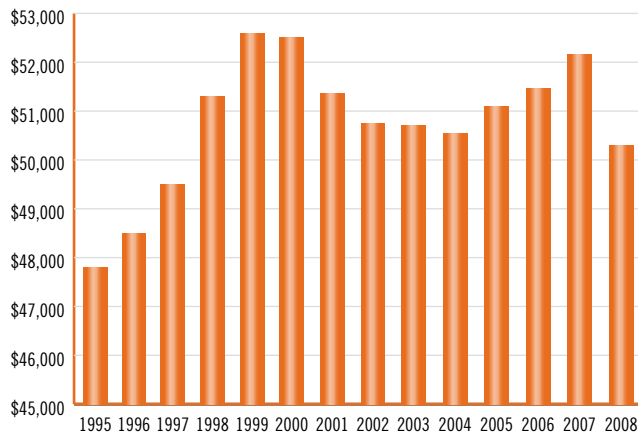
Percentage Change in Real GDP, 2004-2009



That we would be heading toward recession well before 2007 might have been discerned from existing data on household income and consumer debt. Despite positive economic growth, a great deal of the income generated in the economy was going to a small number of relatively well-to-do families. The typical household, on the other hand, ended up in 2007 with inflation-adjusted income that was actually lower than it had been in 1999 (see **Figure 1.2**). From 1995 through the end of that decade, real median income had increased by 10 percent, helping fuel the economic expansion of that brief era.³ Between 2000 and 2007, however, there was no growth at all in real median household income, and once the recession took hold, household income plunged. Data just released by the Census Bureau indicate that median income fell by 3.5

FIGURE 1.2

Real Median Household Income in the U.S., 1995-2008 (2008 dollars)



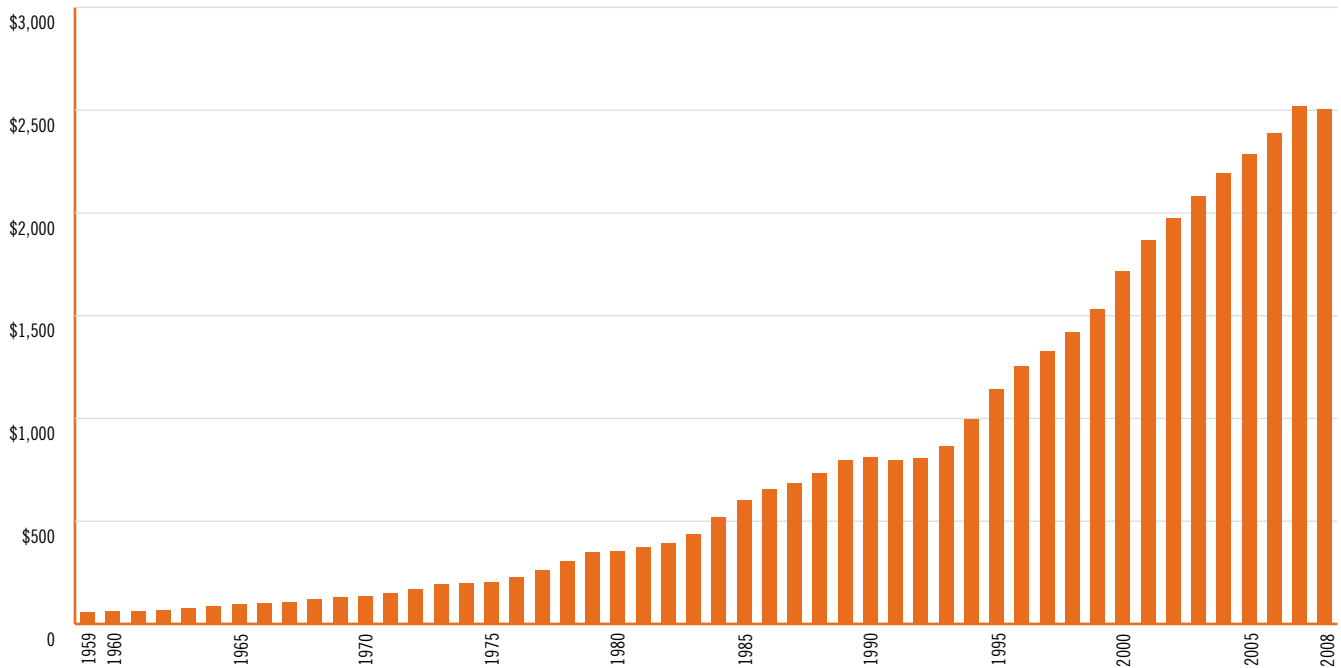
Source: Council of Economic Advisers

percent in 2008, the largest single-year drop on record. The median household had no more real income than the median household in 1997. Not surprisingly, household consumption nose-dived as well.

With stagnating or falling income, the only way that households could improve their standard of living was by borrowing, and this is precisely what they did. As **Figure 1.3** demonstrates, consumers took on enormous amounts of credit card debt beginning in 1995, when their incomes were improving. With higher income, this was relatively safe debt. Once incomes stopped growing, though, households kept taking on debt at the same pace as before. Indebtedness exploded, with households taking on an added \$1 trillion in debt between 1999 and 2008 without the advantage of any increase in median income. Once the recession hit and incomes collapsed, banks found themselves holding credit card debt that could not be repaid by many of their cardholders.

FIGURE 1.3

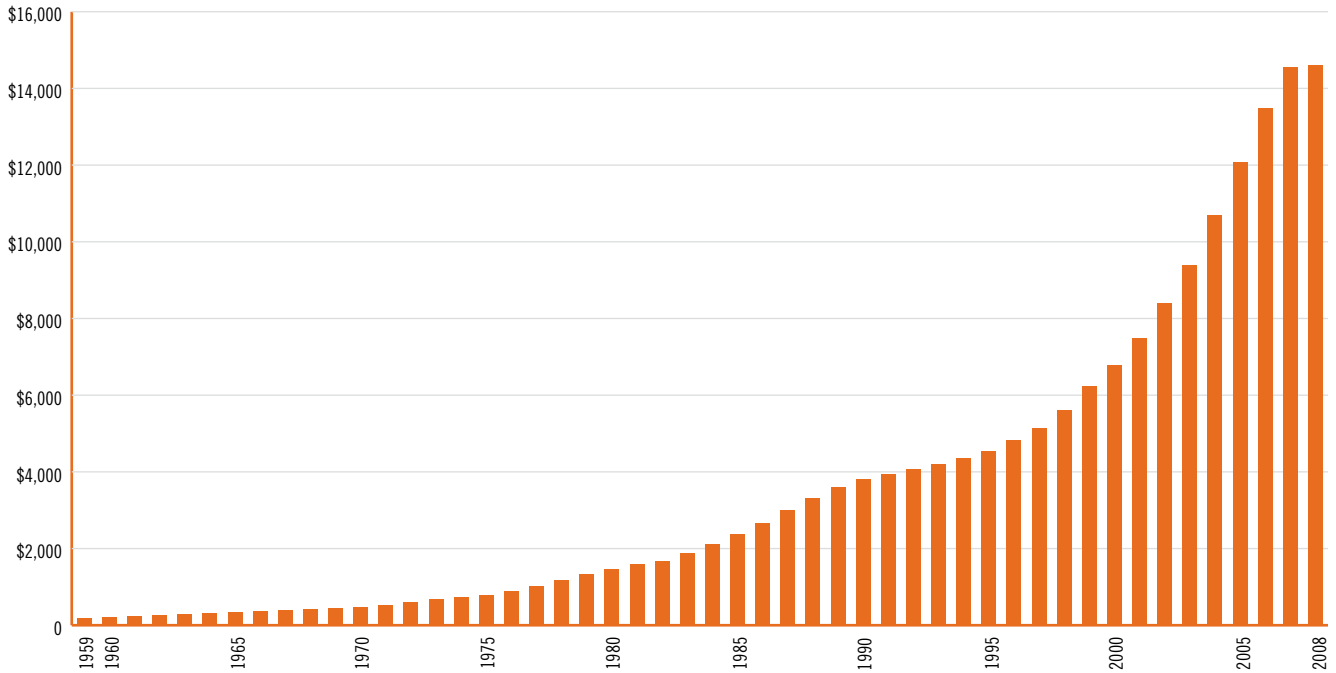
Consumer Credit Outstanding, 1959-2008 (in billions)



Source: Council of Economic Advisers

FIGURE 1.4

Home Mortgage Debt Outstanding, 1959-2008 (in billions)



Source: Federal Reserve Bank

What was happening to home mortgage debt was even worse. Beginning in 2000, households went on a homebuying spree, taking advantage of relatively cheap mortgage rates and being swayed by mortgage companies offering deals that made it possible for many low- and moderate-income families, even those with weak credit scores, to get into the homebuying market. Total outstanding mortgage debt exploded, more than doubling between 2000 and 2007. By the end of the buying spree, homeowners in the U.S. owed over \$14.5 trillion in mortgage loans (see **Figure 1.4**). In 2000, the ratio of the nation’s total mortgage debt to the nation’s total personal income was .79. By 2007, it had skyrocketed to 1.22. It is hard to dispute that such indebtedness put individual households and the national economy in an extraordinarily precarious position.

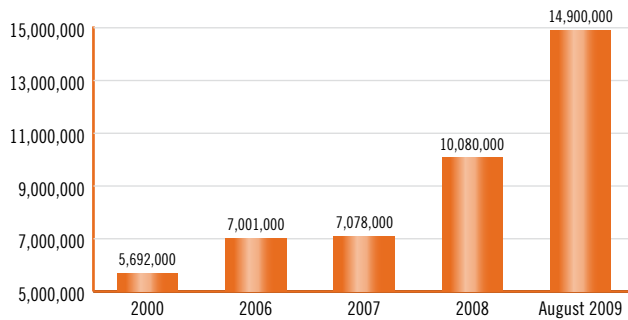
Stagnating income and growing indebtedness set the stage for the recession that officially began in December 2007. The first half of 2008 saw no growth, followed in the second half by a sharp decline in GDP. In the third quarter of the year, real GDP fell by nearly 3 percent. It plummeted again in the fourth quarter by

5.4 percent, and again in the first quarter of 2009 by 6.4 percent. These would be the worst back-to-back quarterly losses in 50 years.

The rapidly slowing economy had a devastating impact on employment, as demonstrated in **Figure 1.5**. Between 2007 and August 2009, the total number of people seeking jobs in the U.S. more than doubled, to almost 15 million. The official unemployment rate was 9.7 percent, and experts expect that it will likely exceed 10 percent by early next year. In truth, the “real” unemployment rate has been much higher. Taking into account those officially unemployed, those working part-time only because they could not find full-time jobs, and those who had stopped looking for work because they were so discouraged by the prospects of finding any job at all, the U.S. Bureau of Labor Statistics counted 26.3 million Americans in labor-market distress in August 2007 – 17.1 percent of the total labor force. With such a collapse in the national economy, it is not surprising that housing market conditions would deteriorate rapidly.

FIGURE 1.5

Unemployment in the United States, 2000-2009



Source: Mortgage Bankers Association/Haver Analytics

The recession that began in December 2007 would turn out to be no ordinary economic downturn. The economy has always been subject to business cycles, with the economy rapidly expanding for some period of time, then slowing down and contracting before beginning another period of growth. Since 1900, there have been 22 “official” recessions, the first beginning in September 1902. Half of these have occurred since World War II, and the average length of those recessions has been 10 months. The longest, of course, was the “Great Depression” of the 1930s, which officially began in August 1929 and lasted 43 months. Since then, no recession until the current one has exceeded 16 months.

While the NBER has not yet ruled on the length of the current “official” recession, it is likely that the nation was still in recession in July of this year – and it may be for several more months to come. That would mean this recession has lasted at least 20 months, making it the longest since the Great Depression.

An Economic Catastrophe in the Making

What has made this recession so deep and prolonged is that it is not merely the result of normal business cycle phenomena – a temporary decline in sales or investment. In a typical recession lasting 10 months, we would have expected the economy to begin its recovery sometime around September 2008. Just when this might have occurred, however, a financial tsunami suddenly burst onto the economic shores of the U.S.

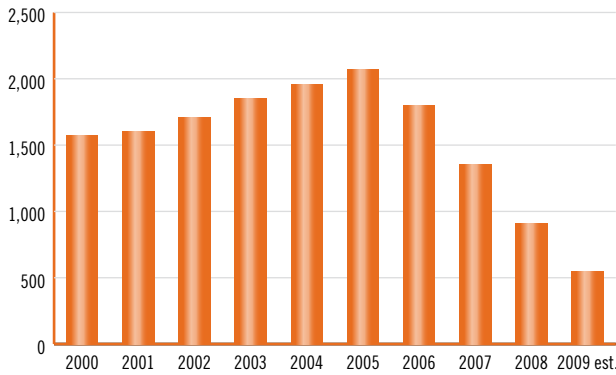
and quickly spread around the world: Lehman Brothers, Merrill Lynch, and a host of other powerful lending institutions crashed. The collapse of the financial sector removed a huge amount of credit from the economy, making it difficult and in some cases impossible for new investment to take place. The resulting combination of a sharp reduction in the consumption of household durable goods normally bought on credit (e.g., motor vehicles, household appliances, and furniture) *plus* sharply depressed business investment in plant and equipment put the national economy into a catastrophic tailspin. Inflation-adjusted personal durable consumption spending dropped by \$50 billion between 2007 and 2008, and as of the second quarter of 2009, it was down by another \$80 billion (in annualized dollars). That meant durable consumer spending in 2009 had fallen back nearly to the level of 2004.⁴ Not surprisingly, two of Detroit’s major auto companies, already suffering from intense competition, ended up in bankruptcy as motor vehicle sales collapsed.

Business investment in equipment, non-residential structures, and software plunged along with household consumption. In 2006, \$2.2 trillion was being spent by businesses on this type of investment. By the second quarter of 2009, real (inflation-adjusted) investment on an annualized basis was off by nearly \$550 billion – a decline of 25 percent from a year earlier.⁵ Still, nothing was hit harder than residential construction. From a peak annualized investment of \$775 billion in the first quarter of 2006, real (2005\$) investment in residential buildings fell by 56 percent to just \$345 billion in the second quarter of 2009. That represented the poorest showing in residential investment going back at least to 1990.⁶

Figure 1.6 translates this collapse in housing construction in terms of new privately-owned housing unit starts. Between 2000 and 2005, there was a steady increase in housing starts, so that in 2005 more than 2 million units were under construction. With the initial weakening of the economy in 2006, housing starts declined by nearly 200,000 that year. From then on, housing starts plunged to the point where we estimate – based on the first six months of construction in 2009 – that only about 545,000 new housing starts will be recorded for the entire year.

FIGURE 1.6

New Privately Owned Housing Unit Starts in the U.S., 2000-2009 (est.) (in thousands)

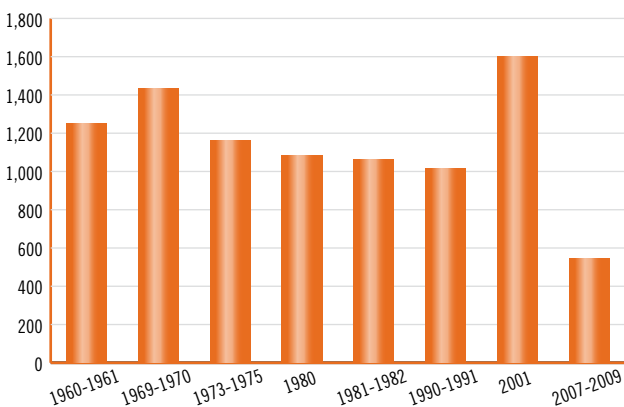


Source: U.S. Census Bureau

Even this large decline in housing starts does not convey the full magnitude of the disaster that struck the housing construction industry in 2008 and 2009. **Figure 1.7** provides data on the number of housing starts during the worst year of each national recession going back to 1960-61. The construction expected in 2009 is *less than half* the number of units started in the *worst* year of each of the last seven recessions. In

FIGURE 1.7

New Privately Owned Housing Unit Starts in the U.S. during Recession Periods, 1960-2009 (in thousands)



Source: U.S. Census Bureau

no year since 1959 were there fewer than 1 million housing starts until 2008 – and 2009 is shaping up to be a year in which the total number of starts will be no more than half the dismal number of last year’s construction.

The dearth of housing starts was particularly acute in the south and west, where so much speculative construction had taken place in the first half of this decade. In the south there were 39 percent more housing starts in 2005 than in 2000; in the west, 37 percent more. By contrast, the much slower-growing northeast and mid-west experienced housing booms of just 23 and 12 percent, respectively. After 2005, the mid-west experienced a 62-percent drop in starts as a result of the powerful impact of the recession on industrial production in the region. The west experienced a 63-percent decline; the south 55 percent; the northeast just 36 percent.

The reduction in housing construction was certainly one of the most tangible *effects* of the 2007-2009 recession. But housing – or at least how it was being financed – was also a *cause* of the recession, because it provided the spark that set off the financial conflagration. The proliferation of subprime and adjustable-rate mortgages beginning in the early years of this decade added a huge amount of risk to the portfolios that banks and mortgage companies held. By 2005, one out of five mortgage originations was in the form of a subprime mortgage – up from just 7.2 percent in 2000. Adjustable-rate mortgages as a percent of all mortgages nearly tripled to 35 percent.

Once the economy began to weaken and then headed into recession, many of those who had resorted to such mortgage instruments to finance their homes were unable to service them. The foreclosure initiation rate tripled from just 0.33 percent to 1.00 percent of all outstanding mortgages. Nationwide, this meant that more than one million families were in danger of losing their homes, and indeed tens of thousands did.

The combination of vacant housing and falling household income sent home prices reeling, especially in communities where there had been so much speculative construction before the recession. By April 2009, the average median selling price of single-family homes across 20 of the largest metro areas in the country was down nearly 33 percent from its July 2006 peak.⁷

Rising foreclosures also meant that many banks and mortgage companies now saddled with mortgage-backed securities had no idea what these assets were really worth. As financial institutions around the world attempted to unload their overly risky mortgage portfolios, their value sank and the balance sheets of the banks were hit with billion-dollar losses. Even many of the most credit-worthy banking institutions were seen as suspect, and their ability to borrow funds against their losses all but dried up. If not for hundreds of billions of dollars of federal TARP money to prop up the financial system, it is likely that credit markets would have shrunk even more.

TARP to the Rescue

The Troubled Asset Relief Program (TARP) was established on October 3, 2008, under the *Emergency Economic Stabilization Act of 2008*. It allowed the U.S. Treasury to purchase up to \$700 billion in “troubled assets,” including residential or commercial mortgages and other securities, obligations, and credit instruments, with the goal of promoting financial market stability.⁸ In return, the Treasury received equity warrants for the ownership stakes it took in the numerous banking institutions that received TARP funds. Those receiving these stabilization funds included a virtual *Who’s Who* of the largest financial institutions in the country, including Goldman Sachs, Morgan Stanley, J.P. Morgan Chase, Bank of America, Citigroup, Wells Fargo, and State Street Corporation. Today Treasury-backed entities – primarily a recapitalized Fannie Mae and Freddie Mac – are guaranteeing about 85 percent of new private-bank-originated mortgages, while the Federal Reserve Bank buys 80 percent of the securities into which these government-backed mortgages are packaged.⁹

Although some opposed government intervention to assist these financial institutions, the overwhelming majority opinion today is that TARP played a positive role in stabilizing the financial infrastructure of the country and has helped make it possible to limit the potential damage of this most damaging recession.¹⁰

The American Recovery and Reinvestment Act of 2009

TARP was aimed at restoring confidence in the nation’s private-sector financial system. The *American Recovery and Reinvestment Act*, signed into law on February 17 of this year, was established to spur personal consumption and public and private investment by having the federal government distribute \$787 billion to individual households, universities and research institutions, and state and local governments. Of the total, \$288 billion (37 percent) is in the form of tax relief, including a series of tax credits for infrastructure and science, low-income families, education and training investment, and energy. Another \$144 billion is being allocated to state and local governments for fiscal relief.¹¹

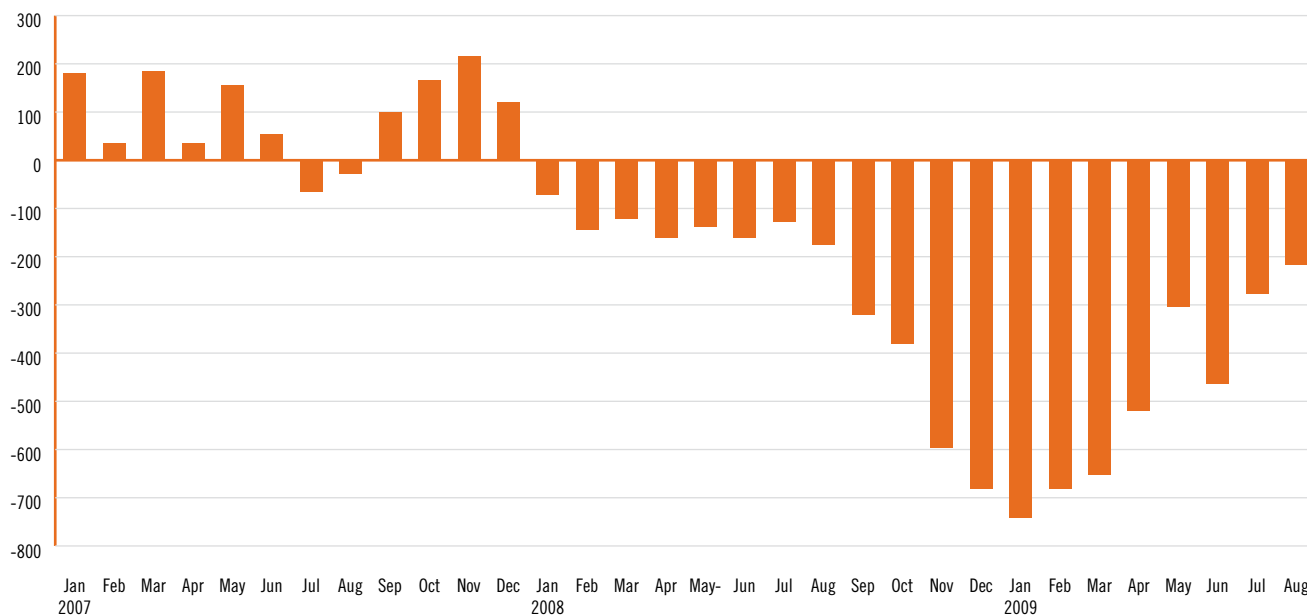
A new study released by the President’s Council of Economic Advisers (CEA) finds that as of the end of August of this year, \$151.4 billion of the original \$787 has been paid out or gone to American taxpayers and businesses in the form of tax reductions. An additional \$128.2 billion has been obligated for expenditure, much of it to state and local governments.¹² The Council claims that these funds have already had a significant impact on the economy, boosting GDP by roughly 2.3 percentage points above what the growth rate would otherwise have been in the second quarter of 2009. It expects that the impact on the third quarter will be even larger. Translated into employment statistics, the Council claims that the number of jobs is one million higher than it would have been if ARRA had not been implemented. Estimates made by other analysts vary. HIS/Global Insight, a forecasting firm often used by the Federal Reserve Bank, concludes from its own modeling efforts that ARRA added 2.3 percentage points to real GDP in the second quarter – identical to the CEA model – and that it should add about the same to third quarter 2009 GDP. Moody’s suggests a somewhat stronger effect: 2.8 percent and 3.6 percent for the two quarters.¹³

The Near-Term Trend in the Economy

Whether the impact of TARP and ARRA will amount to a short-lived blip in GDP and employment or to real and sustained recovery is still in question. However, the recent trend in GDP and in employment is somewhat encouraging. Recall Figure 1.1: It appears that

FIGURE 1.8

Monthly Change in Seasonally-Adjusted Total U.S. Non-Farm Employment, January 2007 - August 2009 (in thousands)



Source: U.S. Bureau of Labor Statistics

the economy hit rock bottom in the first quarter of this year. The first estimates for the second quarter suggest the economy was still shrinking, but at an annualized rate of just 1 percent, compared to 6.4 percent at the beginning of the year. Initial forecasts for the third quarter suggest that we may experience real economic growth for the first time since the temporary economic reprieve in the second quarter of 2008. Moreover, while total non-farm employment continues to contract, the month-to-month loss in jobs appears to be shrinking rapidly. As **Figure 1.8** demonstrates, the nation was hemorrhaging jobs at more than 600,000 per month between December 2008 and April 2009. The worst month on recent record was the loss of 741,000 jobs in January of this year. Since April, the job losses have moderated almost every month, so that by August only about 200,000 jobs were lost. If this trend continues, one might expect employment to finally begin growing again before the end of 2009. Unemployment may still rise above 10 percent as more people join the labor force in search of a job.

Other Hopeful Signs

Beyond the apparent improvement in GDP and in the employment situation – dismal as it remains for tens of millions of Americans – there are some additional early signs that the recession may soon end. Stock markets have rebounded smartly in 2009, restoring some of the asset value that households lost in 2007 and 2008. Between October 2007 and February 2009, the Dow Jones Industrial Average dropped by 50 percent, wiping out a large chunk of family assets. As of mid-September of this year, the Dow is back to 9,800, a 39-percent increase since the market bottom.

Consumer confidence is also on the rebound. The Conference Board reports that in August its Expectations Index had risen to 73.5, the highest score since December 2007 – the first month of the recession.¹⁴

The number of housing starts, particularly single-unit residences, is finally on the increase. From a low of just 357,000 annualized units in January of this year, the preliminary estimate for August is 598,000.¹⁵ This is still very low by historical standards, but improving. One assumes that if the currently available \$8,000

first-time homebuyer tax credit is extended past the end of November of this year, it could further help improve housing starts. As many as 40 percent of all home buyers qualified for the credit in 2009.¹⁶

Of special note is that housing prices for single-family homes have apparently stabilized. According to the Case-Shiller Home Price Index Composite 20, an average of 20 large metropolitan areas tracked over time, the median price of a single-family home stopped falling in February of this year and has been stable for six straight months.

According to a new analysis by Forbes Magazine and Moody's Economy.com, a growing number of housing analysts now expect not only that specific regional markets will begin their recovery this year, but also that the national market as a whole will bottom out and begin to recover by mid-2010.¹⁷ Nationally, Moody's predicts a 16-percent decrease in home prices in 2009. By 2012, however, prices will be 4 percent above 2009 levels. A continued slow recovery in home prices will finally lead to prices regaining their previous 2005-2006 peak sometime around 2014.

Some metro areas, according to the Forbes/Moody's study, will continue to lag behind the others. Miami, Orlando, and Jacksonville are three cities where prices are predicted to continue to be soft for the next five years. Overbuilding and a dramatic slowing in population growth are factors contributing to this prediction. Midwestern cities, particularly those in the industrial parts of the region, have a grim housing future, according to this analysis. Weak job growth and a continued decline in metro region population will adversely affect home prices for at least the next five years.

Where will the biggest rebound in prices occur? The answer is Boston. According to Moody's, by 2014, Greater Boston's home prices will be 20 percent higher than in 2009. Charlotte, Atlanta, and Baltimore, also are predicted to see a robust rebound in prices over the next five years. New York, on the other hand, will see only a 4-percent rebound in home prices. Obviously, these forecasts must be taken with a large grain of salt. Too many factors and too many unseen events affect housing prices.

The Trend Ahead: U, V, or W

The actual path that the national economy will take over the next year or two is still difficult to predict with accuracy. One possibility is that the trend in GDP, employment, and other measures such as housing prices will follow a U-shaped pattern. That is, the economy will bump along the bottom for a considerable number of months before beginning a stronger rebound. Another possibility is that, with much of the stimulus money still to be spent, with consumer confidence on the rise, and with credit markets improved, there will be a stronger rebound in consumption and investment, leading the economy to rebound in a V-shaped pattern. The recovery in this case would mirror in reverse the sharp declines that we saw in nearly all economic measures beginning after the onset of the current recession. A third possibility is that the economy will face a double-dip recession, as it did in the early 1980s. This would follow a W-shaped pattern. A rise in foreclosures as a result of continuing weakness in employment, another sharp drop in the stock market and in consumer confidence, or a lack of sufficient stimulus from the remaining ARRA funds could all trigger another dip.

From our perspective, however, there is now sufficient momentum in the economy that one does not have to be a Pollyanna to believe that the worst of this recession is behind us and that within the next six months we will see not only an improvement in economic output but the first signs of a real job recovery. That should bode well for the housing market. It could lead to a reduction in foreclosures, an increase in home sales, and the beginning of at least a mild rebound in home prices.

Demographic Trends

To understand housing markets and how they may change in the short-term and over the longer run, it is also necessary to consult demographic trends. In a real sense, demography is destiny. The changing age structure of the population and the factors that determine where people live will inevitably have a major impact on housing needs, home prices, rents, and ultimately on the prosperity of regions.

The Aging of the American Household

In the aftermath of World War II, the birth rate in the United States skyrocketed. This is common knowledge, but few recognize just how large the ensuing “Baby Boom” generation was, or how it continues to have a profound impact upon the nature of American society. In the short run, it required a massive increase in housing production, school construction, the hiring of millions of additional teachers, and the creation of an array of industries built up around children, their needs, and desires. In the near future, the post-World War II baby boom will once again fundamentally change the character of American society, as those born during this era contemplate the next stage in their lives.

Evidence of a rapidly aging America can be seen in household projection. **Table 1.1**, reflecting the best estimate middle-series U.S. Census forecast, projects that the number of U.S. households will increase by 16.4 million to a total of 128.6 million by 2020. This forecast is based on (1) past fertility and expected mortality rates, (2) projections of expected immigration (and emigration), and for individual state estimates (3) expected domestic migration.

TABLE 1.1

Projected Number of Households in the U.S., 2007 – 2020 (in millions)

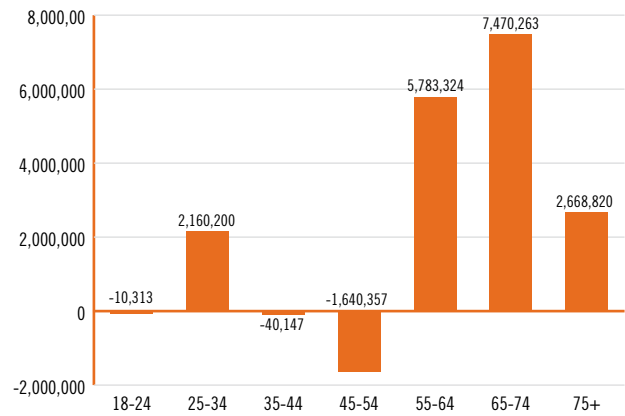
Year	Projected Number of U.S. Households
2007	112.2
2012	118.6
2017	125
2020	128.6

Source: U.S. Census Bureau

Of the projected 16.4 million new households expected by 2020, a whopping 15.9 million will be headed by someone aged 55 and older. In other words, of the increase in total households in the U.S. between now and 2020, a staggering 97 percent will be headed by someone 55 or older. Indeed, 62 percent of the increase in total households will be headed by someone 65 or older.

FIGURE 1.9

Projected Change in Households in the U.S., by Age of Household Head, 2007 – 2020



Source: U.S. Census Bureau

This shift is not only a result of the aging of the baby boomers, but also of a smaller cohort of rising 30- to 40-year-olds. Immediately following the Baby Boom came the “Baby Bust” generation, or Generation X, the result of a sharp decrease in birth rates. As a result, the number of individuals born between 1965 and 1976, or those in the 35- 54 age range between now and 2020, is not nearly large enough to cover the gap left by the aging baby boomers. Between 2007 and 2020, the Census Bureau projects that there will be nearly 1.7 million fewer households headed by someone aged 35 to 54, as **Figure 1.9** demonstrates.

A New “Civil War” and Housing Cost

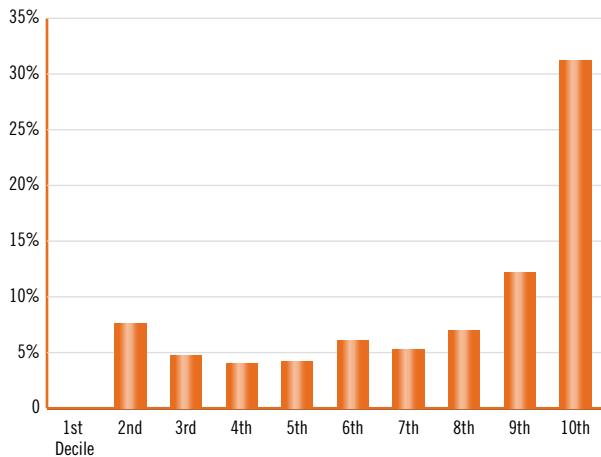
This expected demographic shift will likely prompt a new “civil war” in America. The first civil war, of course, was fought in the 19th century between the north and south over slavery. The north won. The second “civil war” was fought in the 20th century over where manufacturing would take place in the country. For all intents and purposes, the south won that battle, with deindustrialization taking place in the mid-west and northeast, while the south gained new plants and new blue-collar jobs.

The third “civil war” is shaping up in the 21st century to be a battle over which regions and which metropolitan areas are best able to retain and attract young working families. With the baby-boom/baby-bust demographics, cities and regions will be forced to compete for the small cohort of young families in order to provide enough workers to meet the needs of business enterprise, and to have enough working taxpayers to pay for public-sector services. There are already dire forecasts of what the aging of the nation’s population may do to the Social Security trust fund and the cost of medical care. Equally important will be the impact on local labor markets and local treasuries.

To compete successfully for young families, states, metro regions, and individual municipalities will have to offer an attractive combination of jobs, good public schools, safe streets, and a range of cultural amenities. Recent research confirms the importance of housing costs as another factor in determining where families settle and where jobs are developed.¹⁸ This research relies on statistical analysis to demonstrate the importance of housing costs on domestic net migration – the movement of individuals from one metro region to another – and on employment growth.

FIGURE 1.10

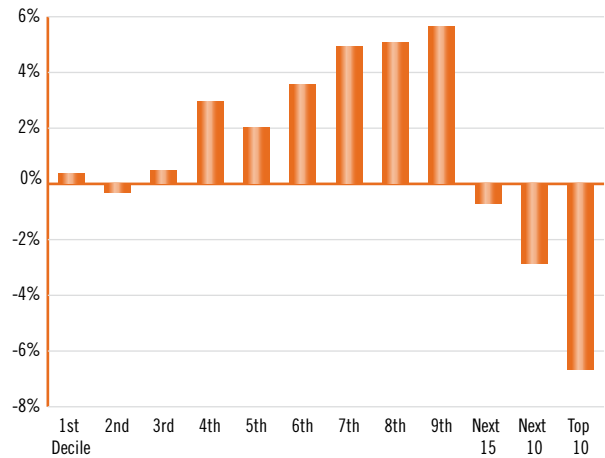
Percentage Difference in Housing Cost across Deciles, 347 U.S. Metro Regions



Source: Barry Bluestone, Mary Huff Stevenson, and Russell Williams, “Are the High Fliers Pricing Themselves Out of the Market? The Impact of Housing Cost on Domestic Migration Rates in U.S. Metropolitan Areas” Paper prepared for the Urban Affairs Association Annual Meeting, Chicago, Illinois, March 4-7, 2009.

FIGURE 1.11

Net Domestic Migration by Housing Cost Decile, 347 U.S. Metro Regions, 2000 – 2006



Source: Bluestone, Stevenson, and Williams

Figure 1.10 arrays housing cost data for the 347 metro areas across the U.S. by deciles from the lowest-cost regions to the highest. The figure indicates the percentage increase in average median home cost from one decile to the next. Most of the first (lowest) decile metro areas are found in the south and the southwest, along with a few highly deindustrialized mid-western communities. The ninth decile (second-highest) has a mean housing cost just 21 percent higher than the all-MSA mean and 12 percent higher than the eighth. Included in these relatively more expensive housing markets are such metro areas as Tallahassee, Minneapolis, Denver, Santa Fe, Ann Arbor, and Sacramento.

While most of the interdecile differences appear to be quite modest in size (averaging between 4 and 7 percentage points), the top decile appears to be quite unique. Its mean housing cost is 71 percent higher than the all-MSA mean and 31 percent higher than the mean for the ninth-decile communities just below it. Hence, housing costs in the top-decile metro areas are well above those everywhere else in the nation. Honolulu is the most expensive of all 347 communities, followed by four MSAs in California (San Francisco, Santa Cruz, Oxnard, and San Diego), followed by Boston (#6), Santa Barbara (#7), Washington, D.C. (#8), New York (#9), and Los Angeles (#10).

Has the very high cost of these “high fliers” affected their ability to attract new households? The answer to this question can be found in **Figure 1.11**, which shows that there is a positive correspondence between net in-migration and housing costs from the first to the ninth decile. This likely suggests that those regions attracting the largest number of in-migrants are ones where housing demand has outstripped housing supply, leading to somewhat higher housing costs.

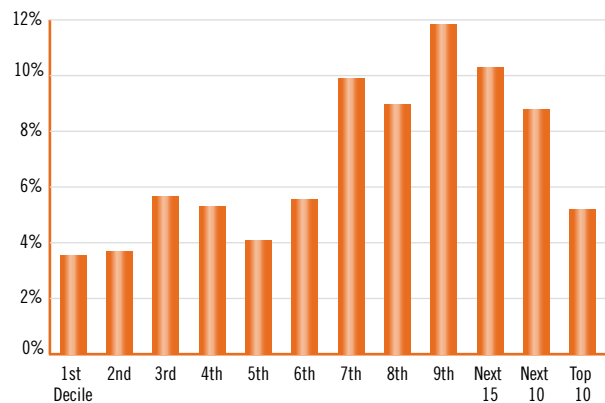
But note what happens in the 10th decile. The relationship between housing cost and net migration becomes negative, and the higher the housing costs within this very expensive decile, the more negative the relationship. All 10 of the most expensive metro regions experienced net out-migration between 2000 and 2006. Across the 10 most expensive metropolitan areas, the average net out-migration rate was 6.65 percent. That is, by 2006 these regions had lost in net out-migration almost 7 percent of their 2000 population. In this analysis, Greater Boston was ranked sixth-highest in the nation in housing cost, and it experienced a 6-percent net outmigration rate. Overall, 23 of the 35 (66 percent) metro areas in the top decile have lost population to out-migration. Among the 210 MSAs in the fourth through ninth housing cost deciles, only 27 percent have net out-migration rates.

The accompanying statistical analysis for this new study demonstrates that the relationship between high housing costs and net outmigration holds even after controlling for a metro area’s crime rate, its climate, and even its rate of employment growth.

How might we explain this pattern over all 10 deciles? Households appear to be moving from the costliest MSAs – those in the top decile - to those in the seventh, eighth, and ninth deciles. The latter are generally communities where housing costs are somewhat above the all-MSA median, where the economies are healthy, where sufficient amenities exist to offset the somewhat higher housing costs, but where housing costs are not as prohibitively expensive as in the 10th decile. The bottom three deciles, on average, have experienced neither substantial in-migration nor out-migration. In these low-cost-of-living metro regions, one suspects that job opportunity is severely limited, reducing the opportunity for households to move in even if housing costs are very low. The metro areas in these low-cost deciles include Decatur, Alabama; Dubuque,

FIGURE 1.12

Percent Change in Employment by Housing Cost Decile, 347 U.S. Metro Regions, 2000 – 2006



Source: Bluestone, Stevenson, and Williams

Iowa; Muskegon, Michigan; Duluth, Minnesota; and Scranton, Pennsylvania. In each of these cases the net domestic migration rate is no higher than +0.4 percent and no lower than -0.9 percent.

A similar pattern, although not as striking, holds for the pattern of employment growth across the 10 housing cost deciles. As **Figure 1.12** reveals, employment growth is most robust in the seventh, eighth, and ninth deciles, and then falls off sharply in the 10th.

It appears that firms are willing to expand production and employment in relatively expensive MSAs, but do not seem to do so to anywhere near the same degree in the very most expensive communities.

This analysis provides *prima facie* evidence that the most costly communities are “pricing themselves out” of the market for both households and jobs. Indeed, these two figures suggest a reversal of causation in the relationship between housing cost and both migration and employment growth once we reach the top-decile MSAs. Strong employment growth and in-migration may put upward pressure on housing price as we move from the first to the ninth decile; however, beyond the ninth decile, causation reverses, as high housing cost restricts in-migration, encourages out-migration, and discourages job creation.

If this trend continues, the highest-cost metro regions in the country are going to have a major hurdle to overcome in meeting the challenge of the third “civil war.” Despite the recent reductions in home prices across the country, economic recovery may be stymied for those regions that continue to have housing costs way out of line with the norm.

What Does All This Mean for Greater Boston?

In the remaining chapters of this report, we investigate what has happened to the Greater Boston housing market over the past five years, focusing on the period since the beginning of the national recession in December 2007.

In Chapter 2, we review the current market conditions in the Greater Boston region, focusing on regional economic activity and the impact of the current recession on employment. The chapter also includes a demographic update on population trends, household income, and our first look at changes in regional home values. In it, we also look at recent migration trends in the Commonwealth. There is a lot of discouraging news in these pages, but the overall conclusion is that Massachusetts and Greater Boston have fared better than most regions of the country, and that the region is poised to see a rebound in jobs, home prices, and housing production. The worst of the economic recession is behind us.

In Chapter 3, we investigate overall housing production levels and note that new construction usually follows when home prices stabilize and begin to rise. The apparent stabilization in prices in the spring and summer of 2009 suggest that housing production will likely pick up later this year or early in 2010. This chapter also describes differences in housing production within the region and compares Greater Boston to other metropolitan areas around the country, focusing on Las Vegas, Phoenix, and Raleigh-Durham.

Chapter 4 turns attention to a more detailed analysis of home prices and rents in the region since prices peaked in 2005 and since the national recession began at the end of 2007. By tracking homeowner and rental vacancy rates, light is shed on turning points in home prices and rents. We conclude that after rising by almost 160 percent between 2000 and 2005, the average decline in median single-family home prices in Greater Boston as a whole has been about 20 percent.

