

The Greater Boston Housing Report Card 2013

What Follows the Housing Recovery?

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Letter

October, 2013

Dear Friends,

For more than a decade, we have been relying on Barry Bluestone, Director of Northeastern University's Kitty and Michael Dukakis Center for Urban and Regional Policy, not only to report on the state of our housing and how it shapes and is shaped by the economy—but to interpret his findings in illuminating and very helpful ways. He and his expert team, informed by data from The Warren Group, bring deep knowledge and analysis to bear on a complex system and manage to make it comprehensible and always fascinating.

Last year's *Greater Boston Housing Report Card* noted promising signs of a housing recovery following the slump caused by the recession. That optimism clearly was warranted, since now we are seeing evidence of a real turnaround in the housing market. One dark cloud, however, is a concern that the Federal Reserve may soon change its stance on the extremely low interest rates we've had, which could slow down sales and production of housing.

For a number of years now, these reports have painted a picture of Greater Boston as one of the most expensive places to live in the country—and in that regard nothing has changed. New data tell us that during the last eight years, the cost of living in Greater Boston has increased twice as fast as the median household income of homeowners and three times faster than the median household income of renters. Rents and mortgages are consuming more and more of our residents' earnings, making it harder to afford the other necessities of life.

The high cost of housing in Massachusetts is, of course, directly related to a lack of supply. The authors of this report delve into the reasons why our state ranks 47th out of 50 in the number of new housing permits per capita and discover that it is largely because of the way our cities and towns actively zone out the all-important multifamily developments that can help solve so many of our affordable housing challenges. It's interesting to note which municipalities have been most and least welcoming to this kind of housing.

Despite this, there is good news. There was a 40 percent increase in housing permits in the first six months of this year. This result has been aided by Chapter 40R, which the Boston Foundation and the Commonwealth Housing Task Force played a role in passing and are monitoring closely. More good news is that foreclosures are slowing down, although the rates are still too high in a number of communities.

Ultimately, housing is related to all of the other challenges we face—from education to job training to community development as a whole. As we move forward in shaping approaches and policies in all of these arenas, our thinking is wonderfully informed by the treasure trove of information and analysis in these pages.



Paul S. Grogan
President and CEO
The Boston Foundation

Executive Summary

This report is the 11th in the series of annual *Greater Boston Housing Report Cards*, the first of which appeared in 2002 at a time when housing prices in the region were skyrocketing. In the course of this series, we have reported on the local housing bubble from 2000 through 2005, during which time home prices appreciated at annual double-digit rates; the retreat in home prices that began in 2006; and then the beginning of a housing recovery in 2010. Like past report cards, this 2013 report probes Greater Boston's housing landscape, keeping tabs on housing construction, home prices and rents. We have analyzed the relationship between the region's economy, demography and housing, and we have kept track of federal, state and local government policies that affect the region's housing market. This report also includes a new analysis of local zoning regulations in Greater Boston communities because of the critical role zoning can play, particularly in the development—or lack of development—of multifamily housing.

The 2013 Report Card attempts to answer six questions about Greater Boston's housing market and its effect on the region's well-being:

1. What are the most recent trends in home sales, housing production, and foreclosures?
2. What does the future trajectory of home prices and rents look like?
3. Given current economic conditions, is another housing bubble on the horizon?
4. Given the changing demographics and economic health of Greater Boston, have we begun to build appropriate new housing stock to meet expected demand and to help moderate future price and rent hikes?
5. Do we still face zoning constraints at the local level that hinder the production of an appropriate housing stock for the region?
6. What roles are the federal government and the Commonwealth playing in the housing market today?

The Current State of the Greater Boston Economy

In order to answer these questions, we first reviewed the economic context that helps drive the housing market nationally, in the Commonwealth, and specifically in Greater Boston. While the Commonwealth's recovery from the Great Recession of 2008-2009 was significantly stronger than the nation's as a whole through the end of 2012, the Massachusetts economy seems to have suddenly stalled in 2013. There has been scant job creation in the Commonwealth since the beginning of this year and the state's unemployment rate has jumped from 6.4 percent in April 2013 to 7.2 percent in July. The slowdown in the economy will likely result in continued stagnation or perhaps even a decline in household income, adversely affecting housing affordability. Indeed, our analysis suggests that housing cost burdens in Greater Boston had already hit record levels in 2011 with more than half (50.1 percent) of all renter households spending more than 30 percent of their gross incomes on rent. Similarly, 40 percent of homeowners in the region are today spending more than 30 percent of their gross incomes on mortgage payments, property taxes and utilities. This is up from 39 percent and 27 percent, respectively, for renters and homeowners in 2000.

New data also suggest that since 2005 the overall cost of living in Greater Boston—including the cost of housing, health care, transportation, child care, other necessities and taxes for working families with children—has increased twice as fast as median homeowner household income and three times faster than the median income of renter households.

The Current State of the Greater Boston Housing Market

In each of the last three installments of *The Greater Boston Housing Report Card*, we reported fragments of evidence that the region's housing market was showing signs of improvement. Unfortunately, the modest optimism of these reports was not always

borne out in the following year's housing market. However, in our 2012 Report, we began to see stronger signs of a housing recovery, and despite the discouraging employment figures in 2013, the current year is exhibiting solid improvement in housing production, home sales, foreclosure activity, and a firming up of home prices. The data in this year's report provides the strongest evidence yet of a real turnaround in the Greater Boston housing market.

Home Sales

Between 2011 and 2012, single-family home sales in Greater Boston jumped 20.9 percent. In total, 27,400 single-family homes were sold in Greater Boston throughout 2012, much of this driven by the lowest mortgage rates in decades. We expect the number of single-family sales to increase in 2013 as well, but with mortgage rates rising, we estimate that by the end of this year about 28,500 single-family homes will have been sold, an increase of 4 percent over last year's strong sales record.

The six-year trend of falling condominium sales in Greater Boston from 2006 to 2011 also turned a corner in 2012. Sales of condominiums jumped by more than 25 percent, from fewer than 12,300 units in 2011 to more than 15,400 units in 2012. We expect a slight increase in total condo sales in 2013.

Assuming mortgage rates do not climb much higher, we estimate that close to 3,200 duplex units and 1,300 triple deckers will be sold in 2013, numbers comparable to the past few years. Through June 2013 the sale of triple deckers was concentrated not only in Boston's Dorchester neighborhood, Lawrence, Lynn, Somerville, Brockton and Cambridge, but also in Everett, Chelsea, Lowell and South Boston. During this period, suburban communities including Newton, Framingham, Plymouth, Quincy, Needham and Weymouth led in single-family home sales while Downtown Boston, Cambridge, South Boston and Brookline led in condominium sales.

Housing Permits

While the improvement in housing sales provides one indicator of a better housing market in Greater Boston, it is the increase in new housing permits since 2011 that offers the most encouraging sign. During 2012, nearly 8,000 permits were issued in Greater Boston,

an increase of more than 50 percent over the number in 2011. Based on permits issued in just the first six months of 2013, we project 11,300 permits to be issued by year's end, a 40 percent increase in a single year. If our projection holds, this year's permit activity will be greater than any time since 2000, excluding the housing bubble years of 2004-2006. This would also mark the first time since 2006 that the number of housing permits exceeds 10,000, nearly two-and-a-half times the number issued in 2009.

Even more important than the sharp rise in housing production is the seismic shift from the construction of single-family homes to multifamily units. Extrapolating from data for the first six months of 2013, we estimate that only a third of all permits issued in 2013 will be for single-family homes, while nearly two-thirds will be for units in apartment/condo complexes with five or more units, and a small proportion for duplexes and triple-unit buildings. The more than 7,000 units of multifamily housing which are expected to be permitted by year's end in Greater Boston go a long way toward meeting Governor Patrick's goal of producing 10,000 units of multifamily housing statewide per year through 2020.

As late as 2000-2002, two-thirds of new permits were for single-family homes and only one-third for multifamily housing. With the greatest demand for new housing expected to be from aging Baby Boomers who wish to downsize from their large single-family homes and from young Millennials who seem to have less desire than their parents for single-family suburban dwellings, housing developers are moving to satisfy these new housing preferences.

Aiding in Greater Boston's increase in production of multifamily housing structures is the Commonwealth's Chapter 40R zoning regulation which provides incentive payments to cities and towns that set aside land for the development of denser, more affordable, transit-oriented housing. Through August 2013, 40R has been responsible for the completion of 1,478 units in multifamily structures, with the construction of another 875 multifamily units pending the issuance of building permits. With the housing market picking up, we can expect more 40R activity in 2014.

Foreclosure Activity

There is also good news on the foreclosure front. Foreclosure petitions continued to fall in 2012 and we now estimate that for all of 2013 there will be fewer than 1,900 foreclosure petitions leading to no more than 760 final foreclosures throughout Greater Boston, only 40 percent of the number in 2012. This is encouraging, although foreclosure activity is still much too high in many communities, including Brockton, Lowell, Plymouth, Haverhill, Revere, Lynn and Boston's Dorchester neighborhood.

Home Prices

For fourteen consecutive years, from 1992 through 2005, the price of single family homes in Greater Boston consistently increased, with a near doubling in price in the brief seven-year period 1998 to 2004. Beginning in 2006, the housing collapse caused prices to drop by 18 percent. While there was a slight recovery in prices in 2009, prices fell again in 2010 and 2011. Finally, during the first six months of 2013 single-family home prices began a relatively strong ascent, increasing to a median price of \$354,100 in June 2013—6.6 percent more than the median price in 2012. However single-home prices still pale in comparison to their median \$405,000 in 2005. With demand for housing increasing, home prices appear to be on a more or less stable upward trajectory for the rest of 2013 and possibility into 2014, although higher interest rates could lead to a softening of prices as they increase the monthly carrying charges for any size mortgage.

Condo prices in the first six months of 2013 were up 4.8 percent over 2012, while the median price of three-unit structures skyrocketed from roughly \$245,000 to \$358,000, a 46 percent increase since 2009. However, the median selling price for a three-unit structure is still nowhere near the peak of \$492,200 attained in 2005 just before the local housing bubble burst. In the long term, single-family home prices are likely to stabilize and condo prices are expected to continue increasing as the Greater Boston population ages and Baby Boomers sell existing homes to downsize into smaller houses, condominiums, or rental units.

Rents

Unlike home prices in Greater Boston, apartment rents have continued to rise almost regardless of the state of the economy. With the exception of 2009, asking rents as well as effective rents (taking into discounts such as a rent-free month) have increased every single year since 2003. Between 2009 and mid-2013, the average asking rent in Greater Boston increased by 9.1 percent while the average effective rent rose by 10.8 percent, reflecting fewer discounts. With the rental vacancy rate in the region now at 3.7 percent, rents are expected to continue to rise. Our own statistical analysis indicates that when the rental vacancy rate has fallen below 5.5 percent, landlords are able to extract higher rents. Facing little inventory, renters are forced to compete for a limited number of available units. Low vacancy rates are good for landlords but anathema for renters.

Recent rent increases cement Boston's position as one of the most expensive communities in the nation. Compared to a set of 19 competitor regions, Greater Boston has consistently been among the most unaffordable for renters. Of those 19, only New York and San Francisco had more expensive rents in mid-2013 than the Boston metro area. The one antidote to continuously rising rents in Greater Boston is a continued increase in the production of multifamily housing. With the growing desire of Millennials and aging Baby Boomers to live in these smaller housing structures, we will need to see apartment and condo construction meet high production targets for the rest of this decade.

Zoning & Housing Production in Greater Boston

In our first housing study released in 2000, *A New Paradigm for Housing in Greater Boston*, we found that multifamily housing supply was being thwarted by local zoning laws that restrict new development. What gets built where is the product of municipal zoning ordinances that control the variety of uses and physical characteristics of structures, including houses, apartment buildings and other residential structures.

Zoning to regulate new housing is especially prevalent in Massachusetts, which has a tradition of municipalities wielding near-complete control over local land use in their communities. Land-use

regulation has allowed communities in Greater Boston to adopt zoning bylaws and ordinances that discourage or ban the construction of multifamily housing, allowing only sprawling single-family subdivisions, the type of housing so popular after World War II.

To this day, zoning continues to be a critical factor in the Greater Boston housing market as our statistical analysis demonstrates. Between 2005 and 2012, Greater Boston’s municipalities increased their multifamily housing stock by up to 25 percent above the level of their total housing stock in 2000 (i.e. North Reading), but the average increase was just 2.03 percent across the 159 Greater Boston communities in our analysis. (The City of Boston, not included in our analysis, increased its multifamily housing stock by 3.17 percent during this time.) The 20 Greater Boston municipalities with the best record of multiunit housing increased their production by 4.91 percent or more. On the other hand, 33 municipalities produced no multifamily housing at all during the past eight years.

Our analysis found that multifamily housing production occurred most often in communities that had adopted local provisions for “cluster development,” inclusionary zoning, or Chapter 40R Smart Growth Overlay Zoning. Cluster development refers to a residential development that contains homes closer together than allowed by the underlying zoning in order to conserve open space for recreation. Inclusionary zoning permits developers to build more units on a given land parcel than local zoning would normally allow, as long as the developer agrees to set aside a proportion of the project’s units as affordable for low- and moderate-income households. Chapter 40R Smart Growth Overlay Zoning provides incentive payments to cities and towns that set aside land for the development of denser, more affordable, transit-oriented housing. Implicit in all three of these zoning tools is permission to build multifamily housing.

In the five municipalities that encouraged multifamily housing in cluster developments, multifamily housing production increased by 6.07 percent, nearly triple the regional average. In the 22 municipalities that allowed affordable housing through inclusionary zoning, multifamily housing production increased by 3.53 percent, nearly 75 percent higher than the regional average. The twenty Greater Boston municipalities

that adopted 40R smart growth zoning saw multifamily housing production increase by 3.16 percent, more than 50 percent higher than the regional average.

Our analysis also revealed that simply allowing multifamily housing alone does not guarantee a community will increase its multifamily housing stock. Indeed, 26 of the 33 communities with no multifamily housing development between 2005 and 2012 allow such housing to be built. Based on these statistical findings, it will be important to encourage communities to adopt cluster development, inclusionary zoning provisions, and Chapter 40R if Greater Boston is to meet its future need for rental apartments and condominiums in multifamily housing developments.

State Policy in Support of Housing

In last year’s *Greater Boston Housing Report Card* we called for increasing overall production of both single-family and multifamily housing in the region to at least 12,000 units a year through 2020. If our projection for 2013 proves accurate, production will come close to that target in its first year. But to maintain this production rate, the Commonwealth will have to implement a range of programs. We are encouraged by the fact that during the past year, the state’s Department of Housing and Community Development (DHCD) has acted aggressively to help meet the state’s housing needs.

- Under its new Compact Neighborhoods program, the state will provide additional financial incentives to municipalities—beyond those in the Chapter 40R legislation—that permit the construction of denser developments with at least eight units per acre for multifamily homes and at least four units per acre for single-family homes. The incentives include priority access to state infrastructure funding.
- During the past year, DHCD began accepting applications for its new Housing Development Incentive Program (HDIP, Chapter 40V) to facilitate the development of market-rate housing within Housing Development Zones in older industrial or “Gateway” Cities throughout the Commonwealth. Developers can apply for a state tax credit for up to 10 percent of the cost of developing the market rate units.

- This past year, the Patrick Administration also took further action to improve housing prospects for the homeless, building off of the Residential Assistance for Families in Transition Program (RAFT) established in August 2012. RAFT includes nearly \$9 million in legislative funding for homelessness prevention programs.
- There is a 6.5 percent increase in funding for local housing authorities to operate public housing, and a \$20 million boost in capital spending for affordable housing preservation and production.
- As a result of Chapter 40T, the state has helped keep affordable housing built with state and federal subsidies from imminent risk of conversion to market-rate housing.
- The Massachusetts Legislature is expected to pass a new housing bond bill authorizing \$1.4 billion in capital spending over the next five years for various housing projects and for extending the Low Income Housing Tax Credit at \$20 million per year through 2020.