Therefore, while prices have come down, the cost of homeownership in the region remains quite high by historical standards and relative to other regions in the country.

Rents in the region have followed a very different path, compared to home prices. Asking and effective rents in Greater Boston actually began to rise more rapidly as home prices began their descent, and continued to rise right through the first year of the recession. Between the second quarter of 2005 and the third quarter of 2008, the average asking rent increased by 12 percent. This, as we shall see in the following chapter, has had an adverse impact on rental affordability, even as home price affordability has improved. The trend in rental affordability is linked directly to what has happened in homeownership market.

Chapter 5 is fully devoted to housing affordability in Greater Boston. It investigates both *absolute* affordability and *relative* affordability. The former is used to determine whether home prices and rents are more or less affordable given Greater Boston homeowner- and rental-household incomes. It answers the question: “Is housing in the region more or less affordable today, compared with past years?” The latter is used to ascertain whether home prices and rents are becoming more or less affordable, compared with other regions of the country. The overall conclusion is that while homeownership has become more affordable in absolute terms, Greater Boston is actually a *more expensive* place to live after the recession, compared with most other metro areas in the country. Yes, the median home today takes a smaller percentage of median household income than anytime since 2005, but since other metro areas have suffered even greater home price depreciation, it has become *relatively* cheaper to live elsewhere.

With rents rising right through most of the recession, Boston is now one of the most expensive places to live as a renter, relative to more than 600 other regions of the country, including New York, San Diego, and Washington, D.C., and Los Angeles. Of the largest metro regions, only San Francisco charges more for rent than Boston. This is particularly hard on low- and moderate-income families in Greater Boston who are now seeking to rent. The average renter will have to spend, on average, more than half their annual gross income to cover their shelter needs.

Chapter 5 also examines trends in affordability *within* the Greater Boston region. Communities of varying size and prosperity have been hit differently during this recession. We break down the 161 municipalities of the region by income and density to determine which types of cities and towns have fared the best and which have fared the worst. Overall, we find that home prices have declined most severely in those places least able to afford such a drop. In older industrial cities like Brockton and Lawrence, price declines have been gargantuan; by comparison, in more prosperous cities and towns, the declines have been more moderate and, in some cases, non-existent.

Chapter 6 is devoted to the ongoing foreclosure crisis in the region. It reviews the causes of foreclosure and its impact on homeowners and neighborhoods. The chapter follows both foreclosure petitions and foreclosure deeds, the latter referring to the number of homeowners actually losing their homes. The recession has certainly taken its toll on homeowners, with foreclosure petitions continuing to rise through 2009. But the actual number of foreclosure deeds is substantially lower, suggesting that more homeowners have been able finally to service their mortgages or that banks and mortgage companies are finally finding ways to refinance homes so that their owners can continue to live in them.

Chapter 7 reviews new federal and state policies that have been put in place over the past two years to deal with the housing crisis. Each of the key programs is explained, and where there are available data we have attempted to measure any initial impact. The chapter also reviews federal and state funding for housing programs in light of the fiscal crisis that has gripped the Commonwealth. The past two years have seen cuts in state spending, while there were dramatic increases in federal spending for housing in Massachusetts.

Finally, Chapter 8 sums up the key points of the entire report, ending on a reasonably optimistic note regarding the prospects for the Greater Boston housing market. Despite our optimism, though, we caution that if the region is going to continue to prosper, it must retain and attract young people and grow its employment base, and in order to accomplish these goals in the near future, making sure that we have affordable housing in the region will be as critical as ever.

2. Current Market Conditions

As we have seen in Chapter 1, it is impossible to divorce the study of housing markets, both local and national, from broader economic trends. Employment levels, unemployment and under-employment, and changes in wages and household income affect how well families are able to bear the cost of housing, how many young families will be able to move into their first home, and by extension how likely existing homeowners will face the threat of losing their homes to foreclosure. Changes in the cost of housing *relative* to changes in household income determine whether housing is becoming more affordable or less so. Just the level of consumer confidence has profound implications for the willingness of families to invest in new homes. The fortunes of financial corporations and the actions of the Federal Reserve Bank play an important role in the expansion or contraction of mortgage lending which in turn affects the ability of families to afford housing.

Conversely, because housing makes up such an enormous part of the American economy, volatility in the housing market can cause immense shock waves that ripple outward, temporarily laying waste to other sectors. The serious downturn in the national housing market that began in mid-2008 crippled the construction industry, leading to hundreds of thousands of layoffs in this sector. Moreover, when home sales decline, so do purchases of household furniture, appliances, and home remodeling supplies leading to major employment contraction in a range of manufacturing, wholesale, and retail industries.

The dynamic relationship between the housing market and the rest of the economy makes it imperative for housing research to pay attention to broader economic currents. Given the economic turmoil that has shaken the global economy during the past two years, understanding these currents is more necessary than ever. In this chapter, we focus on how the Massachusetts and Greater Boston economies have fared, especially since the onset of the national recession in 2007.

Economic Update

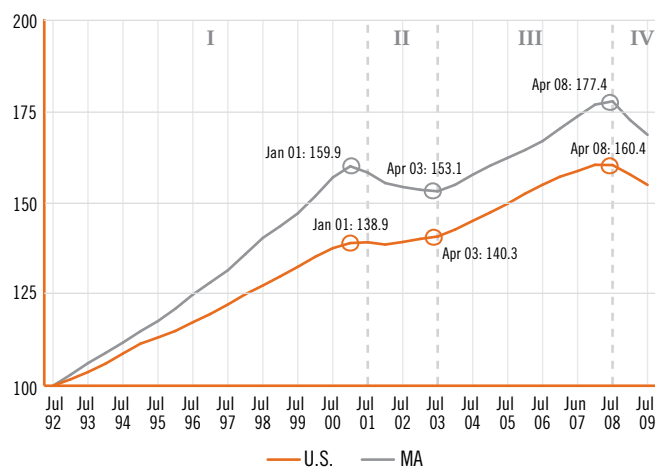
Economic Activity Index

A good place to begin is with the Economic Activity Index, calculated annually for the nation as a whole and for each of the 50 states by the Federal Reserve Bank of Philadelphia. The Philadelphia Fed calculates this index using data from the U.S. Bureau of Labor Statistics on four key factors: nonfarm employment, hours worked in manufacturing, unemployment, and real wages and salaries.¹

The Fed indexes the nation's and each state's economic activity to a July 1992 baseline level. **Figure 2.1** reveals how the growth in economic activity in Massachusetts has compared to the national trend since that base month. Through the 1990s, both the state and the nation experienced steady economic growth, but Massachusetts was the clear winner. Between July 1992 and January 2001 (Period I), economic activity in the Commonwealth increased by nearly 60 percent compared with a 39 percent increase nationwide. During this extraordinary period, the Commonwealth experienced annual increases in economic activity

FIGURE 2.1

Economic Activity Index, Massachusetts v. U.S., 1992 – 2009

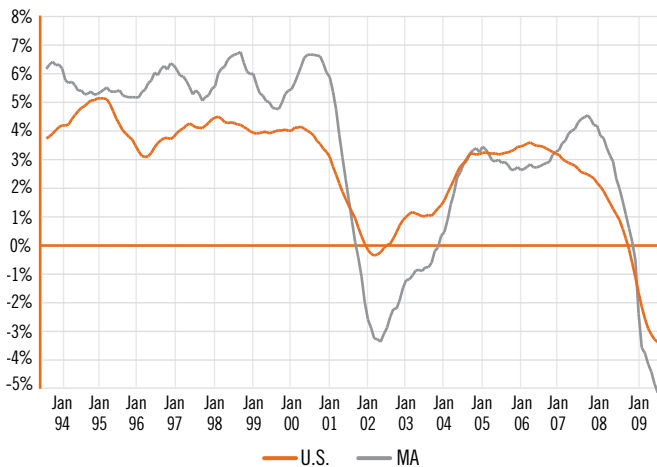


Source: Federal Reserve Bank of Philadelphia, State Coincident Indexes (July 1992 = 100)

that generally ranged from 5 to 7 percent (see **Figure 2.2**). For the U.S. as a whole, the annual increase in economic activity averaged just about 4 percent and in no quarter did it exceed the record set in Massachusetts.

FIGURE 2.2

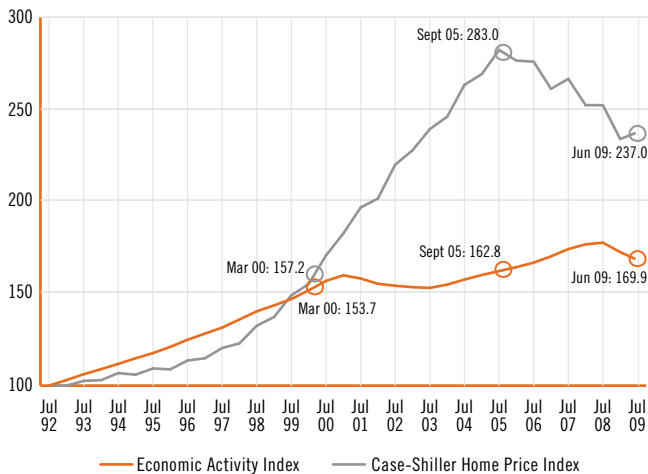
Year-Over-Year Change in Economic Activity Index, Massachusetts v. U.S., 1993 – 2009



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

FIGURE 2.3

Change in Case-Shiller Home Price Index (Greater Boston) v. Economic Activity Index (Massachusetts), July 1992 – June 2009



Source: Federal Reserve Bank of Philadelphia, State Coincident Indexes (July 1992 = 100); Case-Shiller Home Price Index

Not surprisingly, during this period, home prices in Greater Boston recovered from the doldrums of the 1990-1991 recession and the region's strong economy led to a powerful increase in the demand for housing. Housing prices closely mirrored the trend in the Economic Activity Index, with the Case-Shiller Home Price Index for Greater Boston rising by 57.2 percent between July 1992 and March 2000, compared to a Massachusetts Economic Activity Index increase of 53.7 percent (see **Figure 2.3**). With a stronger-than-average economy, home prices in Greater Boston soared compared with most regions of the country during the 1990s, following a period between 1988 and 1992 when prices in the region languished. From 1992 until 2000, the Case-Shiller Home Price Index for the Composite 10 Metro regions rose by just 31 percent, just a little more than half the increase in Greater Boston's prices. The Composite 10 index mirrored the nation's Economic Activity Index improvement of 36 percent. *Essentially, from 1992 through 2000, home prices rose in concert with economic activity – in the Commonwealth and across the country.*

After outperforming the national economy during the boom years of the 1990s, Massachusetts was hit more severely than other states by the national recession of 2001, which according to the National Bureau of Economic Research extended from March 2001 through November of that year. Indeed, between January 2001 and April 2003, economic activity in the Commonwealth actually declined for 29 consecutive months while it grew modestly nationwide (recall **Figure 2.1**, Period II). The state's strength in financial services and high tech industries became a weakness during this particular economic downturn.

What was surprising was that housing prices in Greater Boston continued to increase through September 2005, despite the state's downturn and then stagnation in economic activity. Massachusetts was not alone in this price inflation – indeed, some states, including Florida, California, Nevada, and Arizona, saw prices rise at a faster rate than Massachusetts between 2000 and 2005 – but a number of factors, like the loosening of mortgage lending, allowed more Bay State residents to buy homes, pushing prices up, even as the state economy languished. While the Commonwealth's Economic Activity Index rose by just 6 percent between March 2000 and September 2005 (from 153.7 to 162.8), Greater Boston home prices shot up by 80

percent to an index value of 283.0 (recall Figure 2.3). A lingering shortage of new housing construction in the face of increased demand was responsible for this rather sudden break in the relationship between the level of economic activity and home price escalation.

Only in late 2005 did home prices finally begin to fall. Between September 2005 and July 2009, the Case-Shiller Home Price Index for Greater Boston declined by 16 percent despite a modest 4 percent increase in economic activity in the Commonwealth. As it would become clear, high home prices themselves would help trigger the slowdown in the Massachusetts economy, with both people and jobs leaving the state. After the massive run-up in home prices between 2000 and 2005, Greater Boston had apparently priced itself out of the market. Housing prices were now affecting economic activity in the region.

The Impact of the Current Recession

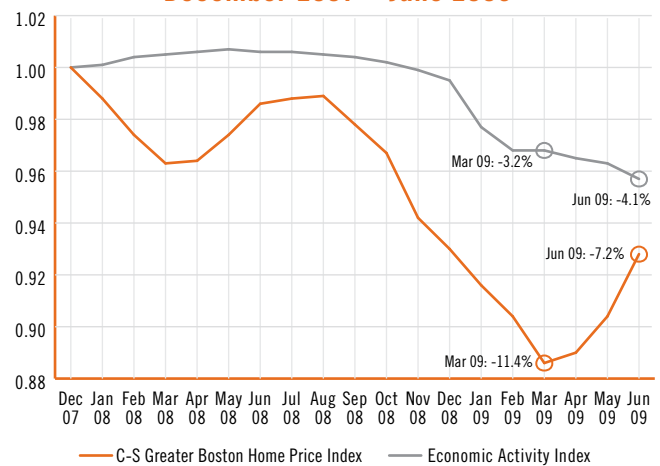
Between the beginning of the current national recession in December 2007 and March 2009, economic activity in Massachusetts would stagnate for a full year and then plummet by 3.2 percent during the first quarter of 2009. The economy would continue to shrink at least through July, dropping by 4.5 percent from the level at the beginning of the recession.

It should be noted, of course, that the housing bubble and the subsequent bust did not affect Massachusetts exclusively. Rather, similar trends took place across the nation, with many markets suffering enormous reductions in median home prices. Still, the impact on Greater Boston home prices has been significant. Before hitting an apparent bottom in March, the Case-Shiller Home Price Index had declined by 11.4 percent in the span of just 15 months (see Figure 2.4).

After March 2009, however, the rate of decline in economic activity slowed and home prices seem to have reacted favorably. By June, the Case-Shiller index was down just 7.2 percent compared with 11.4 percent in March. These data provide the first sign of a bottoming out of the current recession and the first indication of a recovery in housing prices.

FIGURE 2.4

Change in Case-Shiller Home Price Index (Greater Boston) v. Economic Activity Index (Massachusetts), December 2007 – June 2009



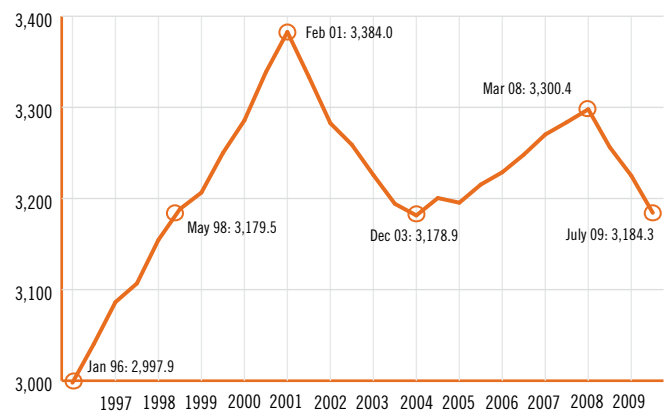
Source: Federal Reserve Bank of Philadelphia, State Coincident Indexes (July 1992 = 100); Case-Shiller Home Price Index

Employment

Massachusetts peak employment level was achieved back in February 2001. The 2001 national recession was especially cruel to the Commonwealth. In the span of less than two years, the state experienced a net loss of over 200,000 jobs (see Figure 2.5). Even with the subsequent economic recovery, employment never

FIGURE 2.5

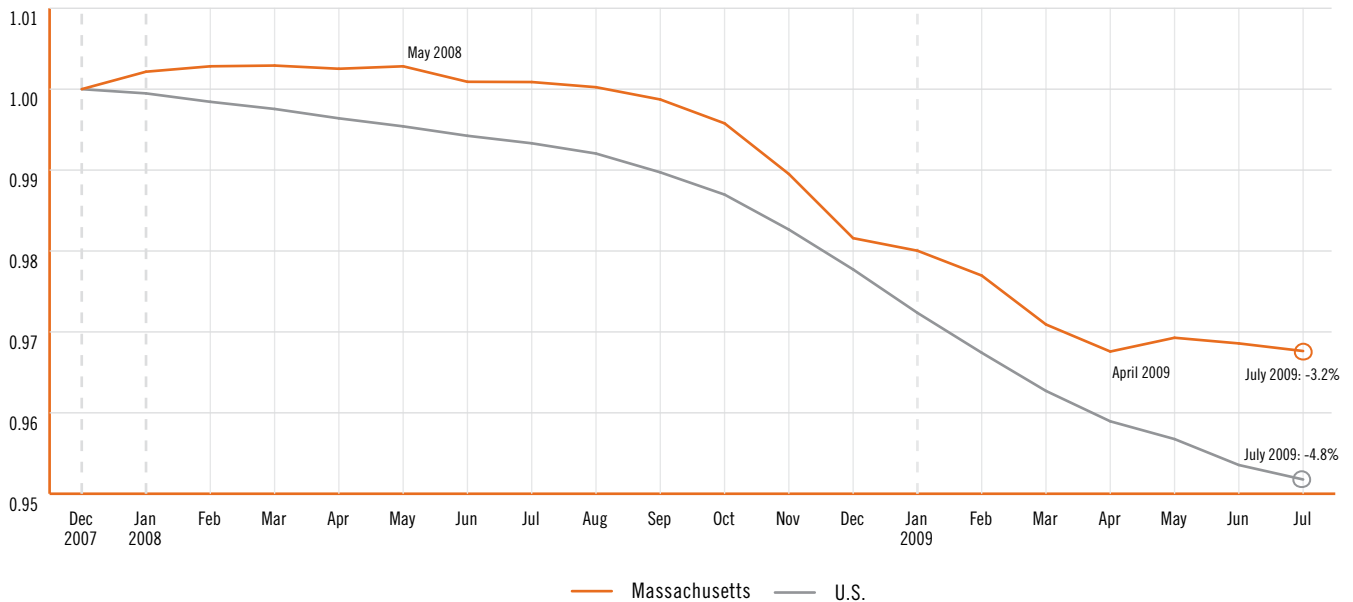
Total Massachusetts Non-Farm Employment, January 1996 – July 2009 (in thousands)



Source: U.S. Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (State and Metro Area)

FIGURE 2.6

Employment Trends in Massachusetts and U.S., December 2007 – July 2009



Source: U.S. Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (State and Metro Area)

reached its February 2001 level, peaking again at 3,300,400 in March 2008 – more than 80,000 shy of the previous record.

Before all the jobs lost in the last recession could be regained, the 2007-2009 recession struck and this current recession has once again taken a drastic toll on the state. By April 2009 nearly all of the gains made since the 2001 recession had vanished and the total number of non-farm jobs had declined to a level little higher than way back in May 1998.

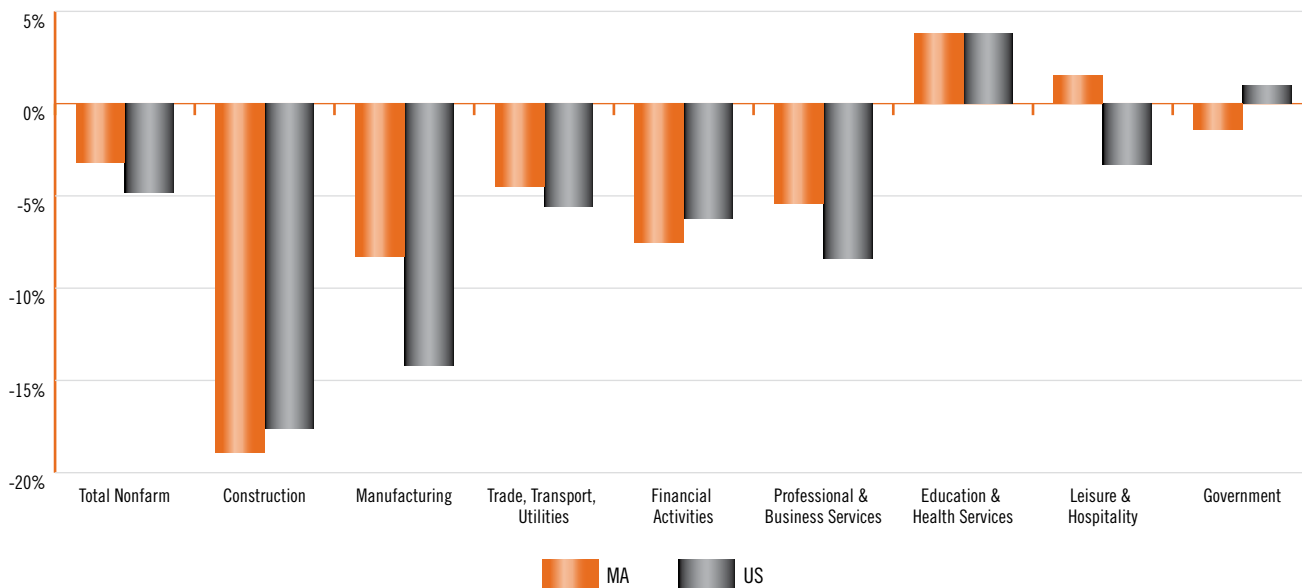
Compared to the rest of the nation, Massachusetts was relatively late in entering the current recession. Employment nationwide began contracting in December 2007, coinciding with the beginning of the current “official” recession. But Massachusetts did not see its first net job losses until April of the following year and the initial employment losses were mild. The period of sharpest decline in employment occurred between May 2008 and April 2009, when the Commonwealth shed 3.5 percent of its non-agricultural workforce, a total of about 116,000 jobs. In that same period, employment nationwide shrank 3.8 percent.

Since that time, while employment losses have grown even more serious, those in Massachusetts have diminished. In fact, in May 2009 the state saw its first monthly job growth in a year, though that small growth was followed in June and July by small declines. Nonetheless, these employment data provide further evidence of a possible end to the current recession in Massachusetts. From the beginning of the national recession through July 2009, the Commonwealth had suffered an employment decline of 3.2 percent – a painful total, but less so than the 4.8 percent loss nationwide (see **Figure 2.6**).

Disaggregating employment trends by economic sector provides a more nuanced story. **Figure 2.7** breaks down changes in employment between December 2007 and July 2009 for the state and the nation by industrial sector. Overall, this figure reveals alarming rates of job loss in most sectors for both the state and the country. No sector was hit harder than construction where nearly one in five jobs disappeared in both the Commonwealth and the nation. Nationally, the only sectors to expand employment were Education and Health Services and Government; in Massachusetts,

FIGURE 2.7

Percent Change in Employment by Sector, Massachusetts v. U.S., December 2007 – July 2009



Source: U.S. Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (State and Metro Area)

Education and Health Services and the Leisure and Hospitality sector added jobs.

Outside of construction, financial activities, and government, the Commonwealth’s job market has fared a bit better during this recession than the nation as a whole. This is particularly true of manufacturing where the state has lost only 8.3 percent of its jobs versus 14.2 percent nationwide. Trade, transportation, and utilities; professional and business services; and the leisure and hospitality sector have also all performed better in Massachusetts than nationwide. All of this accounts for why the Commonwealth has lost only 3.2 percent of its jobs since the national recession began compared to a 4.8 percent loss for the country as a whole.

Employment gains and declines do not occur simultaneously and at the same rates in all places. Local economic forces contribute a great deal to the way in which boom and bust periods affect local labor markets. Since mid-2008, employment has declined in all regions of the country, and in all parts of the Boston area. Within the Greater Boston region, however, job losses have not been evenly distributed.

Table 2.1 uses seasonally adjusted data from the Bureau of Labor Statistics to examine how each subregion within the Boston-Cambridge-Quincy NECTA (a proxy for the Greater Boston region) has fared at three points in time: December 2003, the low point for employment in the Commonwealth after the last national recession; March 2008, the peak in statewide employment after a decade of expansion; and July 2009, the most recent month available, as the state was just showing its first signs of recovering from the most recent recession.

From the time that the millennial recession drew to a close until the peak in employment more than four years later, every subregion of the NECTA experienced job growth. Not every area benefited equally, though. Even as the whole NECTA added 110,000 jobs during that period, cities and towns in the Peabody NECTA division saw only about 300 new jobs, an increase of 0.3 percent. Older industrial areas like Lowell and Brockton also witnessed relatively anemic growth. Meanwhile, outlying suburban areas benefited from much larger proportional gains. The Framingham area led the way, with an 8.7 percent expansion; the

northern suburbs around Haverhill, North Andover, and Nashua, NH also added jobs. Perhaps the most significant winner was the inner core of the region, where the bulk of the added employment was located. The Boston-Cambridge-Quincy subregion within the broader NECTA saw more than 85,000 new jobs created between December 2003 and March 2008, an increase of 5.2 percent.

No subregion has added jobs during the current recession. Unfortunately, those subregions that benefited the *least* from the economic boom between the end of 2003 and March 2008 have also tended to suffer the *most* in terms of employment declines during the current recession. The Brockton and Peabody subregions, which did not grow much during the earlier expansion, have each shed at least 4.6 percent of their employment base, while the Lowell region has lost 3 percent. Haverhill-North Andover-Amesbury did

very well during the boom years, but very badly during the current recession, losing 5.5 percent of its job base.

At the same time, the least-hard-hit subregions during this recession, have been those areas that had also done the best during the last expansion. Since March 2008, the Nashua area has lost just 1.4 percent of its jobs, while Framingham has lost only 2.3 percent. The more than 50,000 jobs lost in the inner Boston area represent the bulk of total jobs losses in the full NECTA, but they still represent a lower proportional decline than that felt in most regions (2.9 percent). Moreover, those 50,000 jobs lost are still 35,000 less than the 85,000 that the inner Boston area added during the previous expansion. Indeed, the Boston core area, Framingham, and Nashua area are responsible for all the job growth in the NECTA since the 2001 recession. Today, Brockton-Bridgewater-Easton, Haverhill-North

TABLE 2.1

Regional Employment Distribution, 2003-2009 (in thousands)

	Boston- Cambridge- Quincy	Brockton- Bridgewater- Easton	Framingham	Haverhill- North Andover- Amesbury	Lowell- Billerica- Chelmsford	Peabody	Nashua	Total for Entire Boston-Cambridge- Quincy NECTA
December 2003	1,634.6	88.0	147.3	74.7	118.0	101.1	127.6	2,291.3
March 2008	1,720.1	89.6	160.1	78.5	119.0	101.4	132.6	2,401.3
July 2009	1,669.6	85.4	156.4	74.2	115.4	96.7	130.7	2,328.4
Change Dec 03 - Mar 08	85.5	1.6	12.8	3.8	1.0	0.3	5.0	110.0
% Change Dec 03 - Mar 08	5.2%	1.8%	8.7%	5.1%	0.8%	0.3%	3.9%	4.8%
Change Mar 08 - Jul 09	-50.5	-4.2	-3.7	-4.3	-3.6	-4.7	-1.9	-72.9
% Change Mar 08 - Jul 09	-2.9%	-4.7%	-2.3%	-5.5%	-3.0%	-4.6%	-1.4%	-3.0%
Change Dec 03 - Jul 09	35.0	-2.6	9.1	-0.5	-2.6	-4.4	3.1	37.1
% Change Dec 03 - Jul 09	2.1%	-3.0%	6.2%	-0.7%	-2.2%	-4.4%	2.4%	1.6%
Proportion of Total Regional Employment, Dec 2003	71.3%	3.8%	6.4%	3.3%	5.1%	4.4%	5.6%	100.0%
Proportion of Total Regional Employment, Jul 2009	71.7%	3.7%	6.7%	3.2%	5.0%	4.2%	5.6%	100.0%

Source: U.S. Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (State and Metro Area)

Andover-Amesbury, Lowell-Billerica-Chelmsford, and Peabody all have fewer jobs than back at the end of 2003. As a result, the core region now accounts for a larger proportion of jobs in the full Greater Boston area than it has at any time in the past six years.

Mortgage Interest Rates

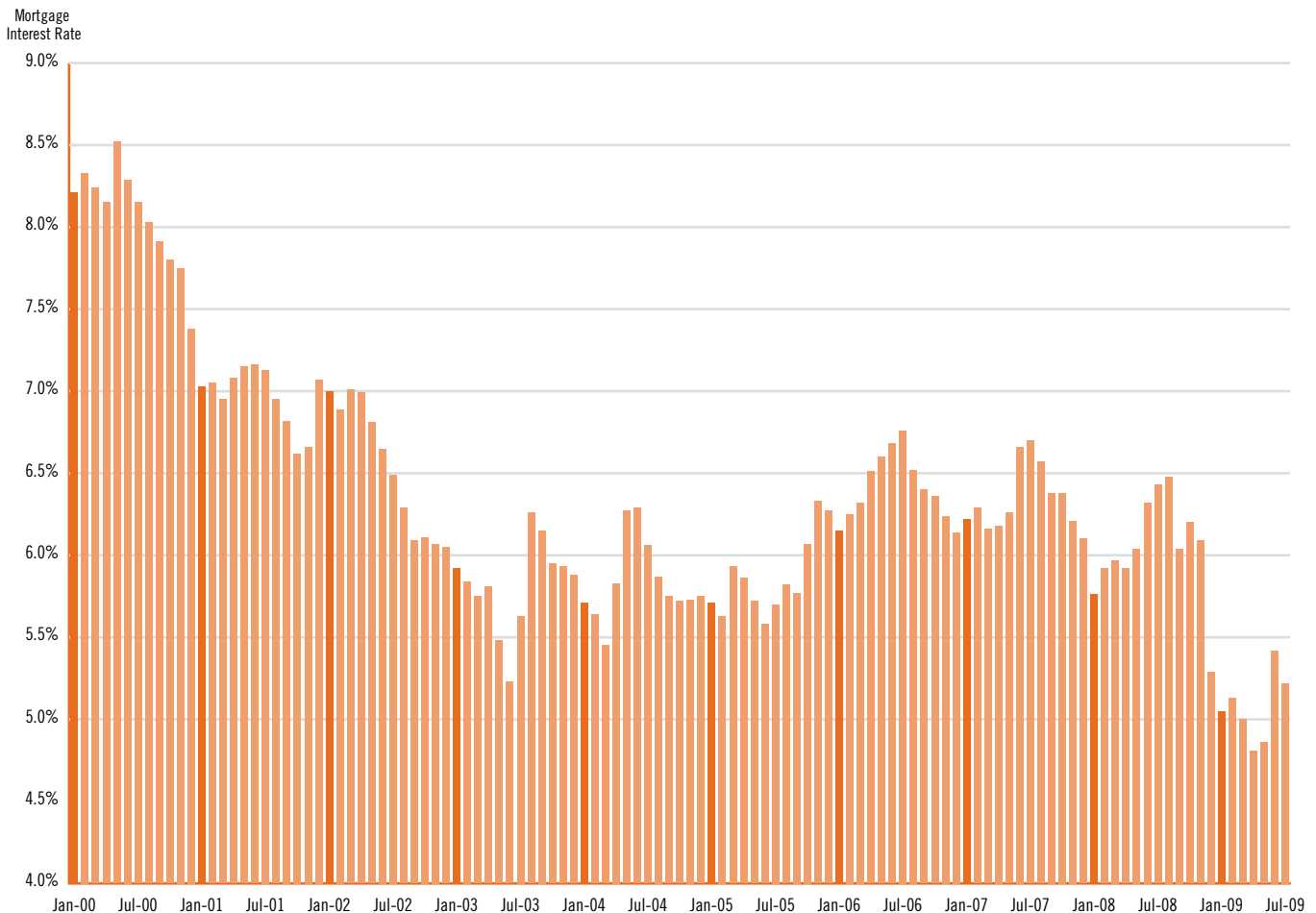
Mortgage interest rates both respond to trends in housing sales and help to direct those trends. Freddie Mac conducts a weekly Primary Mortgage Market Survey to ascertain the rates prevailing among lenders across the country for various types of home loans.

Figure 2.8 presents monthly data from 2000 to the present on nationwide average rates for 30-year

fixed-rate mortgages. After declining steadily through the first three years of this decade, these rates tended to fluctuate cyclically between 5.5 and 6.5 percent for the next five years. That regular fluctuation has become more erratic over the past year, however, with the collapse in the housing market. Following the most recent rate peak of 6.48 percent in August 2008, 30-year fixed rates plummeted, falling as low as 4.81 percent in April 2009. Most notably, in the span of just one month, from November to December 2008, rates fell nearly a full percentage point. Since the April nadir, rates have begun to creep upward, surpassing 5.25 percent in July 2009.

FIGURE 2.8

Monthly National Average Commitment Rate on 30-Year Fixed-Rate Mortgages, January 2000 – July 2009



Source: Freddie Mac, Primary Mortgage Market Survey

Demographic Update

Along with all of the economic factors influencing housing supply and demand, demographic shifts have profound implications for the local housing market. The number of people living in the area, the number and size of households, and such characteristics as age and income are critical in understanding how much housing and what types of housing will be necessary in the years and decades to come. **Table 2.2** provides a summary overview of recent demographic changes, using data from the Census Bureau's annual *American Community Survey*.² The latest data available are for 2008 and refer to the region covering Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties. Concerns about the reliability of the ACS notwithstanding, these data, when viewed with a critical eye and an understanding of their limitations, provide the best estimates of how the face of the Greater Boston region has changed over time.³

- After being relatively stable from 2000 through 2006, the population of the five-county region increased by nearly 26,000 between 2006 and 2007, or 0.6 percent, and by another 39,000 by 2008, a one-year increase of nearly 1 percent. The number of households increased between 2006 and 2008 by nearly 21,000, leaving the average household size at 2.65 persons.
- After adjusting for inflation, median household income increased in 2007 in the five counties surrounding Boston by 2.68 percent, but the increase in 2008, given the slowing economy, was a slim 0.28 percent. Overall, inflation-adjusted median household income in the region was only 3.5 percent higher than back in 2000.
- The median incomes of homeowners and renters have continued to diverge, with homeowners becoming somewhat wealthier while renters have become poorer. Between 2000 and 2008, real homeowner income increased by 4.7 percent; real renter income has declined by more than 7 percent. A slight increase in 2008 kept the decline from being close to 10 percent.
- The five-county region added roughly 9,600 new units of housing between 2007 and 2008, on top of nearly 8,000 the year before. Overall, the total number of housing units in the region has increased by 4 percent since 2000, significantly more than the 1-percent increase in the number of households. This gap between the increase in housing units and household growth has manifested itself in a rapidly rising number of vacant housing units. By 2007, there were more than 108,000 units of vacant housing, over 75 percent higher than in 2000. Some of these vacant units included newly constructed but unsold housing; others represent properties held off the market for a variety of reasons, including poor condition, expectation of future redevelopment, and increasingly, movement through the foreclosure process.
- The number of owner occupied housing units has remained nearly constant since 2006, but the number of renter occupied units has increased by more than 20,000 over the past two years (2006-2008). This likely reflects additions to the rental market resulting from foreclosures and prospective homeowners remaining in rental units waiting for home prices to stabilize.
- Typical housing values for existing homes in the five-county region fell in 2007 and again in 2008. Over these two years, home prices were down by 5 percent, but this still left the median value at nearly 79 percent higher than in 2000. This decline reflects to a large degree the impact of the current foreclosure crisis, as well as market corrections for previously overvalued homes, and the pressure exerted by higher vacancy rates.
- The decline in housing values combined with modest increases in homeowner median income has reduced the ratio of home value to income from a peak of 6.59 in 2005 to 5.62 in 2008.
- Median gross monthly rent paid by existing renters continued to increase in 2007 and 2008. At \$1,130, it was nearly 44 percent higher in 2008 than in 2000, and 8 percent higher than in 2005. Combined with the decline in median renter income, the share of renter income spent on rent has increased from under 28 percent in 2000 to 35 percent in 2007 and 34 percent in 2009. Nearly half (49.3%) of Greater Boston's new renters pay 30% or more of their income for rent, up from 39.2 percent in 2000. More than a quarter (25.2%) still pay over half their income on rent.

TABLE 2.2

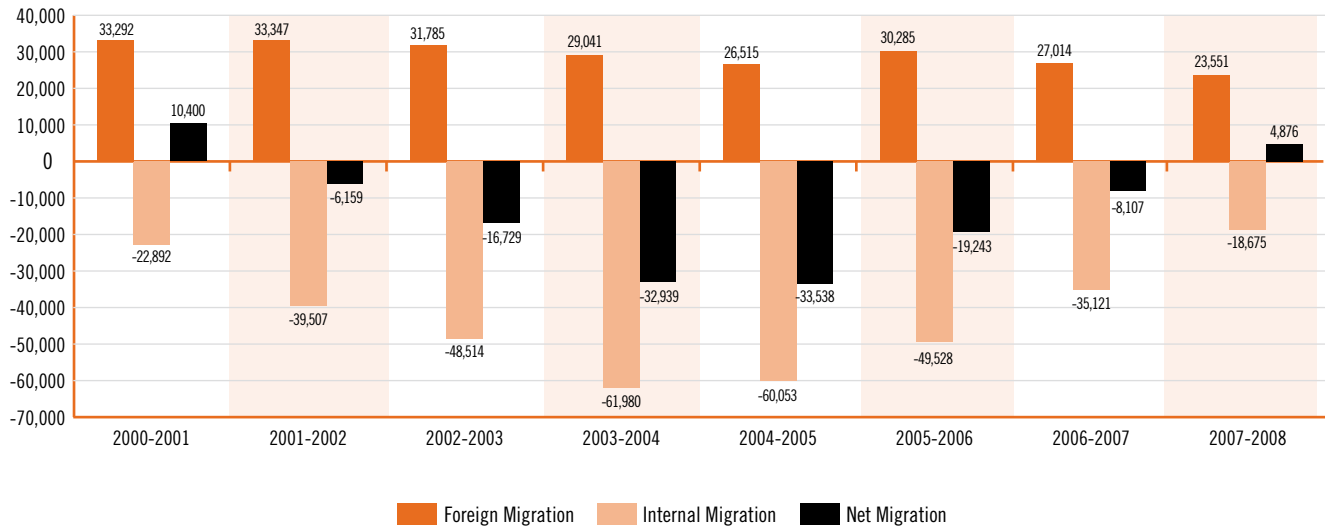
Greater Boston Demographic Profile

Indicator	1990	2000	2005	2006	2007	2008	% Change 2006- 2007	% Change 2007- 2008	% Change 2000- 2008
Population	3,783,817	4,010,389	4,035,675	4,038,960	4,064,733	4,103,594	0.64%	0.96%	2.32%
Households	1,410,238	1,533,041	1,524,296	1,525,803	1,527,074	1,548,583	0.08%	1.41%	1.01%
Median Household Income	\$40,165	\$55,109	\$62,462	\$64,691	\$68,319	\$71,139	5.61%	4.13%	29.09%
Real Median Household Income (2008\$)	\$66,164	\$68,903	\$68,859	\$69,089	\$70,942	\$71,139	2.68%	0.28%	3.25%
Median Homeowner Income	N.A.	\$71,437	\$81,886	\$84,972	\$89,642	\$93,516	5.50%	4.32%	30.91%
Real Median Homeowner Income (2008\$)	N.A.	\$89,319	\$90,273	\$90,748	\$93,084	\$93,516	2.57%	0.46%	4.70%
Median Renter Income	N.A.	\$34,204	\$35,748	\$36,251	\$37,184	\$39,727	2.57%	6.84%	16.15%
Real Median Renter Income (2008\$)	N.A.	\$42,765	\$39,409	\$38,715	\$38,611	\$39,727	-0.27%	2.89%	-7.11%
Total Housing Units	1,510,420	1,593,023	1,625,201	1,639,335	1,647,315	1,656,640	0.49%	0.57%	3.99%
Occupied Units	1,412,190	1,532,549	1,524,296	1,525,803	1,527,074	1,548,583	0.08%	1.41%	1.05%
Vacant Units	98,230	60,474	100,905	113,532	120,241	108,057	5.91%	-10.13%	78.68%
Owner Occupied Units	812,660	916,817	956,373	965,434	968,595	967,704	0.33%	-0.09%	5.55%
Renter Occupied Units	599,530	615,732	567,923	560,369	558,479	580,879	-0.34%	4.01%	-5.66%
Median Value of Owner Occupied Units	\$179,007	\$223,480	\$411,870	\$421,133	\$414,416	\$399,619	-1.59%	-3.57%	78.82%
Value of Median Home/ Median Homeowner Median Income	4.46	4.06	6.59	6.51	6.07	5.62	-6.82%	-7.39%	38.52%
Median Gross Monthly Rent	\$642	\$786	\$1,042	\$1,070	\$1,084	\$1,130	1.26%	4.28%	43.81%
Percent of Renter Income Spent on Rent	N.A.	27.5%	35.0%	35.4%	35.0%	34.1%	-1.13%	-2.57%	24.00%
Renter HHs Paying >30% of Income for Rent	41.7%	39.2%	50.1%	52.4%	49.3%	49.3%	-5.92%	-0.07%	25.68%
Renter HHs Paying >50% of Income for Rent	N.A.	18.4%	25.0%	25.6%	25.2%	25.2%	-1.56%	-0.02%	36.93%
Median Monthly Owner Cost (w mortgage)	\$1,090	\$1,508	\$1,981	\$2,148	\$2,251	\$2,305	4.80%	2.40%	52.87%
Median Monthly Owner Cost (w/o mortgage)	\$332	\$461	\$622	\$683	\$711	\$754	4.17%	6.02%	63.61%

Source: U.S. Census Bureau, 1990 and 2000 Decennial Censuses, American Community Survey 2005-2008

FIGURE 2.9

Net Migration to and from Massachusetts, 2000 – 2008



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

■ The average monthly costs for homeowners in the five-county region increased for homeowners in both 2007 and 2008, for both those with and those without mortgages. Since 2000, non-mortgaged homeowners have seen their housing costs increase somewhat more rapidly than mortgaged households, presumably as a consequence of energy costs and taxes, which make up a larger share of non-mortgaged homeowners’ costs.

In sum, at least through 2008, housing affordability remained a critical problem in Greater Boston for both homeowners and renters.