There are also new policy initiatives being encouraged to reform zoning in the Commonwealth. *An Act Promoting the Planning and Development of Sustainable Communities*, H. 1859, would update Massachusetts' land use laws to meet the state's need for workforce housing. The bill, if enacted, would offer enhanced incentives and tools to communities opting for zoning reform that mediates the delicate balance between environmental preservation and housing development. The bill also provides more certainty to landowners and developers, thus reducing the "soft costs" of developing housing.

Public Housing Reform

Finally, there is action on public housing reform. Bills have been filed in the Legislature to reform public housing administration in Massachusetts. An administration plan seeks to consolidate the state's 240 housing authorities into six regional housing authorities (RHAs). The RHAs would take ownership of all public housing assets currently owned by local housing authorities and assume responsibility for fiscal and operational management of all state and federal public housing in each region, presumably boosting the efficiency with which these projects are

run. Although meeting with opposition from local housing authorities, we expect that some compromise solution will be reached to modernize and increase the efficiency and effectiveness of the public housing delivery system.

The one problem with all of these efforts is the limited budget for DHCD activities. FY2013 spending on housing programs is 31 percent lower than FY2011, mainly the result of the termination of federal ARRA stimulus grants and little expansion in the state's share of housing-related spending.

Federal Housing Policy

There is also new leadership on housing from the White House. In August, President Barack Obama delivered a major address laying out his vision for U.S. housing policy. The essential elements of the President's comprehensive plan are: support for legislative action to allow and encourage more U.S. families to refinance their homes at low interest rates, thus cutting their monthly payments and strengthening family budgets; a promise to issue an executive order to expand the pool of borrowers eligible for loans from federally backed programs so that many borrowers without the highest-quality credit could now receive loans; continued support for 30-year mortgages, a feature of American housing policy that was instrumental in allowing large numbers of American families to own homes; a call for "an end to the federally owned mortgage giants Fannie Mae and Freddie Mac... placing the vast majority of financial risk on private-sector lenders"; assessment of a fee on mortgage-backed security transactions to provide a funding source for affordable housing for low- and moderate-income households; and increasing affordable rental opportunities.

At this time, it is unclear which if any of these initiatives can garner sufficient Congressional support for passage, but it is clear that housing is once again on the nation's radar screen as well as the Commonwealth's.

Conclusions

The good news in 2013 is that a housing market recovery appears to have taken hold in Greater Boston with improved sales, much increased housing production, and much reduced foreclosure activity.

But housing affordability is as serious a problem as ever, not just because of rising home prices and rents, but because of stagnant or declining household income. Renters have been the hardest hit.

The solution to the problem of housing affordability in Greater Boston requires an improvement in the region's labor market, allowing more of the region's labor force to find good jobs at good pay. But it also requires that we continue the progress we have made in the last year to build an appropriate housing stock with an emphasis on continued increases in multifamily housing production. Only by creating sufficient supply to meet demand—and producing appropriate housing for the changing demography of the region—can we hope to moderate prices and rents. And only a combination of rising incomes and more stable housing costs will generate an economic environment in which fewer of the region's households face unacceptably high housing cost burdens. Keeping pressure on the state and its local communities to assure sufficient housing at affordable prices must remain a top priority in the Commonwealth.

CHAPTER ONE

Introduction

There is some good news in this 11th edition of the *Greater Boston Housing Report Card*. In Massachusetts, the number of jobs lost during the Great Recession has now been fully recouped. The region's housing market has begun to recover with sales and housing production rebounding and foreclosures declining. Home prices are rising, but not at an alarming rate.

Yet along with the good news this year, there are storm clouds on the horizon. The Massachusetts economy, which had been recovering from the Great Recession faster than the nation, seems to have suddenly stalled in 2013 with little job growth and rising unemployment. While many jobs have been restored, median household income in the Boston metropolitan area has not kept up with inflation and the gap between the wealthy and everyone else in the region continues to expand. Rising rents are taking a larger share of household incomes for those families in the rental market. Homeownership costs are rising faster than homeowners' incomes. As a result, the housing cost burden for the typical family in Greater Boston has reached an all-time high with more than half of all renter households spending more than 30 percent of their gross incomes on rent and more than 40 percent of homeowners in the same boat when it comes to paying their mortgages and property taxes. New data suggest that since 2005 the overall cost of living in Greater Boston for working families with children has increased twice as fast as median household income and three times faster than the median income of households who live in rental housing. In the wake of the Great Recession and a continuing weak economy, families in the Boston region are struggling more than ever to make ends meet.

This introductory chapter provides graphic evidence for all of these trends. The remaining chapters in this report attempt to answer a number of important questions about Greater Boston's housing market and how it is affecting the region's well-being.

1. What are the most recent trends in home sales, housing production and foreclosures?

2. What does the trajectory of home prices and rents look like?
3. Given current economic conditions, is there the possibility of another housing bubble on the horizon?
4. Given the changing demographics and economic health of Greater Boston, have we begun to build appropriate new housing stock to meet expected demand and moderate future price and rent hikes?
5. Do we still face zoning constraints at the local level that hinder the production of an appropriate housing stock for the region?
6. What roles are the federal government and the Commonwealth playing in the housing market today?

We begin our search for answers to these questions by reviewing the economic context that helps drive the housing market nationally, in the Commonwealth, and specifically in Greater Boston.

From Great Recession to Weak Recovery

From the end of World War II through the end of the 1970s, the U.S. labor force grew at a 1.7 percent average annual rate while labor productivity as measured by real output-per-worker hour increased at a blazing 2.9 percent per year. As such, the economy had to grow by an average of 4.6 percent a year to keep unemployment from rising given the tremendous expansion in labor supply and the increased efficiency of the workforce. Indeed, given the prodigious improvement in labor efficiency, the economy would have had to grow at nearly 3 percent a year to keep unemployment from rising—even if there had been no increase in the size of the labor force at all.

During the following two decades (1980-1999), labor-force growth slowed to a 1.2 percent annual pace while productivity slowed to 1.8 percent a year. As such, real

GDP still had to expand at a 3.0 percent rate to keep unemployment in check. Since then, the rate of labor-force growth has continued to slow, but with all of the new computer-age technology, annual labor productivity growth has increased to 2.3 percent. As such, it still takes a GDP growth rate of nearly 3 percent a year to allow for labor force growth plus productivity improvements without increasing unemployment (See **Table 1.1**).

As **Figure 1.1** reveals, annual real GDP growth rates were very high in the late 1990s (between 1994 and 2000), varied substantially from 2001 through 2007, and have never reached the 3 percent range since. Indeed, the average real GDP growth rate over these three periods has declined from 4.0 percent to 2.4 percent and then to a mere 0.8 percent through the second quarter of 2013. Even if we do not count the disastrous recession of 2008-2009, since 2010 the economic recovery has been extremely weak. As **Figure 1.2** demonstrates, the current period marks by far the weakest recovery from a recession since at least the mid-1970s. Each bar in this figure represents the average annual GDP growth rate for the four years following the recession period depicted at the bottom of the chart. Since the end of the Great Recession of 2008-2009, the U.S. economy has expanded at a 2.2 percent rate, about two-thirds the rate of the previous two recessions and less than half the recovery rate of recessions in the 1970s and 1980s.

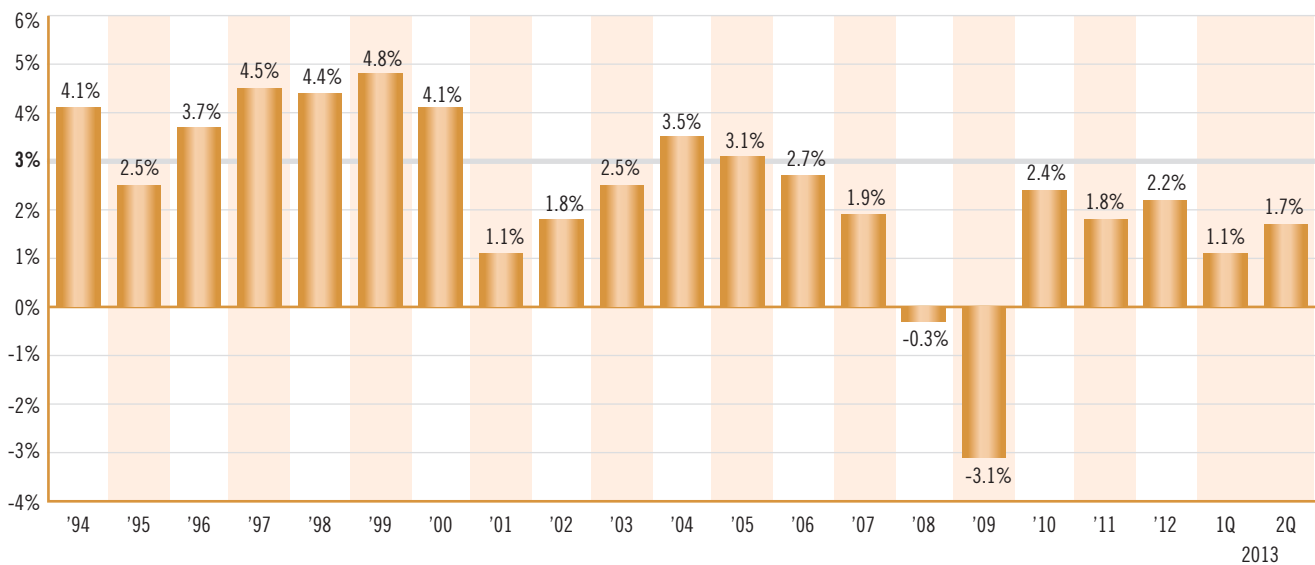
TABLE 1.1
U.S. Labor Force and Labor Productivity Growth, 1948-2012

	Labor Force Growth	Productivity Growth	Labor Force Growth + Productivity Growth
1948-1949	1.8%	3.5%	5.3%
1950s	0.9%	3.4%	4.4%
1960s	1.7%	3.1%	4.8%
1970s	2.4%	2.0%	4.5%
1980s	1.4%	1.5%	2.9%
1990s	1.0%	2.0%	3.0%
2000s	0.6%	2.5%	3.2%
1948-1979	1.7%	2.9%	4.6%
1980-1999	1.2%	1.8%	3.0%
2000-2012	0.6%	2.3%	2.9%

Source: U.S. Bureau of Labor Statistics

FIGURE 1.1

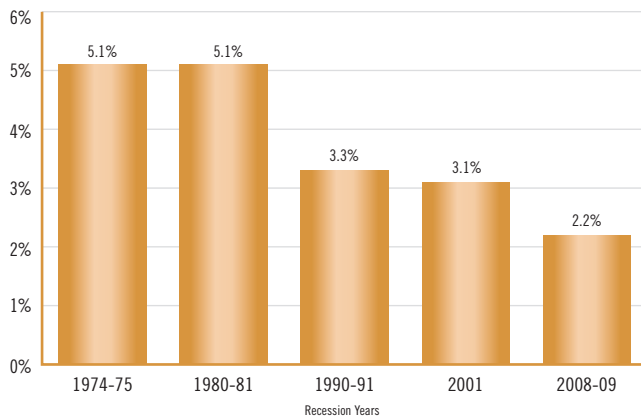
Annual U.S. Real GDP Growth Rate 1994-2013: II



Source: Council of Economic Advisers, *Economic Indicators*

FIGURE 1.2

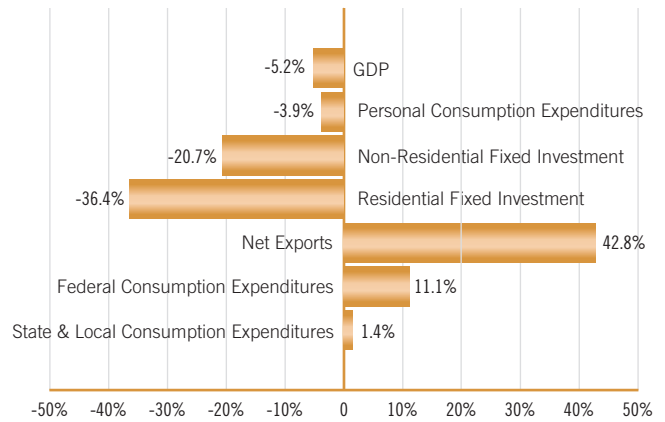
Average U.S. GDP 4-Year Growth Rates Following Recessions 1974-2013



Source: Council of Economic Advisers, *Economic Indicators*

FIGURE 1.3A

Components of U.S. Real GDP Growth 2007: IV – 2009: II



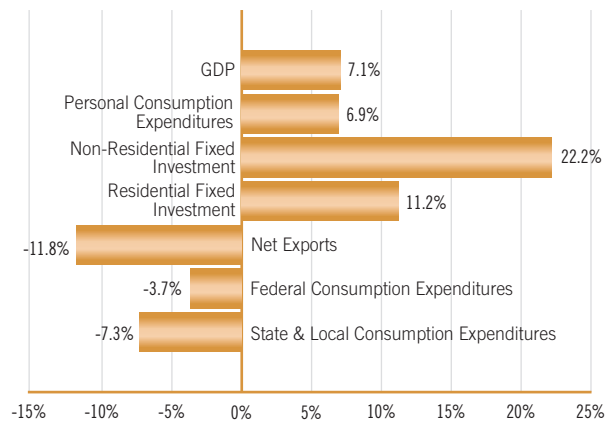
Source: Council of Economic Advisers, *Economic Indicators*

The depth of the Great Recession and part of the impetus for what recovery we have experienced is bound up with the housing market. During the official recession period, from the fourth quarter of 2007 through the second quarter of 2009, U.S. real GDP fell by 5.2 percent (see **Figure 1.3A**).¹ A modest decline in personal consumption expenditures of 3.9 percent was one factor that explains the depth of the recession. But the key to the economic collapse was a near 21 percent decline in non-residential fixed investment—in the form of plant and equipment production—and most important, a reduction in housing investment of more than 36 percent. If federal spending had not increased by 11 percent and net exports by nearly 43 percent (mainly as the result of a sharp drop in imports), the Great Recession would have been more traumatic—or even catastrophic. The importance of the housing sector collapse can be summed up quite simply. Residential investment normally accounts for between 4 and 6 percent of GDP. *Yet during the Great Recession, it was responsible for 37 percent of the total loss in the nation’s output.*

The factors responsible for the current economic recovery are shown in **Figure 1.3B**. Overall, GDP bounced back by 7.1 percent between the third quarter of 2009 and the last quarter of 2012. The leading factors for this improvement in the economy were a 6.9 percent increase in personal consumption expenditures, a better than 22 percent leap in