Migration Patterns

The migration of people into and out of the region to and from other parts of the U.S. or to and from other countries is an important contributor to demographic patterns, and as such has a significant impact upon the housing market. In recent years, as **Figure 2.9** illustrates, the net in-migration of people coming to Massachusetts from abroad was more than offset by the large numbers of people migrating out of the state to other regions of the country. Net out-migration from the Commonwealth peaked in 2005, when its population declined by more than 33,000 due to migration alone.

Over the past few years, the situation has begun to change. Primarily as a result of economic troubles, mobility has dropped dramatically. While it is true that net immigration from other countries has slowed somewhat, that slowdown pales in comparison to the substantial drop-off in net domestic out-migration from Massachusetts. Between 2003 and 2004, Massachusetts lost nearly 62,000 residents to other states. Between 2007 and 2008, that out-migration was under 19,000. As a result, in 2008 Massachusetts saw a net increase in population due to migration for the first time since 2001.

What Do These Economic and Demographic Trends Mean?

With the national recession that began in December 2007 spreading across the country in 2008 and the first half of 2009, it was inevitable that Massachusetts and Greater Boston would be affected. The rate of increase in economic activity that had been gaining strength from early in 2002 began dropping in early 2008. By the end of that year, positive economic activity growth turned negative and it continued to contract throughout the first half of 2009. Only then did the downward trend in the economic activity index seem to moder-

ate providing the first signs of hope for at least some economic recovery in the second half of the year.

The modest improvement in the Massachusetts economy in the middle of 2009 appears to have had the effect of buoying home prices in Greater Boston. Prices which had fallen more sharply in response to the souring economy appear to have hit bottom in March and by June 2009 they had firmed up and were rising again. Home prices which had been down as much as 11.4 percent from their level when the national recession began were down only 7.2 percent a few months later in June.

Two other factors suggest that housing demand might begin to increase again. One is the fact that mortgage rates remain low, despite a recent uptick after April 2009. The other is the possible rebound in population growth due to migration patterns. It is just possible that declining housing costs in the Commonwealth combined with the lack of jobs in other regions has been responsible for mitigating the extraordinary out-migration pattern the Commonwealth experienced during much of this decade.

The overall conclusion – tentative as it must be – is that the worst of the current economic and demographic situation is finally abating. That could mean that housing sales will continue to pick up, that housing vacancy rates will begin to fall, that housing prices will continue to improve, and that we will need to find ways of assuring an adequate supply of housing for a growing population. Of course, a double-dip national recession, a stalling of job creation, and an increase in foreclosures could undermine this more rosy forecast. But the odds are that in the remainder of 2009 and into 2010, we will begin to see sufficient economic recovery to once again raise the concern in Greater Boston of too little housing, not too much.

3.

Housing Production in the Region

The longest recession since the Great Depression has taken its toll on housing production nationwide. Greater Boston is no exception. With employment declining, unemployment rising, household incomes stagnant, home sales plummeting, and troubled financial institutions wary of providing credit, housing developers have all but ceased home production in the region.

Overall Production Levels

For the fourth year in a row, housing production in Greater Boston has continued to decline from its 2005 peak of over 15,000 permitted units. In 2006, the number of units permitted dropped to 12,332. This was followed by an additional decline of over 2,500 units

in 2007. During 2008, the rate of decline sped up, and only slightly more than 6,500 units were permitted in the entire five-county region. The Dukakis Center has projected permitting trends for all of 2009 using existing building permit data through the first seven months of the year.¹ Based on the monthly data for the same period in 2008, we estimate that the total number of permitted units in the region will not exceed 3,500 for the entire year. As such, permit activity this year will likely stand as much as 77 percent below its 2005 peak, and 64 percent below the 2000 level. Put another way, the number of housing units permitted in Greater Boston by the end of 2009 is likely to be less than a quarter of the 2005 total (see **Table 3.1**). Even during the last recession in 2000-2001, annual production

TABLE 3.1

Single-Family and Multifamily Building Permits in Greater Boston, 1999-2009 (est.)

Year	Total Units	% Change over Prior Year (Total Units)	Units in Single-Family Structures	% Change from Prior Year (SF Units)	Units in 2-4 Unit Structures	% Change from Prior Year (Units in 2-4 Unit Structures)	Units in 5+ Unit Structures	% Change from Prior Year (Units in Buildings with 5+ Units)
1999	9,591		6,790		660		2,141	
2000	9,563	-0.3%	6,376	-6.1%	660	0.0%	2,527	18.0%
2001	8,929	-6.6%	5,604	-12.1%	642	-2.7%	2,683	6.2%
2002	8,558	-4.2%	5,531	-1.3%	709	10.4%	2,318	-13.6%
2003	11,120	29.9%	5,290	-4.4%	1,067	50.5%	4,763	105.5%
2004	12,713	14.3%	6,222	17.6%	985	-7.7%	5,506	15.6%
2005	15,107	18.8%	6,552	5.3%	991	0.6%	7,564	37.4%
2006	12,332	-18.4%	4,910	-25.1%	1,180	19.1%	6,242	-17.5%
2007	9,772	-20.8%	4,139	-15.7%	636	-46.1%	4,997	-19.9%
2008	6,529	-33.2%	2,682	-35.2%	376	-40.9%	3,471	-30.5%
2009 (est.)	3,491	-46.5%	2,183	-18.6%	234	-37.8%	1,074	-69.1%
% Change, 2000-2009	-63.5%		-65.8%		-64.5%		-57.5%	
% Change, 2005-2009	-76.9%		-66.7%		-76.4%		-85.8%	

Note: 2009 estimates based on the percentage of permits through July 2008 applied to data through July 2009.

Source: U.S. Census Bureau, Annual New Privately-Owned Residential Building Permits for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties

exceeded the expected 2009 level by more than 100 percent. The current production of housing represents not merely a decline from historical levels, but a near-total collapse. This collapse has hit not just Boston. The nation wide recession has had ramifications for housing, and the decline in permits has hit many other regions even harder than Boston.

Since 2000, the decline in new construction has varied little in terms of the type of housing production. Overall, production in 2009 is expected to be down by nearly 64 percent. Single-family permits are projected to drop by 66 percent from 2000 levels, while multi-family housing production will likely decline between 58 and 65 percent, depending on the number of units in the building.

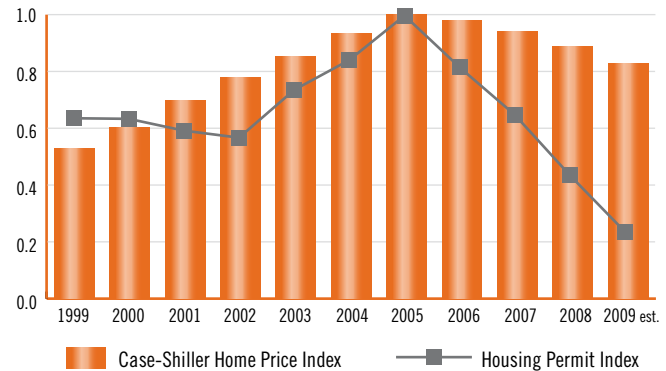
Since the peak of production in 2005, however, it is clear that the largest reduction has occurred in larger multi-family buildings (i.e., those with five or more units). In 2009, we project that only one unit will be produced in these apartment complexes for every seven units constructed in 2005. This is due, in large part, to the high number of units permitted in large structures that year (52 percent higher than in 2004). For single-family homes, the 2009/2005 production ratio is one to three. Among 2-4 unit buildings, this ratio stands at one to four.

The trend in housing production follows rather closely the trend in housing prices as measured by the Case-Shiller Home Price Index. **Figure 3.1** superimposes the 1999-2009 housing permit data onto the Case-Shiller Home Price Index for 1999 through July 2009. Housing prices in Greater Boston marched steadily upward from 1999 through 2005, almost doubling during this period. Housing construction responded with a lag. However, after 2002 the number of permits issued in the region climbed steadily, peaking in the same year as housing prices. Once home prices peaked and began to decline, new construction fell off sharply, and the more home prices declined, the more production plummeted.

This may mean that housing production will begin to pick up again in late 2009 or early 2010 as home prices stabilize and presumably begin to rise again. If the home price/housing permit pattern follows the same path as in the period from 1999 to 2005, though, we can expect a one- to three-year lag in housing production

FIGURE 3.1

Housing Permits Index in Greater Boston v. Case-Shiller Hme Price Index, 1999-2009 (est.)



Source: U.S. Census Bureau, Annual New Privately-Owned Residential Building Permits for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties; Case-Shiller Home Price Index

following a resurgent housing market. That may once again leave housing supply trailing demand and lead to a sharper increase in home prices than would otherwise be the case.

2008 Housing Production by Type and Location

A review of building permit data for 2008 for all of the 161 cities and towns in the Greater Boston Region that the *Greater Boston Housing Report Card* has tracked in previous years reveals that only 35 communities (22 percent) issued more building permits in 2008 than they had in 2007. The decline was most severe in multi-family production (in units with five or more units), with only 26 municipalities (16 percent) increasing production over 2007 levels. Much of the multi-family production in suburban communities had been permitted under Chapter 40B, the state's comprehensive permit statute. Mirroring the broader market downturn, 40B production was also off for the year. Given the further decline in the number of permits in the entire Greater Boston region so far in 2009, we can only surmise that at best a handful of municipalities are on track to increase their housing production over last year.

The Municipal Leaders in Housing Production

In past years, a few cities and towns have consistently led the Greater Boston region in new housing production. Boston, because of its size, is always among the top three producers. Quincy and Cambridge have historically been in the top rank as well (although Cambridge fell out of the top 15 in 2008 after being ranked #2 in 2006 and #3 in 2007).

Boston ranked #1 in 2008, although the number of permits issued in the capital was less than half the number issued in 2007. Tewksbury, ranked only #55 in 2007 with 48 permits issued, found itself in the #2 spot, with nearly ten times as many permits issued in 2008. Third-ranked Quincy, bucking the overall trend, produced almost as much housing in 2008 as 2007. Randolph, Foxborough, Hingham, Chelsea, Lynnfield, and Franklin, like Tewksbury, all saw large increases in permitting in 2008 (see **Table 3.2**).

At the other end of the housing production continuum, fifteen cities and towns issued fewer than five permits in 2008. Among these were small towns like Hopedale, Millville, and Wenham. Yet Somerville, Malden, and Watertown also made this list. (It should be noted that low permitting totals among larger cities and towns may simply reflect a lack of reporting to the U.S. Census Bureau.) Somerville, the most densely populated city in the Commonwealth, reported only seven new units in 2007 and 2008 combined. Watertown reported only 17 units permitted during this two-year period, of which all but two were issued in 2007.

Single-Family Units

Plymouth has continued to lead the way in the permitting of single-family properties, despite dropping to 141 permits issued in 2008 from 164 during 2007. Since 2000, the town of Plymouth has issued 2,176 permits for single-family homes. In 2008, Lowell permitted 92 single-family properties, to maintain its second-place position in single-family permits in the region. Lowell, like Plymouth, has also seen a decline in the number of building permits for single-family properties since last year.

Only 10 municipalities permitted more than 50 single-family units in 2008, a significant drop from 2007, when more than 30 municipalities fell into this category. In the Greater Boston Region, only 25 municipali-

ties permitted more single-family units in 2008 than in the previous year.

Multi-Family Homes (5+ Units)

Multi-family production, as shown in the last panel of Table 3.2, has typically been greatest in Boston, Cambridge and Quincy. In 2008, the number of building permits issued for apartment complexes in Boston was just half (410) as many as the year before (820), which was already down more than 50 percent from 2006, when nearly 2,000 units were permitted. In addition, large multi-unit housing production in Cambridge dropped to only 24 total permits in 2008, from 586 in 2007 and 857 in 2006. Quincy has seen a slight drop in housing permits for larger complexes, with 369 permits issued in 2008 compared with 396 in 2007 and 584 in 2006. These declines reflect, in part, the conversion of units previously on sale as condominiums into rental units. As the condo market faltered, developers found they could make more money in the short run by renting out housing units, rather than letting them sit unsold on the homeowner market. In the slow housing market, other previously planned multi-family structures have been put on hold.

Overall, the production of buildings with five or more units has continued to slow throughout the Greater Boston area. In 2008, 122 municipalities permitted no new large structures at all, the largest number of communities since the Dukakis Center began tracking these data in 2000.

Comparing Boston to Other Metro Areas

Boston was not the only metropolitan area to see a steep decline in housing production over the past four years. The majority of metropolitan regions in the country reached a peak in permitting in 2005 or 2006, and they have since seen a dramatic decline in permitting and production. Comparing the change in the number of permitted units in selected metropolitan areas from their peaks in 2005 to our 2009 estimates, it is clear that Boston has actually fared better than many others. Despite a decline in permitting of nearly 75 percent, the Greater Boston has not experienced as severe a decline as Miami, Phoenix, Las Vegas or Minneapolis-St. Paul, all of which have faced reductions in housing production of approximately 90 percent (see **Figure 3.2**).

TABLE 3.2

Municipalities Adding the Most and Fewest New Housing Units in 2007 and 2008

2008 Rank	Municipality	Total Units Permitted in 2008	Total Units Permitted in 2007	Rank in 2007
Top 15				
1	Boston	512	1041	2
2	Tewksbury	417	48	55
3	Quincy	381	419	4
4	Randolph	284	9	144
5	Foxborough	275	23	101
6	Hingham	274	88	24
7	Chelsea	239	6	147
8	Lynnfield	217	31	81
9	Franklin	216	101	20
10	Plymouth	176	191	8
11	Saugus	171	177	9
12	Lowell	141	114	18
13	Everett	127	135	14
14	Canton	123	134	15
15	Groveland	82	75	32
2008 Rank (from Bottom)				
Bottom 15				
15	Lincoln	4	50	110
15	Avon	4	5	10
11	Essex	3	9	18
11	Somerville	3	4	7
11	Swampscott	3	10	21
4	Carlisle	2	7	16
4	Hamilton	2	1	2
4	Harvard	2	15	38
4	Malden	2	84	135
4	Nahant	2	1	2
4	Topsfield	2	4	7
4	Watertown	2	15	38
3	Wenham	1	18	53
1	Millville	0	10	21
1	Hopedale	0	5	10

2008 Rank	Municipality	Single-Family Units Permitted in 2008	Single-Family Units Permitted in 2007	Rank in 2007
Top 15				
1	Plymouth	141	164	1
2	Lowell	92	101	2
3	Needham	64	88	4
4	Littleton	58	21	79
5	Sudbury	55	79	7
6	Franklin	53	87	5
7	Lexington	52	61	21
8	Wellesley	51	69	12
8	Tewksbury	51	13	38
9	Westford	50	99	3
10	Acton	49	70	11
11	Haverhill	47	69	12
11	Methuen	47	68	16
12	Stow	45	55	30
13	Middleborough	44	69	12
2008 Rank (from Bottom)				
Bottom 15				
15	Carlisle	2	7	25
15	Hamilton	2	1	3
15	Harvard	2	7	25
15	Malden	2	18	68
15	Nahant	2	1	3
15	Topsfield	2	4	10
15	Millis	2	14	51
8	Wenham	1	18	68
8	Essex	1	7	25
8	Winthrop	1	0	1
1	Hopedale	0	5	14
1	Millville	0	4	10
1	Watertown	0	2	6
1	Medford	0	3	8
1	Chelsea	0	0	1

TABLE 3.2
Municipalities... continued

2008 Rank	Municipality	Units in 5+ Unit Structures Permitted in 2008	Units in 5+ Unit Structures Permitted in 2007	Rank in 2007
Top 15				
1	Boston	410	820	2
2	Quincy	369	396	4
3	Tewksbury	364	5	37
4	Randolph	276	0	45
5	Foxborough	256	0	45
6	Chelsea	228	0	45
7	Hingham	223	5	37
8	Lynnfield	200	5	37
9	Franklin	163	14	33
10	Saugus	158	155	8
11	Canton	112	114	11
12	Everett	106	93	12
13	Groveland	74	60	16
14	Waltham	50	74	15
15	Lowell	47	5	37

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

122 municipalities did not permit any multifamily housing in 2008.

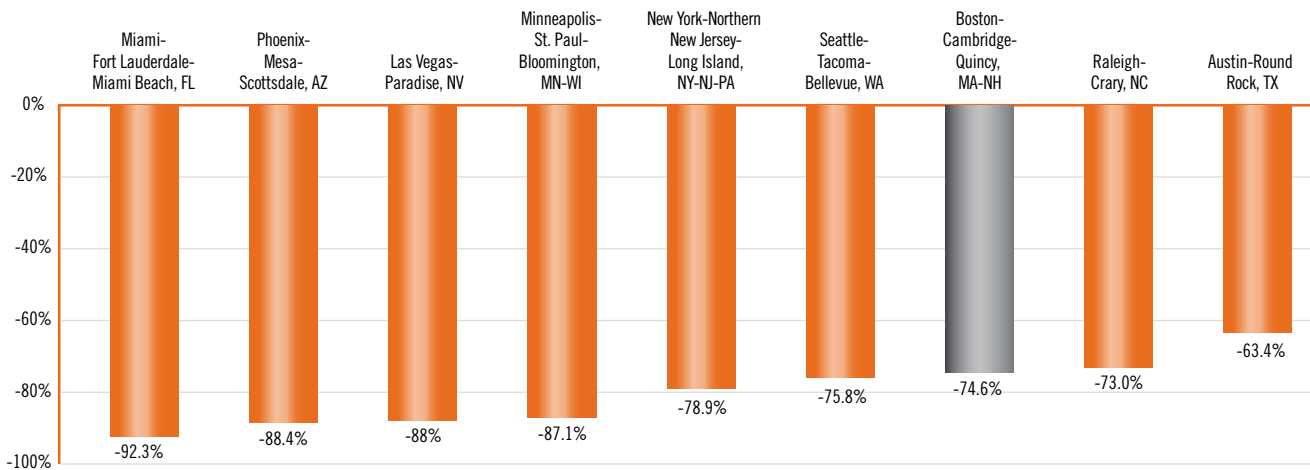
118 municipalities did not permit any multifamily housing in 2007.

Compared to Greater Boston, the sprawling metropolises of the Sunbelt have been much more susceptible to speculative fluctuations in housing production. **Figure 3.3A** and **Figure 3.3B** reveal how the Boston metro area has fared relative to Las Vegas, one of the metropolitan areas that has grown the fastest and sprawled the most over the past decade. Las Vegas saw an immense increase in production between 2003 and 2006, permitting more than 111,000 single-family units during this brief period. However, in 2008 the number of permits for single-family structures collapsed to 5,840, only a quarter of what it was only two years earlier. Moreover, early projections suggest that the number of permits issued in 2009 will be less than half the 2008 total.

By comparison, in Greater Boston the increase in production between 2003 and 2006 was much smaller, with only 29,724 single-family units permitted during this period – one-fourth the number in Las Vegas. As a consequence, the subsequent drop in production has been less severe in Boston. In 2008, there were 3,382 single-family units permitted, a reduction of less than fifty percent from 2006. Compared to Las Vegas, we expect the decline in 2009 to be significantly less substantial in Boston, so that the number of new single-family homes permitted in the two metro areas should be roughly the same.

FIGURE 3.2

Percent Change in Building Permits for Selected Metropolitan Areas, 2005-2009 (est.)



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

FIGURE 3.3A

Units Permitted in Structures with One Unit, Boston Metro Area v. Las Vegas Metro Area, 2003-2009 (est.)

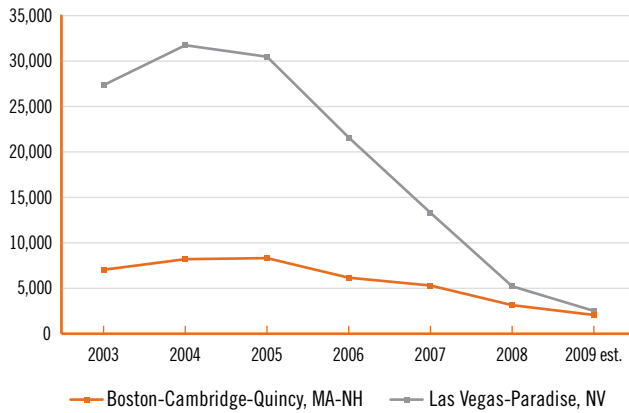
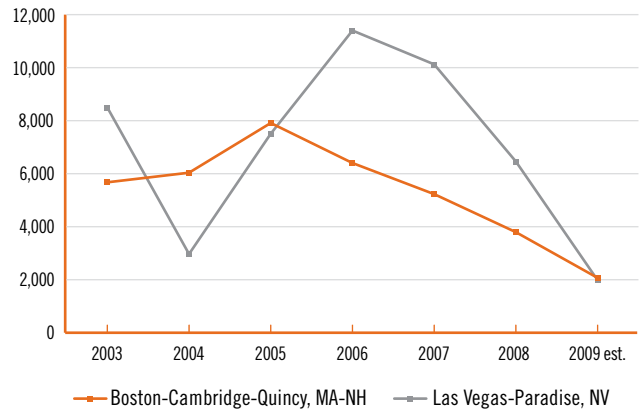


FIGURE 3.3B

Units Permitted in Large Structures (5+ Units) Boston Metro Area v. Las Vegas Metro Area, 2003-2009 (est.)



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

In Las Vegas, there was a movement toward greater production of multi-family units beginning after 2004. In that year, fewer than 3,000 units were permitted in large structures (those with five or more units). By 2006 this number had increased to 11,400, and in contrast to the dramatic decline in housing production of single-family units in 2007, the number of units in large structures permitted in Las Vegas remained high, with over 10,000 permits issued during the same year. The number of housing units permitted in large structures in Las Vegas fell in 2008, following the dramatic declines in housing production around the country, but still this metro area permitted nearly 6,500 units in multi-unit structures. However, projections for 2009 in Las Vegas show an even more dramatic downturn in large structures, with fewer than 2,000 predicted permits. In Boston, permits for units in multi-family buildings declined by over 1,400 between 2007 and 2008, which put the total number of units permitted in large structures at 3,794 last year. Projections for 2009 suggest a slightly higher rate of large-structure construction in Boston than in Las Vegas for the first time since 2005.

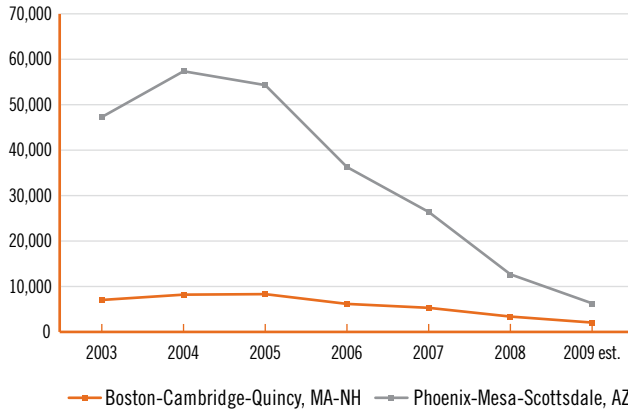
Phoenix has experienced almost the exact same pattern of catastrophic decline in housing permits as Las Vegas. **Figure 3.4A** demonstrates the dramatic decline in single-family units permitted, from a peak in 2004

of over 57,000 units to an expected 2009 total of fewer than 6,300 (-89 percent). **Figure 3.4B** reveals that the decline in large-structure permits has proven even more severe. According to our 2009 projection, Phoenix will permit fewer than 1,000 new units in large structures, compared with almost 10,000 just two years ago. This represents a reduction in excess of 90 percent in authorized permits. If this projection comes to pass, Boston will have issued more than twice as many permits for units in large structures than Phoenix, reversing a three-year trend.

While Boston has fared better in authorizing housing permits than both Phoenix and Las Vegas, until 2009 Raleigh, North Carolina, fared still better. In Raleigh, the construction of single-family units peaked in 2005, but the decline in production over the following two years was very slight. Indeed, between 2003 and 2005, Raleigh increased single-family permitting by 38 percent, compared with Greater Boston's 18 percent increase (see **Figure 3.5A**). In the first two years following peak housing production in both metro areas, Raleigh experienced only a 9 percent decline in single-unit permitting; Boston was down by 35 percent. Since 2007, however, Boston has actually suffered a smaller decline in single-family permits (-61 percent) than Raleigh (-74 percent).

FIGURE 3.4A

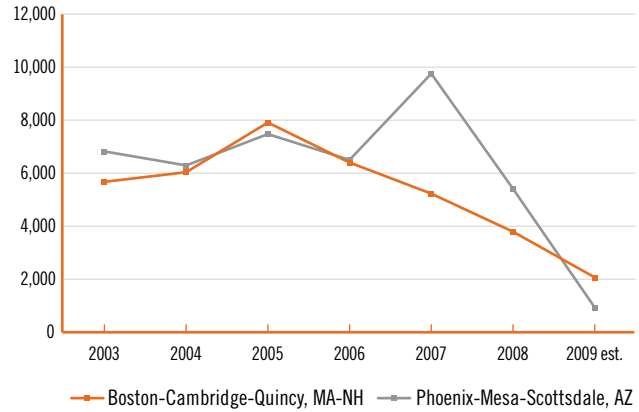
Units Permitted in Structures with One Unit, Boston Metro Area v. Phoenix Metro Area, 2003-2009 (est.)



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

FIGURE 3.4B

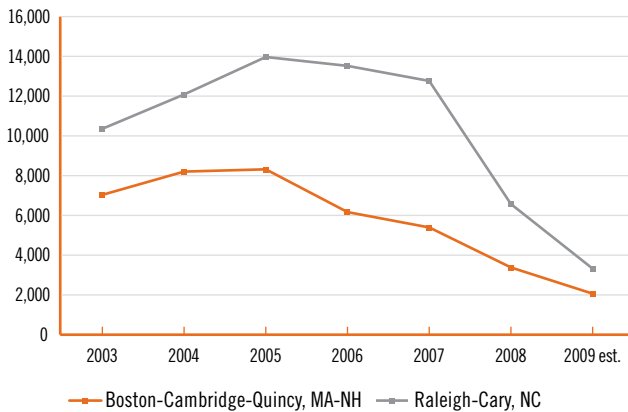
Units Permitted in Structures with One Unit, Boston Metro Area v. Phoenix Metro Area, 2003-2009 (est.)



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

FIGURE 3.5A

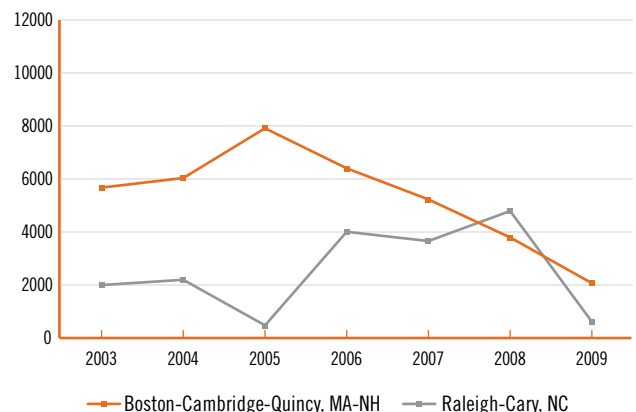
Units Permitted in Structures with One Unit, Boston Metro Area v. Raleigh Metro Area, 2003-2009 (est.)



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

FIGURE 3.5B

Units Permitted in Large Structures (5+ Units), Boston Metro Area v. Raleigh Metro Area, 2003-2009 (est.)



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

Raleigh's decline in large-structure units is projected to be even more severe in 2009, after a construction boom in 5+ unit buildings that lasted all the way through 2008. In fact, despite the national housing crisis, Raleigh issued more permits for multi-unit housing in 2008 than at any time since 2003 (see Figure 3.5B). In contrast, Boston's decline in large-structure permits began in 2005, and it has declined steadily ever since.

While Boston has faced declines in housing production similar to those in other metropolitan areas across the nation, the changes in production (both upward and downward) since the early years of this decade have been significantly less dramatic in the Greater Boston region than in comparable areas. While this caused a major gap between housing supply and housing demand in the recent past, leading to skyrocketing

home prices, the more modest declines in housing production contributed to staving off the recent disastrous declines in home prices that other regions have suffered.

Still, what we noted in last year's report bears repeating:

The problem, of course, will be if the slowdown in housing construction remains in place once the state's economy begins to grow faster.

In retrospect, the sluggish pace of housing production was responsible for the housing price spiral the region experienced from 1995 through 2005, but the slow pace had an unexpected silver lining. Because there was little speculative housing production in Greater Boston, we did not begin the current economic downturn with a large surplus of housing. In other parts of the country, this has led to even sharper home price depreciation than in Greater Boston.

Over the long-run, the challenge will be to provide sufficient new housing to keep vacancy rates from falling to levels consistent with a strong seller's market, leading to another upward price spiral while not overbuilding to the point where vacancy rates rise to a point where a strong buyer's market leads to a collapse in home values.

Despite everything that has occurred in the national economy and the housing market during the past year, this conclusion seems to be as applicable today as it was a year ago. Using a combination of rewards and sanctions to enable the market to respond efficiently to rising or shifting demands, the Commonwealth can ensure that it has an adequate supply of housing to sustain a vibrant economy and meet the needs of households across the broad range of ages and incomes.

4.

Home Prices and Rents in Greater Boston

For a full decade between 1995 and 2005, home prices in Greater Boston increased annually, often at double-digit rates. This was true even during the national recession of 2001. In that year, national employment declined along with gross domestic product, yet the median home price in Greater Boston increased by 10.5 percent. By December 2005, the median single-family home price in the region was 162 percent higher than it had been in January 1995. Overall inflation, as measured by the Consumer Price Index, had climbed during this same period, but only by 27 percent.

Greater Boston's single-family housing market peaked in September 2005. In 2006, while the national economy was still expanding, median single-family home prices fell by 4.4 percent. The following year, they were down again by 2.2 percent. Once the national recession began at the end of 2007, home prices tumbled, falling by nearly 6 percent in 2008 (see **Figure 4.1**).

Now, in 2009, we may be at another turning point in the Greater Boston housing market. A number of measures of home prices point to a stabilizing market, and there is even a hint of a considerable price recovery.

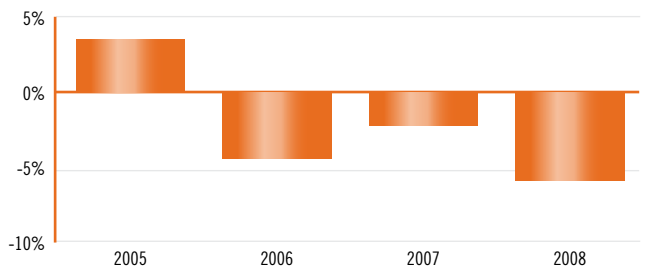
The region's condominium market and rental market have followed very different paths. Condo prices continued to rise after 2005, unlike single-family homes, and only began to stabilize and fall during the past year. Rents remained relatively stable between 2000 and 2005, just when housing prices were increasing at their fastest rate. When home prices began to fall, rents went in the opposite direction. From 2005 through the middle of 2008 they rose sharply, and only with the deepening economic crisis have rents stabilized. In 2009 they have begun a mild retreat.

How prices and rents will respond to each other and to the national and regional economies over the next year is hard to predict. With a stronger economy, one would expect housing prices to continue to rise, along with condo prices and rents; however, if unemployment remains high it could pose the threat of prolonged recession and declining values. Also, if foreclosures and/or vacancy rates increase, the increased availability of housing could lead to further price declines and spell trouble for those who might wish to sell their homes or refinance their mortgages.

Moreover, how these trends will affect actual housing affordability depends a great deal on a host of other factors, including trends in household income and whether housing production picks up in consort with an improving economy.

FIGURE 4.1

Annual Percentage Change in Case-Shiller Home Price Index in Greater Boston, 2005-2008



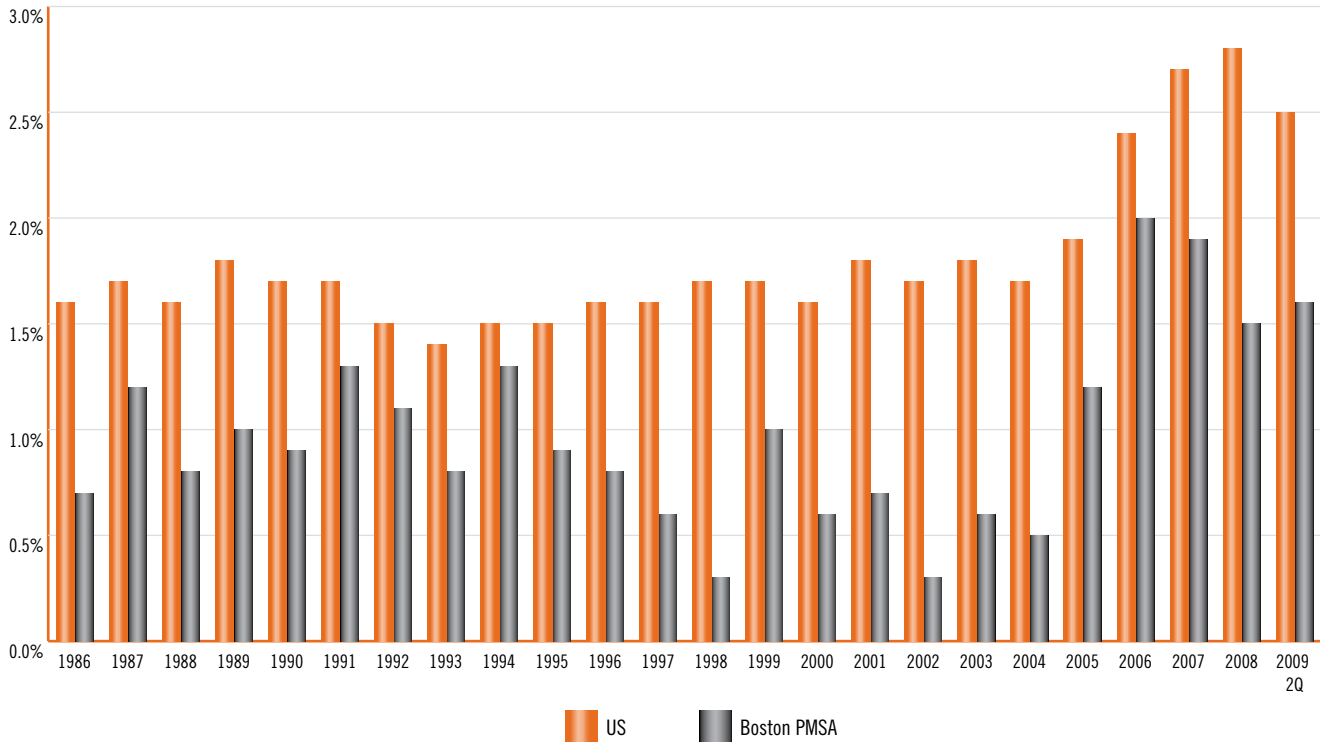
Source: Case-Shiller Home Price Index

Homeowner Market

Homeowner vacancy rates in Greater Boston have trailed national rates since at least 1986. From 1994 through 2005, however, vacancy rates in the region fell far below the national pattern, hitting an all-time low of just 0.3 percent in 2002. This was about one-sixth the national rate and about one-fifth the rate considered normal. Statistical analysis of vacancy rates has shown that homeowner rates much below 1.5 percent tend to produce escalating home prices, and prices rise more rapidly as vacancy rates fall below this "normal" rate.¹ With vacancy rates so low during the late 1990s and the first half of the current decade, home prices

FIGURE 4.2

Homeowner Vacancy Rates, Greater Boston v. U.S.



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

exploded. The small supply of vacant housing created a strong sellers' market, as sellers could set higher and higher prices and still find ready buyers.

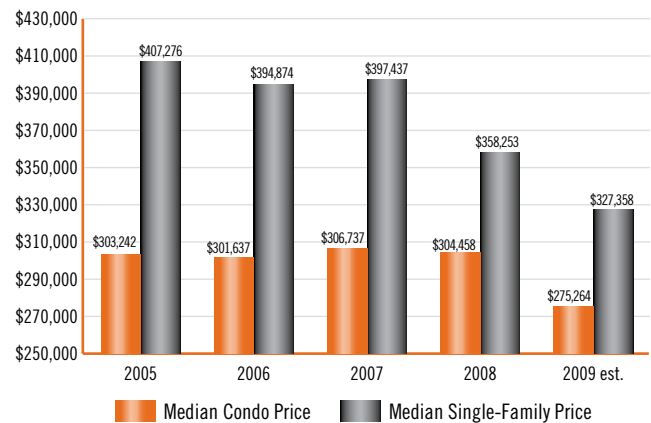
Due in large part to the troubled mortgage market, increased foreclosures, and, to a lesser extent, new housing constructed between 2003 and 2005, the homeowner vacancy rate in the Boston region increased sharply between 2004 and 2006, reaching 2 percent in 2006 (see Figure 4.2). At this rate, there was an ample supply of housing on the market to cause prices to stabilize and then decline. With vacancy rates remaining at 1.5 percent or more in 2006, 2007, and 2008, it was not surprising to see home prices decline.

The actual trend in annual median single-family home and condominium prices can be seen in Figure 4.3.

The Warren Group reports that the median single-family home in Greater Boston (defined in the following analyses as the five counties surrounding Boston – Essex, Middlesex, Norfolk, Plymouth, and Suffolk)

FIGURE 4.3

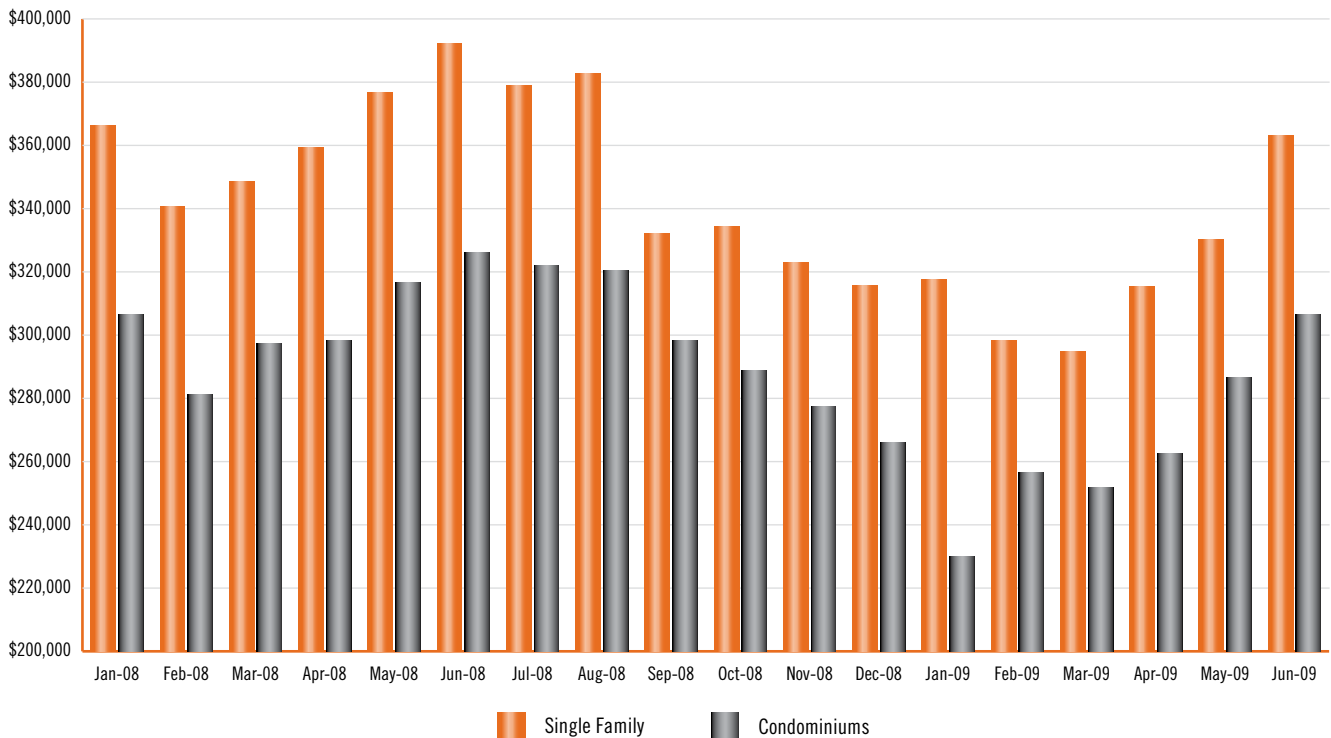
Median Price of Single-Family Homes and Condominiums in Greater Boston, 2000-2009 (est.)



Source: The Warren Group

FIGURE 4.4

Median Price of Single-Family Homes and Condominiums in Greater Boston, January 2008 - June 2009



Source: The Warren Group

sold for \$260,000 in 2000. Just five years later, the median had risen to \$407,000, a 157-percent increase (similar to the increase in the median reported by Case-Shiller). For the next two years, prices remained reasonably stable before beginning their sharp retreat. By the end of 2009, we estimate that the median selling price for the year will have fallen to \$327,000, nearly 20 percent below its peak.

Condominium prices in Greater Boston seem to have followed a somewhat different trend. Prices rose in much the same way as single-family homes from 2000 through 2005 with condo prices actually increasing at a slightly faster pace (171 percent) than single-family home prices (157 percent). Moreover, when single-family home prices began to slide, condo prices held steady. The median condo price in Greater Boston was no lower in 2008 than in 2005, and only in 2009 did prices begin to slump. We estimate that the maximum year-over-year decline in condo prices through 2009

will be only 10 percent, compared with a decline of nearly 20 percent for single-family homes.