FIGURE 1.3B

Components of U.S. Real GDP Growth 2009: III – 2012: IV

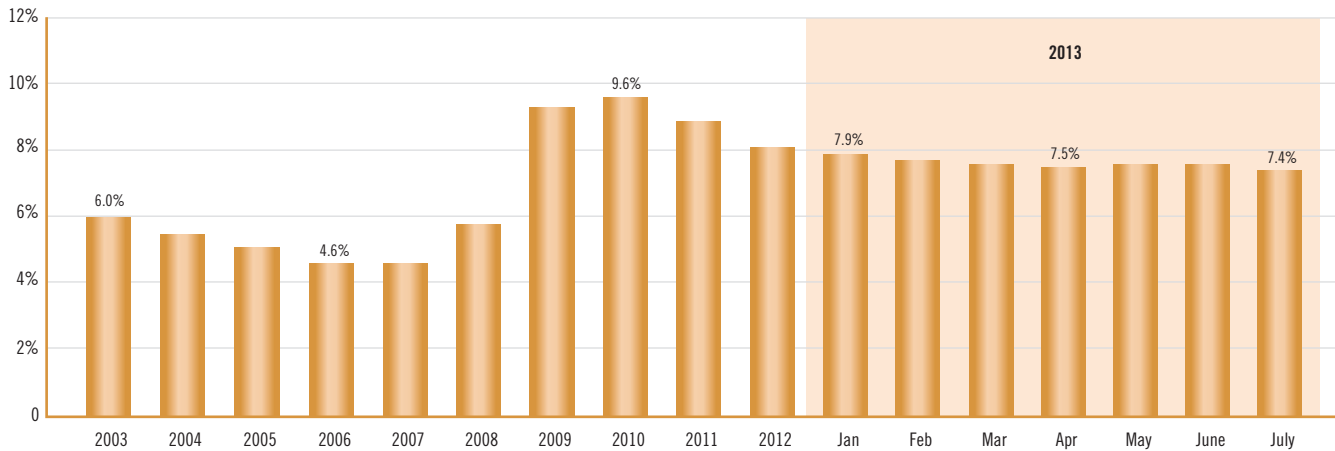


Source: Council of Economic Advisers, *Economic Indicators*

non-residential investment, and the beginning of a recovery in home construction, with residential investment up by 11 percent. What have kept the recovery from being stronger are cuts in federal and state government spending and an increase in imports.

FIGURE 1.4

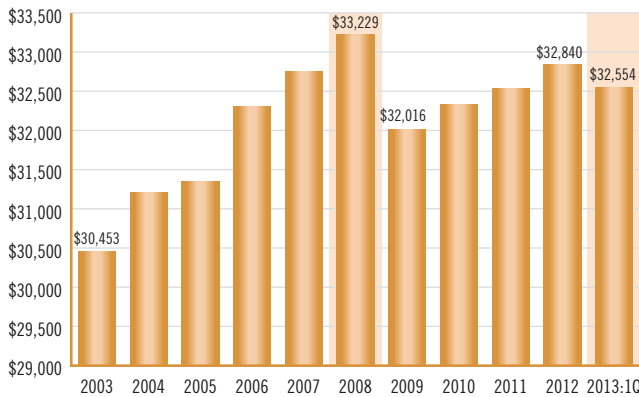
U.S. Civilian Unemployment Rate, 2003-2013 (July)



Source: U.S. Bureau of Labor Statistics

FIGURE 1.5

U.S. Real Per Capita Personal Disposable Income (\$2005), 2003-2013: I



Source: Council of Economic Advisers, *Economic Report to the President 2013*

With slow economic growth and continued productivity improvement in U.S. industry, the national unemployment rate has been stuck at more than 7.5 percent for the past year and half, well above the rates that prevailed before the Great Recession (see **Figure 1.4**). For this reason, it is not surprising that per capita real personal disposable income has hardly increased since the depths of the recession (see **Figure**

1.5). During the first quarter of 2013, it was still 2.0 percent below its 2008 level and only 1.7 percent above its recession level. According to new research, median household income in June 2013, estimated at \$52,100, was still \$2,400 lower than in June 2009, when the recession officially ended, and \$3,400 less than its level in December 2007 when the Great Recession began.² Simply put, recovery or not, America’s households remain in deep trouble.

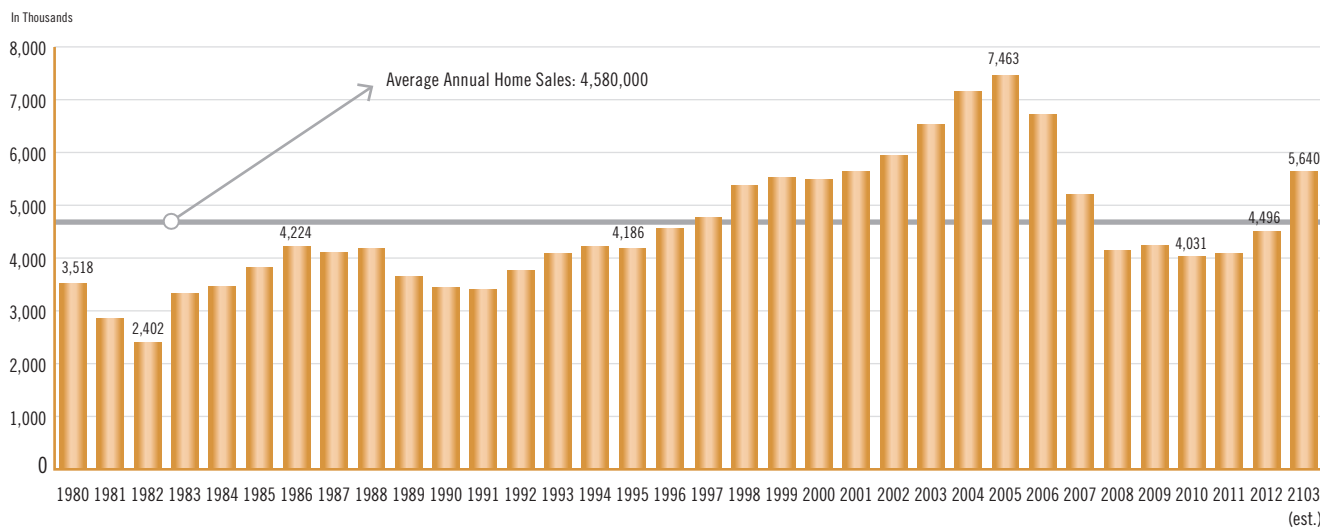
U.S. Housing Market

Despite the moribund recovery in many aspects of the economy, there has been improvement in the national housing market. New and existing home sales have been rising quite steeply since 2010 as shown in **Figure 1.6**. By July 2013, sales reached an annual rate of 5.64 million units from a low of 4.0 million in 2010.³ This is the first time since 2007 that sales exceeded the 1980-2012 annual average of nearly 4.6 million homes. Depressed home prices, and as we will see, low mortgage rates, have fueled a buyers’ market and those who can afford to purchase a home seem to be doing so.

With sales of existing homes rebounding, new housing production is also on the rise as shown in **Figure 1.7**. Housing production collapsed after 2005, falling from more than 2 million units a year to just 583,000 in

FIGURE 1.6

U.S. New and Existing Home Sales (in Thousands), 1980-2013



Source: Joint Center for Housing Studies, Harvard University; *Bloomberg News*

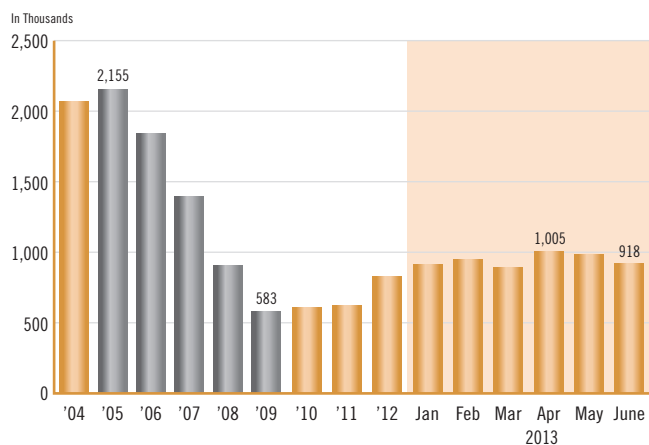
2009, a decline of nearly 75 percent. Since 2009, new housing production has picked up substantially. But at an annual rate of less than one million units permitted during the first six months of 2013, national housing production remains at a lower rate than in any year since at least 1959, excluding the years 2009-2011.⁴ Essentially, people are buying existing homes at an accelerating rate, while new housing production has not yet caught up with home sales.