A Rebound in Home and Condo Prices

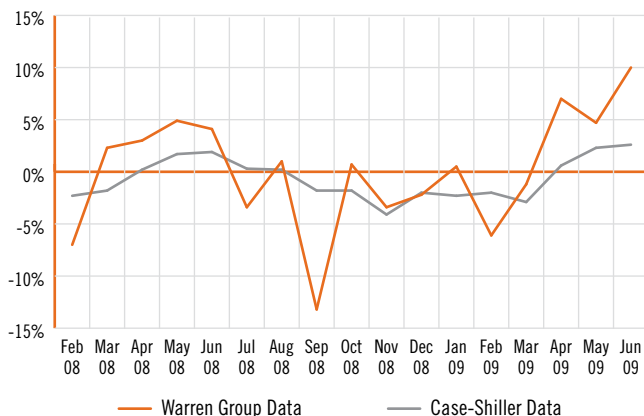
Figure 4.4 presents reasonably strong evidence that housing and condo prices seem to have bottomed out in early 2009, and have in fact begun to rebound. Single-family home prices in Greater Boston appear to have hit their recent low in March of this year. According to Warren Group data, the median selling price of a single-family home in the region plummeted by nearly \$100,000 between June 2008 and March 2009. Since then, prices have rebounded quite sharply, increasing to \$363,000 in June from just \$294,000 in March. Condo prices also tumbled by nearly \$100,000 between June 2008 and January of this year. They have come back even stronger, reaching a median of \$306,000 in June – only \$20,000 below their peak selling price a year ago.

It should be noted that the month-to-month variance in the Warren Group price data have two potential sources. One is the actual change in home prices. The other is any change in the composition of the housing units sold in any given month. As such, if smaller homes or homes in poorer neighborhoods make up a disproportionate share of sales in a given month, this will affect the Warren Group sales price data. By contrast, Case-Shiller home price data are based on the resale of specific properties and therefore do not conflate changes in sales composition with changes in price. **Figure 4.5** presents the percentage change in median selling prices for both price series from February 2008 through June 2009. It is clear that the Warren Group data have much greater month-to-month variation; even so, the two data sources reveal similar price trajectories. Both the Case-Shiller and Warren Group data show real increases in home prices after March of this year. Even the much more “conservative” Case-Shiller price series data report monthly increases of 2.3 and 2.6 percent in median sales prices in May and June, respectively.

These findings are consistent with the improved economic activity and employment figures we have begun to see in Massachusetts in the second quarter of 2009. It is, of course, too early to say with any certainty

FIGURE 4.5

Percentage Change in Median Single-Family Home Prices in Greater Boston, Warren Group Data v. Case-Shiller Data, February 2008 – June 2009



Source: The Warren Group; Case-Shiller Home Price Index

whether this recovery will continue. A new round of foreclosures, falling consumer confidence, or further financial troubles among giant companies in the mortgage industry could wreak renewed havoc on the housing market.

What might be true is that the current housing price cycle will track much like the last one. **Figure 4.6** provides data on the Case-Shiller Single-Family Home Price Index for the cycle that began in July 1988 and the one that began in September 2005. Between July 1988 and February 1992, home prices fell by 15 percent. This decline took place over 42 months. It would take the next 62 months – just over 5 years – for single-family home prices in Greater Boston to return to their July 1988 peak.

The current down cycle began in September 2005, and if prices stabilize (as they appear to be doing), the decline, ending in March 2009, will also have taken 42 months to play out, and the total reduction in home prices will have been just slightly more than the loss incurred during the last cycle (-18.5%). If it again takes approximately five years for prices to rebound to their previous peak, we would not expect prices to be at their September 2005 level until the spring of 2014. This turns out to be consistent with the forecast made by Forbes and Moody’s Economy.com, which suggest that nationwide home prices “will have nearly reverted to their pre-2009 state by 2014.”²

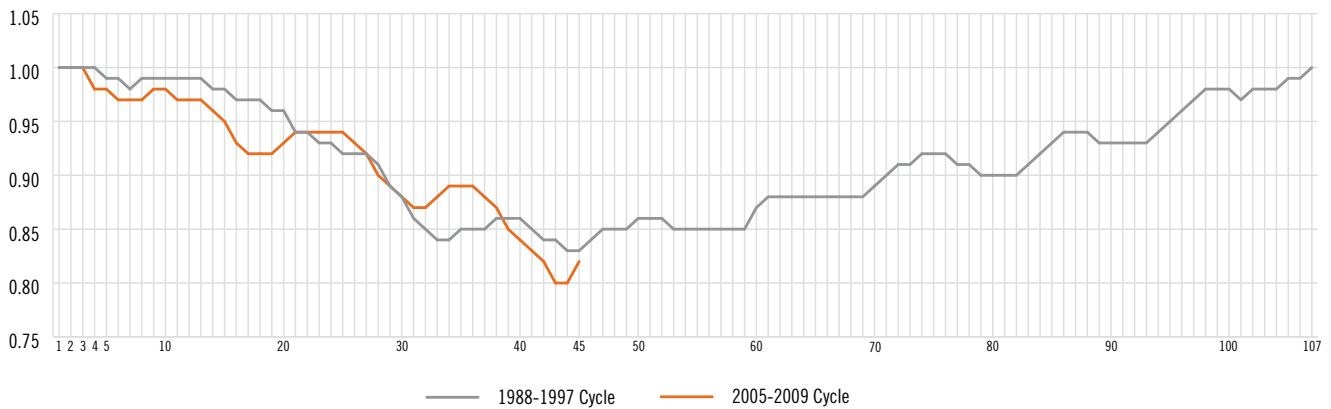
It is possible, of course, given the limited amount of home construction in Greater Boston before the down cycle began, that the price bounce-back could come much quicker, if the economy continues to improve, foreclosures decline, and normal population growth occurs. Indeed, if future monthly price increases were to occur at even half the rate of the Case-Shiller price increases for May and June of this year, the full price rebound would occur in just a year and half.

Home Sales Volume

From 2000 through 2005, the number of sales of single-family homes in Greater Boston continued to be quite strong, contributing to escalating prices. Right through 2005, more than 31,000 homes were sold each year, reaching nearly 35,500 in 2004. Beginning in 2005, however, the number of home sales declined each year, and the total is expected to reach no more than 20,000 for all of 2009 (see **Figure 4.7**). This number is only

FIGURE 4.6

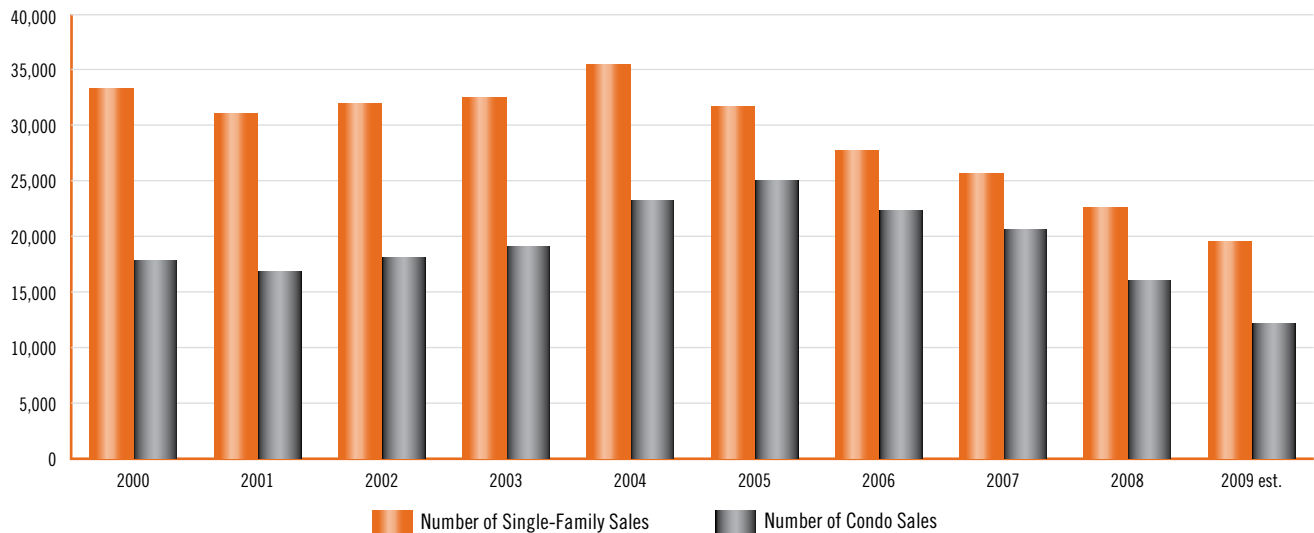
Greater Boston Housing Cycles 1988-1997 v. 2005-2009, Case-Shiller Single Family Home Price Index



Source: Case-Shiller Home Price Index

FIGURE 4.7

Sales of Single-Family Homes and Condominiums in Greater Boston, 2000-2009 (est.)



Source: The Warren Group

55 percent as high as the peak sales record five years earlier, and it represents 6,000 fewer sales than just two years ago.

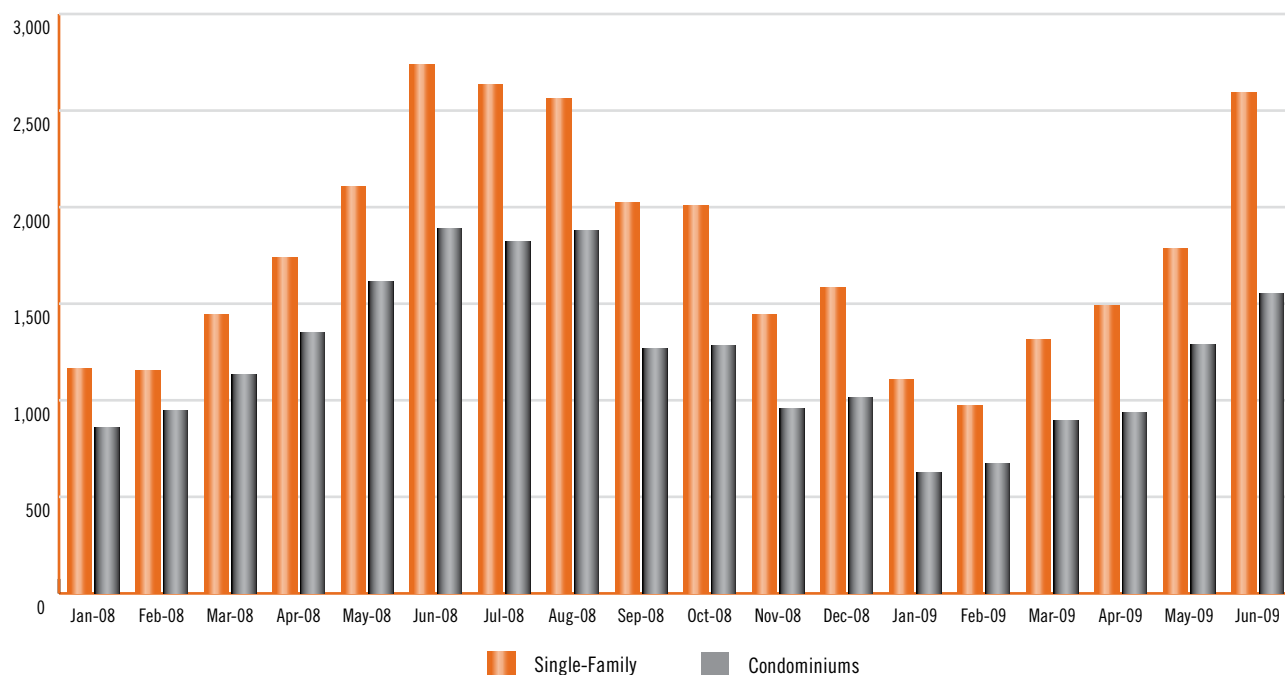
Condo sales rose much more sharply during the 2000-2005 boom than single-family home sales. Between 2001 and 2005, annual sales of condos rose by nearly

50 percent, from under 17,000 to nearly 25,000. Since then, condo sales have collapsed even more than home sales – our 2009 estimate is equal to less than half the volume recorded in 2005.

Despite the collapse in sales over the past four years, the latest monthly data for 2008 and 2009 suggest that

FIGURE 4.8

Sales of Single-Family Homes and Condominiums in Greater Boston, January 2008-June 2009



Source: The Warren Group

sales are beginning to pick up rather dramatically (see **Figure 4.8**). This recent phenomenon is the chief reason for recent price increases for both single-family homes and condominiums. Sales of single-family homes plummeted between June 2008 and February 2009, but have been rising since then. This new trend reflects, in part, normal seasonality in sales, with the greatest number occurring, in most years, in the summer months. In an encouraging sign of future trends, however, between February and June 2009, total single-family home sales increased by 167 percent, some 30 percentage points higher than the sales increase during the same period a year earlier. Condo sales have followed a similar seasonal trend, but the pick-up in sales between January and June 2009 trails the increase in 2008.

The key question is whether the improving economy will sustain the sales improvements we have seen during the first half of 2009, leading to a recovery in home prices and perhaps some incentive for renewed housing production.

Characteristics of Massachusetts Home Buyers

As in previous years, we present data in **Table 4.1** describing typical homebuyers in Massachusetts and the country as a whole. These data, compiled annually by the National Association of Realtors, allow us to understand how shifting dynamics within the housing market affect different types of buyers – older versus younger buyers, those with high versus low incomes, or those who are purchasing their first home versus repeat buyers.

By looking at data for 2006, before the national recession set in, and 2008, after the recession began, we can begin to see how economic conditions have affected homeowners and the properties they own or have recently purchased.

All Homebuyers

As in previous years, Massachusetts homebuyers earn far higher incomes than their counterparts in other states. Homebuyers in the Commonwealth in 2008 had a nominal median income of \$88,100, nearly 18 percent higher than the U.S. average. Moreover, between 2006 and 2008, incomes rose by 6.7 percent in Massachusetts, compared with an increase of 4.3 percent nationwide, reflecting in part the later entry of the Commonwealth into the economic recession. Controlling for inflation, however, the typical homebuyer in Massachusetts had no more real income in 2008 than in 2006, since consumer prices rose by 6.8 percent over this period.

Even with higher nominal incomes, Massachusetts homebuyers cannot come close to compensating for the higher cost of housing. The median price for homes purchased in 2008 in the Commonwealth (\$314,500) was a full 54 percent higher than those purchased elsewhere (\$204,000), and prices in Massachusetts showed smaller declines between 2006 and 2008. During this period the price of new homes purchased fell by almost twice as much (-10 percent) as the median price of previously owned homes (-5.4 percent).

While we know that the total number of home sales declined between 2006 and 2008 as the recession deepened, a larger proportion of the homes that were purchased were newly constructed ones. The percentage of families in Massachusetts buying newly constructed homes rather than previously owned ones jumped from 11 percent to 16 percent of all sales, even as the proportion nationwide actually declined. The proportion paying more than \$500,000, however, declined dramatically, from 37 percent of new home purchases to just 23 percent, presumably reflecting both the decline in home values and a shift by homeowners to smaller, more affordable housing.

This trend is consistent with the fact that recent homebuyers are choosing more often to live in larger apartment buildings rather than in single-family homes or small 2-4 unit townhouse complexes. In 2006, 13 percent of all home purchases were in buildings with five or more units. Two years later, the proportion had jumped to 18 percent – nearly one in five. Along with this trend, the median size of a home purchase declined by almost 100 square feet to 1,590.

The recession has taken its toll on the square-foot price of newly constructed units. Still, the price of these homes fell by 4 percent in the Commonwealth, only half the decline recorded nationwide (-7.6 percent). The price charged for single-family homes and townhouses declined, but the price per square foot in larger multi-unit buildings actually increased significantly, by as much as 9.4 percent, in direct contrast to nationwide price reductions of nearly 3 percent. These data suggest that a larger proportion of homebuyers are choosing to downsize, even as they opt for somewhat more luxurious amenities.

First-Time Homebuyers

Among first-time homebuyers, the regional/national income gap is even more pronounced, with first-time buyers in the Commonwealth earning 33 percent more than comparable buyers nationwide. These higher incomes help to compensate for the high prices of Massachusetts homes. Nonetheless, the typical first-time homebuyer in Massachusetts paid 60 percent more for his or her home in 2008 than the typical American homebuyer. Added to that, the median home purchased in Massachusetts was more than 100 square feet smaller than the median home around the country. As a result, the average first-time Massachusetts homebuyer paid 80 percent more per square foot in 2008 than the average American homebuyer.

First-time Bay State homebuyers remain much more likely to purchase more dense housing, as indicated by the smaller square footage of the homes purchased and the types of homes that are purchased. While 73 percent of first-time buyers nationwide purchased detached single-family homes in 2008, in Massachusetts only 55 percent did so, and this was down from 63 percent in 2006. Massachusetts homebuyers were more than twice as likely to purchase homes in apartment and condominium complexes (with five or more units), and they were five times more likely to purchase homes in 2-4 unit structures, especially in the triple-decker structures common in and around Boston.

TABLE 4.1

Homebuyer Profile, Massachusetts v. U.S., 2006-2008

	2006		2008		Change 06-08	
	MA	US	MA	US	MA	US
All Homebuyers						
Median Income	\$82,600	\$71,800	\$88,100	\$74,900	6.7%	4.3%
% with Incomes <\$45,000	12%	21%	12%	19%	0.0%	-9.5%
% with Incomes <\$55,000	19%	31%	22%	29%	15.8%	-6.5%
% with Incomes >\$75,000	59%	48%	63%	50%	6.8%	4.2%
Median Age	38	41	39	39	2.6%	-4.9%
Median Price of Home Purchased	\$325,000	\$214,000	\$314,500	\$204,000	-3.2%	-4.7%
Median Price – New Home	\$400,000	\$250,000	\$360,000	\$248,000	-10.0%	-0.8%
Median Price – Previously Owned Home	\$319,900	\$200,000	\$302,500	\$189,000	-5.4%	-5.5%
% Who Financed Their Purchase	86%	91%	90%	93%	4.7%	2.2%
% Purchasing Homes Price <\$150,000	6%	28%	8%	30%	33.3%	7.1%
% Purchasing Homes Price <\$200,000	18%	46%	18%	50%	0.0%	8.7%
% Purchasing Newly Constructed Home	11%	22%	16%	21%	45.5%	-4.5%
Of Newly Constructed Home Buyers, % Paying <\$200,000	0%	32%	12%	31%	N.A.	-3.1%
Of Newly Constructed Home Buyers, % Paying <\$300,000	16%	62%	33%	65%	106.3%	4.8%
Of Newly Constructed Home Buyers, % Paying >\$500,000	37%	13%	23%	10%	-37.8%	-23.1%
% Purchasing Detached Single-Family Home	65%	75%	62%	78%	-4.6%	4.0%
% Purchasing Townhouse/Row House	8%	9%	7%	8%	-12.5%	-11.1%
% Purchasing Unit in Building with 2-4 Units	12%	3%	10%	2%	-16.7%	-33.3%
% Purchasing Unit in Building with 5 or More Units	13%	8%	18%	7%	38.5%	-12.5%
Median Size (sq. ft.)	1,688	1,815	1,590	1,825	-5.8%	0.6%
Price per Square Foot for All Homes	\$200	\$118	\$192	\$109	-4.0%	-7.6%
Detached Single-Family	\$200	\$112	\$187	\$105	-6.5%	-6.3%
Townhouse	\$176	\$136	\$168	\$132	-4.5%	-2.9%
Unit in 2-4 Unit Structure	\$202	\$129	\$221	\$119	9.4%	-7.8%
Unit in Structure with 5 or More Units	\$224	\$189	\$243	\$184	8.5%	-2.6%
Unit in Structure with 5 or More Units	\$224	\$189	\$213	\$199	-4.9%	5.3%

TABLE 4.1

Homebuyer Profile, Massachusetts v. U.S., 2006–2008, continued

	2006		2008		Change 06–08	
	MA	US	MA	US	MA	US
First Time Homebuyers						
First Time Buyers as % of All Homebuyers	45%	36%	48%	41%	6.7%	13.9%
Median Age of First Time Buyers	32	32	31	30	-3.1%	-6.3%
% < Age 25	7%	12%	10%	12%	42.9%	0.0%
% Between 25-34	66%	51%	53%	54%	-19.7%	5.9%
Median Price of Home Purchased	\$269,000	\$165,000	\$264,000	\$165,000	-1.9%	0.0%
Median Size (sq. ft.) for First Time Homebuyers	1,483	1,516	1,410	1,580	-4.9%	4.2%
Median Income	\$75,800	\$58,300	\$80,600	\$60,600	6.3%	3.9%
% with Incomes <\$45,000	10%	32%	12%	28%	20.0%	-12.5%
% with Incomes <\$55,000	25%	46%	25%	43%	0.0%	-6.5%
% with Incomes >\$75,000	53%	30%	57%	33%	7.5%	10.0%
% Purchasing Detached Single-Family Home	63%	66%	55%	73%	-12.7%	10.6%
% Purchasing Townhouse/Row House	9%	13%	9%	10%	0.0%	-23.1%
% Purchasing Unit in Building with 2-4 Units	13%	3%	10%	2%	-23.1%	-33.3%
% Purchasing Unit in Building with 5+ Units	13%	11%	23%	9%	76.9%	-18.2%
% Purchasing Home Costing <\$150,000	5%	44%	6%	43%	20.0%	-2.3%
% Purchasing Home Costing <\$200,000	22%	64%	23%	64%	4.5%	0.0%
Repeat Homebuyers						
Median Price of Home Purchased by Repeat Buyers	\$370,000	\$249,000	\$367,500	\$236,000	-0.7%	-5.2%
Median Income Repeat Buyers	\$91,900	\$81,900	\$100,500	\$88,200	9.4%	7.7%
% with Incomes <\$45,000	12%	15%	14%	13%	16.7%	-13.3%
% with Incomes <\$55,000	13%	23%	22%	20%	69.2%	-13.0%
% with Incomes >\$75,000	68%	57%	35%	38%	-48.5%	-33.3%
% Over 55	31%	30%	31%	31%	0.0%	3.3%
% Purchasing Detached Single-Family Home	66%	80%	68%	81%	3.0%	1.3%
% Purchasing Townhouse/Row House	7%	7%	5%	7%	-28.6%	0.0%
% Purchasing Unit in Building with 2-4 Units	11%	3%	10%	2%	-9.1%	-33.3%
% Purchasing Unit in Building with 5 or More Units	13%	6%	14%	6%	7.7%	0.0%

Source: National Association of Realtors, 2007 Profile of Home Buyers and Sellers Massachusetts Report; Massachusetts Association of Realtors 2008 Profile of Home Buyers and Sellers

Repeat Homebuyers

Not surprisingly, repeat Massachusetts homebuyers purchase much more expensive homes than first-timers (\$367,000 v. \$264,000) and are more likely to purchase detached single-family homes (68% v. 55%). Between 2006 and 2008, despite the recession, the price paid for housing by repeat homebuyers slipped by less than 1 percent in the Commonwealth, compared to a 5 percent decline nationally. Only 14 percent of purchases were for condominiums in larger complexes, a proportion much lower than the figure for younger, first-time buyers (23%).

Rental Market

The rental market in Greater Boston has played out quite differently, compared to the homebuying market. While sales prices began to decline after September 2005, well before the current recession began in December 2007, asking rents rose only modestly before the third quarter of 2005 and then increased sharply just as home prices were beginning to fall. Advertised

TABLE 4.2
Changes in Single-Family Home Price v. Asking Rent in Greater Boston, 2000-2009

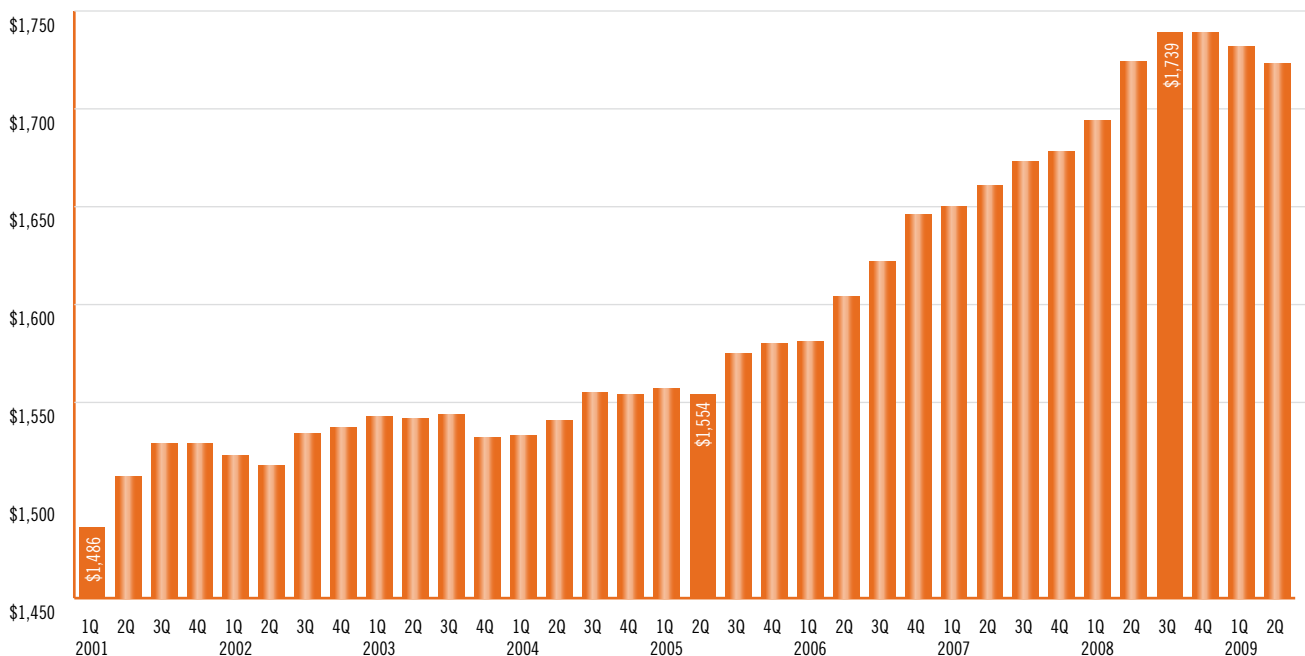
	Single-Family Home Price	Percentage Change in Home Price	Monthly Asking Rent	Percentage Change in Asking Rent
2001:1Q	\$260,000		\$1,486	
2005:2Q	\$395,500	52%	\$1,554	4.5%
2008:3Q	\$347,000	-12%	\$1,739	11.9%
2009:2Q	\$326,000	-6%	\$1,723	-0.9%

Source: Warren Group Data, Case-Shiller Data, Reis, Inc.

rents continued to rise right through the third quarter of 2008, well after the recession had taken hold not only nationally, but in the Commonwealth, as well.

Figure 4.9 demonstrates this movement clearly. Between the first quarter of 2001 and the second quarter of 2005, the average asking monthly rent in Greater Boston rose from \$1,486 to \$1,554, an increase of just

FIGURE 4.9
Asking Apartment Rents in Greater Boston, 2001-2009



Source: Reis.com

4.6 percent. According to Case-Shiller data, over this same period single-family home prices increased by 52 percent, more than 10 times the rise in rents. Beginning in the third quarter of 2005, home prices began their slide, but rents went in precisely the opposite direction. Between the second quarter of 2005 and the third quarter of 2008 – nearly nine months after the national recession began – asking rents increased from \$1,554 to \$1,739, a 12-percent increase (see **Table 4.2**). Only beginning in the first quarter of 2009 did rents recede, and then only slightly. Through the second quarter of the year, asking rents were down by less than 1 percent.

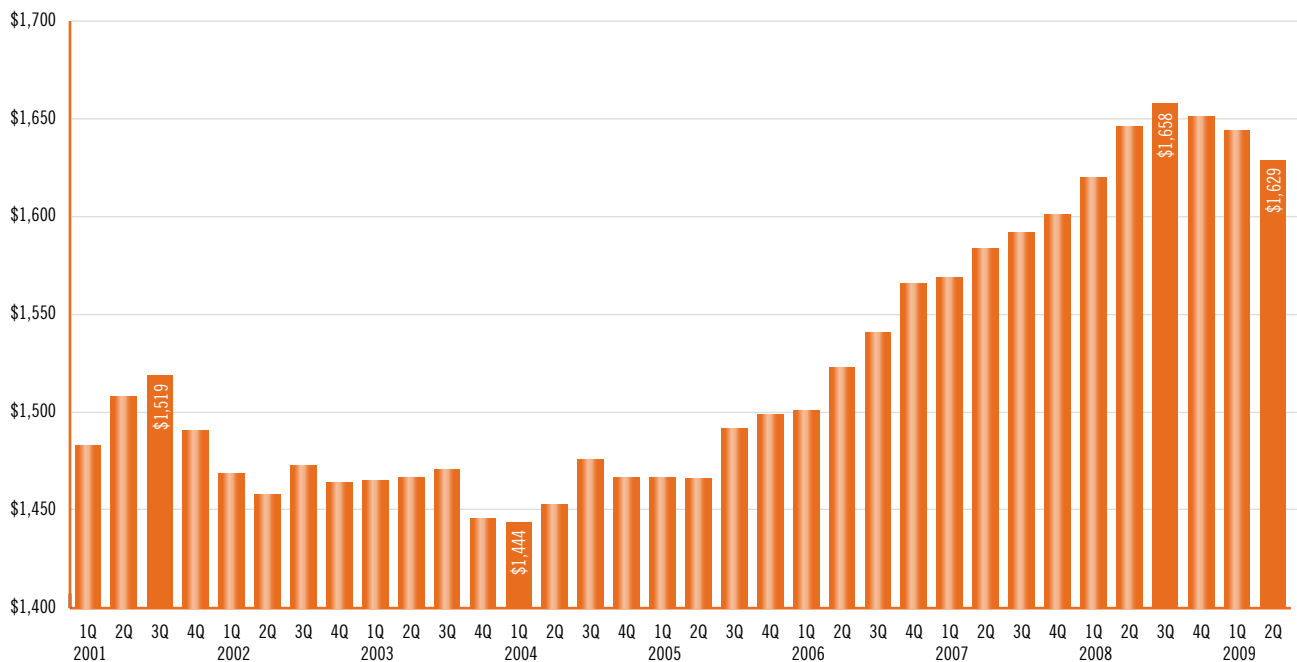
Reis, Inc. also calculates “effective” rents, taking into account any discounts offered by landlords to their tenants. These can take the form of a month or two of free rent to new tenants or some similar rent concession. As **Figure 4.10** demonstrates, effective rents actually *decreased* from 2001 through early 2004 before beginning their sharp rise. Between the first quarter of 2004 and the third quarter of 2008, effective rents increased by nearly 15 percent, as discounts were reduced or discontinued.

There are a number of reasons for the apparent disconnect between the trends in housing prices and rents. In fact, the two are closely related. Part of the reason that home prices spiraled so high during the period between 2000 and 2005 was that many renters took advantage of low interest rates, easy credit, and subprime mortgages to get into the housing market, increasing the demand for homeownership, sending prices upward, and reducing the demand for rental units, thus stabilizing rents.

After 2005, the rising rate of foreclosure forced many previous homeowners out of their homes and into rental property. At the same time, with home prices falling, potential new homeowners tended to remain on the sidelines, waiting for prices to drop further. Instead of moving directly into homeownership, they remained as renters, increasing the overall demand for rental housing. In this case, falling home prices actually contributed to rising rents. Only after the recession had so undermined renter income did rents finally fall, and even then the decline was quite modest.

FIGURE 4.10

Effective Apartment Rents in Greater Boston, 2001-2Q 2009



Source: Reis, Inc.

TABLE 4.3

Median Advertised Rents for Apartments in Boston Area Cities, 1998-2008

City/Town	1998	2001	2004	2005	2006	2007	2008	% Change 1998 - 2006	% Change 2007-2008
Arlington	\$1,100	\$1,500	\$1,300	\$1,250	\$1,250	\$1,350	\$1,350	13.6%	0.0%
Belmont	\$1,225	\$1,600	\$1,350	\$1,350	\$1,400	\$1,300	\$1,400	14.3%	7.7%
Brookline	\$1,400	\$1,800	\$1,650	\$1,838	\$1,800	\$1,850	\$2,000	28.6%	8.1%
Cambridge	\$1,400	\$1,750	\$1,550	\$1,600	\$1,575	\$1,750	\$1,975	12.5%	12.9%
Chelsea	\$1,100	\$1,350	\$1,195	\$1,500	\$1,300	\$1,050	\$1,250	18.2%	19.0%
Dedham	\$1,000	\$1,275	\$1,100	\$1,200	\$1,125	\$1,025	\$1,300	12.5%	26.8%
Everett	\$775	\$1,200	\$1,100	\$975	\$1,000	\$1,100	\$1,100	29.0%	0.0%
Framingham				\$1,075	\$1,200				
Lexington	\$1,300	\$1,648	\$1,600	\$1,500	\$1,800	\$1,400	\$1,400	38.5%	0.0%
Lynn				\$1,000	\$999				
Malden	\$850	\$1,250	\$1,175	\$1,190	\$1,125	\$1,100	\$1,100	32.4%	0.0%
Medford	\$950	\$1,400	\$1,200	\$1,200	\$1,200	\$1,200	\$1,250	26.3%	4.2%
Melrose	\$950	\$1,400	\$1,275	\$1,295	\$1,375	\$1,173	\$1,098	44.7%	-6.4%
Needham	n/a	**	\$1,350	\$1,475	**	\$1,625	\$1,425		-12.3%
Newton	\$1,300	\$1,600	\$1,450	\$1,400	\$1,450	\$1,550	\$1,650	11.5%	6.5%
Quincy	\$850	\$1,250	\$1,300	\$1,250	\$1,250	\$1,050	\$1,185	47.1%	12.9%
Revere	\$788	\$1,288	\$1,100	\$1,098	\$1,195	\$950	\$950	51.6%	0.0%
Somerville	\$1,050	\$1,400	\$1,298	\$1,200	\$1,250	\$1,300	\$1,200	19.0%	-7.7%
Stoneham	n/a	n/a	\$1,225	**	\$1,125	\$1,150	\$1,200		4.3%
Waltham	\$975	\$1,350	\$1,250	\$1,200	\$1,150	\$1,200	\$1,230	17.9%	2.5%
Watertown	\$1,200	\$1,500	\$1,300	\$1,250	\$1,300	\$1,300	\$1,375	8.3%	5.8%
Winchester	\$1,050	\$1,750	\$1,350	\$1,373	\$1,448	\$1,650	\$1,585	37.9%	-3.9%
Winthrop	\$900	\$1,228	\$1,200	\$1,200	**	\$1,200	\$1,500		25.0%

Source: *Boston Sunday Globe*, compiled by City of Boston, Department of Neighborhood Development, *Real Estate Trends*

** Number of cases too small for statistical significance

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

To the extent that the real median income of renters is well below that of homeowners (recall Table 2.2), the rise in rents as a result of this dynamic has been especially harsh. In 2007, median renter income was only \$37,184, compared to \$89,642 for homeowners. Moreover, between 2000 and 2007, real median homeowner income *increased* by 7.2 percent while median renter income *declined* by 7.1 percent. As a result, the rise

in rents has created a very difficult, and potentially growing, affordability problem.

Rents in Boston Neighborhoods and Surrounding Cities and Towns

The general trend in rents plays out differently across different communities. Each year the City of Boston's Department of Neighborhood Development (DND) combs through apartment advertisements in *The*

TABLE 4.4

Median Apartment Rents in Boston Neighborhoods, 1998–2008

Neighborhood	1998	2001	2004	2005	2006	2007	2008	%Change 2001-2006	% Change 2007-2008
Allston/ Brighton	\$1,200	\$1,500	\$1,300	\$1,300	\$1,300	\$1,400	\$1,500	-13.3%	7.1%
Back Bay/ Beacon Hill	\$1,900	\$2,400	\$2,250	\$2,450	\$2,600	\$2,100	\$2,625	8.3%	25.0%
Central	\$2,200	\$1,875	\$2,200	\$2,200	\$2,300	\$2,300	\$2,400	22.7%	4.3%
Charlestown	\$1,400	\$1,925	\$1,650	\$1,550	\$1,650	\$1,700	\$2,300	-14.3%	35.3%
Dorchester	\$800	\$1,295	\$1,300	\$1,200	\$1,200	\$1,300	\$1,225	-7.3%	-5.8%
East Boston	**	\$1,200	\$1,100	\$1,100	\$1,200	\$1,000	\$1,175	0.0%	17.5%
Fenway/ Kenmore	\$1,350	\$1,900	\$1,498	\$1,225	\$1,598	\$1,725	\$1,650	-15.9%	-4.3%
Hyde Park	\$850	\$1,275	\$1,250	\$1,200	\$1,200	\$1,400	\$1,100	-5.9%	-21.4%
Jamaica Plain	\$1,100	\$1,400	\$1,325	\$1,400	\$1,525	\$1,298	\$1,600	8.9%	23.3%
Mattapan	**	\$1,250	\$1,200	\$1,200	\$1,100	\$1,225	\$1,338	-12.0%	9.2%
Roslindale	\$900	\$1,300	\$1,225	\$1,225	\$1,200	\$1,300	\$1,400	-7.7%	7.7%
Roxbury	**	\$1,300	\$1,250	\$1,200	\$895	\$1,200	\$1,463	-31.2%	21.9%
South Boston	\$1,200	\$1,500	\$1,400	\$1,400	\$1,300	\$1,200	\$1,525	-13.3%	27.1%
South End	\$1,500	\$2,000	\$1,950	\$2,200	\$2,350	\$1,850	\$2,050	17.5%	10.8%
West Roxbury	\$1,000	\$1,400	\$1,225	\$1,250	\$1,200	\$1,150	\$1,450	-14.3%	26.1%

Source: *Boston Sunday Globe*, compiled by City of Boston, Department of Neighborhood Development, *Real Estate Trends*

** Number of cases too small for statistical significance.

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

Boston Globe to compile data on the state of the rental market in the city and surrounding suburbs. These data have appeared in each annual installment of the *Greater Boston Housing Report Card* because they have provided a consistent and reliable source of information on one of the most important pieces of the region's housing market.

In recent years, however, with the rise of online classified services (exemplified by Craigslist) and the declining fortunes of the newspaper industry, the reliability of the *Globe* data has been called into question. Fewer and fewer landlords are buying print advertising space and as a result the data culled from the *Globe's* classified section may not represent as accurate a picture of rents as in the past. We present these data again in this

year's report to maintain consistency with past reports and because these data continue to provide interesting comparisons between the cities and towns of Greater Boston and the various neighborhoods of the city. Still, future rental research will need to seek out new sources of data on advertised rents, making full use of the internet in order to provide a comprehensive picture of the market. DND offers a similar caveat when presenting these data.³

Table 4.3 presents data on median advertised rents for communities surrounding Boston through 2008. Among these communities no clear and striking trend emerges; some saw average rents increase, while other experienced declines. The largest year-over-year percentage increases in asking rents appear to have

occurred in Dedham (up by 26.8 percent), Winthrop (up 25.0 percent), and Chelsea (up 19.0 percent). Rents rose by a significant amount in the two highest-cost communities for renters, Brookline and Cambridge. Even as Cambridge's median rent increased by about 13 percent to nearly \$2,000 a month, its next-door neighbor, Somerville, experienced an 8-percent drop in median rent. Along with Somerville, three communities saw declines in median rent, including the relatively prosperous town of Needham, where advertised rents dropped by more than 12 percent. Given the recent downward trend reported in Figure 4.9, though, it is likely that more of these communities will report year-over-year decreases in median rent next year.

Within the city of Boston the majority of neighborhoods experienced higher rents in 2008 than in 2007. The highest advertised rents for 1-3 bedroom apartments continue to be found in the fashionable neighborhoods of Downtown Boston (including the North End, the West End, the Waterfront, and the Financial

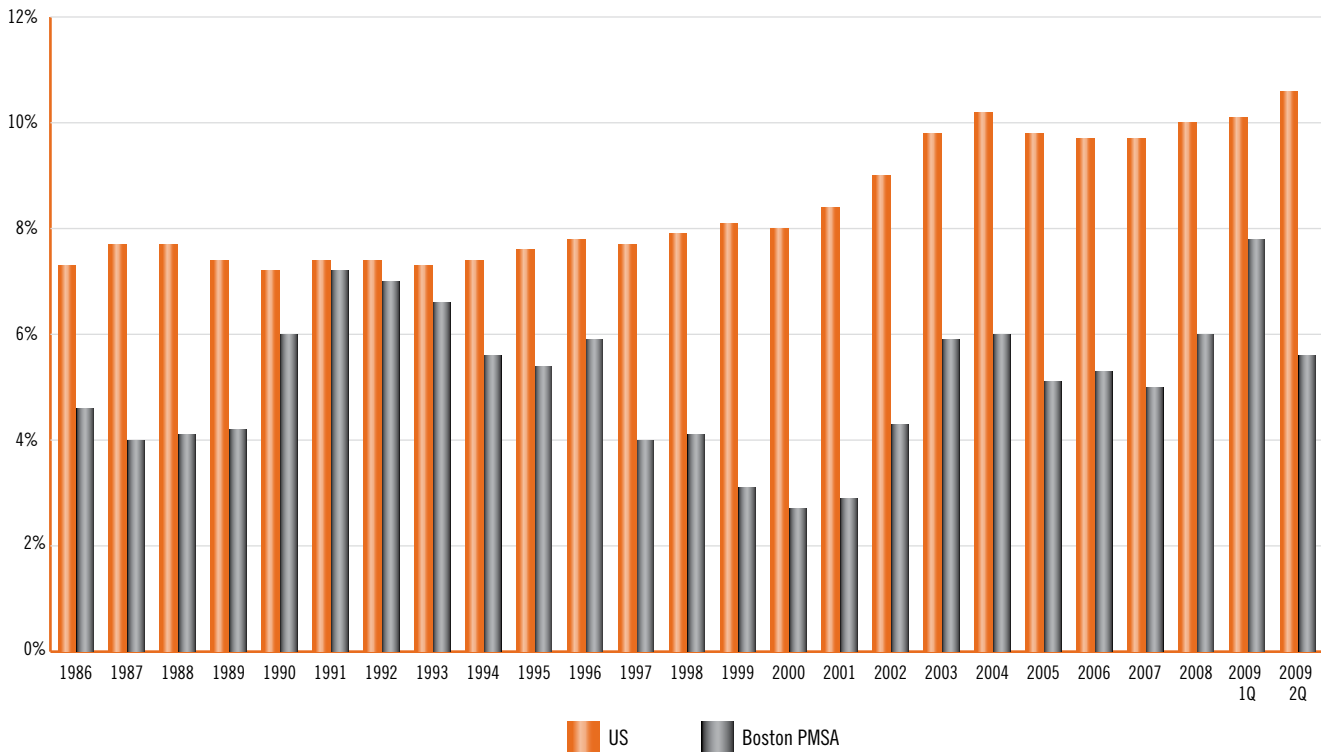
District), the South End, and Beacon Hill and the Back Bay, along with quickly-gentrifying Charlestown (see **Table 4.4**). It was Charlestown that had the largest year-over-year increase in median advertised rent between 2007 and 2008, both in absolute and relative terms. In 2008, rents were still lowest in city neighborhoods that contain some of the highest proportions of racial and ethnic minorities – Dorchester, East Boston, Hyde Park, and Mattapan. In East Boston, though, rents did go up substantially in 2008, as they did in Jamaica Plain and Roxbury. Again, though, these data go only through 2008, and more neighborhoods may report lower rents in 2009.

Rental Vacancy Rates

Rents in Greater Boston generally rose after the 1991-1992 recession, right through the economic boom years in the second half of that decade. During the first half of the current decade rents were generally flat. Effective rents actually declined before rising sharply

FIGURE 4.11

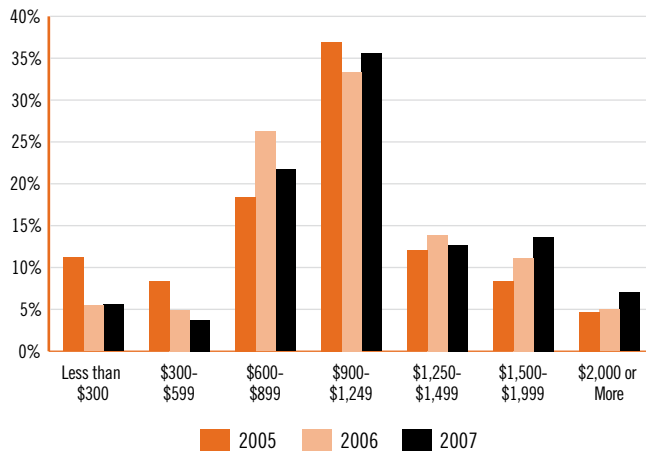
Rental Vacancy Rates, Greater Boston v. U.S.



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

FIGURE 4.12

Distribution of Asking Rents in Greater Boston



Source: U.S. Census Bureau, *American Community Survey 2005-2007*

through late 2008, and then declined again in the first months of 2009.

This trend reflects what has generally occurred in rental vacancy rates, as described in **Figure 4.11**. During the 1990s, vacancy rates plunged from over 7 percent during the recession to a low of 2.7 percent in 2000. After 2000, vacancy rates began to rise again, reaching the more reasonable 5-6 percent level from 2003 through 2008. With vacancy rates at this level, it is not surprising that rents stabilized.

By early 2009, the current recession was in full form and despite families losing their homes to foreclosure and seeking rental units, the vacancy rate in the region spiked up to nearly 8 percent. With such a high vacancy rate, rents began to soften in the first two quarters of the year. The drop in vacancy rates in the second quarter of 2009 may signal that rents will again stabilize and may even begin to rise. This quarterly drop, however, may also reflect statistical error in the Census Bureau's Quarterly Vacancy Survey. The future of rental vacancy rates will depend on what happens to the economy, foreclosures, and home prices over the next year.

The steady movement towards higher rents in past years in Greater Boston is further illustrated by the distribution of apartments available at different price points, as portrayed in **Figure 4.12**. As late as 2005 (the left-most bar in each price range), more than 10

percent of apartments in the region rented for less than \$300 per month, and about one in five were available for less than \$600. Only 4.7 percent of apartments had asking rents above \$2,000. Just two years later, in 2007 (the right-most bar in each price range), fewer than one in ten apartments could be had for less than \$600, and one third had asking rents above \$1,250 (up from one quarter in 2005). Unfortunately, these data (the most recent available) are quite old, especially considering more recent trends, and it is likely that the distribution of asking rents will move in the other direction (that is, toward more apartments at lower rents and fewer at higher rents) in future releases of the data.

Student Housing

In a city as dense, diverse, and expensive as Boston, the annual influx of thousands of college students puts additional strain on the city's housing market. Recently, though, the region's colleges and universities have engaged in a sustained effort to house more of their students on campus.

By far the largest new developments in student housing in 2009 were the opening of massive new dormitory buildings at Northeastern University and Boston University. Northeastern's new International Village consists of two high-rise towers housing 1,200 students in Roxbury, while BU's Student Village II features 960 beds in two towers on the Charles River in Allston. In recent years Emerson College, located in the heart of downtown Boston, has also engaged in a sustained campaign to add on-campus housing for its students. Fall 2009 will see the opening of a newly renovated 372-bed building, and the college expects to create 260 new beds for January 2010 in the renovated Paramount Center.⁴ A small project opens this fall at Stonehill College, and MIT has a 460-bed renovation project underway for Fall 2010.

These new projects mark clear achievements in colleges' and universities' movement to gather more of their students on campus in an effort to ease the burden on the local rental market. These moves have come after direct pressure by the mayor and city councilors, responding to complaints from neighbors about escalating rents due to landlords cramming undergraduates into small apartments, as well as problems related to noise and destruction of property.⁵ Thanks to

the addition of Student Village II, for instance, nearly 80 percent of the 16,000 undergraduate students at BU will live on campus this year, and the 2009-2010 school year will be the first in a long time during which the university did not have to house students in nearby hotels.⁶ The new developments also signal a shift toward greater comfort and luxury in student housing, a trend that has taken hold at colleges across the country over the past decade. Far from the barracks-like dorms of earlier eras, today's dorms offer students many amenities – a large part of the reason that these institutions have had such success in drawing students back to campus. BU's new dorm (where rooms can go for as much as \$13,000 for the school year) features unsurpassed views of the river and the skyline, private piano practice rooms, flat-panel televisions and plush furniture.⁷ Northeastern's International Village boasts a wide range of original artwork, including a 240-square-foot mural installation by renowned artist Shepard Fairey.⁸

All of this means that students at local universities may be housed better than ever before, but it also means that with additional residence hall capacity, pressure on the rental market in the neighborhoods surrounding these schools should subside, at least modestly, over the next few years. If so, it may be possible – at least in these communities – to see a continued moderation in rents, leading to at least some greater affordability for non-student households who live there.

5.

Housing Affordability in Greater Boston

In September 2000, when the Center for Urban and Regional Policy released its first housing study, *A New Paradigm for Housing in Greater Boston*, in response to a research request from the Roman Catholic Archdiocese of Boston and the Greater Boston Chamber of Commerce, the Church called affordable housing a “moral imperative.”¹ The Chamber called affordable housing an “economic necessity.” For the Church, affordable housing provides “an opportunity to reestablish our traditional democratic instinct for fairness and equity.” On behalf of the business community, the Chamber worried that rising housing prices and rents could make Greater Boston a place so expensive to live in that it would begin to lose its competitiveness in retaining and attracting young workers and their families.

To provide an approach to both the Church’s and the Chamber’s concerns, this chapter investigates two dimensions of housing affordability. *Absolute affordability* refers to the cost of housing in terms of household income. *Relative affordability* refers to how Greater Boston’s home prices and rents compare to those in other metro areas. The chapter also looks at what has happened to affordability in various parts of the Greater Boston region.

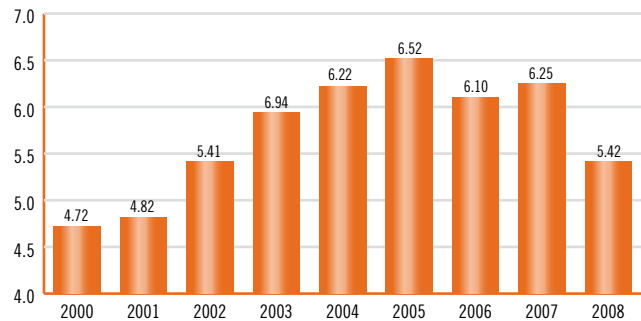
Absolute Affordability – Homeownership

With the decline in median housing prices in Greater Boston, it would seem that housing must have become more affordable. This would indeed be true if falling housing prices were not matched by equally falling household incomes. As **Figure 5.1** demonstrates, homeownership has become more affordable in Greater Boston since 2005, and the sharp drop in home prices in 2008 improved absolute affordability considerably. At the peak of the housing price “bubble” in 2005, the median selling price of a single-family home in Greater Boston was 6.52 times median household income. It remained above 6.0 in 2006 and 2007, but finally declined to 5.42 in 2008. Thus in 2008 absolute affordability returned to its 2002 level. The

affordability improvement in 2008 was largely the result of home prices dropping by nearly 10 percent while nominal household income rose by 3.9 percent. (Because of inflation, real median household income rose by 0.1 percent in the Northeast region of the U.S., bucking a downward trend nationwide.) Nonetheless, despite softening home prices, the median priced home was still less affordable to the median income household in 2008 than in either 2000 or 2001.

FIGURE 5.1

Ratio of Median Selling Price of Single-Family Homes to Nominal Median Household Income in Greater Boston, 2000-2008



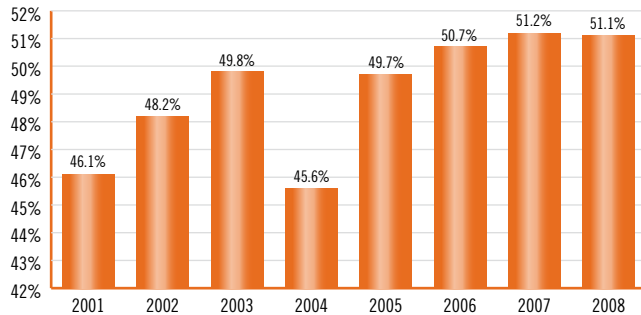
Source: The Warren Group; U.S. Census Bureau, American Community Survey

Absolute Affordability – Rental

While housing has become more affordable for those who wish to own, a combination of increasing rents and stagnating income among households seeking to rent an apartment or home has actually reduced affordability at least since 2004 (see **Figure 5.2**). In 2001, the ratio of average annual effective rents for units on the market to median renter household income was .46. That is, those seeking to rent who had the median income of renters had to spend 46 percent of their income on rent if they were renting an apartment priced at the average effective rent (including any discounts) in Greater Boston. By 2006, they were spending a little more than half their income on rent,

FIGURE 5.2

Annual Effective Rent as a Percentage of Median Renter Household Income in Greater Boston, 2001-2008



Source: Reis.com Data; U.S. Census Bureau, American Community Survey

and this proportion has remained roughly constant since then, despite the recession. Essentially, with the exception of an apparent one-year increase in renter income in 2004, nominal incomes have remained nearly constant, while rents have increased. Absolute affordability remains a serious problem for renters in Greater Boston because of the recession and because of the continued high price of effective market rents.

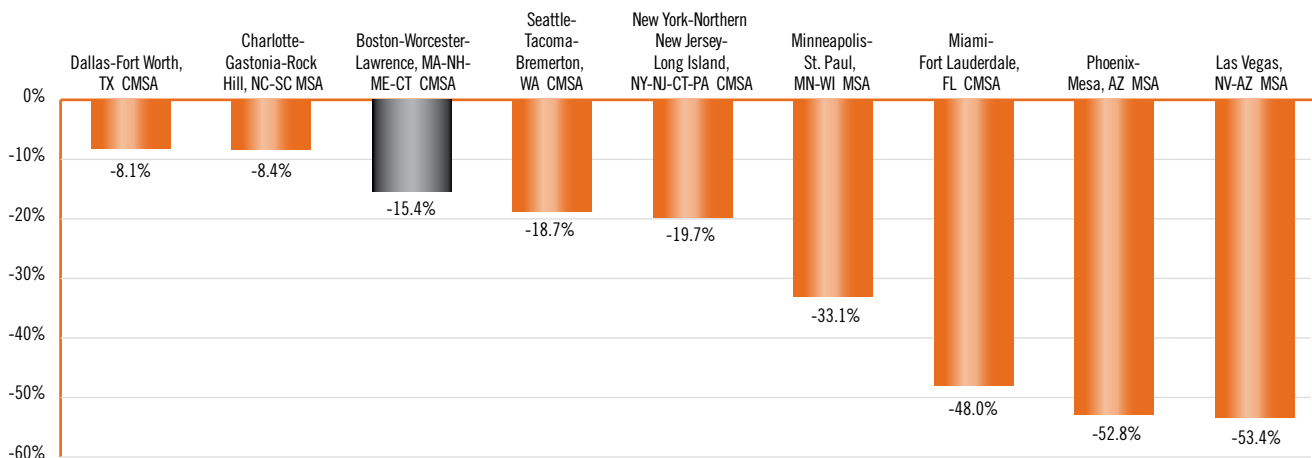
Relative Affordability – Homeownership: Comparing Boston to Other Regions

Greater Boston has typically ranked among the most expensive places to live and to own a home in the United States. As we saw in Chapter 1, there is good evidence that the highest-cost metro areas in the country can price themselves out of the market for young families and jobs. Earlier in this decade, when housing prices stood at all-time highs in Greater Boston, Massachusetts experienced substantial out-migration of population and relatively slow employment growth. While out-migration has slowed significantly over the past three years, a sharp spike in relative housing costs could discourage young families who already live here from staying in the region, and it could discourage those who now live in other regions from considering a move to Greater Boston.

Part of the decline in out-migration after 2005 may be related to the unprecedented housing bubble that took hold of the homeownership market in many other metro regions of the country. Prices ballooned in previously low-cost regions, particularly in the newer cities of the south and west. Meanwhile, housing prices continued to escalate steadily in Boston, but Boston’s housing-market bubble did not inflate nearly as dramatically as those in many competitor areas. Consequently, from a relative affordability perspective, Boston became more affordable.

FIGURE 5.3

Percent Change in Median Housing Value, Boston v. Other Metropolitan Regions, Peak to Trough



Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

By definition, of course, every bubble deflates, and just as Boston did not see the same magnitude of price explosion as other regions, its price declines over the past several years, while significant and cause for concern, have been nowhere near as catastrophic as in those regions that experienced the highest spikes in price appreciation. As a result, among a geographically representative selection of competitor regions nationwide, Boston's relative price declines have appeared comparatively mild.

Figure 5.3 compares Boston to eight other metropolitan regions, revealing how each region's median housing price declined from its highest point during the mid-decade run-up in prices to its lowest point during the current economic crisis. These regions did not all peak at the same time: regions that experienced severe bubbles, like Miami and Las Vegas, tended to peak a little later than steadier regions like Boston. Other places, like Dallas and Charlotte, experienced such mild price appreciation that searching for a peak is not very informative. Also, although prices seem to have found their bottom in most regions, price recovery has been slow. As a result, the "trough" for most of these regions represents the home value for June 2009, when prices were slightly higher than their bottoms, but still had not returned to the level of January 2009. Among these regions, only in Boston and Dallas have prices risen enough in 2009 that January represents a more appropriate "trough."

Among all of the metro regions under consideration here, only Charlotte and Dallas suffered peak-to-trough home value decreases of less than 10 percent. Compared to the others, the price appreciation in these two regions between 2001 and 2008 was mild, and, similarly, their post-crash price reductions have not proven overwhelming. New York and Seattle, whose price patterns throughout the decade have closely resembled those of Boston (see below for specific comparisons) have nonetheless experienced somewhat more severe price depreciation than Boston; all three, however, decreased by less than 20 percent from peak to trough. Through 2007, Minneapolis's housing value trajectory was nearly a mirror image of Boston's. Since the housing crisis began, though, the Twin Cities and their environs have seen housing values fall by nearly one third, considerably more than Boston's 15 percent.

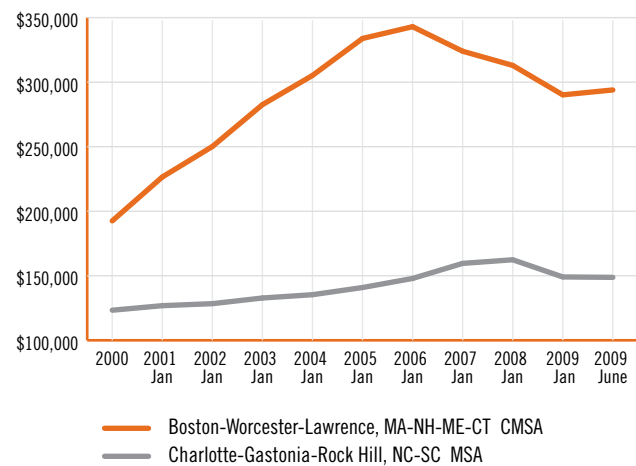
Still, Minneapolis's sharp decline seems almost modest compared to the tumbling home values in those regions that saw the most extreme bubbles, including Miami (down 48 percent from peak to trough) and Phoenix and Las Vegas, where, in each case, the median house today is worth less than half what it was at the peak of the housing boom just two years ago. Below we go into more detail to demonstrate how Boston's story has compared to those of a few key competitors in different regions of the country.

Boston v. Charlotte

As mentioned above, Charlotte's housing market has shown remarkable stability during both boom and bust periods over the past decade. As such, when Boston's already high housing prices escalated relatively rapidly earlier this decade, the Hub became relatively more unaffordable. In 2000, the median value of a home in Charlotte stood at \$123,300, only 64 percent as high as Boston's median value, \$192,500. During the mid-decade price run-up, though, this margin widened substantially, so that by 2006, when the median value in Charlotte had risen by only about \$25,000, it had risen in Boston by more than \$150,000. As a result, the median home value in Charlotte was only 43 percent as high as that in Boston. Not surprisingly, given such a large price advantage, Charlotte experienced

FIGURE 5.4

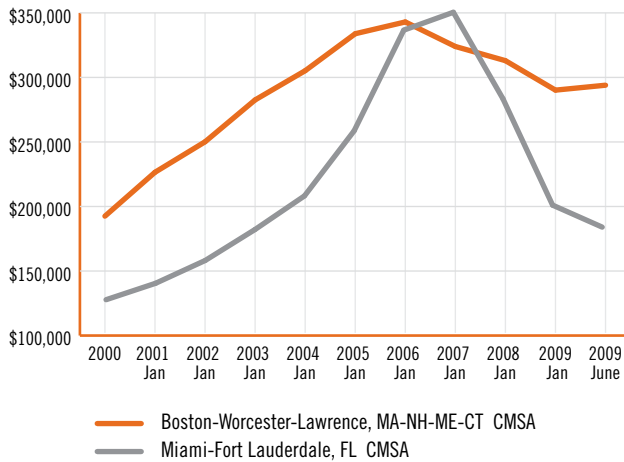
Median Home Values, Boston v. Charlotte, 2000-2009



Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

FIGURE 5.5

Median Home Values, Boston v. Miami, 2000-2009



Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

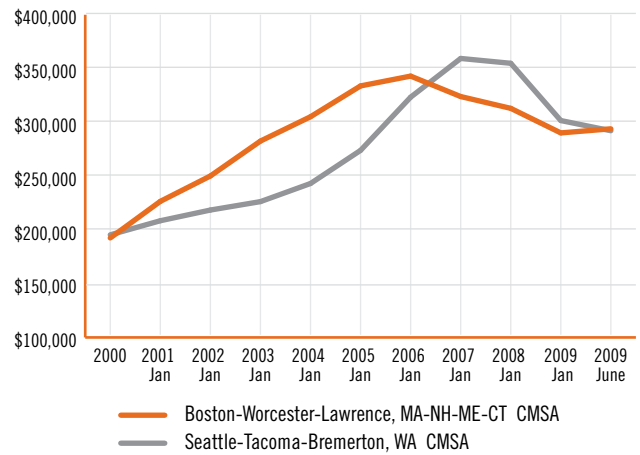
a substantial amount of in-migration while Greater Boston was suffering out-migration. Over the past two years, Boston's prices have come down more rapidly than Charlotte's, and as a result the interregional affordability gap has closed slightly. Even so, in June 2009, the median value of a home was still nearly twice as high in Boston as the median home value in Charlotte (see Figure 5.4). The result is that relative to Charlotte, Boston is considerably less affordable today than back in 2000, before the housing bubble and before the housing market crash.

Boston v. Miami

Miami was the quintessential bubble city in the middle of this decade. Like Charlotte, Miami began the decade as a far more affordable place than Boston – median home values were less than two thirds as high in Miami compared with Greater Boston in 2000. The astronomical price appreciation that took place in Miami over the decade, however, rapidly closed the affordability gap. By 2006, median housing values in the two cities were nearly identical, and in 2007 the median house was worth *more* in Miami than in Boston.

FIGURE 5.6

Median Home Values, Boston v. Seattle, 2000-2009



Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

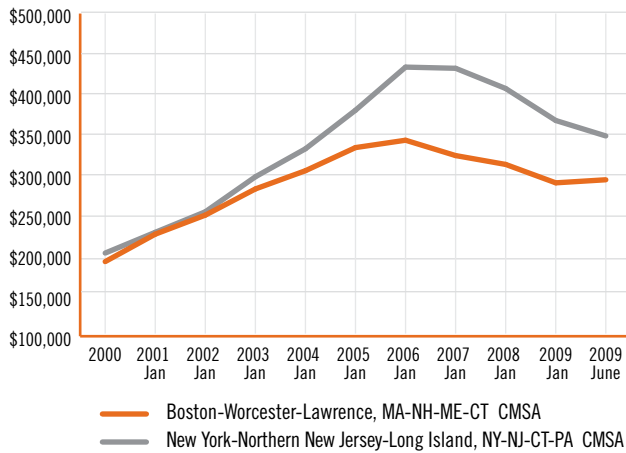
The housing market in Miami then experienced a spectacular crash over the next two years. Between 2007 and 2008, in just one year, the median price of homes in Miami dropped by nearly \$70,000; the following year, they fell even more, declining by almost \$85,000 between January 2008 and January 2009. Moreover, even as Boston's prices have begun to recover, in Miami median home value has fallen through June of this year. As a result, the ratio of home prices in these two cities, which had been at near parity in 2006, is now even *more extreme* than it was in 2000. In June 2009, the median price of a home in Miami was just 62 percent as high as the median home in Boston, compared to 66 percent in 2000 (see Figure 5.5).

Boston v. Seattle

The trajectory in home values experienced by the Seattle metro region resembles a somewhat more exaggerated and slightly lagged version of the Boston scenario. In the first four years of the decade, Seattle's price appreciation trailed Boston's. Seattle soon took off, though, with price increases outpacing those in Boston for several years. The result was that by 2007, the median home value in Seattle exceeded the median home value in Boston by about \$25,000. A year of little change in home values in Seattle between January 2007 and January 2008 was followed by a sharp dip through

FIGURE 5.7

Home Values, Boston v. New York City, 2000-2009



Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

the following January, so that by the beginning of 2009 the median home value in Seattle was nearly identical (4 percent higher) to that in Boston. Since then, though, with continued declines in values in Seattle and a slight increase of values in Boston, the two regions' median values have become virtually identical (see Figure 5.6).

Boston v. New York

Finally there is the case of Boston's larger neighbor to the south. New York has the rare distinction of being one of the few places in the nation where housing prices have consistently been higher than those in Greater Boston. Between 2000 and 2002, median values in the two regions were almost indistinguishable. From then until early 2006, even as home values escalated substantially in Greater Boston, they rose even more sharply in the New York metro region. All told, values shot up by 114 percent in the Big Apple between 2000 and 2006, compared to a comparatively "meager" 78 percent in the Hub. Since then, New York's home values have declined, but not by much more than Boston's, and nowhere near as precipitously as those in Las Vegas, Phoenix, and similar metropolitan areas. Consequently, by June 2009, the median value in New York was still 18 percent higher than Boston's (see Figure 5.7).

The key point is that with the exception of a few locations like New York, Greater Boston continues to have a relative affordability problem. During the heyday of the national housing bubble, a number of regions experienced such explosions in their home prices that Boston's housing prices began to appear more reasonable – at least in relative terms. But the bursting of the housing bubble has returned Boston, despite its recent drop in absolute prices, to a position of being one of the very most costly areas in the country relative to all the regions with which it competes for young working families.

Table 5.1 summarizes all of these data, presenting the home price ratios for Boston compared with 19 other metro regions. With the exception of the San Francisco, New York, San Diego, and Los Angeles metropolitan regions, Greater Boston's home prices exceed those of the other regions. Indeed, the ratio of these regions' median home values to that of Greater Boston is lower today than at any time in the past decade. Metro regions like Charlotte, Denver, and Washington, DC are now even cheaper (in relative terms) than they were and housing prices in the four most expensive metro areas are not anywhere near as relatively "overpriced" as they were back in 2006 or even 2000. It may be less expensive to buy a house in Boston today than it was three years ago, but the interregional price differentials are so large now that if housing value does indeed play an important role in domestic migration, Greater Boston will lose out over time to many other regions of the nation.

Changes in Home Sales and Prices within Greater Boston

The fluctuations in the housing market that have hurt Greater Boston's chances of competing with other regions have not affected the region uniformly. Important trends emerge in data on home sales and prices when we look at individual communities within the region.

In Greater Boston, communities differ on a wide range of variables – for example, average income, tax base, commercial and industrial activity, racial and ethnic composition, homeownership rate, and types of housing – and each of these variables can affect the degree to which each community suffers from the housing downturn.

TABLE 5.1

Changes in Median Home Price Ratios, Other Metro Areas v. Greater Boston

	2000 Census	2006 Jan	2009 June
Atlanta, GA MSA	0.70	0.52	0.49
Boston--Worcester--Lawrence, MA--NH--ME--CT CMSA	1.00	1.00	1.00
Charlotte--Gastonia--Rock Hill, NC--SC MSA	0.64	0.43	0.51
Chicago-Gary-Kenosha, IL-IN-WI CMSA	0.83	0.76	0.68
Cleveland-Akron, OH CMSA	0.61	0.42	0.43
Dallas-Fort Worth, TX CMSA	0.52	0.36	0.41
Denver-Boulder-Greeley, CO CMSA	0.93	0.72	0.77
Detroit-Ann Arbor-Flint, MI CMSA	0.69	0.49	0.31
Las Vegas, NV-AZ MSA	0.71	0.92	0.50
Los Angeles-Riverside-Orange County, CA CMSA	1.06	1.58	1.11
Miami-Fort Lauderdale, FL CMSA	0.66	0.99	0.62
Minneapolis-St. Paul, MN-WI MSA	0.73	0.70	0.55
New York-Northern New Jersey-Long Island, NY-NJ-CT--PA CMSA	1.06	1.26	1.18
Phoenix-Mesa, AZ MSA	0.66	0.83	0.46
Portland-Salem, OR--WA CMSA	0.86	0.80	0.84
San Diego, CA MSA	1.18	1.64	1.14
San Francisco-Oakland-San Jose, CA CMSA	1.84	2.21	1.50
Seattle-Tacoma-Bremerton, WA CMSA	1.02	0.94	0.99
Tampa-St. Petersburg-Clearwater, FL MSA	0.49	0.63	0.45
Washington-Baltimore, DC-MD-VA-WV CMSA	0.84	1.17	0.96

Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

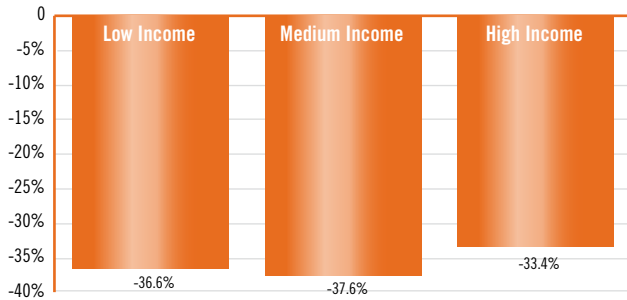
To probe these differences and their relationship to home prices, we divided the 161 cities and towns that we have studied in each annual Housing Report Card into groups according to their median household income in 1999, the last year for which household income data are available for each of the 161.³ The 53 communities in the lowest-income category range from Lawrence, with a 1999 median household income of just \$27,983, to Dracut at \$57,676. The middle third spans median incomes from \$57,838 (Stoughton) to \$72,728 (North Andover). Finally, the highest-income tier includes communities with incomes from \$73,467 (Manchester-by-the-Sea) to \$153,918 (Weston). We examined the average percentage change in the annual number of sales and the annual median sales price for single-family homes and condominiums for each

of these three income groups. The sales results are presented in **Figures 5.8a** and **5.8b**.

The decline in sales volume did not differ dramatically between high-income and low-income communities; rather, between 2004 and 2008, cities and towns at all income levels saw the number of single-family sales drop by more than a third (see Figure 5.8a). The decline was slightly less dramatic in the highest-income communities. Only two small towns in the region – high-income Manchester (+30 percent) and medium-income Rowley (+10 percent) – experienced sales increases during that period. Meanwhile, the largest declines in volume were also seen in two relatively prosperous small towns: high-income Upton (-69 percent) and medium-income Plympton (-65 percent).

FIGURE 5.8A

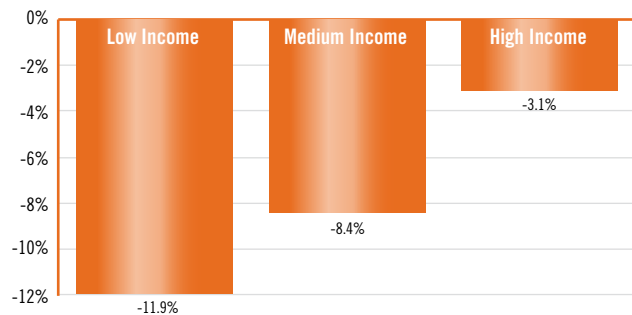
Percent Change in Single-Family Home Sales in Greater Boston Communities, by Income Level, 2004-2008



Source: The Warren Group

FIGURE 5.8B

Percent Change in Single-Family Home Sales Prices in Greater Boston Communities, by Income Level, 2004-2008



Source: The Warren Group

Although trends in sales volume for single-family homes were relatively independent of income, trends in sales prices for single-family homes varied substantially by income (see Figure 5.8b). Between 2004 and 2008, sales prices in the highest-income municipalities dropped, but only by an average of 3.1 percent. During the same period, price declines in the poorest third declined by 11.9 percent. Of the ten communities suffering the most severe price declines, nine were in the lowest-income tier.⁴ By far the hardest-hit city in the region, in terms of single-family home prices, was Chelsea: in 2004, the median sales price for a house in Chelsea was \$312,500; by 2008 it had fallen 39 percent, to \$190,000. Other municipalities with substantial price reductions included the older industrial cities of Lawrence (-28 percent), Brockton (-27 percent), Revere (-24 percent), Everett (-24 percent), Lynn (-24 percent), and Lowell (-23 percent). Twenty-seven area communities experienced increases in their median single-family sales prices. The vast majority of these were among the wealthiest third.

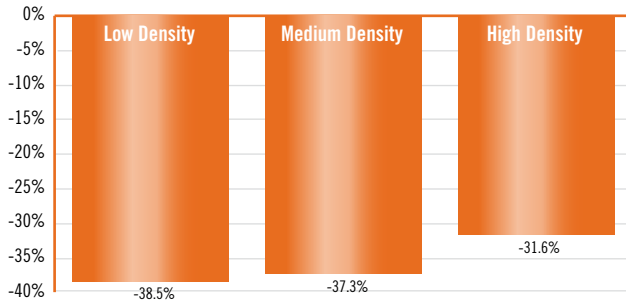
Without a doubt, the large number of foreclosures in these poorer communities contributed to the large price declines suffered by homeowners. With foreclosures concentrated in low- and moderate-income communities, vacancy rates likely climbed to new highs, contributing to a surplus of home sales at distressed prices.

The other key criterion we examined to track trends in intraregional affordability was housing density (i.e., housing units per square mile). This measure, based on data collected in 1999 for the 2000 census and compiled by the Massachusetts Department of Revenue, provides a rough approximation of the types of housing in a community.⁵ Those communities with a higher number of housing units per square mile are more likely to include large condominium complexes and tightly packed blocks of 2- and 3-unit buildings. By contrast, a low housing density implies a housing stock composed mostly of detached single-family homes, frequently built on large lots. To the extent that different types of housing units have fared differently during the current housing downturn, communities with different housing profiles may also have fared differently.

As with the income analysis, we divided the 161 study communities into three categories – high-density, medium-density, and low-density. By far the most dense community in the region (in fact, one of the densest in the entire country) was Somerville, with 7,902 housing units per square mile. All of the nine municipalities ranking highest in density are located right in the heart of the region, in and around Boston. In addition to Somerville, three other cities (Cambridge, Chelsea, and Boston) had densities exceeding 5,000 units per square mile in 1999, and three others (Everett, Malden, and Winthrop) included more than 4,000 units per square mile. The

FIGURE 5.9A

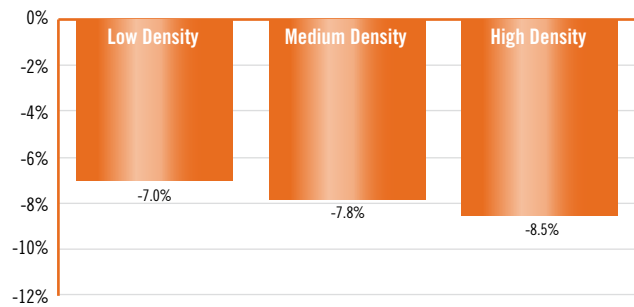
Percent Change in Single-Family Home Sales in Greater Boston Communities, by Density Level, 2004-008



Source: The Warren Group

FIGURE 5.9B

Percent Change in Single-Family Home Sales Prices in Greater Boston Communities, by Density Level, 2004-2008



Source: The Warren Group

highest-density category includes 52 cities and towns (including the seven listed above), the least dense of which is Marlborough (707 units per square mile in 1999). The middle category includes 54 communities ranging from 703 units per square mile (Milton) down to 250 (Manchester-by-the-Sea). Finally, the least-dense group of communities consists mostly of the small towns furthest from the capital. Among this category, the highest density (247 units per square mile in 1999) was found in Concord, while the most disperse community was Dunstable (57 units per square mile).

Since 2004, virtually all cities and towns have seen reduced sales volume and sales prices. In terms of single-family home sales volume, the most disperse communities (in general, those with fewer housing units and with a higher proportion of large, detached single-family units) have witnessed more severe sales declines than the densest. Although several low-density suburbs north of Boston, including Boxford and Newbury, experienced only a slight decline in sales over that period, and others (Manchester and Rowley) actually saw slight increases, the majority of low-density towns suffered severe sales drop-offs over the past five years. Of the 30 cities and towns with the steepest declines, 19 came from the lowest-density group; another 10 were medium-density communities, and only one (Lowell) had a high housing density. On average, as **Figure 5.9a** demonstrates, single-family sales in the low-density communities fell by 38.5 percent between 2004 and 2008, compared to

37.3 percent in medium-density communities, and 31.6 percent in high-density communities.

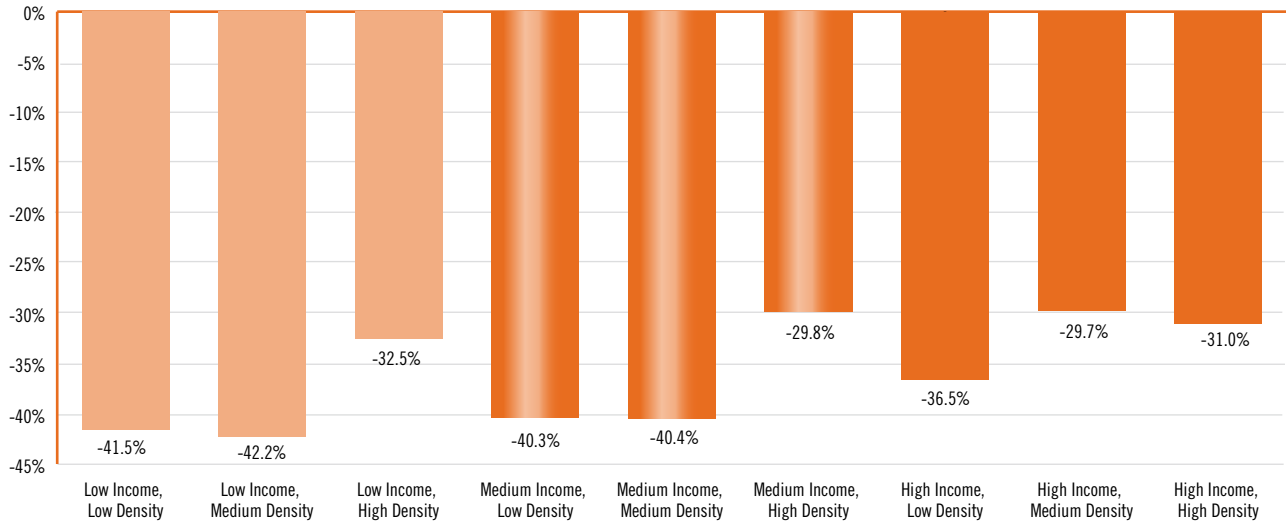
Interestingly, the story is the complete reverse when we look at median single-family sales prices (**Figure 5.9b**). The median price for a single-family home declined by an average of 8.5 percent in the densest cities and towns, compared to 7.0 percent in the least dense. Seven of the 10 steepest drops in median price took place in high-density communities, and just one in a low-density community (Plympton). A few dense communities, like Cambridge, Wellesley, and Newton, experienced actual price appreciation, but nearly half experienced median-price reductions in excess of 10 percent.⁶

To produce a more nuanced picture of the effects of communities' unique profiles on their housing trajectories, we integrated the income and density analyses, dividing the 161 cities and towns into nine separate categories according to their income group and their density group (thus yielding categories such as "high-income, high-density," "high-income, medium-density," "high-income, low-density," etc.). **Appendix B** presents this matrix and lists all of the communities falling under each category.

Figure 5.10a presents data on the change in sales volume for these nine categories. The three leftmost bars represent average changes for low-income communities of varying densities; the middle bars represent averages for middle-income communities;

FIGURE 5.10A

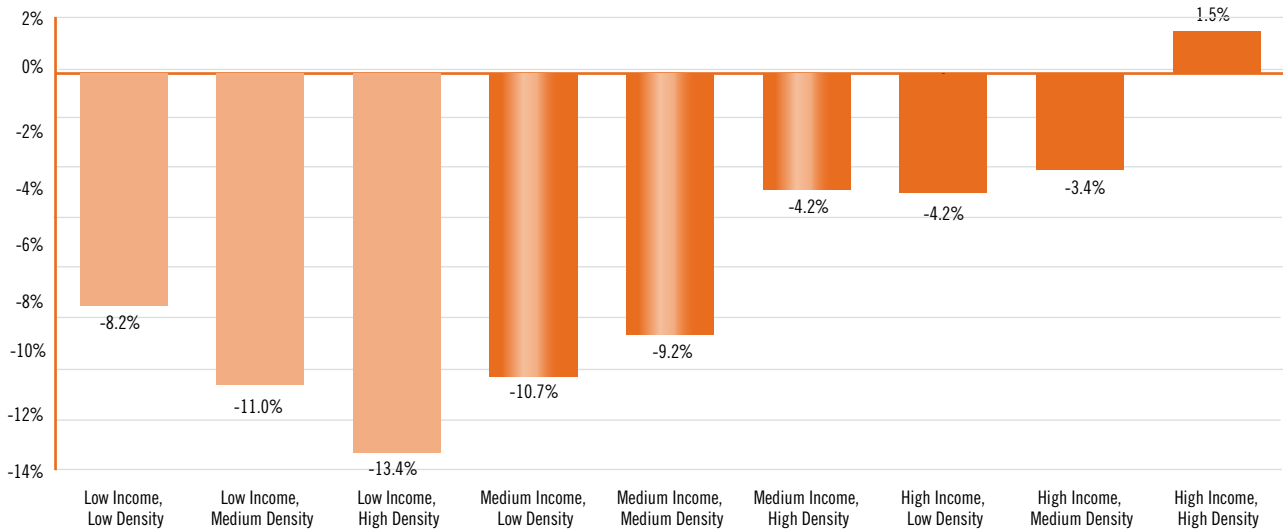
Percent Change in Single-Family Home Sales in Greater Boston Communities, by Income Level and Density Level, 2004-2008



Source: The Warren Group

FIGURE 5.10B

Percent Change in Single-Family Home Sales Prices in Greater Boston Communities, by Income Level and Density Level, 2004-2008



Source: The Warren Group

and the rightmost bars represent averages for high-income communities. Two trends are noticeable here. First, within each three-bar income group, higher-density communities have seen less severe sales declines than lower-density communities. This trend is particularly evident among the lowest-income communities. Second, at virtually every level of density, higher-income communities have suffered less severe volume reductions than lower-income communities (compare the similarly shaded bars within each income group). Thus, for example, high-income, low-density communities have witnessed smaller sales losses than low-income, low-density communities. The only exception to this rule appears among high-density cities, where the highest-income group's sales figures fell slightly more than the medium-income group.

In contrast to these clear trends for sales volume, the trend in single-family prices reveals a powerful deviation among low-income communities (see **Figure 5.10b**). Whereas in the middle- and high-income groups, price reductions have been more severe in low-density cities and towns (indeed, high-income, high-density communities experienced price *increases*, on average, between 2004 and 2008), the trend is the

complete reverse for low-income communities. Among this group, the densest cities – like Chelsea, Lawrence, and Brockton – lost the most value. Of the 10 low-income communities that experienced the sharpest price declines, seven were high-density cities.