What has helped to drive home sales and housing starts are historically low mortgage rates as shown in **Figure 1.8**. Just before the Great Recession began in late 2007, 30-year fixed-rate home mortgage rates averaged more than 6.5 percent nationwide. By 2010, they were down to less than 4.2 percent and bottomed out at 3.3 percent in late 2012. While rates have begun to rise again, at 4.5 percent in June 2013, they still may be at levels that encourage home buying—at least for the present. But, if rates continue to rise, one would expect home sales to slow, perhaps sharply. The additional carrying cost on a \$350,000 mortgage, given the existing run-up in mortgage rates over the past six months, is more than \$240 a month or nearly \$2,900 per year. This takes a fair chunk of change out of declining household incomes.

Sales of *new* homes in July 2013 may provide the first hint of the mortgage rate effect on housing purchases.

FIGURE 1.7

U.S. New Housing Permits



Source: U.S. Department of Housing and Urban Development

U.S. sales of newly built homes dropped 13.4 percent in July, usually a strong month for sales activity.⁵ This set a nine month low for such purchases.

Whether sales rebound during the rest of the year may depend heavily on whether the Federal Reserve Board continues its third round of “quantitative easing” (QE3) aimed at stimulating the economy by keeping long term interest rates low.

FIGURE 1.8

Monthly 30-Year Fixed Rate U.S. Home Mortgage Rates, 2008 (August)-2013 (August)



Federal Reserve Bank of St. Louis

If mortgage rates do not rise much higher and home sales continue to strengthen, new housing production could gain even greater strength during the rest of this year and into 2014, providing a boost to national GDP and some relief to unemployment. If rates continue to rise, housing production could slump again.

finally recoup all of the employment losses the Commonwealth experienced in 2008 and 2009, as **Figure 1.10** reveals. Between April 2008 and October 2009, total non-farm employment in the state plummeted by 143,000 jobs. Since then, through July 2013, 158,300 jobs have been added to the state's

The Massachusetts Economy

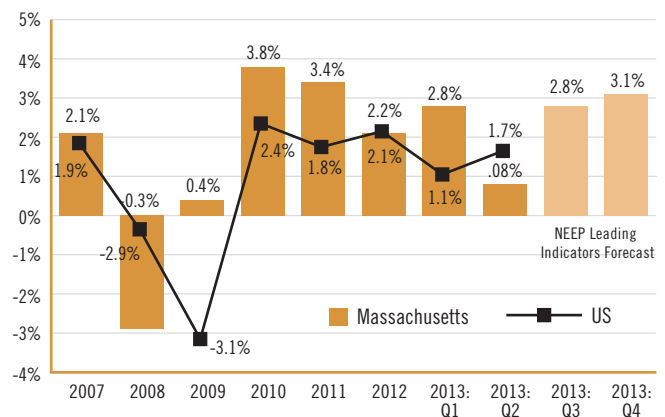
With a highly diversified economy tied to a set of leading growth sectors (e.g. health care, education, biosciences and advanced manufacturing), Massachusetts was able to weather the aftermath of the Great Recession much better than the nation as a whole through 2012. Unfortunately, 2013 does not appear to be following suit—at least in terms of employment growth and unemployment.

As **Figure 1.9** demonstrates, since 2009, the Commonwealth's real Gross State Product (GSP) has generally outpaced national GDP and is projected to increase sharply in the second half of 2013—almost surely at a rate that will exceed the U.S. if the forecast is accurate.⁶

This respectable recovery from the Great Recession through the end of 2012 made it possible to

FIGURE 1.9

Annual Real GDP/GDP Growth Rates Massachusetts vs. U.S. 2007-2013



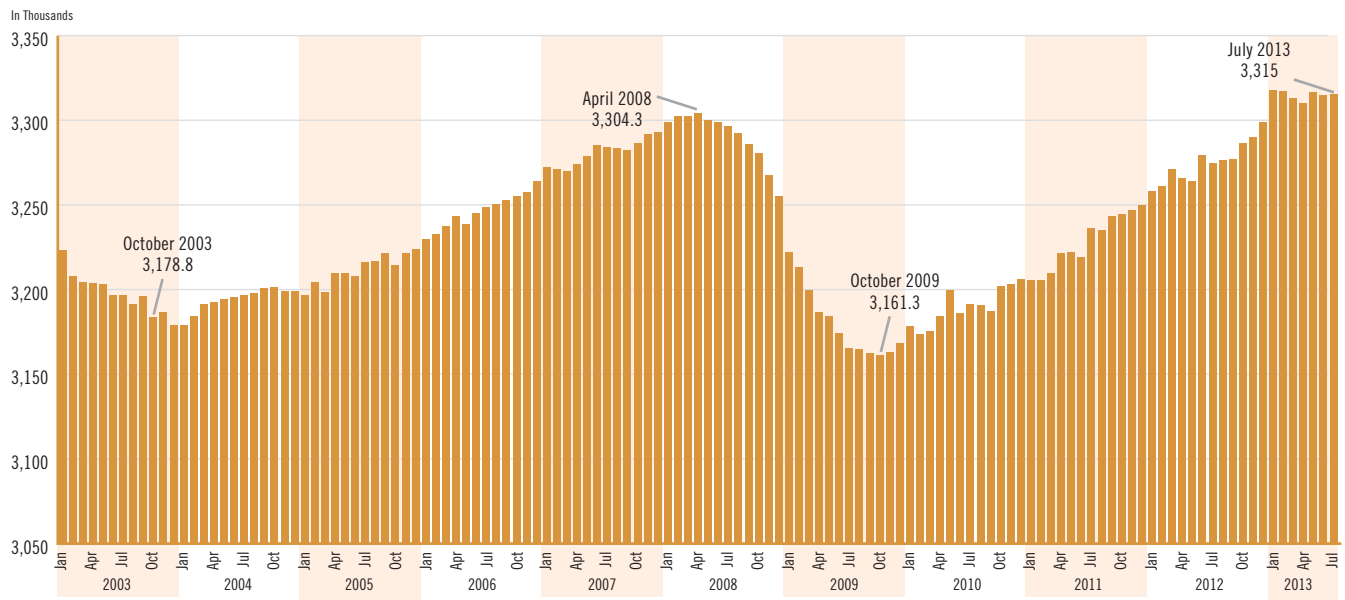
Source: Alan Clayton-Matthews, *Massachusetts Current and Leading Indicators*

economy. As a result of this strong job creation record, the Commonwealth's civilian unemployment rate declined from a high of 8.7 percent in October 2009 to a low of 6.4 percent in April 2013. Beginning in May, however, the state's jobless rate jumped

suddenly as the result of a virtual cessation of job creation and as more potential labor force participants sought employment. By July of this year, the official unemployment rate had shot up to 7.2 percent (see **Figure 1.11**).

FIGURE 1.10

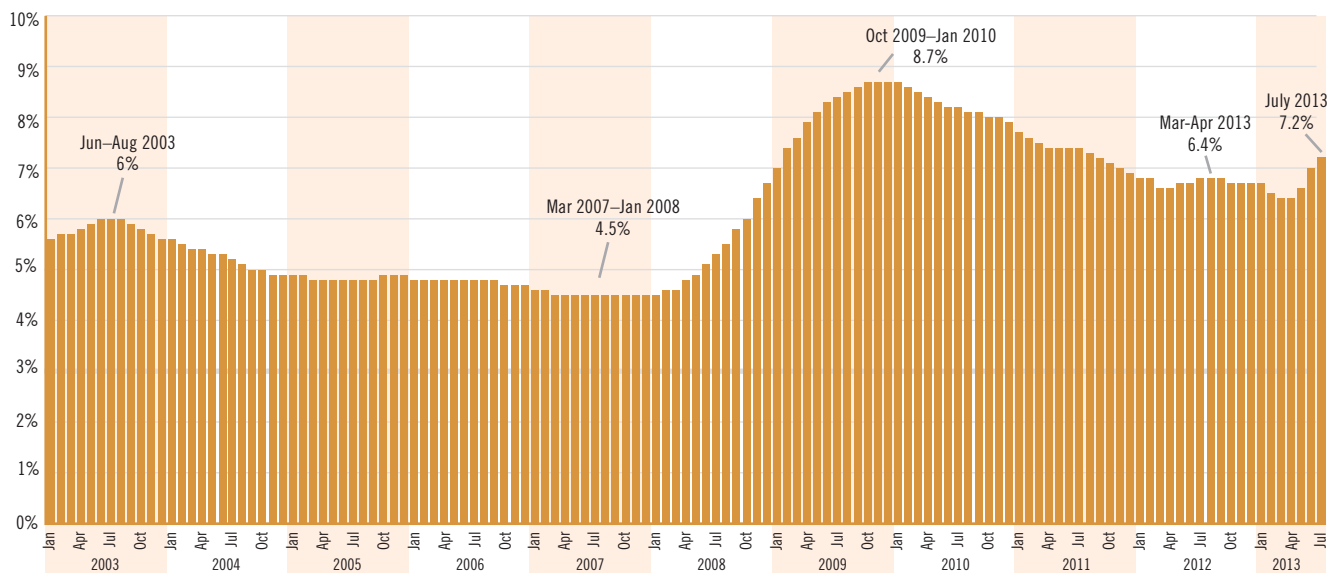
Total Non-Farm Employment: Seasonally-Adjusted Massachusetts 2003-2013 (July)