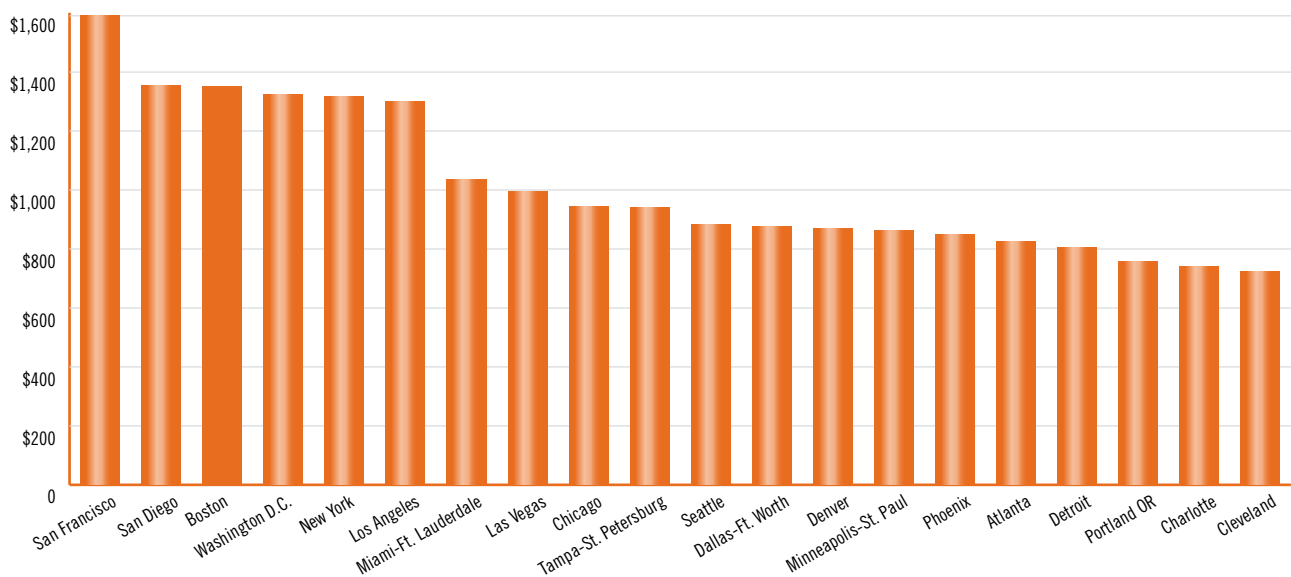
This provides just one more piece of evidence that the housing crisis has had its most adverse impact on older, denser central cities where the poorest among us live. Just as these homeowners were beginning to see appreciation in the homes they bought in the early part of the decade, the housing crisis undermined the value of their purchases.

Relative Rental Affordability

Finally, we can look at the relative affordability of residential rental units in Greater Boston compared to other regions of the country. Based on monthly housing costs for 2007 (measured as gross monthly rent) compiled for four-person families by the Economic Policy Institute, we find that of 613 geographic areas nationwide, Greater Boston had the 13th highest rent.⁷ The average rent in Greater Boston was 85 percent

FIGURE 5.11

Monthly Gross Rent for a Family of Four in Selected Metro Areas, 2007



Source: The Warren Group

higher than the national average across all of these large and small regions.

Figure 5.11 provides data on the 20 large metro areas followed in the Case-Shiller home price index series. In this case, we have arrayed these large metropolitan regions on the basis of the EPI monthly gross rent data. For all intents and purposes, only San Francisco is a more expensive place to rent. San Diego and Boston are virtually tied for second. That makes Boston's rents somewhat more expensive than Washington, D.C., New York, and Los Angeles, and substantially more expensive than other large urban areas. They are 43 percent higher than in Chicago; 54 percent higher than in Denver; and 83 percent higher than in Charlotte.

As such, there is good news and bad when it comes to Greater Boston's home prices and rents. The good news for those in the homebuying market is that housing is more affordable, in absolute terms, than it was in 2005. For renters, there has been little relief in terms of rent costs and, given stagnating incomes, rents are less affordable during the current recession than they were before the current recession began.

As for relative affordability, there is little good news at all. Now that the housing bubble has burst and the high-flying housing markets have returned to earth, home prices in Greater Boston are relatively higher today than in nearly all other housing markets, compared to prices in 2000 and 2005. As for rents, very few places in America charge more, and many of our competing regions continue to charge a lot less. How this will ultimately affect migration and employment opportunity across regions lies in the balance.

6.

Foreclosures in Greater Boston

During the past year it was nearly impossible to pick up a newspaper or turn on the television and not find a story about the housing crisis in general, and the explosion in the number of foreclosures in particular. Foreclosures have had a devastating impact on individual households, on low- and moderate-income neighborhoods, and on property values. Indeed, the number of foreclosures has been so great that it has contributed significantly to the duration and depth of the current national recession. It has done this by creating a vicious circle in which heightened foreclosures have led to depressed home prices, which in turn have reduced homeowner wealth and the homeowners' desire and ability to consume. The resulting reduction in consumption has led to cutbacks in production, layoffs, and rising unemployment. Moreover, the increase in the nation's unsold inventory has all but eliminated new home construction, leading to a virtual depression in the construction industry. Everyone, from architects and contractors to carpenters and laborers, has felt the effect of the collapse in the homebuilding industry.

The Causes of Foreclosure

A mortgage company or bank will often file in land court for a petition to foreclose on a mortgaged property after the homeowner fails to pay his or her mortgage for three months. There are at least three reasons why a homeowner – the mortgagor – might fail to pay:

The first is that the homeowner may face a personal calamity, such as long-term unemployment or a costly medical problem. Before this family difficulty, the homeowner may have had little problem keeping up with mortgage payments, but with limited income or mounting medical bills, the homeowner may not have the funds to continue to make monthly payments at the level specified in the mortgage.

The second reason why a foreclosure may occur is that the homeowner never could afford the mortgage in the first place. During the housing boom earlier in this decade, an increasing number of mortgage companies sprung up across the country, and they did everything

they could to maximize the number of mortgages they sold. Too often, they permitted households to obtain mortgages even when the household had a poor credit rating or little in the way of savings to fall back on during a temporary lull in its income stream. Many of these mortgages came with subprime rates – that is, a rate higher than the standard mortgage rate – which meant that monthly payments were extraordinarily high. The interest rates on some of these mortgages were adjustable, with a low rate initially, but higher rates later on. When housing prices were rising, it was reasonably easy for homeowners with these types of mortgages to refinance at better rates and better terms, but once prices began to fall, this option disappeared. Without the ability to refinance, a rising proportion of homeowners with subprime mortgages went into foreclosure. Compounding the impact of falling prices on homeowners with subprime mortgages was the common perception that house values would always increase, causing many homeowners to use their homes as sources of income. Many homeowners refinanced their mortgages for larger amounts as a means to access cash. These higher mortgage values caused greater difficulties for homeowners when housing values began to fall.

Third, a foreclosure can occur even in the case where a homeowner has a conventional mortgage and no personal calamity. If home prices fall so far that the outstanding mortgage value is well above the depressed value of the home – that is, where the homeowner is deeply “underwater” – it sometimes makes economic sense for the homeowner simply to default on the mortgage and walk away from his or her home.

Over the past three years, the “perfect storm” formed as the result of a combination of subprime lending, skyrocketing unemployment, and rapidly falling home prices. Not surprisingly, during such an economic storm, the number of foreclosures increased dramatically, and their impact was visited upon individual families, entire neighborhoods, and, ultimately, the national economy.

The Impact of Foreclosures

According to the Center for Responsible Lending, subprime loans made between 1998 and 2006 have led or will lead to a net decline in homeownership of almost one million families.¹ The loss of a home to foreclosure is often only the beginning of a number of setbacks that families face. Foreclosure directly affects an individual's credit score, making it more difficult for an individual to acquire a mortgage in the future. Former homeowners can take more than a decade to buy back into the housing market.² If an individual is able to obtain a future mortgage, the interest charged is often much higher as a consequence of a lower credit score.³ For the family, foreclosure can also result in a loss in potential capital gain, substantially reducing a family's ability to accumulate wealth that could be used to finance future consumption or to help with expenses after retirement.

Even those who are not subject to foreclosure themselves are often adversely affected when their neighbors suffer this fate. Individual property values are directly affected by surrounding foreclosures, and these losses in value can result in additional foreclosures, creating a vicious circle in susceptible neighborhoods. A recent study of the impact of foreclosures on housing prices has shown that each conventional foreclosure within an eighth of a mile of a single-family home results in a 0.9 percent decline in the value of that home.⁴ Homes located within 150 feet of an abandoned unit sell, on average, for over \$7,000 less than similar properties in areas where there is no foreclosure activity.⁵ Given the extraordinary number of foreclosures during the current crisis, these neighborhood impacts can be considerable.

With widespread property value depreciation, many homeowners have already reached the point where their mortgages are underwater. According to Zillow.com (as reported in *BusinessWeek*) nearly one in four mortgagors (23%) were underwater in the second quarter of 2009, and there are suggestions that the proportion could reach 30 percent before home prices fully stabilize.⁶

There are also consequences of widespread foreclosure activity that extend beyond pure economics. As owner-occupied properties are deserted after a foreclosure deed is issued, the resulting vacancies can set in motion a bevy of unfortunate side effects. Abandoned

properties become targets of opportunity for break-in culprits who "mine" a home's copper wiring and plumbing, leaving the structures in a far inferior condition than when they were originally foreclosed. Foreclosures may even lead to violent crime. According to one study, for every 2.8 foreclosures per 100 owner-occupied properties in a neighborhood, violent crime rises by approximately 6.7 percent.⁷ This is presumably due to the reduction in the number of "eyes on the street" of neighbors who might otherwise report such crime.

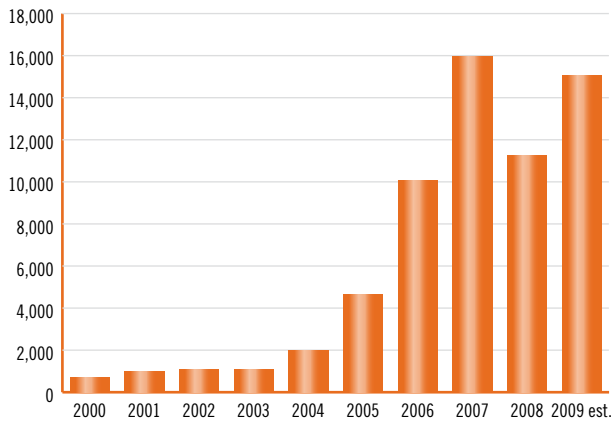
The cost to municipalities is not trivial, either. Even after foreclosed properties are resold, the Homeownership Preservation Fund estimates that the typical cost incurred by a city for a vacant foreclosed property sold at auction is between \$5,400 and \$7,000.⁸ These estimates include the expense of boarding up the property and court costs associated with collecting payment of liens on the property. All of these damaging effects are especially prevalent in low-income and minority communities, where many homeowners are more likely to be holders of risky mortgages and to have more fragile finances. Any downturn in the economy can lead to a wave of foreclosures. A serious recession, like the one we have experienced since 2007, can lead to wholesale neighborhood deterioration.

Foreclosure Activity in Greater Boston: 2000-2009

Figure 6.1 demonstrates the explosion in foreclosures in the Greater Boston region that began in 2005 and peaked in 2007. The nearly 16,000 foreclosure petitions issued that year – over 300 per week – was more than four times the number in 2004 and over 16 times the average annual number issued between 2000 and 2003, a period that included the last national recession. The number of petitions declined in 2008, in large part due to the Commonwealth's right-to-cure law that went into effect in the middle of that year. The law gives borrowers 90 days to catch up on missed mortgage payments before the Massachusetts Land Court will grant a foreclosure petition to a bank or mortgage company.⁹ By the end of the year, however, the number of petitions was rising again, and based on the first six months of 2009 we project that the total number of petitions will be back up over 15,000 by year's end.¹⁰

FIGURE 6.1

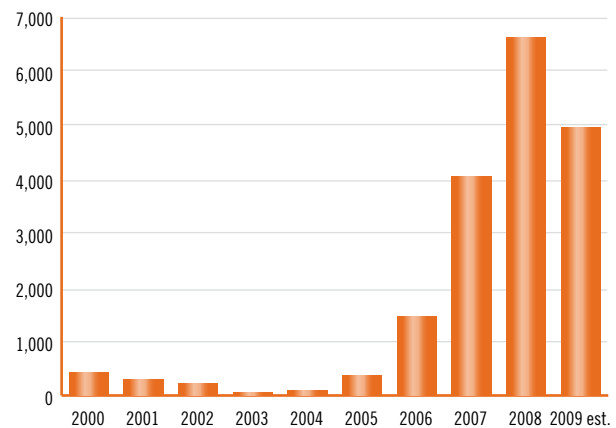
Total Number of Foreclosure Petitions in Greater Boston, 2000-2009 (est.)



Source: The Warren Group

FIGURE 6.2

Total Number of Foreclosure Deeds in Greater Boston, 2000-2009 (est.)



Source: The Warren Group

Not all foreclosure petitions end up as foreclosure deeds where homeowners lose their homes. If the homeowner is able to resume paying his or her mortgage, a foreclosure deed may never be issued. If the homeowner can come to terms with the mortgage company or bank to refinance the mortgage in such a way that the homeowner can now afford to make the new monthly payment – perhaps by obtaining a lower interest rate or by stretching out the mortgage over additional years – the eventuality of a foreclosure deed may also be avoided.

Figure 6.2 displays the trend in deed activity in Greater Boston. Note that from 2000 to 2005, the number of deeds issued by the Massachusetts Land Court varied only slightly from year to year, averaging just over 240 per year. The first sign of the foreclosure crisis occurred in 2006, when the number of deeds jumped to 1,462. A year later, in 2007, over 4,000 families lost their homes to foreclosure in Greater Boston, and in 2008 over 6,600 met this fate. After several years of increases, in 2009 we project a decline in the number of deeds, in large measure because of the inability of the Land Court to keep up with the volume of foreclosure activity, and also because of the greater pressure on mortgage companies and banks to find ways to refinance mortgages before petitions turn into deeds.

There has been a significant change in the types of housing units subject to foreclosure, as shown in **Table 6.1**. Excluding larger apartment complexes (with 4 or more units), more than four out of five (80.6 percent) foreclosure petitions in 2000 were issued for single-family homes. That number has fallen dramatically to an estimated 57 percent in 2009. Similarly, the proportion of foreclosure deeds issued for single-family homes has declined from a peak of 65 percent in 2001 to an estimated 45 percent in 2009.

The types of housing for which the proportion of petitions has increased are two- and three-family-unit buildings and condominiums. Back in 2000, roughly one in six foreclosure petitions was issued on a two- or three-family home; by 2008 that figure was up to one in four. In 2000, hardly any condominiums were subject to petition (in marked contrast to the recession of the early 1990s, when the condo market was the sector most affected by foreclosures in Boston); by 2008 condominium foreclosures were once again a significant problem, responsible for nearly one fifth of such petitions. While the proportion of foreclosure deeds has not varied very much from year to year for condominiums since 2000, the proportion for two- and three-family homes has increased from a low of 14 percent in 2002 to over 30 percent in 2008 and 2009.

TABLE 6.1

Foreclosure Petitions and Deeds in Greater Boston by Type of Housing Unit, 2000-2009 (est.)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (est.)
Single Family										
Foreclosure Petitions	561	751	821	863	1,533	3,156	6,196	9,022	6,259	8,590
Foreclosure Deeds	244	192	135	25	50	177	792	2,033	3,022	2,232
Two/Three Family										
Foreclosure Petitions	117	194	193	167	250	950	2,523	4,155	2,896	3,544
Foreclosure Deeds	84	47	31	16	18	94	412	1,263	2,044	1,502
Condominiums										
Foreclosure Petitions	18	47	64	73	213	539	1,362	2,783	2,109	2,936
Foreclosure Deeds	99	57	51	14	17	91	258	751	1,560	1,216
Total										
Foreclosure Petitions	696	992	1,078	1,103	1,996	4,645	10,081	15,960	11,264	15,070
Foreclosure Deeds	427	296	217	55	85	362	1,462	4,047	6,626	4,950
% Single-Family:										
Petitions	80.6%	75.7%	76.2%	78.2%	76.8%	67.9%	61.5%	56.5%	55.6%	57.0%
Deeds	57.1%	64.9%	62.2%	45.5%	58.8%	48.9%	54.2%	50.2%	45.6%	45.1%
% Two/Three Family:										
Petitions	16.8%	19.6%	17.9%	15.1%	12.5%	20.5%	25.0%	26.0%	25.7%	23.5%
Deeds	19.7%	15.9%	14.3%	29.1%	21.2%	26.0%	28.2%	31.2%	30.8%	30.3%
% Condominiums										
Petitions	2.6%	4.7%	5.9%	6.6%	10.7%	11.6%	13.5%	17.4%	18.7%	19.5%
Deeds	23.2%	19.3%	23.5%	25.5%	20.0%	25.1%	17.6%	18.6%	23.5%	24.6%

Source: The Warren Group

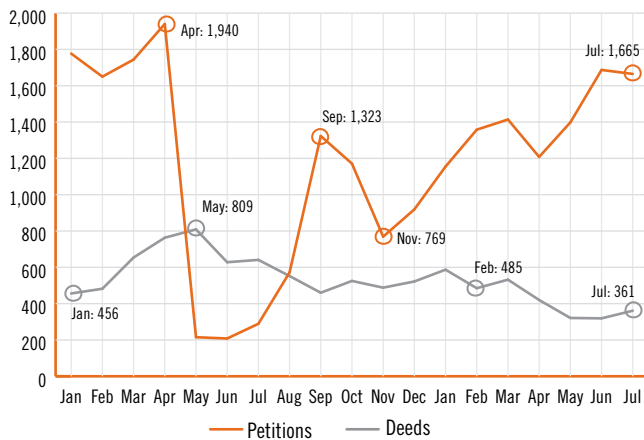
The increase in multi-family homes facing foreclosure is particularly troubling because of the impact that foreclosing on these properties has on tenants. Even if we take a low estimate by, for example, assuming that all foreclosure deeds issued for units in 2-3 unit structures in 2008 were for two-unit properties, then the 2,044 foreclosure deeds on these properties would have resulted in 4,088 families losing their homes. This is significantly greater than the number of families who lost their homes to foreclosure in single-family properties that same year (3,022).

Foreclosure Activity since December 2007

Figure 6.3 provides a closer look at what has happened to foreclosure petitions and deeds since January 2008, just one month after the official start of the national recession. The immediate impact of the right-to-cure legislation can be seen in May, June, and July of 2008. The number of petitions granted dropped from 1,940 to only 215 in a single month. After the existing stock of petitions enjoyed the 90-day cure, though, the number of petitions shot back up to over 1,300 by September. Since then, the number has generally climbed so that

FIGURE 6.3

Foreclosure Petitions and Deeds in Greater Boston, January 2008 – July 2009



Source: The Warren Group

by July 2009 more than 1,660 homeowners were served with a foreclosure petition – nearly as high a number as before the cure legislation went into effect.

It is hard to project what might happen over the next six to 12 months, but if employment continues to remain stable or perhaps increase in Greater Boston, the number of foreclosure petitions might stabilize as well. This would be in contrast to many other regions in the country, where job losses are continuing to mount along with the national unemployment rate.

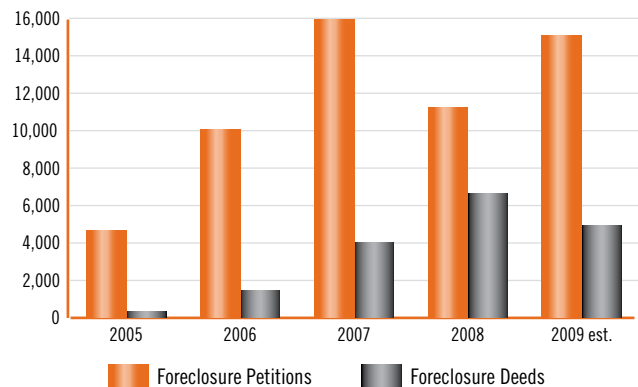
What is perhaps most interesting about Figure 6.3 is the trend in foreclosure deeds. This number peaked in May 2008 at 809 just before the cure law went into effect. Since then, the number of deeds has declined. Back in May 2008, there were about four foreclosure deeds for every 10 petitions. By July 2009, the ratio was two deeds to every 10 petitions. This decline in deed activity may have resulted, in part, from the heavy burden on the Land Court in handling such a large number of foreclosures. However, it is also possible that the pressure to find ways to refinance mortgages resulting from the cure law and from public pronouncements by political leaders, both in Washington and on Beacon Hill, may finally be having an impact on the number of families losing their homes to foreclosure.

Will the decline in foreclosure deeds continue into 2010? If hold-ups in the foreclosure process were the major reason why few foreclosure petitions resulted in households losing their homes in 2009, then the rising number of petitions filed in early 2009 could presage a marked increase in foreclosure deeds later this year and into 2010. By comparing the 2005-2009 data on foreclosure deeds with foreclosure petitions over the same period, it appears that the trend in deeds follows the trend in petitions with a lag of approximately one year (see Figure 6.4). If this trend continues after 2009, we can expect an increase in foreclosure deeds in the following year.

If foreclosure deeds do indeed climb in 2010, the result will be a greater number of vacant properties, which, many analysts fear, will cause a further deterioration in neighborhoods that have already been severely affected by the crisis. Even if only a small segment of the foreclosure petitions that are predicted for 2009 result in foreclosure deeds in 2010, the impact will be to further weaken these neighborhoods.

FIGURE 6.4

Foreclosure Petitions and Deeds in Greater Boston, 2005-2009 (est.)



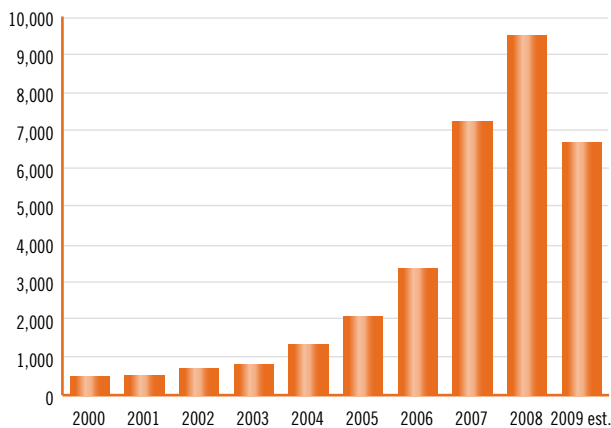
Source: The Warren Group

Foreclosure Auctions

The data on foreclosure petitions and deeds come from court records. In contrast, the data on foreclosure auctions provided by The Warren Group are retrieved from newspaper announcements. Not all announced auctions actually take place, but when they do these foreclosed homes usually sell at a price well below their normal market value. As a result, a flurry of auctions tends to have a particularly severe effect on home prices, at least in the neighborhoods where the foreclosed properties are being auctioned off.

FIGURE 6.5

Total Number of Foreclosure Auctions in Greater Boston, 2000-2009 (est.)



Source: The Warren Group

The auction data shown in **Figure 6.5** help to explain the sharp losses in home values in Greater Boston since 2005. Earlier in the decade, the number of auction announcements never reached more than 1,338 per year, but beginning in 2005 the number increased dramatically annually through 2008. In that year, there were nearly 9,500 auction announcements. Even if only a fraction of these resulted in an auction sale, the impact on prices would have been fairly large.

We project a rather sharp decline in auctions in 2009, since only about 3,300 have occurred in the first six months of the year. This may be another indication that banks and mortgage companies are trying to find

ways to refinance mortgages, as opposed to going through the foreclosure deed and auction process.

The unprecedented level of foreclosure actions in the last few years is troubling and, even given our more optimistic estimates for the second half of 2009, it is unlikely that the crisis is over. There is hope, however, that with an upturn in the economy and ultimately a decrease in unemployment, the number of foreclosures will further decline in the near future. A variety of factors could affect the future of the foreclosure crisis, making it immensely difficult to predict with accuracy what the next few years might hold. What we do know is that, if a substantial and sustained recovery in the economy and the job market takes place, it will likely reduce the number of future foreclosures, and this will, in turn, result in a more timely end to the current housing crisis. If we are right in this projection, this will provide another reason to believe that we have seen the end of price depreciation in the Greater Boston housing market.

7.

Public Policy and Public Spending in Support of Housing

With the economy in recession for at least a year and a half, home sales and prices plummeting at unprecedented rates, and foreclosures rising to levels not seen since the Great Depression, the federal and state governments were galvanized to develop policies to mitigate the worst ravages of a terrible housing market. During the past year, the federal government has also had to bail out and then restructure the nation's two premier housing finance agencies, Fannie Mae and Freddie Mac, in order to assure that mortgage lending would not collapse completely. At the state level, the governor moved quickly to place a moratorium on foreclosures to slow down the process of moving from foreclosure petition to foreclosure deed, in the hope of being able to help families stay in their homes. Perhaps at no time in the recent past has housing been so much at the center of public policy. The ability to do more to support the state's housing market was limited, however, by a state fiscal deficit of more than \$1 billion, which required cutbacks in virtually all state spending. Fortunately, funds provided under the federal government's American Recovery and Reinvestment Act (ARRA) provide a respite from what would otherwise have been a reduction in housing aid just when the housing market was in such trouble.

New Federal and State Policies

As a candidate for president in 2009, Barack Obama's housing platform included a call for loan modifications; a moratorium on home foreclosures; and collaboration between the United States Department of Housing and Urban Development (HUD), and state housing agencies. Since he has taken office, President Obama, along with his new Secretary of Housing and Urban Development, Shaun Donovan, has worked to enact a flurry of policies to make good on his campaign promises. **Table 7.1** provides a summary table of the astonishing number of programs that have been put in place over the past two years to deal with the nation's housing crisis. The large number and size of these programs reflect the concern among

economists and policymakers that home foreclosures and the meltdown in the housing market was one of the major reasons for the severity of the current recession. Economic recovery therefore depends, in large measure, on improving the national housing market.

Home Purchase Tax Credit

To reduce the number of abandoned and vacant properties around the nation and help arrest the sharp decline in home prices, President Obama signed into law in February 2009 new legislation to encourage buyers currently sitting on the sidelines to purchase homes this year. This legislation, the *First-Time Homebuyer Tax Credit*, provides a financial incentive in effect only between January 1, 2009, and the end of November for first-time homebuyers and individuals who have not owned a principal residence anytime during the previous three years. In order to be eligible for the tax credit, an individual must have an income of less than \$75,000 and a married couple must have a combined income of less than \$150,000. Additionally, the purchased home must be the individual's primary residence for the three years following the purchase and the property cannot be purchased from a close relative.

If an individual is eligible, he or she receives a tax credit of 10 percent of the purchase price of the home, up to \$8,000. The actual tax credits will be provided after individuals submit their 2009 tax returns. During his address on the Stimulus Plan in September 2009, Vice President Joseph Biden reported that the First-Time Homebuyer Tax Credit Program has provided credits to nearly 320,000 American homeowners.¹ Given the success of the program, the real estate industry has begun to encourage Congress to expand the program to include all homebuyers and to provide a tax credit of up to \$15,000.²

In response to this legislation, the Commonwealth of Massachusetts put in place its own *First-Time Homebuyer Tax Credit Loan Program* on July 14, 2009. This program was developed in hopes of jump-starting the state's housing market more quickly than what might

TABLE 7.1

New Federal & State Housing Programs

Program Title	Implementation Date	Program Objective	Funding for Program
First-Time Homebuyer Tax Credit	January 1, 2009 - December 1, 2009	Encourage the purchase of homes by providing a tax credit of up to \$8,000 to first-time homebuyers.	N/A
Massachusetts's First-Time Homebuyer Tax Credit Loan Program	July 14, 2009	Provide loans to homeowners eligible for the federal First-Time Homebuyer Tax Credit to encourage earlier entry into the housing market.	N/A
Neighborhood Stabilization Program	July 26, 2009	Provide state and local governments with funding to renovate abandoned and foreclosed properties and return them to the market.	The first round, NSP1, provided \$3.92 billion to 55 state and 254 local governments. The second round of funding, NSP2, will provide an additional \$1.93 billion.
Massachusetts's Foreclosed Properties Clearinghouse Initiative	March 16, 2009	Connects banks with significant numbers of foreclosed properties to potential buyers.	N/A
Hope for Homeowners Act	October 2008	Refinances mortgages held by distressed homeowners and provides a "safe harbor" for servicers to rewrite mortgages.	\$20 billion
HOPE NOW	October 10, 2007	Form alliances between counselors, mortgage companies, investors and other mortgage market participants in an effort to assist distressed homeowners.	N/A
Homeowner Affordability and Stability Plan (Making Home Affordable)	February 18, 2009	Refinances mortgages of current homeowners (through HARP), provides funding for the Homeowner Stability Initiatives (which includes the HAMP program), strengthens confidence in Fannie Mae and Freddie Mac.	funding is shown for the individual programs below
Home Affordable Refinance Program (HARP)	March 4, 2009	Encourages homeowners to refinance their mortgages at lower interest rates.	N/A
Home Affordable Modification Plan (HAMP)	March 2009	Decreases monthly mortgage payments of homeowners who are current on their loans.	\$75 billion
Second Lien Program	April 2009	Extends the Home Affordable Modification Plan to second mortgages held by homeowners.	N/A
Home Price Decline Protection Program (HPDP)	May 2009	Provides incentives for loan modification in the regions where home price decline has been the largest.	\$10 billion
Foreclosure Alternatives Program	May 2009	Encourage both borrowers and servicers to increase the number of short sales and deeds in lieu of foreclosure.	N/A
TARP for Main Street	Proposed in July 2009	Assist jobless homeowners, protect tenants, and preserve affordable housing.	\$6.5 billion
Homeless Prevention and Rapid Re-housing Program (HPRP)	February 17, 2009	Assist low and moderate income rental families who are at risk of becoming homeless.	as of July 2009, Massachusetts communities had been approved to receive \$17.2 million in funding through the program
Protection for Tenants with Section 8 Vouchers	May 2009	Allow tenants who are current on their rent to continue to remain in foreclosed properties until the property is resold by the foreclosing property.	N/A

Source: U.S. Census Bureau, 2000 Census Summary File 3; Case-Shiller Home-Price Index

be possible under the national First-Time Home Buyer Tax Credit program alone. The state's Tax Credit Loan Program provides Massachusetts citizens who are eligible for the federal tax credit with a loan from MassHousing for the amount they will receive after filing their 2009 federal tax returns. Homebuyers can use the loan to cover the closing costs or the down payment on their new home purchases. In order to be eligible for the new state loan program, individuals must be approved to receive the federal tax credit and must finance their home purchase with a loan from MassHousing. The principal and interest on the tax credit loan are deferred until June 1, 2010, when presumably individuals have received their federal tax credit.³ If the tax credit loan has not been repaid in full by this date, the state loan is amortized for 10 years carrying the same interest rate as the first mortgage loan on the property.⁴

Renovating Abandoned Properties

One of the major concerns regarding the current foreclosure crisis is the overwhelming number of foreclosed properties that have been left vacant. So, in addition to encouraging new homebuyers to enter the market, thereby stabilizing house prices, the federal government has worked to encourage the renovation and reselling of these properties.

The *Neighborhood Stabilization Program*, originated under Division B of Title III of the *Housing and Economic Recovery Act* (HERA) of 2008, was designed to assist neighborhoods around the nation that were being hit hardest by the foreclosure crisis. The program provides funding to state and local governments, permitting them to purchase and renovate foreclosed and abandoned properties and return them to the market.

In the first round of authorized funding, designated NSP1, the U.S. Department of Housing and Urban Development (HUD) allocated \$3.92 billion to 55 states and territories and 254 local governments around the nation.⁵ HUD distributed the funds based on a formula that took into account local and state foreclosure rates, local and state abandonment risks, vacancy rates, unemployment rates, and delinquency rates. As a part of the first allocation of funding for the *Neighborhood Stabilization Program*, Massachusetts received nearly \$43.5 million, while the City of Boston was allocated \$4.2 million in funding. Grantees of the Neighborhood Stabilization Program must allocate at

least a quarter of their funding towards acquiring and redeveloping abandoned and foreclosed properties and transforming them into low-income housing. All of the funding must be used to assist low-income and moderate-income individuals, as defined as individuals whose incomes are not greater than 120 percent of the median area income.⁶ There are only five eligible uses of the funding: establishing financing mechanisms to purchase foreclosed properties; the purchase and rehabilitation of foreclosed properties; land banking of foreclosed properties; demolition of structures; and redevelopment of vacant or demolished properties.

An additional \$1.93 billion of federal funds was allocated to the *Neighborhood Stabilization Program* under the *American Recovery and Reinvestment Act of 2009*.⁷ These funds, designated as NSP2 and also allocated by HUD, are to be used in the same manner as the original NSP1 dollars. The application deadline for these funds was July 2009 and it is unclear as of now how much of the funding will be allocated to Massachusetts or the Boston metropolitan area. As of September 2009, the NSP2 funding has yet to be allocated and therefore it is too early to tell how effective this program may be.

In Massachusetts, the Citizens' Housing and Planning Association (CHAPA) and the Patrick-Murray Administration devised a Foreclosed Properties Clearinghouse Initiative, built off of the idea of the federal Neighborhood Stabilization, which further encourages the renovation of properties throughout the state. This program allows CHAPA to connect banks that own a number of foreclosed properties in the 39 Massachusetts communities included in the federal Neighborhood Stabilization Program with potential buyers. For the first phase of the program CHAPA is working with Fannie Mae, Freddie Mac, CitiBank, Wells Fargo, GMAC, JP Morgan Chase (including Washington Mutual) and Bank of America (including Countrywide).⁸ The buyers include nonprofit organizations, municipalities, private owners, and local housing authorities. Eligible buyers are selected by CHAPA and, as of June 2009, over 70 organizations and 30 municipalities had been approved to take part in the program.⁹ Once approved, buyers have the opportunity to view bank-owned properties before they formally go on the market and have the opportunity to make bulk purchases of properties from banks. The program's goal is to assist in placing bank-owned properties into the hands of responsible owners who

can rehabilitate the properties and place them back on the market. These properties are intended to be residences for low or moderate income families.

After just two months in operation, the Clearinghouse has 20 properties under agreement with a total of more than 30 units of housing. The goal, according to CHAPA, is to ramp up to 15 units per month for the foreseeable future.

At-Risk Borrowers – Hope for Homeowners

An important policy focus during the foreclosure crisis has centered on assisting homeowners who are at risk of foreclosure. These efforts strive to keep families in their homes and decrease the overall number of foreclosures. For the most part, these efforts involve refinancing or modifying current mortgages held by at-risk homeowners so as to make monthly payments more manageable.

The *Hope for Homeowners Act* was established as a part of the *Housing and Economic Recovery Act of 2008* and was first implemented in October 2008. The program is administered as a Federal Housing Authority (FHA) insurance program intended to assist distressed homeowners who are unable to afford their current mortgages. FHA refinances the mortgages of distressed homeowners into affordable fixed-rate mortgages. The *Hope for Homeowners Act* also includes a “safe harbor” for servicers who rewrite mortgages that are part of securitized mortgage pools. By providing this “safe harbor” the act is intended to encourage servicers to modify delinquent mortgages in an effort to keep distressed homeowners from losing their homes.¹⁰

Even before these programs took effect, the *Homeowner Affordability and Stability Act* of February 2008 was established to help mitigate the process of loan modification for servicers.¹¹

In April 2009, the Obama Administration made additional changes to the *Hope for Homeowners Act*. These amendments to the original bill were intended to integrate the *Hope for Homeowners Act* with *Making Home Affordable* (see below) by requiring servicers who are determining a borrower’s eligibility for *Making Home Affordable* to also consider whether the homeowner qualifies for *Hope for Homeowners* and to offer the service to the borrower when it is an appropriate option. This has helped to enroll more eligible homeowners into the program and provide assistance

to those that need it. Given how recently the program was put into place, there has yet to be information on the effectiveness of the *Hope for Homeowners* program. To boost the chances this program will be successful, the Obama Administration added pay-for-success payments for successful refinancing of mortgages through *Hope for Homeowners*, which are similar to those provided by the *Home Affordable Modifications Program*, all with the goal of increasing refinancing activity to forestall foreclosures.

HOPE NOW

Well before the Obama Administration took office, there were attempts to provide foreclosure assistance to borrowers and mortgage lenders. One these involved a private-sector alliance encouraged by the Department of the Treasury and the U.S. Department of Housing and Urban Development. This alliance, HOPE NOW, is the product of cooperation between counselors, mortgage companies, investors, and other mortgage market participants. The alliance was established to maximize outreach efforts to homeowners in distress by creating a unified, coordinated plan to reach and help as many homeowners as possible. The members of this alliance recognize that they will be more effective working together than they would be independently.

In Massachusetts, the number of repayment plans established as a result of the HOPE NOW program between the first quarter of 2007 and the first quarter of 2009 exceeded 28,000. Over 5,000 of these loan mortgage repayment plans were initiated in the first quarter of 2009 alone.¹² Of the initial 20,000 loan modifications completed by HOPE NOW during this two year period, 15,331 of them were on subprime mortgages. Of these 15,331, over 3,900 of them occurred in the first quarter of 2009.¹³

Homeowner Affordability and Stability Plan (HASP & HARP)

New in 2009 is the *Homeowner Affordability and Stability Plan*, also referred to as *Making Home Affordable*, which is intended to assist as many as 9 million homeowners nationwide. The program has three main components: refinancing of mortgages for current homeowners, a \$75 billion Homeowner Stability Initiative (which includes the Home Affordable Modifica-

tion Program), and an effort to strengthen confidence in Fannie Mae and Freddie Mac.

The first piece of the act, later designated the *Home Affordable Refinance Program (HARP)*, is intended to provide an opportunity for responsible homeowners to refinance their mortgages in order to avoid foreclosure. HARP seeks to take advantage of low mortgage rates by encouraging homeowners who took out loans from or whose loans are currently guaranteed in the mortgage-backed securities held by Fannie Mae and Freddie Mac to refinance these loans at lower interest rates. This program is aimed at homeowners who are “underwater” on their mortgages and owe more than 80 percent of the value of their home.¹⁴ Refinancing of loans began on March 4, 2009, and is available for homeowners who own and occupy one- to four-unit properties and have conforming mortgages. The homeowner must have the necessary income to afford the new mortgage and the newly refinanced mortgage cannot exceed 105 percent of the current appraised value of the property.¹⁵ By reducing monthly payments for homeowners, this plan should reduce the risk of foreclosure.

In July 2009, the Obama Administration reduced the requirements for eligibility in the Home Affordable Refinance Program by allowing both Fannie Mae and Freddie Mac to begin refinancing loans with a loan-to-value ratio of up to 125 percent.¹⁶ The change in the program was made to allow a greater number of homeowners to qualify for loan modifications.

In August 2009, the administration released its initial report on the effectiveness of the *Making Home Affordable Program*. The report claims that in the six months since the program began, over 230,000 trial modifications had begun. The participating servicers cover more than 85 percent of all mortgages in the country. The administration will continue to release monthly reports on the program.¹⁷

Home Affordable Modification Plan (HAMP)

The Home Affordable Modification Plan or HAMP is an additional \$75 billion housing plan intended to modify loans for at-risk homeowners, defined as those who are “underwater” or have high debt-to-income levels. Unlike other programs, qualification for the program does not require that the homeowner has already been delinquent on his or her mortgage. HAMP works with loan servicers to decrease monthly

mortgage payments through a number of different means, including decreasing the interest rate on the loan, increasing the length of the loan, or postponing payment on the loan in an effort to decrease the principal owed on the mortgage. In return for the servicer’s efforts, HAMP provides \$1,000 to loan servicers who modify loans for delinquent borrowers and \$1,500 to loan servicers who modify loans for borrowers who are current on their payments.¹⁸ In addition, servicers who successfully modify loans will also be eligible for \$1,000 for each year that the borrower remains current on the mortgage for up to three years after the modification.

As of May 2009 14 servicers, including the five largest servicers in the nation, were modifying loans through the program.¹⁹ HAMP also assists borrowers by providing them with \$1,000 to decrease the total amount of their mortgages. This financial assistance will be provided every year for up to five years.²⁰ In order to qualify for HAMP, homeowners must occupy their properties and must demonstrate that their mortgage payments are no longer affordable. Eligible homeowners include those who own one- to four-unit properties and who will be delinquent or at risk of delinquency on their mortgage in the very near future.

A number of changes have been made to HAMP since it was originally put into practice in order to increase the ability of the program to assist homeowners. Only a month after HAMP was originated, the Obama Administration announced an addition to the original program, the *Second Lien Program*. This is intended to decrease the mortgage payments on second mortgages held by homeowners, while the original program only reduced payments on a homeowner’s first mortgage. This improvement is important because over half of all at-risk homeowners have both a first and second mortgage on their properties.²¹ In order to participate in the *Second Lien Program*, the homeowner must have a first mortgage that is eligible for HAMP. A servicer participating in the *Second Lien Program* who decreases the mortgage payments of a homeowner’s first lien using HAMP must also decrease the payments on the second mortgage, if not eliminate the second lien completely.²² In exchange for modifying a homeowner’s second mortgage, the Treasury uses TARP funds to share the cost of the reduced mortgage payments. If the servicer chooses to eliminate the second mortgage entirely, the Treasury provides a lump-sum payment

to the servicer.²³ As a result of these changes, more than 85 percent of all loans nationwide are held by servicers participating in the Making Home Affordable Program.²⁴ As of August 2009, over 400,000 loan modifications had been successfully accomplished and the program was on track to assist three to four million homeowners.²⁵

The Home Affordability and Stability Plan was also developed to increase confidence in Fannie Mae and Freddie Mac and support low mortgage rates. In order to accomplish this goal, the Federal Reserve Bank intervened by making the commitment to purchase up to \$1.25 trillion in mortgage-backed securities from Fannie Mae and Freddie Mac. According to at least one analysis, this wholesale purchase of mortgage-backed securities has helped keep the national average conventional fixed mortgage rate at 5.2 percent, when it would otherwise be closer to 5.9 percent.²⁶

In May 2009 the Making Home Affordable Program was modified yet again to include the *Home Price Decline Protection (HPDP) Program*, which was created to provide incentives for lenders to modify loans in locations where price declines have been steepest. Because many of these lenders fear that prices will continue to decline, they have been less willing to participate in the federal loan modification programs. The HPDP Program will provide a total of up to \$10 billion in payment incentives to lenders who successfully modify loans in areas of steep price reductions.²⁷ The amount of the incentive is based on (1) the decline in average home prices in a particular geographic region during the quarters prior to the modification and (2) the average price of a home in the area. The lender receives additional incentives of 1/24th of the original HPDP incentive amount for every month that the loan modification is successful, for up to 24 months.²⁸

How Successful Have These New Federal Programs Been?

Despite all of these attempts by the federal government to assist in refinancing mortgages, new research carried out at the Federal Reserve Bank of Boston has demonstrated that, at least up to recently, mortgage modification has been rare given the millions of mortgages eligible for refinance.²⁹ This research found that

lenders have generally concluded that the cost of foreclosure is less than the cost of modifying a borrower's loan, even with the spate of new incentives offered by the Treasury and by HUD.

The greater cost is the result of two risks the lender faces. The first of these risks is that the borrower would have self-corrected his or her delinquency without assistance from the lender. In this case the lender has used resources to fix a problem that would have been rectified on its own. The second risk that lenders face is that even after a loan modification, many borrowers may still end up in foreclosure. In this situation the lender has used resources to try to fix a situation, but the end result is unchanged. As a consequence of the presence of these two types of risk, the costs of loan modification are too high for lenders relative to the incentives available in the federal programs and therefore few loans have been modified. The research concludes that at least under current programs, there are likely far fewer "preventable" foreclosures than we originally believed or perhaps hoped could be cured – despite all the efforts of the federal government.

If this is true, then the recent rise in foreclosure petitions that we saw in Chapter 6 may indeed turn into a rise in foreclosure deeds and a large increase in vacant properties and auction sales.

Alternatives to Foreclosure

In May 2009, the federal government announced the *Foreclosure Alternatives Program*. This program is available for homeowners who are eligible for the *Home Affordable Modification Program*, but who do not qualify for modification through the program or are unable to stay current on their mortgage payments through the trial period of HAMP. For these individuals, the new *Foreclosure Alternatives Program* provides two alternatives to foreclosure: a "short sale" or a deed in lieu of foreclosure. A short sale occurs when a property is sold and the lender agrees to accept a discounted payoff, meaning the lender will release the lien that is secured to the property upon receipt of less money than is actually owed. As an example, if the unpaid balance of a mortgage is \$100,000 and the mortgaged property sells for \$90,000, under a short sale the lender might accept \$90,000 as payment in full.

A deed in lieu of foreclosure is a deed instrument in which the borrower conveys all interest in a property

to the lender to satisfy a loan that is in default in order to avoid actual foreclosure proceedings. This procedure offers several advantages to both the borrower and the lender. The principal advantage to borrowers is that it immediately releases them from most or all of the personal indebtedness associated with defaulting on their mortgages. Borrowers also avoid the public notoriety of a foreclosure proceeding and may receive more generous terms than if they are subject to a formal foreclosure deed. Borrowers may also benefit from taking a smaller hit on their credit scores, permitting them to reestablish credit more easily. From the lender's perspective, using a deed in lieu of foreclosure reduces the time and cost of a repossession and the costs associated with a borrower filing for bankruptcy.

The *Foreclosure Alternatives Program* is intended to encourage both borrowers and servicers to increase the number of short sales and deeds in lieu of foreclosure by providing a more streamlined process and payment incentives. The program provides servicers with a payment of up to \$1,000 for each successful short sale or deed in lieu of foreclosure and assists homeowners with relocation by offering assistance of up to \$1,500.³⁰ Applications for the Foreclosure Alternatives Program will be accepted through the end of 2012.

Avoiding Foreclosure for the Jobless

As the unemployment rate in the United States continues to rise, a new concern has mounted around the foreclosure crisis. With homeowners losing their stream of income it will become more difficult for them to pay their mortgages and may result in additional foreclosures, compounding the effects of the foreclosure crisis. In an effort to confront this situation, Congressman Barney Frank proposed in July 2009 *TARP for Main Street*, a \$6.5 billion package to assist homeowners, protect tenants, and preserve affordable housing. Of the \$6.5 billion, \$2 billion is designated to assist jobless homeowners.³¹ Currently, there are no federal programs to assist jobless homeowners at-risk of losing their homes and as the unemployment rate continues to climb, it is expected that the number of foreclosures resulting from joblessness will also increase. Frank's proposal would provide loans to jobless homeowners to assist them in paying monthly payments on their home mortgages.

Homelessness

The growing risk of homelessness has become apparent as both the number of foreclosures and the unemployment rate have increased during the past year. As fears of high levels of homelessness have increased, so have the funds allocated to avoid this. HUD has initiated a *Homeless Prevention and Rapid Re-housing Program* (HPRP) through which it has provided more than \$1.5 billion to communities throughout the country using funds from the *American Recovery and Reinvestment Act*. The funding is intended to assist low- and moderate-income rental families who are at risk of becoming homeless, many as a result of the current economic downturn, and to re-house homeless individuals into rentals to provide them with a stable living situation. The payments are made to third parties, such as landlords or utility companies, and are intended to provide either short-term (up to three months) or medium-term (up to 18 months) assistance to individuals.

As of July 7, 2009, 12 communities in Massachusetts had been approved to receive a total of \$17.2 million in funding from HUD for HPRP. The largest allocation of this funding, over \$8 million, has gone to Boston. Springfield and Cambridge have both been allotted over \$1 million each in funding. These funds can be used for four different types of expenses: financial assistance, housing relocation and stabilization services, data collection and evaluation, and administrative costs. Limitations have been imposed by HUD on eligibility requirements, which allow the allocated funding to be used only to help individuals who earn up to 50 percent of the median income in their local area. In addition, at least 60 percent of the funding must be spent in the two years after it has been allocated and all of the funding must be spent in the three years after the funding has been provided to the communities.³²

Protection for Tenants

Foreclosures affect not only the owners of foreclosed properties, but also any tenants occupying units in the property. With little or no notice of the impending foreclosure, renters can be left without a place to live when their landlords have been forced into foreclosure. In addition to the loss of shelter for renters, these properties are left vacant.

To combat this problem, the Obama Administration introduced legislation in May of 2009 to protect renters in foreclosed properties. The legislation will allow tenants who have continued to stay current in paying their rent to remain in foreclosed properties until the property is sold by the foreclosing party. This protection is restricted to tenants with Section 8 housing vouchers.³³

Assistance to Developers

Massachusetts will be receiving \$110 million as a part of the *American Recovery and Reinvestment Act* to assist housing developers. The funding comes from the U.S. Treasury Department and HUD which are providing the Commonwealth with \$50.8 million and \$59.6 million, respectively.³⁴ The funds from the Treasury are intended to provide cash to developers who wish to turn in their unsold tax credits, while the HUD funding is intended to assist developers who received less for the sale of their tax credits than expected. The funding will help to increase construction of affordable housing over the next two years by providing funding for projects that were halted as a result of developers finding it difficult or impossible to sell these tax credits to businesses. Projections suggest that the federal government's purchase of tax credits should result in the production of over 1,100 affordable apartments in Massachusetts. In addition to the provision of additional affordable housing, these projects should create more than 1,400 new construction jobs in Massachusetts.³⁶

Transparency in Mortgage Lending

A major reason for the vast number of current foreclosures has been the change in mortgage lending practices over the past decade. During this period a disconnect formed between lenders and borrowers to a point where many borrowers are unable to determine the current owner of their mortgages. As mortgages were passed between institutions, it was difficult for borrowers to track their mortgages and determine the correct institution to reach when they were having trouble remaining current on their mortgage payments.

New federal legislation was established in May 2009 that affords all borrowers the right to know the owner of their mortgages. In order to mitigate this situation, borrowers must now be alerted when their mortgages have been sold or transferred from own owner to

another. With this information the borrower will know who to contact in case there are issues concerning his or her mortgage.

A New Focus by the Administration on Renting

In August 2009, the Obama Administration made the announcement that there would be a shift in the focus of the national housing policy. Instead of following the example of former President George Bush and continuing to focus on homeownership, the Obama Administration has decided to place \$4.25 billion into rental housing thus providing incentives for the construction of rental housing in addition to the development of homes for personal ownership. These funds will be used to construct new rental housing where rent will be subsidized by the government and to rehabilitate foreclosed properties and convert them into affordable rental units. These units will provide rental housing for low- and moderate-income families. A competitive grant application process will determine the allocation of these funds among the states. With the high demand for affordable rentals and the extensive number of vacant properties as a result of the foreclosure crisis, this effort could provide assistance to many families who have lost their homes to foreclosure and will help restore these vacant properties into the market.³⁷

Updates on State Programs

While the federal government has taken major steps to deal with the housing crisis, the Commonwealth has tried to help as well, although its fiscal condition has limited its ability to fund many existing programs at current levels.

Massachusetts Rental Voucher Program

The Massachusetts Rental Voucher Program (MRVP), which is funded by the Department of Housing and Community Development, provides two types of vouchers, mobile and project. Mobile vouchers are similar to federal Section 8 vouchers, providing financial assistance to individuals to spend on housing. Project vouchers are location-based. To be eligible for a voucher through MRVP, a household must have an income that is less than twice the national poverty line.

The proposed budget for the Massachusetts Rental Voucher Program for the 2010 fiscal year is \$30.4

million, \$4.6 million less than the estimated operating expenses for the program in the coming year and \$3 million less than the appropriation for MRVP during the 2009 fiscal year.³⁸ CHAPA has estimated that as a result of this change in funding there will be a minimum of 818 households who will not receive assistance this year.³⁹ Of these 818 households, 650 households will be at a high risk of homelessness as a result of their low incomes. The cost of housing these now homeless families in shelters is estimated at \$1.95 million per month, which would result in a total cost of \$23.4 million over the course of the year.⁴⁰ With this additional cost, the budget reduction for the MRVP program could actually end up costing the state five times as much as the voucher savings, depending on how many previously subsidized renters end up homeless.⁴¹

The Department of Housing and Community Development (DHCD) surveyed 3,978 households throughout the state who received rental vouchers from MRVP in an effort to better understand the types of individuals participating in the program. Their research demonstrated that 44 percent of the households included children under the age of 18 and over half (56 percent) of households lived in the Greater Boston area.⁴² After the Greater Boston area, the geographic region that houses the largest number of MRVP recipients was the Springfield metropolitan area, with 16.2 percent of all MRVP recipients.⁴³

Chapter 40B

Chapter 40B allows developers to seek a comprehensive permit for construction of new housing in municipalities where less than 10 percent of the units are affordable. In exchange, the developer must include a minimum number of affordable units, defining affordable as units that are within the means of a household earning less than 80 percent of the HUD-determined median income for the area. In the Commonwealth, less than 19 percent of all towns and communities are appeal-proof, by containing enough affordable housing to exceed the 10 percent threshold.⁴⁴

As of September 2009, there are no new data on the impact of Chapter 40B in the Commonwealth, but as we noted in last year's *Greater Boston Housing Report Card*, 33 Greater Boston communities have surpassed the 10 percent threshold. While there was an increase in the permitting for affordable housing in 2007, it is

possible that with the economic downturn some of these units were not completed in the last year and it is likely that affordable housing construction has decreased in 2008. Unfortunately, without updated data it is impossible to know exactly what has occurred.

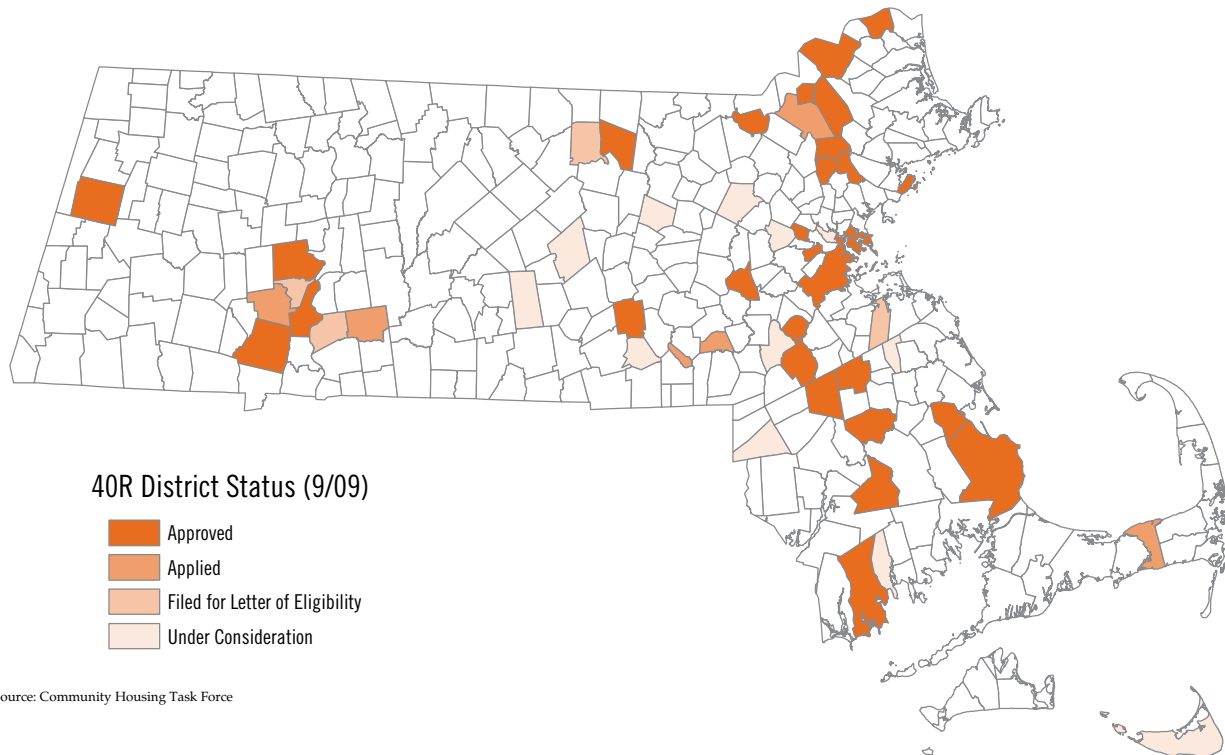
As a result of Chapter 40B, many communities in the state have been motivated to enact Chapter 40R districts, which allow them to build affordable housing that will work towards meeting the 10 percent level, but provides the municipalities with more control over the location of these units and their design and provides added state revenue sharing for those communities agreeing to pass zoning reform, permitting denser housing in transit-oriented communities.

Chapter 40R

Chapter 40R, enacted in 2004, was written to encourage smart growth in Massachusetts. The legislation allows communities to create specific zoning districts that will allow for higher density housing development near transit. As defined under Chapter 40R, smart growth includes mixed use developments, access to transportation, open spaces, and low-income housing availability. As of September 2009, 28 cities and towns in Massachusetts had approved Smart Growth Districts under Chapter 40R, 20 of which are in the Greater Boston area (**Map 7.1**). This is an addition of four new districts since last year's Housing Report Card and an additional six districts are pending DHCD approval. The approved districts account for over 1,200 acres of land and 9,500 zoned units. Of these 9,500 zoned housing units, over 8,000 are in the Greater Boston area, an addition of over 500 housing units in the area since August of 2008.

In August of 2009, the Citizens' Housing and Planning Association and the Metropolitan Area Planning Council released a report on Chapter 40R's impact in Massachusetts. The report notes that given the extreme economic uncertainty in the four years since the legislation's enactment, it is difficult to determine the true long-term impact of the program. The report states that the high involvement of municipalities and the variety of locations demonstrates the attractiveness of the program around the state. The report was written before Marblehead was approved for Chapter 40R and, as a result, information on new permitting in Marblehead as a result of Chapter 40R is not included in its summary statistics.

40R/40S Smart Growth Districts in Massachusetts



Source: Community Housing Task Force

The report finds that many of the districts were established as a direct result of project proposals (22 out of the 27 municipalities) and entail a significant cost in towns and cities, both in terms of the time and funds, related to creating a 40R district.⁴⁵ Given that the report found a total cost of between \$35,000 and \$65,000 in forming a district, it is clear that municipalities which have undertaken the process to obtain approval for a 40R district see a great benefit in participating in the program.⁴⁶ The report also notes the important role that Chapter 40B has played in encouraging the creation of 40R districts. Of the 27 approved towns and cities under Chapter 40R, 19 were below the Chapter 40B threshold for affordable housing when they applied and would, therefore, have been likely to construct affordable units as a result of the Chapter 40B legislation.⁴⁷

Overall construction to date as a result of Chapter 40R has exceeded 950 units, with an additional 150 units under construction, almost all of which is rental housing (94%).⁴⁸ Of these units, the Chapter 40R legislation requires that at least 20 percent are affordable, which

will produce a minimum of 220 new affordable housing units.⁴⁹ **Appendix C** shows a full summary of the 28 approved districts, including the number of future zoned units and construction type. While the current economic conditions made have impeded significant construction in the last few years, Chapter 40R has played its role in encouraging the production of affordable housing throughout the state.

Public Spending on Housing in the Commonwealth

The Commonwealth has two sources of funds to assist homeowners, renters, and developers of housing. One is from its own revenue, the other from a variety of federal programs. A large chunk of these are annual operating funds; the remainder are capital funds used for investment in public housing and to subsidize affordable housing construction. All of these funds are processed through the state's Department of Housing and Community Development (DHCD). State-financed

operating funds are used largely to pay for the administration of the agency, for rental assistance, and for public housing subsidies. State-financed capital funds are used to subsidize the production of affordable housing and to rehabilitate existing public housing units.

Federally-financed funds expended by DHCD are used for such programs as the Section 8 rental voucher program, for new housing development and rehabilitation, for energy assistance, and for various neighborhood stabilization programs. Altogether, the FY2010 budget for state operating funds plus the dollars flowing from Washington into the Commonwealth amount to over \$1.2 billion, but the share of funds coming from the state and from the U.S. Department of Housing and Urban Development and the U.S. Treasury has changed dramatically over the past two years.

DHCD Operating Funds

Back in 1990, the state spent of its own funds almost \$375 million on housing programs through DHCD's operating budget (in 2009 dollars). Beginning in 1991, that amount declined each year so that by 1994, the state was spending only about half that amount annually – \$200 million. Over the next eight years, real spending for housing operations continued to decline, but at a slower pace. Still, by 2002, spending was down to no more than \$170 million. Then the bottom fell out and the state cut its spending to just \$75 million in 2004. From then on the Commonwealth once again began to invest more in housing so that by 2008, funding was nearly as high as it had been in 2002.

But the current recession and the state's fiscal crisis has taken its toll on the state share of DHCD operating funds. For the current 2010 fiscal year budget, state-funded expenditures have fallen to just \$115 million from \$153 million in 2008 (see **Figure 7.1**).⁵⁰

These funding cuts are in large part due to Governor Patrick's Section 9C cuts, which were announced in May 2009. Section 9C of Chapter 29 in the Massachusetts state law requires the governor to reduce spending on state programs if the state will not collect enough funds to support state spending and balance the current account budget. The governor may only cut funding that is under his control and may not decrease local aid. In 2009 there was a \$13 million decrease in the state operating budget for DHCD from the 2008

proposed FY 2009 spending of \$161 million. Examining the proposed FY2010 budget reveals that state operating spending in DHCD has decreased most dramatically in terms of administrative spending (\$6 million decrease in spending) and public housing and rental assistance spending (\$8 million decrease).

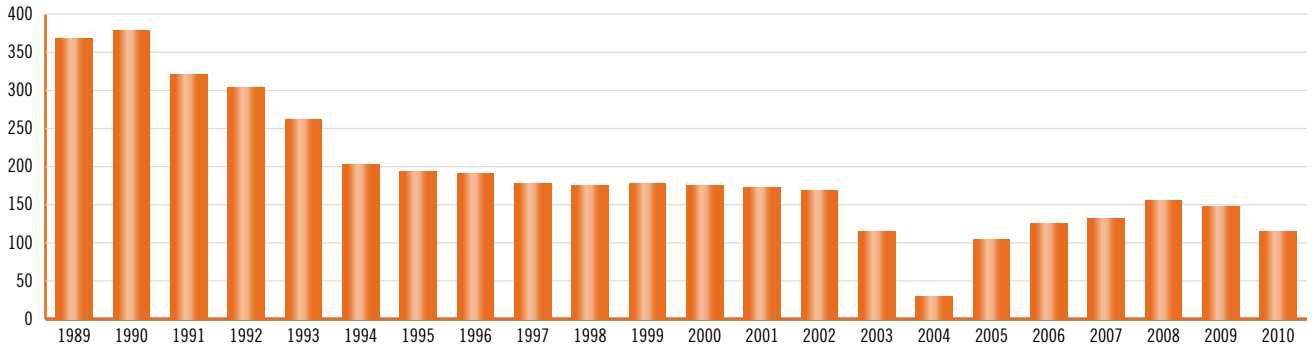
Federal Spending through DHCD

While state spending for DHCD has decreased, the Commonwealth is fortunate to be the recipient of a large increase in federal spending for a variety of existing programs as well as newly available funds from the American Recovery and Reinvestment Act (ARRA). **Figure 7.2** shows the dramatic increase in federal spending since 2008, adjusting all values for inflation. From 2008 to 2009 federal funds flowing to DHCD jumped from \$436 million to \$602 million. The proposed FY2010 budget increases this total by another \$40 million. On top of this, the state is slated to receive over \$300 million in ARRA funds to underwrite a variety of federal housing programs in the state: \$18 million in homeless prevention programs; more than \$110 million in low income tax credits; \$122 million for home weatherization assistance; \$35 million in Community Development Block Grants; and \$14.5 million for the Neighborhood Stabilization Program.

This funding has come just in the nick of time to maintain housing programs that might have been devastated by funding cuts. The ARRA money will not last for long, though. Unless ARRA is extended, it will all be spent within two years. Presumably, after this point, federal spending will return to previous levels. What will happen to housing programs that depend on this additional funding when it is no longer available is hard to fathom.

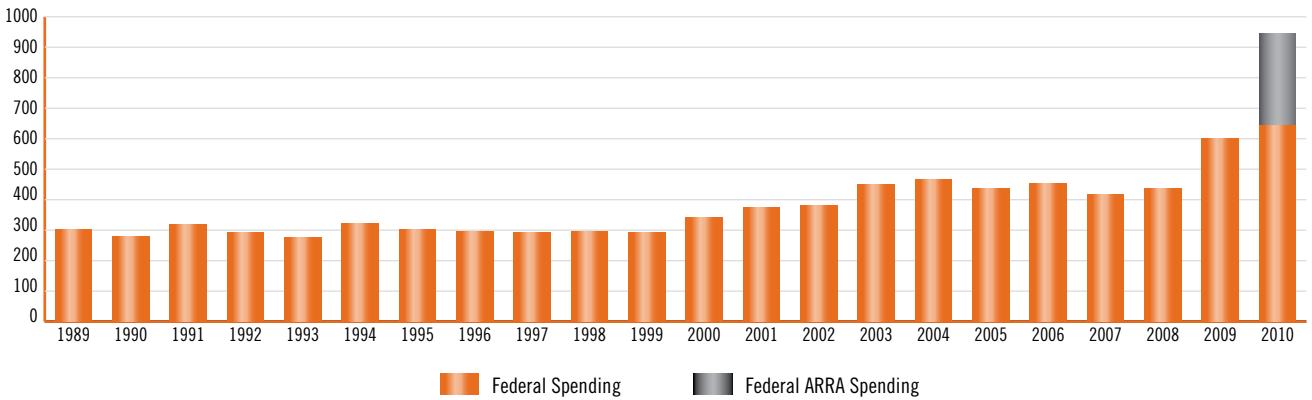
Figure 7.3 shows changes in total DHCD spending (Operating and Capital Budgets) over the past three years, compared with the fairly stable spending that existed from 1994 through 2008. From 2008 to 2010 total DHCD spending has soared from \$761 million to \$1,244 million, virtually all due to increases from the federal government.⁵² These added funds are being used to help families stay in their homes when foreclosure beckons, to provide rental vouchers, to stabilize neighborhoods by renovating vacant buildings, to offer low income tax credit financing to developers of affordable housing, and to assist in widespread weatherization programs. Such a boost in federal spending

FIGURE 7.1
DHCD Real Operating Funds (2009 dollars), 1989-2010



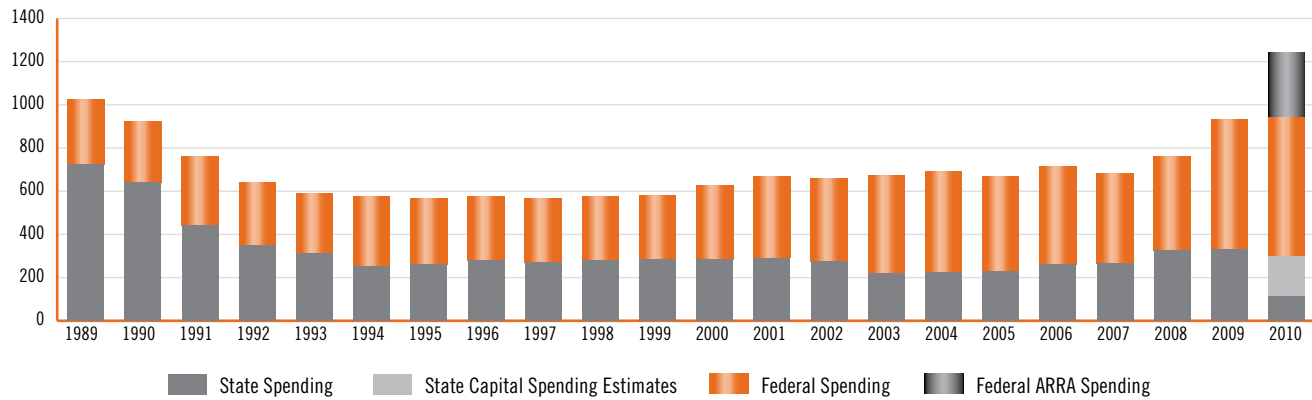
Source: DHCD Budget Office ⁵¹

FIGURE 7.2
Total Real Federal Spending (2009 dollars), 1989-2010



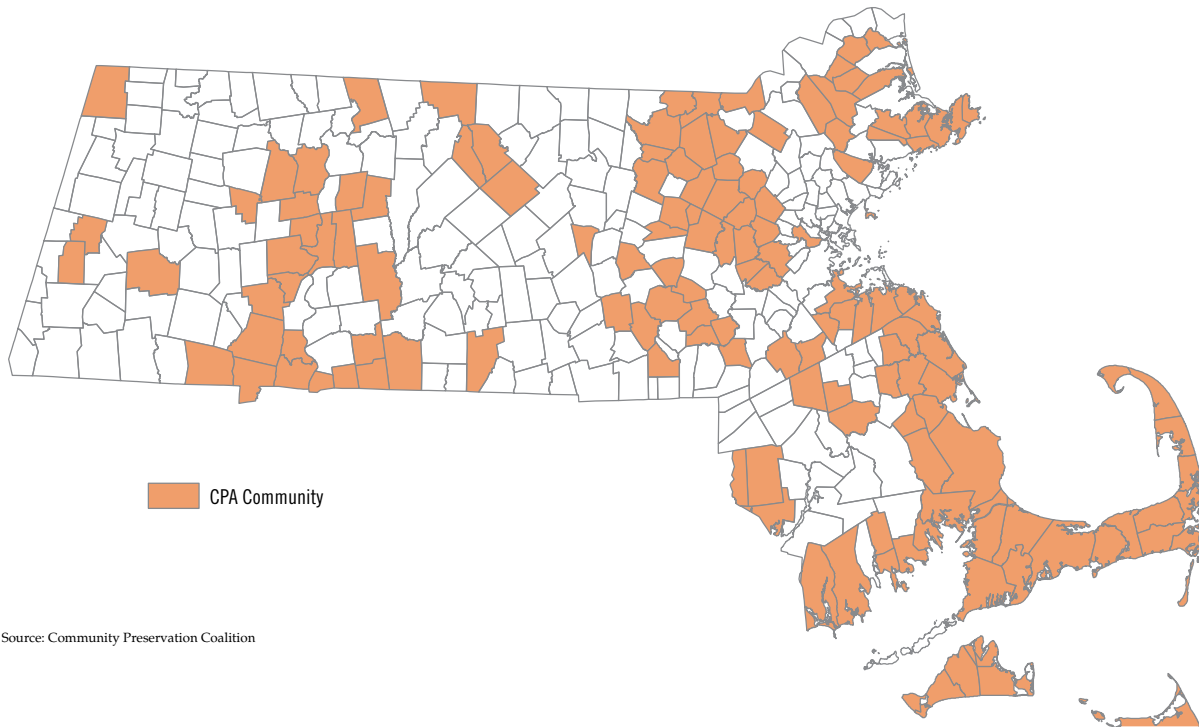
Source: DHCD Budget Office

FIGURE 7.3
Total Real DHCD Spending (2009 dollars), Including Federal Share and ARRA, 1989-2010



Source: DHCD Budget Office ⁵¹

Passage of the Community Preservation Act Among Massachusetts Municipalities



Source: Community Preservation Coalition

helps keep the construction industry from suffering even more dire straits and provides housing assistance to tens of thousands of Massachusetts families.

Local Funding

The Community Preservation Act (CPA) was enacted into law in 2000 as a means to allow individual cities and towns to raise and spend funds dedicated to housing, open space, recreation and historic preservation. As of mid-2009, 142 cities and towns had adopted CPA (40 percent of all towns and cities in the Commonwealth). Since last year's report card was released, there have been three additional communities included in the Greater Boston towns covered in the report that have adopted CPA. These communities are Acton, Gloucester, and Mendon. All of the communities that have adopted CPA can be seen in **Map 7.2**. On average about a third of these funds have been used for new housing construction while the remainder has gone to purchase open space for recreation and for the preservation of local buildings of historic significance.

Conclusion

The past year has brought with it dramatic changes to national and state housing policy and the supply of funding for housing programs. As a result of the housing crisis, the federal government has enacted a wide variety of programs to curtail the impact of foreclosures on individuals, neighborhoods, and municipalities, and to encourage first-time homebuyers to get into the market now.

The economic downturn has caused cuts in the state budget for housing, while new federal funding and programs, most specifically the ARRA, have increased the total housing budget for Massachusetts to the highest level since 1989. Without this substantial increase in public funds for housing related programs, the housing situation in the Commonwealth during this economic crisis would almost surely be considerably more bleak.

8. Conclusion

In the conclusion to last year's *Greater Boston Housing Report Card*, we noted that "with financial markets in more turmoil than at any time since the Great Depression, and with growing weakness throughout the national economy, it is difficult to forecast what might happen to housing prices or to the ability of homeowners to hold on to their homes in the immediate future."¹ Yet we suggested that "sometime in 2009, if the extraordinary federal measures now being implemented work, we will begin to see a recovery in the national economy that will benefit the region as well."²

At the very beginning of 2009, this forecast was beginning to appear much too rosy. Nationally, real gross domestic product would plummet in the last quarter of 2008 by 5.4 percent, followed by an even more dismal -6.4 percent performance in the first quarter of the new year. In November 2008 alone, nearly 600,000 jobs would be lost nationwide, only to be followed by even greater losses in each of the next five months. In the span of just *six months*, from November 2008 through April of this year, nearly 3.9 million jobs would disappear across the country. To put this in context, "only" 2.7 million jobs disappeared over a period of *thirty months* between February 2001 and June 2003 when the nation was last in recession.

On the housing front, home sales dipped to the lowest level in decades and the annual rate of housing starts during the current recession is *less than half* the rate of any recession since at least 1960. Nationwide, the number of foreclosure petitions has averaged more than 300,000 *per month* since the beginning of 2009.³ On average (at least in Greater Boston) about 30 percent of overdue mortgages have turned into actual foreclosure deeds, where a family loses its home. If this fraction holds true for the nation, then over 90,000 additional homes are coming onto the market each month as a result of foreclosure. With so much added supply and so little demand due to the recession, home prices have plummeted in many metro areas. Across the 20 large metro areas tracked in the Case-Shiller single-family home price index, the average median price is down 31 percent since its peak in May 2007. With such a

startling loss in home value, it is estimated that nearly one in four mortgage holders in the U.S. is "underwater" – owing more on the mortgage than the current value of the home.

The pain and suffering nationwide due to the current recession and the housing crisis seemed by early 2009 to be much worse than we contemplated in the last *Housing Report Card*, even as one new federal program after another to deal with the crisis was put in place.

The Case of Greater Boston

This recession has taken its toll on Massachusetts and the Greater Boston metropolitan area, but this time around the Commonwealth has fared better than many regions of the country. Job losses here since December 2007 amount to 3.2 percent of total employment compared to 4.8 percent nationally. While the national unemployment rate was 9.7 percent in August of this year, it was 8.9 percent in Massachusetts and in Greater Boston lower still, at 8.4 percent. While jobs losses are still being reported nationwide in 2009, employment has leveled off in Massachusetts with little further erosion in the number of jobs since early this year. Home prices in Greater Boston have declined from their peak in September 2005, but the overall price slide has been 16 percent – *half the rate* for the 20 Case-Shiller metro areas combined. In some metro areas where speculative bubbles drove home prices sky-high (e.g. Las Vegas, Phoenix, and Miami), prices have fallen by 50 percent. In Greater Boston, prices have declined by little more than they did in the last housing cycle that began in 1988.

There has still been a great deal of pain in the region. Those who bought their first home after 2005 have seen the value of their most important asset decline. Nearly 15,000 families in Greater Boston have lost their homes to foreclosure since the beginning of 2006. The communities suffering the worst ravages of the foreclosure crisis – the lowest-income neighborhoods in the region – have endured the greatest number of boarded-up homes and the most severe loss in home

value. Families who have met each and every mortgage payment have seen their homes devalued by the foreclosed property next door or across the street.

The Beginning of a Recovery

Yet just in the past few months, we have begun to see the first signs of economic recovery. Gross domestic product declined by just 1 percent in the second quarter of 2009, and by the time the third quarter statistics are in, it is expected that they will show that the economy expanded at an annualized rate of 2.2 percent. Employment losses continue to mount, but by August of this year, the monthly loss had shrunk to about 200,000.

Meanwhile, housing sales are beginning to increase. According to the National Association of Realtors, sales in August of this year hit an annual sales rate of 5.1 million, up each month since March.⁴ This is a far cry from the 6.5 million sales in 2006, but it is closing in on the 5.7 million homes sales rate of 2007, the year before the current official recession began. According to the Case-Shiller home price index, home prices seem to have stopped their downward slide sometime around March of this year. As such, the improvement we predicted for 2009, conditional on aggressive action by the U.S. Treasury, the Federal Reserve Board, and the U.S. Department of Housing and Urban Development, seems finally to be coming true.

On the housing front in Greater Boston, we now project that there will be 25 percent fewer foreclosure deeds in 2009 than in 2008, in part because of new federal and state laws that assist homeowners who wish to refinance and that subsidize banks and mortgage companies to do so. We project that auctions of foreclosed single-family homes and condos will decline by 25 to 30 percent this year, reducing the number of newly vacant housing units in hard-hit neighborhoods. Home prices have already appeared to stabilize and begun to rebound in Greater Boston. The median sales price of single-family homes is already up this year by 5 percent, according to the Case-Shiller home price index. Assuming that all of the recent economic news is not illusory and that we do not experience a “double-dip” recession, we are confident that the worst of the housing crisis is behind us. It may still take four to five years for prices to recover to their extraordinary September 2005 peak, if this housing cycle follows the pattern of the last one, but there

are sufficient positive indicators to suggest that we have seen the bottom of the housing market in Greater Boston.

Housing Affordability in Greater Boston

With housing prices down in Greater Boston from their all-time highs, it would be natural to assume that housing affordability has improved. On one measure it has. The ratio of median selling price to median household income has dropped from 6.52 in 2005 to 5.42 in 2008. Thus, families who are in the market for a home in the region today will, on average, spend a somewhat smaller percentage of their household budget on their new housing purchase than they would have four years ago.

But on other measures, housing in Greater Boston has actually become *less affordable* than ever. With foreclosed homeowners moving into rental units and many potential homebuyers sitting on the sidelines waiting for prices to come down even further, demand for residential rentals has soared in the region. The result is that despite the recession’s impact on other prices, effective rents in Greater Boston continued to climb right through the beginning of 2009. Rents were 13 percent higher in the second quarter of 2009 than in early 2004, while median rental household income had hardly increased at all over this period. Today, a family that earns the median renter income in the region and seeks to rent the region’s median-priced apartment must spend half its gross income on rent. Because of increasing rents, Boston is now tied with San Diego for second place in terms of monthly gross rent, trailing only San Francisco while being more expensive than Washington, D.C., New York, and Los Angeles.

Moreover, even though housing prices have declined in Greater Boston, they have declined much more sharply in other metro areas. As a consequence, *relative* to most competing regions of the country, Greater Boston is less affordable today than it was in 2005, when Boston’s prices were at an all-time peak. This loss in relative affordability, if it continues, can lead to a loss of young families, who will find it much less expensive to live in other parts of the country, many of which also have good jobs and excellent amenities. In 2005, when prices were so high in the region, Massachusetts was losing more than 60,000 residents per year to net domestic out-migration. It could happen again.

The Bottom Line

The good news is that the economy is coming back, in part due to the stimulus funding of the federal government and programs aimed at reducing foreclosures and encouraging home purchases.

But this recovery will almost surely require us to worry once again not about falling home prices, but about rising prices. Despite the softening in home prices since 2005, Greater Boston continues to face a serious affordability problem. This lack of affordability can undermine its ability to compete for young families in an era when the region's population is aging rapidly. The region must do everything it can to retain and attract young workers in order to secure a prosperous future.

As the economy recovers and jobs become more plentiful, it will be necessary to provide sufficient housing supply at affordable prices to meet housing demand. That will mean continuing to use every means at the Commonwealth's disposal to provide a housing climate that does not discourage developers from putting in place the housing stock we will need in the future.

Endnotes

Chapter 1

- ¹ Barry Bluestone, Chase Billingham, and Tim Davis, *The Greater Boston Housing Report Card 2008: From Paradigm to Paradox: Understanding Greater Boston's New Housing Market*, (Boston, MA: Center for Urban and Regional Policy/The Boston Foundation, Citizens' Housing and Planning Association, October 2008), p. 10.
- ² See Council of Economic Advisers, "Economic Indicators, August 2009," p. 3; Council of Economic Advisers, "The Economic Impact of the American Recovery and Reinvestment Act of 2009," p. 8.
- ³ Carmen DeNavas-Wait, Bernadette D. Proctor, and Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2008," U.S. Census Bureau, P-60-236, September 2009.
- ⁴ Economic Indicators, August 2009, "Real Personal Consumption Expenditures," p. 4.
- ⁵ *Ibid.*, p. 9
- ⁶ *Ibid.*, p. 9; Council of Economic Advisers, Economic Report of the President, 2009, Statistical Appendix, Table B-2.
- ⁷ Calculated from the Composite-20 Case-Shiller Home Price Index.
- ⁸ Congressional Budget Office, "The Troubled Asset Relief Program: Report on Transactions through December 31, 2008."
- ⁹ Peter Eavis, "Uncle Sam Bets the House on Mortgages," *The Wall Street Journal*, September 18, 2009, p. C12.
- ¹⁰ David Wessel, "Government's Trial and Error Helped Stem Financial Panic," *The Wall Street Journal*, September 14, 2009, p. A1.
- ¹¹ See Recovery.com, the federal government's website on the ARRA Act.
- ¹² Executive Office of the President, Council of Economic Advisers, "The Economic Impact of the American Recovery and Reinvestment Act of 2009, 1st Quarterly Report," September 10, 2009.
- ¹³ "The Economic Impact of the American Recovery and Reinvestment Act of 2009," *op. cit.* Table 7, p. 25.
- ¹⁴ The Conference Board, "Consumer Confidence Survey" Press Release, August 25, 2009.
- ¹⁵ Mark Gongloff, "Housing Seems Set to Aid Economy in a Bit," *The Wall Street Journal*, September 17, 2009, p. C1.
- ¹⁶ Sara Murray, "Housing Starts Show Slight Rise," *The Wall Street Journal*, September 18, 2009, p. A2.
- ¹⁷ Francesca Levy, "Where Home Prices Are Likely to Rise," *Forbes.com*, September 18, 2009.
- ¹⁸ Barry Bluestone, Mary Huff Stevenson, and Russell Williams, "Are the High Fliers Pricing Themselves Out of the Market? The Impact of Housing Cost on Domestic Migration Rates in U.S. Metropolitan Areas" Paper prepared for the Urban Affairs Association Annual Meeting, Chicago, Illinois, March 4-7, 2009.

Chapter 2

¹ Federal Reserve Bank of Philadelphia, “State Coincident Indexes,” retrieved July 31, 2009 (<http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident/>).

² Beginning with the *Greater Boston Housing Report Card 2006-2007*, in response to changes in the Census Bureau’s geographic definition of the Boston metro region that rendered many annual comparisons invalid, we have used the five counties surrounding and including Boston (Essex, Middlesex, Norfolk, Plymouth, and Suffolk) as a near approximation of the original study area. This geographic approximation comes close to, but does not perfectly match, the original 161-community area used in early *Housing Report Cards*, and it permits comparisons over time that might prove misleading if other geographic definitions were used.

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

³ The annual American Community Survey is designed to provide estimates of population-level measures during the years between decennial censuses. Unfortunately, sample sizes for the survey have in past years been so small that reliable estimates of population characteristics have proven elusive. Despite the high response rate for the ACS, the small number of respondents, particularly to the surveys conducted between 2000 and 2004, has produced broad confidence intervals that limit the usefulness of the data. Over the past several years, sample sizes for the ACS have expanded, yielding more reliable data. Still, year-to-year comparisons should be conducted very cautiously. In 2007, the Census Bureau, recognizing the limitations of 1-year ACS data, began releasing 3-year moving estimates in addition to the traditional 1-year estimates. The following table presents data on the sample sizes and response rates for each year’s survey in Massachusetts. It should be noted that Table 2.2 includes data only from five of the state’s counties, so the number of interview cases from which that table was constructed is smaller than the number presented in the table below. For more information on the accuracy of ACS data, consult the ACS Quality Measures website: <http://www.census.gov/acs/www/UseData/sse/>

Year	Initial Addresses Selected	Final Interviews	Response Rate (%)
2007	52,658	37,141	96.3
2006	52,988	37,990	96.8
2005	53,543	37,037	96.5
2004	17,599	12,747	93.2
2003	17,548	12,890	96.5
2002	15,888	11,659	97.6
2001	21,494	15,755	95.7
2000	22,107	15,304	93.8

Chapter 3

¹ The housing permit estimates for 2009 were produced by calculating the ratio of total 2008 housing permits issued from January to July of that year and applying this ratio to existing data for January through July 2009. These estimates assume that the trend in housing permits in the second half of 2009 will mirror the trend in the second half of 2008.