Source: U.S. Bureau of Labor Statistics

FIGURE 1.11

Civilian Unemployment Rate, Massachusetts 2003-2013 (July)



Source: U.S. Bureau of Labor Statistics

In 2011, the Massachusetts unemployment rate was 1.6 points lower than the U.S. rate (8.9% vs. 7.3%). As of mid-2013, the Massachusetts advantage had slipped to just 0.2 percentage points, as shown in **Figure 1.12**. That the Commonwealth's unemployment rate has increased in 2013 while the nation's has declined is due to the fact that over the past year the greatest gains in employment have been in the southern and western

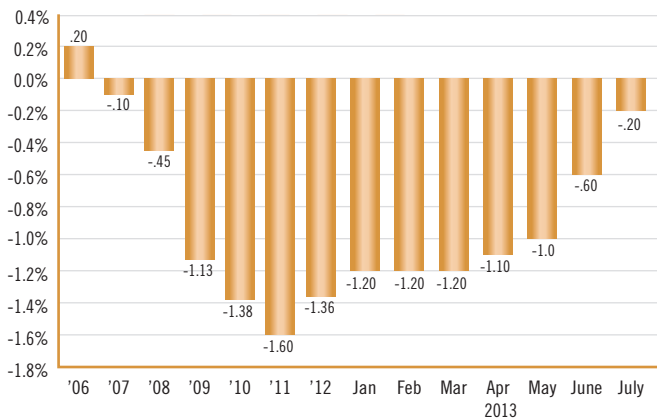
states. California, Texas, Florida, Utah and Georgia have been driving the latest spurt in job growth.⁷

If the projection for the Massachusetts economy showing a return to rapid output growth for the last two quarters of 2013 turns out to be accurate, this sudden spurt in unemployment in the first half of the year may be reversed. But at this time, it is hard to determine whether the overall weakness in the national economy and cutbacks in federal spending will continue to have a dampening impact on the Commonwealth, leaving an elevated jobless rate.

Through the end of 2012, the five counties of Greater Boston were responsible for nearly 57 percent of the net increase in Massachusetts total employment since 2009. As **Figure 1.13** shows, total employment in this eastern region of the state increased steadily from 2.14 million in 2009 to 2.22 million in 2012, for a net gain of 81,000 jobs. Like the state as a whole, by the end of 2012, the region had created more jobs than it had lost during the Great Recession.

FIGURE 1.12

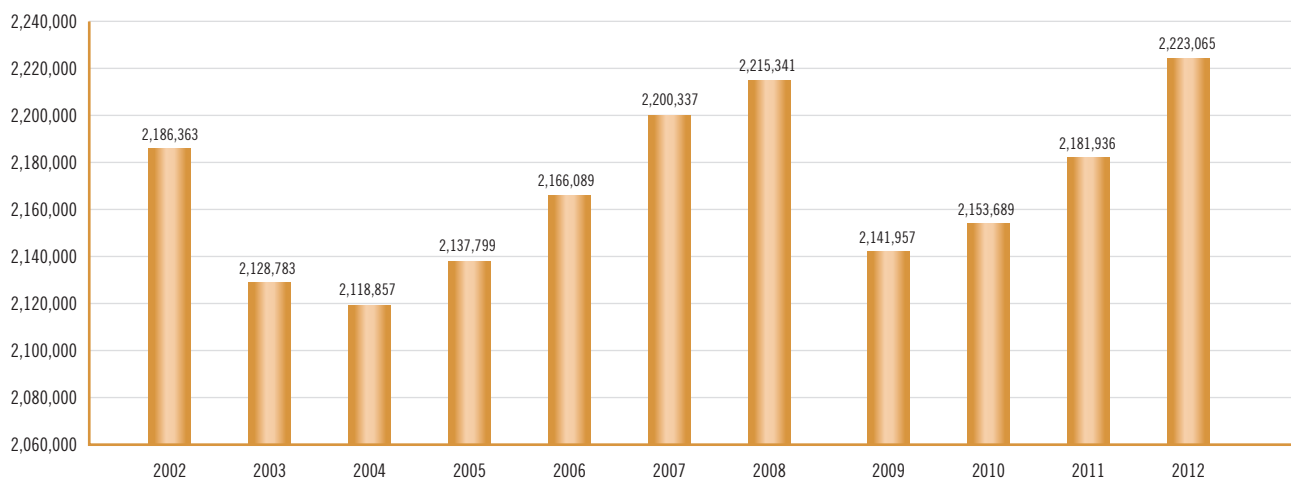
Unemployment Rate Differential: Massachusetts vs. U.S. 2006-2013 (January–July)



Source: U.S. Bureau of Labor Statistics

FIGURE 1.13

Five-County Greater Boston Total Non-Farm Employment



Source: Massachusetts Department of Labor

A Greater Boston Demographic and Economic Profile

Despite the improvement in the economy through the end of 2012, faster economic growth and increased employment do not seem to have translated into improved living standards for large segments of the Greater Boston's population. This conclusion follows from examining a compilation of demographic and economic statistics for the five-county Greater Boston region comprised of Essex, Middlesex, Norfolk, Plymouth and Suffolk counties and summarized in **Table 1.2**. Given current data availability, our analysis covers the period 2000 through 2011, although we suspect that there has been no more than a modest change in most of these statistics since then.

Population Growth

The metro region continues to gain population, although at a slowing rate. Between 1990 and 2000, the U.S. Census reveals that the total population of the five-county region increased by nearly 6 percent, from 3.78 million to 4 million. In the following decade, population growth slowed to 3.5 percent and, between 2010 and 2011, the best estimate is that the population increased by just another 6,300 or 0.15 percent. At this rate, the population would only grow by about 1.5 percent by 2020. The comparable population growth rates for the U.S. as a whole are 13.2 percent between 1990 and 2000—more than *twice* the Greater Boston rate; 9.6 percent between 2000 and 2010—nearly *three times* the region's growth rate; and 0.7 percent between 2010 and 2011. If these trends continue, Greater Boston's population will increase by only *one-fifth* the nation's rate by 2020.

Age Profile

By itself, slow population growth need not signal a problem for the region. But the population is growing older at an accelerating rate with too few younger people coming to the state to keep the median age of the population from rising sharply. Between 1990 and 2011, the median age of Greater Boston's population increased from 33.4 to 38.4. The percent of the population 44 years and younger declined from 68.4 percent in 1990 to 59.7 percent in 2011. The older population, most of whom will be 55 or older by 2020, has increased from 31.6 percent to nearly 41 percent. Given

the likely retirement of many of these residents, the question arises as to who will be available to fill jobs that will become available and how much this older cohort will pay in taxes to the Commonwealth, given their likely retirement incomes. The aging of the population points to the need to work hard to retain young households in the state and attract as many young households as we can from elsewhere.