² These permit statistics refer to the Boston-Cambridge-Quincy MA.NH Primary Metropolitan Statistical Area (PMSA) in order provide comparability with other metro areas in the nation. As such, these permit numbers differ from those in Table 3.1, in which the geographic area refers to the five-county region including Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties.

Chapter 4

¹ See Barry Bluestone, Mary Huff Stevenson, and Russell Williams, *The Urban Experience: Economics, Society, and Public Policy* (New York: Oxford University Press, 2008), pp. 417-421.

² Francesca Levy, "Where Home Prices are Likely to Rise," *Forbes.com*, September 18, 2009.

³ "Rental classified listings decreased in the majority of neighborhoods. DND will continue to evaluate the rental data collection process to identify additional sources or data collection methods to produce a larger sample group for future Trend Reports." City of Boston Department of Neighborhood Development, *Real Estate Trends 2008*, p. 7. Retrieved September 1, 2009 (http://www.cityofboston.gov/TridionImages/U_2008_Real_Estate_Trends_tcm1-3916.pdf).

⁴ Northeastern data taken from Northeastern University Housing & Residence Life, "On Campus Housing Options." Retrieved September 2, 2009 (<http://www.northeastern.edu/reslife/upperclass/oncampus.html>). BU data taken from BU Housing, "33 Harry Agganis Way, Opening Fall 2009." Retrieved September 2, 2009 (<http://www.bu.edu/housing/residences/stuv/33agganis/index.html#photos/living-room.jpg>). Emerson data taken from Emerson College Housing & Residence Life, "Residence Halls." Retrieved September 2, 2009 (<http://www.emerson.edu/housing/campuslife/Hall-Descriptions.cfm>). Other data from personal correspondence with personnel at various colleges and universities.

⁵ In 2008, the Boston City Council imposed a limit of four undergraduate students in any apartment within the city. Of course, that provision has proved difficult to enforce. A recent controversial proposal by City Councilor Mike Ross would impose a fee on brokers who rent apartments in Boston to groups of more than five undergraduate students. See Scott Van Voorhis, "Brokers Targeted in Boston's Latest Crackdown on Student Rowdies." *Boston Real Estate Now*. Retrieved September 2, 2009 (http://www.boston.com/realestate/news/blogs/renow/2009/08/brokers_targete.html).

⁶ Tracy Jan, "BU Dorm Offers a Study in Luxury," *The Boston Globe*, September 2, 2009, p. 1.

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Chapter 5

¹ Barry Bluestone, Charles C. Euchner, and Gretchen Weismann, *A New Paradigm for Housing in Greater Boston*, Center for Urban and Regional Policy, Northeastern University, September 2000.

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⁵ Massachusetts Department of Revenue, Division of Local Services, "Total Housing Units, Land & Water Area Per Square Mile." Retrieved September 9, 2009 (<http://www.mass.gov/Ador/docs/dls/mdmstuf/Socioeconomic/HouseandSqMi.xls>).

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⁷ Economic Policy Institute, Family Budget Calculator for 2007, Washington, D.C.

Chapter 6

¹ Center for Responsible Lending, "Subprime Lending: A Net Drain in Homeownership." Center for Responsible Lending Issue Paper 14 (March 2007). Retrieved September 1, 2009 (<http://www.responsiblelending.org/mortgage-lending/research-analysis/Net-Drain-in-Home-Ownership.pdf>).

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³ Ellen Schloemer, Wei Li, Keith Ernst, and Kathleen Keest, "Losing Ground: Foreclosures in the Subprime Market and their Cost to Homeowners" Center for Responsible Lending, 2006, p. 5. Retrieved September 1, 2009 (<http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosure-paper-report-2-17.pdf>).

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⁶ Harry Maurer and Cristina Lindblad, "Economics and Policy," *BusinessWeek*, August 24 & 31, 2009, p. 8.

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⁹ The Warren Group, "Mass. Foreclosures Climb in July from Prior Month, But Drop from Last Year's Level," August 19, 2009.

¹⁰ To project the total number of foreclosure petitions and deeds for 2009, we took the number issued during the first six months of the year and doubled it. With little evidence that the pace of foreclosure activity will either increase or decrease over the remaining six months of the year, it would attempt to pro-rate the number of petitions for the second half of 2009, like we did in the 2008 report, would be ill-advised. Our pro-rated estimates last year overstated the number of annual petitions by

about 25 percent, in part because the pro-rating system could not adequately account for the right-to-cure legislation. This year we chose to use the simple method of projecting the second half of the year to mirror the first half.

Chapter 7

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⁵ HUD, “Neighborhood Stabilization Program Grants”, Available at: <http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/>

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⁷ Ibid.

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¹⁶ Dawn Kopecki. “Refinancing Rules Eased Further at Fannie, Freddie”. *Boston Globe*. July 2, 2009. Available online at http://www.boston.com/realestate/news/articles/2009/07/02/refinancing_rules_eased_further_at_fannie_freddie/.

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¹⁹ “Making Home Affordable” Update: Foreclosure Alternatives and Home Price Decline Protection Incentives, US Treasury Press Release available online at <http://www.treas.gov/press/releases/docs/05142009FactSheet-MakingHomesAffordable.pdf>.

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²² Ibid.

²³ Ibid.

²⁴ “Making Home Affordable Program on Pace to Offer Help to Millions of Homeowners”, US Treasury Press Release, August 4, 2009. Available online at: <http://www.treas.gov/press/releases/tg252.htm>

²⁵ Ibid.

²⁶ Mark Gongloff, “Decision on Ending Housing Prop Can Wait, *Wall Street Journal*, September 22, 2009, p. C1.

²⁷ “Making Home Affordable” Update: Foreclosure Alternatives and Home Price Decline Protection Incentives, US Treasury Press Release. Press release available online at <http://www.treas.gov/press/releases/docs/05142009FactSheet->

²⁸ Ibid.

²⁹ Manuel Adelino, Kristopher Gerardi, and Paul Willen. “Why Don’t Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization” Public Policy Discussion Paper. Federal Reserve Bank of Boston (July 2009). Available online at <http://www.bos.frb.org/economic/ppdp/2009/ppdp0904.pdf>.

³⁰ “Making Home Affordable” Update: Foreclosure Alternatives and Home Price Decline Protection Incentives, US Treasury Press Release. Available online at <http://www.treas.gov/press/releases/docs/05142009FactSheet->

³¹ Jennifer McKim. “Frank proposed home loan plan for jobless”. *Boston Globe*. July 9, 2009. Available online at http://www.boston.com/news/nation/washington/articles/2009/07/09/frank_proposes_home_loan_plan_for_jobless/

³² A press release from Senator John Kerry’s office on September 22, 2009 suggests that the amount of funds going to Massachusetts for the Homeless Prevention and Rapid Re-Housing Program (HPRP) has been increased to \$27.3 million with \$18 million going directly to the Commonwealth and a number of cities including Fall River, New Bedford, Worcester, Lynn, Lawrence, Lowell, Brockton, and Somerville each scheduled to receive between \$610,000 and \$1.9 million in assistance.

³³ “Reforms for American Homeowners and Consumers”, May 20, 2009. Office of the Press Secretary of the White House. Press release from the White House available at http://www.whitehouse.gov/the_press_office/Reforms-for-American-Homeowners-and-Consumers-President-Obama-Signs-the-Helping-Families-Save-their-Homes-Act-and-the-Fraud-Enforcement-and-Recovery-Act/

³⁴ Jennifer McKim. “Massachusetts to get \$110 million for housing”, *Boston Globe*, (July 11, 2009). Available online at http://www.boston.com/business/articles/2009/07/11/mass_to_get_110m_for_housing/

³⁵ Ibid.

³⁶ Ibid.

³⁷ Joseph Williams. “President Shifts Focus to Renting, Not Owning”. *Boston Globe*. August 16, 2009. Available online at http://www.boston.com/news/nation/washington/articles/2009/08/16/president_shifts_focus_to_renting_not_owning/

³⁸ Ann Verrilli, “The Massachusetts Rental Voucher Program: Maintaining the State’s Primary Homelessness Prevention Tool”, CHAPA Briefing Paper, (June 2009), 24.

³⁹ Ibid, 3.

⁴⁰ Ibid, 10.

⁴¹ Ibid, 10.

⁴² Ibid, 5.

⁴³ Ibid, 24.

⁴⁴ Ann Verrilli and Jennifer Raiit, “The Status of M.G.L. Chapter 40R in Massachusetts: Projects, Trends, and Findings,” Citizens’ Housing and Planning Association and Metropolitan Area Planning Council, August 2009.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ It is important to note that the data included for the FY 2010 DHCD budget in Figure 7.1 do not include funding for housing stabilization, in order to keep the spending figures consistent from year to year. The additional housing Assistance to DHCD to run programs for the homeless. Although the entire DHCD state spending is higher in FY 2010 than in previous years, including these numbers would inaccurately depict the spending given to programs previously included in the state operating budget.

⁵¹ The 2010 spending excludes the addition of housing stabilization funding, which was moved from the Department of Transitional Assistance to DHCD this year.

⁵² Since data on the state’s capital budget for housing were not yet available as of September 2009 we have used the same figure for 2010 capital spending as in 2009 (\$184 million).

⁵³ The 2010 spending excludes the addition of housing stabilization funding, which was moved from the Department of Transitional Assistance to DHCD this year. This figure also includes an estimate of the state capital funding for 2010, because the actual data were not publicly available as of September 2009.

Chapter 8

¹ Barry Bluestone, Chase Billingham, and Tim Davis, *The Greater Boston Housing Report Card 2008 From Paradigm to Paradox: Understanding Greater Boston’s New Housing Market*, The Center for Urban and Regional Policy, Northeastern University; The Boston Foundation; and the Citizens’ Housing and Planning Association (CHAPA), October 2008, p. 67.

² Ibid., p. 68.

³ David Taub, “U.S. Foreclosure Filings Top 300,000 for the Sixth Straight Month,” Bloomberg.com, September 10, 2009.

⁴ National Association of Realtors, “Existing Home Sales, 2006-August 2009,” September 24, 2009.

Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2008	Number of Single Family Home Sales Through June 2008	Number of Single Family Home Sales Through June 2009	Percent Change in Number of Single Family Sales, June 2008–June 2009	Median Single Family Home Selling Price Through June 2008	Median Single Family Home Selling Price Through June 2009	Percent Change in Median Single Family Sales Price, June 2008–June 2009
Abington	5,332	18	38	46	21%	\$290,000	\$249,950	-14%
Acton	7,645	49	74	75	1%	\$482,150	\$473,000	-2%
Amesbury	6,570	17	43	44	2%	\$277,500	\$295,000	6%
Andover	11,513	30	132	122	-8%	\$535,150	\$492,500	-8%
Arlington	19,358	52	119	101	-15%	\$495,000	\$475,000	-4%
Ashland	5,781	38	53	57	8%	\$407,500	\$345,000	-15%
Avon	1,737	4	13	10	-23%	\$289,900	\$232,450	-20%
Ayer	3,141	32	19	22	16%	\$240,000	\$267,000	11%
Bedford	4,692	36	33	32	-3%	\$485,000	\$488,750	1%
Bellingham	5,632	11	58	56	-3%	\$265,500	\$228,500	-14%
Belmont	9,936	15	73	58	-21%	\$717,000	\$666,078	-7%
Berkley	1,870	20		17			\$268,000	
Berlin	891	25		13			\$450,000	
Beverly	16,150	13	120	104	-13%	\$355,000	\$327,500	-8%
Billerica	13,055	39	132	110	-17%	\$315,000	\$304,000	-3%
Blackstone	3,321	10		34			\$225,650	
Bolton	1,472	6		20			\$405,000	
Boston	250,367	513	429	376	-12%	\$350,000	\$313,750	-10%
Boxboro	1,900	5	7	16	129%	\$545,000	\$430,500	-21%
Boxford	2,602	9	33	28	-15%	\$590,000	\$518,725	-12%
Braintree	12,924	24	104	113	9%	\$337,500	\$310,000	-8%
Bridgewater	7,639	30	55	52	-5%	\$303,000	\$273,050	-10%
Brockton	34,794	34	273	300	10%	\$204,000	\$154,725	-24%
Brookline	26,224	50	77	39	-49%	\$1,065,000	\$1,250,000	17%
Burlington	8,395	13	66	55	-17%	\$367,500	\$370,000	1%
Cambridge	44,138	36	41	29	-29%	\$885,000	\$846,500	-4%
Canton	8,129	123	56	52	-7%	\$463,700	\$408,500	-12%
Carlisle	1,647	2	25	24	-4%	\$850,000	\$677,125	-20%
Carver	4,063	20	47	30	-36%	\$310,000	\$290,950	-6%
Chelmsford	12,981	6	120	1	-99%	\$319,500		
Chelsea	12,317	239	13	11	-15%	\$220,000	\$160,000	-27%
Cohasset	2,752	19	40	36	-10%	\$729,000	\$650,000	-11%
Concord	6,095	14	76	65	-14%	\$705,000	\$749,000	6%
Danvers	9,712	11	70	54	-23%	\$358,450	\$319,000	-11%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2008	Foreclosure Auctions, 2008	Foreclosure Deeds, 2008	Foreclosure Deeds (2008) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Adoption of Community Preservation Act	Expiring Use Units at Risk—2012
Abington	56	57	22	0.41%			170
Acton	18	30	10	0.13%	Y	2003	0
Amesbury	42	50	33	0.50%			0
Andover	37	28	8	0.07%			0
Arlington	23	7	10	0.05%			145
Ashland	49	52	23	0.40%	Y	2003	162
Avon	16	15	10	0.58%			0
Ayer	31	40	18	0.57%	Y	2002	20
Bedford	6	7	1	0.02%	Y	2002	131
Bellingham	78	73	37	0.66%			90
Belmont	20	15	9	0.09%			0
Berkley	13	10	8	0.43%			0
Berlin	5	3	2	0.22%			40
Beverly	48	50	29	0.18%			330
Billerica	109	112	54	0.41%			0
Blackstone	34	36	16	0.48%			0
Bolton	8	2	5	0.34%			0
Boston	58	44	21	0.01%			5,175
Boxboro	11	8	9	0.47%			0
Boxford	18	16	3	0.12%	Y	2002	0
Braintree	74	61	28	0.22%	Y	2003	194
Bridgewater	63	5	21	0.27%	Y	2006	0
Brockton	733	798	521	1.50%			572
Brookline	30	17	9	0.03%			99
Burlington	38	28	11	0.13%			0
Cambridge	50	45	19	0.04%	Y	2002	370
Canton	37	23	12	0.15%			105
Carlisle	2	3	1	0.06%	Y	2002	18
Carver	59	59	32	0.79%	Y	2007	0
Chelmsford	66	66	29	0.22%	Y	2002	0
Chelsea	181	50	125	1.01%			112
Cohasset	12	7	1	0.04%	Y	2002	0
Concord	15	16	3	0.05%	Y	2005	0
Danvers	42	53	17	0.18%			0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2008	Number of Single Family Home Sales Through June 2008	Number of Single Family Home Sales Through June 2009	Percent Change in Number of Single Family Sales, June 2008–June 2009	Median Single Family Home Selling Price Through June 2008	Median Single Family Home Selling Price Through June 2009	Percent Change in Median Single Family Sales Price, June 2008–June 2009
Dedham	8,893	13	104	80	-23%	\$375,000	\$314,500	-16%
Dighton	2,261	21		14			\$279,000	
Dover	1,874	13	24	16	-33%	\$968,750	\$834,250	-14%
Dracut	10,597	33	88	91	3%	\$264,000	\$240,000	-9%
Dunstable	933	12	11	5	-55%	\$413,000	\$477,000	15%
Duxbury	5,103	31	63	57	-10%	\$610,000	\$440,000	-28%
East Bridgewater	4,423	25	29	38	31%	\$300,000	\$251,450	-16%
Easton	7,596	19		73			\$325,000	
Essex	1,357	3	11	8	-27%	\$425,000	\$404,313	-5%
Everett	15,886	127	46	52	13%	\$261,750	\$212,500	-19%
Foxborough	6,260	275	50	37	-26%	\$375,000	\$355,000	-5%
Framingham	26,588	15	214	191	-11%	\$345,000	\$286,000	-17%
Franklin	10,296	216	116	108	-7%	\$363,500	\$417,500	15%
Georgetown	2,601	21	27	32	19%	\$350,000	\$303,250	-13%
Gloucester	12,997	26	81	60	-26%	\$380,000	\$278,750	-27%
Groton	3,339	11	36	24	-33%	\$403,750	\$443,625	10%
Groveland	2,090	82	20	15	-25%	\$404,789	\$300,000	-26%
Halifax	2,804	5	25	20	-20%	\$282,000	\$227,500	-19%
Hamilton	2,717	2	34	23	-32%	\$550,000	\$375,000	-32%
Hanover	4,440	13	51	32	-37%	\$385,000	\$343,290	-11%
Hanson	3,167	19	42	25	-40%	\$280,000	\$250,000	-11%
Harvard	2,156	2		20			\$430,000	
Haverhill	23,675	55	149	134	-10%	\$270,000	\$248,000	-8%
Hingham	7,307	274	80	83	4%	\$609,580	\$590,000	-3%
Holbrook	4,145	14	35	45	29%	\$236,900	\$219,900	-7%
Holliston	4,861	25	56	55	-2%	\$345,000	\$350,000	1%
Hopedale	2,284	0		18			\$206,750	
Hopkinton	4,521	29	69	57	-17%	\$555,000	\$445,000	-20%
Hudson	7,144	27	44	53	20%	\$294,000	\$262,500	-11%
Hull	4,679	8	48	46	-4%	\$345,000	\$283,500	-18%
Ipswich	5,414	25	34	38	12%	\$379,500	\$397,750	5%
Kingston	4,370	28	49	39	-20%	\$350,000	\$290,000	-17%
Lakeville	3,385	19	29	27	-7%	\$309,000	\$260,000	-16%
Lancaster	2,103	11		16			\$309,000	

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2008	Foreclosure Auctions, 2008	Foreclosure Deeds, 2008	Foreclosure Deeds (2008) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Adoption of Community Preservation Act	Expiring Use Units at Risk—2012
Dedham	80	64	39	0.44%			0
Dighton	22	10	13	0.57%			0
Dover	5	4	2	0.11%			0
Dracut	112	109	60	0.57%	Y	2002	0
Dunstable	9	5	1	0.11%	Y	2007	0
Duxbury	29	1	3	0.06%	Y	2002	0
East Bridgewater	49	33	18	0.41%			0
Easton	51	52	32	0.42%	Y	2002	0
Essex	5	11	2	0.15%	Y	2008	0
Everett	245	68	132	0.83%			160
Foxborough	48	8	20	0.32%			64
Framingham	378	339	179	0.67%			818
Franklin	70	56	28	0.27%			58
Georgetown	22	16	9	0.35%	Y	2002	0
Gloucester	60	58	26	0.20%	Y	2010	80
Groton	16	9	7	0.21%	Y	2006	0
Groveland	18	16	9	0.43%	Y	2005	0
Halifax	29	27	16	0.57%			0
Hamilton	10	2	1	0.04%	Y	2006	0
Hanover	29	36	13	0.29%	Y	2006	0
Hanson	44	27	11	0.35%	Y	2009	0
Harvard	5	5	2	0.09%	Y	2002	0
Haverhill	299	282	182	0.77%			149
Hingham	27	17	1	0.01%	Y	2002	60
Holbrook	46	43	33	0.80%			0
Holliston	28	32	17	0.35%	Y	2002	0
Hopedale	14	9	5	0.22%			0
Hopkinton	25	23	15	0.33%	Y	2002	0
Hudson	49	43	19	0.27%	Y	2008	0
Hull	50	3	20	0.43%			0
Ipswich	26	24	10	0.18%			0
Kingston	47	24	15	0.34%	Y	2006	0
Lakeville	29	7	19	0.56%			22
Lancaster	12	5	6	0.29%			0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2008	Number of Single Family Home Sales Through June 2008	Number of Single Family Home Sales Through June 2009	Percent Change in Number of Single Family Sales, June 2008–June 2009	Median Single Family Home Selling Price Through June 2008	Median Single Family Home Selling Price Through June 2009	Percent Change in Median Single Family Sales Price, June 2008–June 2009
Lawrence	25,540	21	78	74	-5%	\$175,548	\$142,450	-19%
Lexington	11,274	60	159	140	-12%	\$720,000	\$663,750	-8%
Lincoln	2,076	4	20	14	-30%	\$1,140,000	\$1,060,626	-7%
Littleton	3,018	62	27	25	-7%	\$340,000	\$337,000	-1%
Lowell	39,381	141	183	196	7%	\$196,000	\$185,000	-6%
Lynn	34,569	22	171	214	25%	\$217,000	\$187,500	-14%
Lynnfield	4,249	217	47	31	-34%	\$490,000	\$452,000	-8%
Malden	23,561	2	77	75	-3%	\$300,000	\$249,000	-17%
Manchester	2,219	9	31	27	-13%	\$710,000	\$650,000	-8%
Mansfield	8,083	14		42			\$357,000	
Marblehead	8,746	5	81	66	-19%	\$518,000	\$446,750	-14%
Marlborough	14,846	17	111	104	-6%	\$319,000	\$257,500	-19%
Marshfield	9,117	21	94	89	-5%	\$386,000	\$300,000	-22%
Maynard	4,398	38	41	47	15%	\$331,880	\$280,000	-16%
Medfield	4,038	9	49	48	-2%	\$525,000	\$505,600	-4%
Medford	22,631	4	112	90	-20%	\$360,000	\$325,000	-10%
Medway	4,243	8	55	52	-5%	\$339,000	\$313,000	-8%
Melrose	11,200	43	85	66	-22%	\$410,000	\$389,375	-5%
Mendon	1,870	5		12			\$332,000	
Merrimac	2,281	32	10	22	120%	\$283,400	\$280,375	-1%
Methuen	16,848	59	162	129	-20%	\$278,700	\$235,000	-16%
Middleborough	7,195	63	71	57	-20%	\$281,900	\$255,000	-10%
Middleton	2,337	29	22	21	-5%	\$430,000	\$540,000	26%
Milford	10,682	24		70			\$272,750	
Millis	3,060	6	34	20	-41%	\$322,500	\$325,000	1%
Millville	956	0		8			\$186,000	
Milton	9,142	11	118	99	-16%	\$445,000	\$435,000	-2%
Nahant	1,676	2	10	11	10%	\$365,000	\$416,000	14%
Natick	13,337	33	109	100	-8%	\$390,000	\$432,500	11%
Needham	10,793	64	142	142	0%	\$632,000	\$617,500	-2%
Newbury	2,614	18	34	20	-41%	\$400,500	\$333,750	-17%
Newburyport	7,717	18	79	46	-42%	\$460,000	\$395,000	-14%
Newton	31,857	70	276	206	-25%	\$741,950	\$722,500	-3%
Norfolk	2,851	10	55	34	-38%	\$475,000	\$425,000	-11%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2008	Foreclosure Auctions, 2008	Foreclosure Deeds, 2008	Foreclosure Deeds (2008) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Adoption of Community Preservation Act	Expiring Use Units at Risk—2012
Lawrence	510	532	416	1.63%			460
Lexington	21	23	5	0.04%	Y	2007	78
Lincoln	0	2	0	0.00%	Y	2003	125
Littleton	10	12	4	0.13%	Y	2008	0
Lowell	474	509	344	0.87%			786
Lynn	648	443	452	1.31%			413
Lynnfield	32	4	3	0.07%			0
Malden	229	41	128	0.54%			237
Manchester	4	0	4	0.18%	Y	2006	0
Mansfield	36	53	22	0.27%			0
Marblehead	29	21	16	0.18%			0
Marlborough	229	236	153	1.03%			0
Marshfield	103	101	26	0.29%	Y	2002	0
Maynard	24	23	10	0.23%	Y	2007	56
Medfield	20	8	7	0.17%			0
Medford	143	78	55	0.24%			93
Medway	30	21	16	0.38%	Y	2002	0
Melrose	44	35	11	0.10%			0
Mendon	15	19	9	0.48%	Y	2004	0
Merrimac	19	12	7	0.31%			24
Methuen	176	174	103	0.61%			160
Middleborough	77	17	42	0.58%			16
Middleton	3	14	6	0.26%	Y	2005	48
Milford	141	139	89	0.83%			61
Millis	19	20	11	0.36%	Y	2008	0
Millville	14	23	14	1.46%			0
Milton	61	13	24	0.26%			139
Nahant	9	9	4	0.24%	Y	2005	0
Natick	38	37	23	0.17%			0
Needham	15	9	3	0.03%	Y	2006	61
Newbury	10	13	3	0.11%			0
Newburyport	20	24	11	0.14%	Y	2004	0
Newton	63	50	14	0.04%	Y	2002	206
Norfolk	14	2	4	0.14%	Y	2002	0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2008	Number of Single Family Home Sales Through June 2008	Number of Single Family Home Sales Through June 2009	Percent Change in Number of Single Family Sales, June 2008–June 2009	Median Single Family Home Selling Price Through June 2008	Median Single Family Home Selling Price Through June 2009	Percent Change in Median Single Family Sales Price, June 2008–June 2009
North Andover	9,896	29	85	87	2%	\$500,500	\$425,000	-15%
North Reading	4,839	18	45	44	-2%	\$392,000	\$372,549	-5%
Norton	5,942	34		47			\$270,000	
Norwell	3,299	10	60	45	-25%	\$643,900	\$555,000	-14%
Norwood	11,911	10	69	58	-16%	\$359,000	\$329,250	-8%
Peabody	18,838	41	134	122	-9%	\$335,000	\$277,500	-17%
Pembroke	5,834	23	53	54	2%	\$329,000	\$302,250	-8%
Pepperell	3,905	9	25	29	16%	\$310,000	\$268,000	-14%
Plainville	3,088	13	18	19	6%	\$337,500	\$304,000	-10%
Plymouth	19,008	176	254	203	-20%	\$313,750	\$266,000	-15%
Plympton	865	5	9	8	-11%	\$280,000	\$222,500	-21%
Quincy	39,912	381	195	176	-10%	\$330,000	\$309,950	-6%
Randolph	11,497	284	107	119	11%	\$262,900	\$210,000	-20%
Raynham	4,197	20		40			\$298,750	
Reading	8,811	14	80	85	6%	\$394,500	\$400,000	1%
Revere	20,102	17	67	69	3%	\$250,000	\$210,000	-16%
Rockland	6,632	35	41	40	-2%	\$279,900	\$265,000	-5%
Rockport	3,652	10	28	21	-25%	\$414,150	\$383,000	-8%
Rowley	1,985	23	22	11	-50%	\$417,500	\$460,000	10%
Salem	18,103	10	56	75	34%	\$303,500	\$275,000	-9%
Salisbury	3,456	13	19	20	5%	\$305,000	\$272,950	-11%
Saugus	10,111	171	107	76	-29%	\$305,000	\$257,200	-16%
Scituate	6,869	14	97	73	-25%	\$420,000	\$420,000	0%
Sharon	6,006	29	94	71	-24%	\$343,000	\$350,000	2%
Sherborn	1,449	6	12	14	17%	\$857,750	\$696,075	-19%
Shirley	2,140	7	12	14	17%	\$369,725	\$254,000	-31%
Somerville	32,389	3	30	27	-10%	\$390,500	\$386,500	-1%
Southborough	2,988	10		28			\$339,950	
Stoneham	9,231	5	69	62	-10%	\$378,000	\$348,000	-8%
Stoughton	10,429	6	102	83	-19%	\$301,000	\$262,130	-13%
Stow	2,108	45	20	19	-5%	\$410,000	\$380,000	-7%
Sudbury	5,582	55	78	66	-15%	\$549,350	\$587,000	7%
Swampscott	5,804	3	46	27	-41%	\$437,050	\$345,000	-21%
Taunton	22,874	51		122			\$212,500	

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2008	Foreclosure Auctions, 2008	Foreclosure Deeds, 2008	Foreclosure Deeds (2008) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Adoption of Community Preservation Act	Expiring Use Units at Risk—2012
North Andover	55	61	21	0.21%	Y	2002	0
North Reading	27	8	17	0.35%			0
Norton	63	22	34	0.57%			24
Norwell	16	20	3	0.09%	Y	2003	0
Norwood	46	29	16	0.13%			35
Peabody	153	130	70	0.37%	Y	2002	411
Pembroke	58	48	18	0.31%	Y	2008	0
Pepperell	24	17	8	0.20%			40
Plainville	14	16	8	0.26%			0
Plymouth	248	235	121	0.64%	Y	2003	158
Plympton	9	10	4	0.46%	Y	2009	0
Quincy	160	161	74	0.19%	Y	2007	361
Randolph	216	138	120	1.04%	Y	2006	0
Raynham	39	14	11	0.26%			0
Reading	33	6	18	0.20%			113
Revere	311	81	176	0.88%			0
Rockland	79	21	21	0.32%			204
Rockport	11	9	2	0.05%	Y	2003	30
Rowley	19	16	7	0.35%	Y	2002	0
Salem	127	146	68	0.38%			322
Salisbury	27	23	11	0.32%			0
Saugus	95	109	61	0.60%			266
Scituate	47	38	14	0.20%	Y	2003	0
Sharon	31	33	16	0.27%	Y	2006	0
Sherborn	1	0	2	0.14%			0
Shirley	13	14	8	0.37%			0
Somerville	110	111	53	0.16%			537
Southborough	16	10	2	0.07%	Y	2004	0
Stoneham	43	4	21	0.23%			194
Stoughton	106	122	44	0.42%	Y	2009	232
Stow	8	9	2	0.09%	Y	2002	0
Sudbury	12	11	8	0.14%	Y	2003	0
Swampscott	44	24	21	0.36%			0
Taunton	235	117	142	0.62%			319

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2000 Census)	Units Permitted in 2008	Number of Single Family Home Sales Through June 2008	Number of Single Family Home Sales Through June 2009	Percent Change in Number of Single Family Sales, June 2008–June 2009	Median Single Family Home Selling Price Through June 2008	Median Single Family Home Selling Price Through June 2009	Percent Change in Median Single Family Sales Price, June 2008–June 2009
Tewksbury	10,125	417	92	79	-14%	\$319,450	\$299,900	-6%
Topsfield	2,126	2	19	22	16%	\$473,000	\$437,730	-7%
Townsend	3,162	14	38	35	-8%	\$252,250	\$238,000	-6%
Tyngsborough	3,784	16	29	26	-10%	\$328,750	\$342,500	4%
Upton	2,083	23		13			\$349,000	
Wakefield	9,914	69	75	80	7%	\$375,000	\$372,500	-1%
Walpole	8,202	39	69	71	3%	\$400,000	\$334,000	-17%
Waltham	23,749	76	126	95	-25%	\$405,000	\$380,000	-6%
Wareham	8,650	27	90	98	9%	\$224,250	\$206,675	-8%
Watertown	14,959	2	44	43	-2%	\$440,000	\$405,000	-8%
Wayland	4,703	5	58	49	-16%	\$509,000	\$476,000	-6%
Wellesley	8,789	51	171	95	-44%	\$1,084,500	\$1,060,000	-2%
Wenham	1,310	1	17	7	-59%	\$480,000	\$470,000	-2%
West Bridgewater	2,507	5	22	17	-23%	\$288,500	\$242,000	-16%
West Newbury	1,414	15	19	16	-16%	\$570,000	\$443,000	-22%
Westford	6,877	50	73	68	-7%	\$430,000	\$427,500	-1%
Weston	3,796	33	69	42	-39%	\$1,210,000	\$1,025,000	-15%
Westwood	5,218	13	74	58	-22%	\$539,050	\$536,500	0%
Weymouth	22,471	36	130	163	25%	\$288,750	\$285,000	-1%
Whitman	5,100	31	39	37	-5%	\$257,000	\$289,000	12%
Wilmington	7,141	25	68	70	3%	\$331,000	\$345,000	4%
Winchester	7,860	24	118	80	-32%	\$757,500	\$677,000	-11%
Winthrop	8,009	6	23	32	39%	\$361,000	\$283,750	-21%
Woburn	15,312	10	116	92	-21%	\$330,000	\$323,250	-2%
Wrentham	3,477	17	38	35	-8%	\$430,000	\$410,000	-5%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2008	Foreclosure Auctions, 2008	Foreclosure Deeds, 2008	Foreclosure Deeds (2008) as a Percentage of Total Units (2000)	Adoption of Community Preservation Act	Year of Adoption of Community Preservation Act	Expiring Use Units at Risk—2012
Tewksbury	76	41	27	0.27%	Y	2007	0
Topsfield	8	10	2	0.09%			0
Townsend	29	22	10	0.32%			0
Tyngsborough	20	23	16	0.42%	Y	2002	0
Upton	11	1	7	0.34%	Y	2004	89
Wakefield	48	8	24	0.24%			25
Walpole	44	13	9	0.11%			0
Waltham	67	55	23	0.10%	Y	2006	0
Wareham	116	112	65	0.75%	Y	2003	0
Watertown	43	40	12	0.08%			156
Wayland	19	17	6	0.13%	Y	2002	0
Wellesley	16	13	74	0.84%	Y	2003	125
Wenham	6	3	1	0.08%	Y	2006	0
West Bridgewater	18	8	7	0.28%	Y	2009	0
West Newbury	2	7	3	0.21%	Y	2007	0
Westford	32	26	12	0.17%	Y	2002	0
Weston	13	8	3	0.08%	Y	2002	0
Westwood	10	8	5	0.10%			32
Weymouth	134	131	78	0.35%	Y	2006	378
Whitman	56	3	42	0.82%			0
Wilmington	51	15	17	0.24%			0
Winchester	20	18	1	0.01%			18
Winthrop	51	8	22	0.27%			0
Woburn	76	67	36	0.24%			0
Wrentham	31	18	8	0.23%			0

Sources:

Data on the number of sales and median sales prices, along with data on foreclosure petitions, auctions, and deeds, were provided by the Warren Group.

Foreclosure numbers apply only to single-family homes, units in 2-3 unit structures, and condominiums.

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

Data on Expiring Use Units at Risk come from the Community Economic Development Assistance Corporation (CEDAC), Expiring Use Database, available from the Citizens' Housing and Planning Association (<http://www.chapa.org/pdf/ExpUseJuly09.pdf>).

Appendix B Matrix of Municipalities for Affordability Analysis

	LOW DENSITY	MEDIUM DENSITY	HIGH DENSITY			
HIGH INCOME	High-Income, Low-Density (28)		High-Income, Medium-Density (16)	High-Income, High-Density (8)		
	Bolton	Norwell	Acton	Belmont		
	Boxborough	Sherborn	Andover	Burlington		
	Boxford	Southborough	Bedford	Marblehead		
	Carlisle	Stow	Cohasset	Needham		
	Concord	Sudbury	Hanover	Newton		
	Dover	Topsfield	Hingham	Reading		
	Dunstable	Upton	Holliston	Wellesley		
	Duxbury	Wenham	Lexington	Winchester		
	Georgetown	West Newbury	Lynnfield			
	Groton	Westford	Manchester			
	Harvard	Weston	Milton			
	Hopkinton	Wrentham	North Reading			
	Lincoln		Sharon			
	Middleton		Walpole			
	Newbury		Wayland			
Norfolk		Westwood				
MEDIUM INCOME	Medium-Income, Low-Density (18)		Medium-Income, Medium-Density (22)		Medium-Income, High-Density (14)	
	Berkley	Norton	Ashland	Hudson	Arlington	Swampscott
	Berlin	Pepperell	Bellingham	Mansfield	Braintree	Wakefield
	Dighton	Plympton	Billerica	Marshfield	Brookline	Watertown
	Essex	Raynham	Bridgewater	Merrimac	Danvers	
	Groveland	Rowley	Canton	Millis	Dedham	
	Hamilton	Townsend	Chelmsford	North Andover	Maynard	
	Hanson	Tyngsborough	East Bridgewater	Pembroke	Melrose	
	Lakeville		Easton	Scituate	Nahant	
	Lancaster		Foxborough	Stoughton	Natick	
	Littleton		Franklin	Tewksbury	Newburyport	
Mendon		Hopedale	Wilmington	Norwood		
LOW INCOME	Low-Income, Low-Density (9)		Low-Income, Medium-Density (14)		Low-Income, High-Density (30)	
	Carver		Abington		Beverly	Methuen
	Halifax		Amesbury		Boston	Milford
	Ipswich		Avon		Brockton	Peabody
	Kingston		Ayer		Cambridge	Quincy
	Middleborough		Blackstone		Chelsea	Randolph
	Millville		Dracut		Everett	Revere
	Plymouth		Gloucester		Framingham	Salem
	Shirley		Holbrook		Haverhill	Saugus
	West Bridgewater		Plainville		Hull	Somerville
			Rockland		Lawrence	Stoneham
			Rockport		Lowell	Waltham
			Salisbury		Lynn	Weymouth
			Taunton		Malden	Whitman
			Wareham		Marlborough	Winthrop
				Medford	Woburn	

Appendix C Chapter 40R Approved Districts

Community	Total Acres	Developable acres	Future Zoned Units	Construction Type	Planned/Allowed Development
Amesbury	52	9.1	249	New (240U)	240 unit multifamily rental using 40B, housing and mixed-use in other subdistricts.
Belmont	1.51	1.5	18	New	Housing only - 15 townhomes, 2 single family on closed church complex site.
Boston	42.5	18	578	New	New residential community on part of former state hospital site – mix of rental, ownership, senior housing and community facilities.
Bridgewater	128.5	26	507	New	“Residential” development at up to 20-22 units/acre; commercial uses allowed at edge of district. Would allow adjacent apartment complex to expand near town center.
Brockton	60	47	1,096	Adaptive reuse; new	Downtown revitalization through housing and mixed use development of underutilized buildings and land in and near downtown.
Chelsea	2.8	2.7	125	Adaptive reuse; new	Housing only – 3 specific projects in/near former industrial area.
Dartmouth	41	23	319	New	Housing and retail on former amusement park site – former 40B LIP.
Easton	61	18	280	New	Housing and commercial development of vacant land; 280 housing units (multifamily and mixed use) and up 30,000 SF commercial uses in commercial zone.
Grafton	14	10	240	New	New multifamily and mixed use housing on remediated site of old mill destroyed by fire.
Haverhill	53	3.9	526	Adaptive reuse	Re-use of downtown industrial/commercial buildings as multifamily and mixed-use housing 2 blocks from commuter train.
Holyoke	152	4	296	Adaptive reuse, infill	Infill housing and adaptive reuse along one street in the downtown area.
Kingston	109	70	730	New	New community on former gravel pit near commuter rail station. Single-, multi-family and mixed use zones and up to 300,000 GSF of retail and office. Developer to built entrance to highway. Earlier 40B application by another for part of site denied.
Lakeville	10.8	10.4	207	New	200 multifamily units on vacant land next to commuter rail station (after approved as 192u 40B). Commuter-oriented retail also allowed.
Lawrence	34	34	1,031	Adaptive reuse	Re-use of 9 historic Malden Mills buildings. Allows townhomes, multifamily, mixed use and retail.
Lowell	2.5	2.5	250	Adaptive reuse	Conversion of two historic mill properties in downtown revitalization area next to larger redevelopment project into multifamily, artist live-work and/or mixed use residential.

Appendix C Chapter 40R Approved Districts, continued

Community	Total Acres	Developable acres	Future Zoned Units	Construction Type	Planned/Allowed Development
Lunenburg	9	9	204	New	204 housing units on edge of town on former drive-in site.
Lynnfield	80	65	180	New	Redevelopment of part of former golf course with 180 housing units in one subzone, up to 530,000 SF office and retail in other.
Marblehead	N/A	N/A	63	N/A	N/A
Natick	5	5	138	New	138 multifamily units on part of old industrial site; front part rezoned for 12 market rate homes; near commuter rail and town center.
N. Andover	169	26.5	530	New	530 units plus retail and commercial uses on vacant land in former industrial/office park. Owner proposed 650, then 300, under 40B.
N. Reading	46	21.7	434	New	406 rental units on former state facility site. Originally proposed as 406-unit 40B.
Northampton	16.6	8.8	156	New	156 units on a portion of former State Hospital previously designated for housing.
Norwood	0.78	0.75	15	Adaptive reuse	Conversion of former church buildings to 15-unit condominium.
Pittsfield	10.7	10.7	296	Adaptive reuse, new	Nine sites in/near downtown Pittsfield with housing potential (former church, former factory, downtown upper story housing) .
Plymouth	56.8	33.6	675	Adaptive reuse, new	Mixed use residential/commercial community on former site of rope factory, vacant retail.
Reading	10	8.9	202	New	202 apartments on part of vacated 24-acre Addison-Wesley office park; 160,000 SF of office space and 16 townhomes.
Sharon	11.55	9.32	167	New	100 apartment, 38 multifamily condos, 29 townhomes on vacant land adjacent to office/retail complex to be developed by same owner. Town originally agreed to negotiate as friendly 40B.
Westfield	22.3	15.3	244	New	60-unit condominium on vacant land; district also includes underutilized commercial sites that could be redeveloped under 40R.
Lawrence	34	34	1,031	Adaptive reuse	Re-use of 9 historic Malden Mills buildings. Allows townhomes, multifamily, mixed use and retail.
Lowell	2.5	2.5	250	Adaptive reuse	Conversion of two historic mill properties in downtown revitalization area next to larger redevelopment project into multifamily, artist live-work and/or mixed use residential.

Source: Ann Verrilli and Jennifer Raitt, "The Status of M.G.L. Chapter 40R in Massachusetts: Projects, Trends, and Findings". Final Draft of CHAPA briefing paper, not yet available for distribution. Additional information added by the Dukakis Center using 40R data provided by Concord Square Planning & Development, Inc.