Household Size

With the Greater Boston population aging, the size of the typical household continues to decline and the proportion of one-person households continues to increase. In 1990, the typical household contained 2.59 persons. By 2011, the number had shrunk to 2.45. The number of single-person households as a proportion of all households has increased over this time span from 26.3 to 29.3 percent. With smaller households and more individuals living alone, the demand for housing will almost assuredly shift from larger homes to smaller ones and likely from single-family homes to rental apartments and condominiums. Hence the combination of both an aging population and shrinking household size signals a major shift in the kinds of housing structures the region will need in the future.

Racial/Ethnic Profile

Greater Boston continues to become more diverse. Back in 1990, more than 88 percent of its population was white. By 2011, the white share of the population had dropped to 77 percent. Meanwhile, between 2000 and 2011 alone, the Asian population increased by nearly 26 percent, the number of African-Americans increased by 35 percent, and the Hispanic population grew by 43 percent. Making sure that these new households have the opportunity for affordable housing in a broad range of the region's municipalities will be a continuing challenge for the Commonwealth.

Household Income

What likely will have the greatest impact on the housing market is the fact that despite the 2009-2012 improvement in real output and employment, inflation-adjusted median household income has been absolutely stagnant in the region. *While nominal income increased by more than 37 percent between 1990 and 2000 and by nearly 27 percent between 2000 and 2011, once inflation is taken into account, real incomes in 2011 are less*

TABLE 1.2

Demographic Profile of the Five-County Greater Boston Region

	1990	2000	2010	2011	% Change, 1990–2000	% Change, 2000–2011
Total Population	3,783,817	4,001,752	4,134,036	4,140,307	5.8%	3.3%
Households	1,410,238	1,533,041	1,598,451	1,588,820	8.7%	4.3%
Age						
Percent 0-24	33.7%	32.5%	32.0%	30.58%	-3.8%	-5.8%
Percent 25-44	34.7%	32.6%	27.7%	27.30%	-6.1%	-16.3%
Percent 45-64	18.7%	22.1%	27.1%	27.32%	17.9%	23.6%
Percent 65 and Older	12.8%	12.8%	13.2%	13.26%	-0.1%	3.4%
Median Age ^a	33.4	36.1	38.3	38.4	8.1%	6.3%
Household Size						
Average Household Size	2.59	2.51	2.48	2.45	-3.0%	-2.3%
Average Household Size, Owner-Occupied Units	2.86	2.76	2.70	2.71	-3.6%	-1.8%
Average Household Size, Renter-Occupied Units	2.22	2.17	2.18	2.19	-2.3%	1.1%
Percent of Households with One Person	26.3%	28.2%	28.9%	29.30%	7.1%	3.9%
Race/Ethnicity						
Percent White	88.1%	82.0%	77.2%	77.4%	-6.9%	-5.6%
Percent Black	6.2%	6.6%	7.9%	8.9%	6.7%	35.0%
Percent Asian	5.4%	4.9%	6.9%	6.2%	-9.4%	25.9%
Percent Hispanic (Any Race)	4.9%	6.9%	9.7%	9.9%	40.4%	43.0%
Household Composition						
Percent Owner-Occupied	57.5%	59.8%	60.3%	64%	3.9%	7.0%
Percent Renter-Occupied	42.5%	40.2%	39.7%	39%	-5.3%	-3.0%
Household Income						
Median Household Income (Nominal) ^a	\$40,165	\$55,109	\$68,802	\$69,806	37.2%	26.7%
Median Household Income (2010 \$) ^a	\$67,010	\$69,784	\$68,802	\$67,670	4.1%	-3.0%
Median Homeowner Income (Nominal) ^a	\$51,682	\$71,437	\$93,484	\$94,179	38.2%	31.8%
Median Homeowner Income (2010 \$) ^a	\$86,225	\$90,460	\$93,484	\$91,297	4.9%	0.9%
Median Renter Income (Nominal) ^a	\$26,245	\$34,204	\$39,208	\$38,796	30.3%	13.4%
Median Renter Income (2010 \$) ^a	\$43,787	\$43,312	\$39,208	\$37,609	-1.1%	-13.2%
Housing Costs						
Median Gross Rent (Nominal) ^a	\$642	\$786	\$1,163	\$1,160	22.4%	47.6%
Median Gross Rent (2010 \$) ^a	\$1,071	\$995	\$1,163	\$1,125	-7.1%	13.0%
Median Monthly Owner Cost (w Mortgage) (Nominal) ^a	\$1,090	\$1,508	\$2,252	\$2,294	38.3%	52.1%
Median Monthly Owner Cost (w Mortgage) (2010 \$) ^a	\$1,819	\$1,910	\$2,252	\$2,224	5.0%	16.5%
Housing Cost Burden						
Renter-Occupied Households Paying More Than 30% of Income on Rent	41.7%	39.2%	50.1%	51.3%	-5.9%	30.9%
Renter-Occupied Households Paying More Than 50% of Income on Rent	19.6%	18.4%	25.4%	26.4%	-6.2%	43.5%
Owner-Occupied Households w/ Mortgage Paying More than 30% of Income on Household Costs	28.3%	26.7%	39.5%	40.4%	-5.7%	51.2%

Notes

a. These are averages (weighted according to the proper unit of analysis) of the median statistics in Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties.

Sources: U.S. Census Bureau, 1990 Census of Housing, General Housing Characteristics, Massachusetts; U.S. Census Bureau, 1990 Census of Population, General Population Characteristics, Massachusetts; U.S. Census Bureau, 1990 Census of Population and Housing, Summary Social, Economic, and Housing Characteristics, Massachusetts; U.S. Census Bureau, 1990 Census of Housing, Detailed Housing Characteristics; U.S. Census Bureau, 2000 Profile of General Demographic Characteristics; U.S. Census Bureau, 2010 Profile of General Population and Housing Characteristics; U.S. Census Bureau, 2011 American Community Survey. All data are collected at the county level for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties.

than 1 percent higher today than in 1990. Moreover, real median household income has actually declined by 3 percent since 2000. Homeowners have fared better than renters, but even they have experienced a mere 0.9 percent increase in real median income between 2000 and 2011. Over the same period, in inflation-adjusted dollars, median renter income plummeted by more than 13 percent, from \$43,312 to \$37,609 (in 2010 dollars).

Housing Costs

The U.S. Census Bureau estimates the cost of housing for homeowners and renters. According to the Bureau's estimates for the five-county Greater Boston region, median nominal rent increased by 22.4 percent between 1990 and 2000 and by 47.6 percent between 2000 and 2011. This reflects rents that rose from \$642 per month in 1990 to \$786 in 2000 and then jumped to \$1,160 in 2011. Adjusted for inflation, median gross rent declined by 7.1 percent during the 1990s, but since then has increased by 13 percent. As for homeowners, nominal median monthly homeowner cost for those with a mortgage increased by 38 percent between 1990 and 2000 and then by a whopping 52 percent in the following decade. After an adjustment for inflation, the increases for 1990-2000 and 2000-2011, respectively, were 5 percent and 16 percent.

Housing Cost Burden

The combination of declining real income and rising housing costs has led to a crushing cost burden on a growing proportion of Greater Boston's households. Between 1990 and 2000, the proportion of renter households paying 30 percent or more of their gross income in rent actually declined from 41.7 percent to 39.2 percent, but by 2010 more than half of all such households (50.1 percent) were paying this much of their income for rent and the number of cost burdened households continued to rise through 2011 to 51.3 percent. The proportion of renter households who are now severely housing cost burdened—those paying 50 percent or more of their gross income on rent—now surpasses one-fourth (26.4 percent) of all renter households in the region, up from 18.4 percent in 2000.

Homeowners have not been exempt from such a trend, despite the decline in housing values after 2005 and low mortgage rates. The proportion paying more than 30% or more of their gross incomes to cover housing

costs including mortgage, property taxes, and utilities has increased from 26.7 percent in 2000 to 40.4 percent in 2011. Housing burdens for *renters* increased so sharply because their real incomes were declining while rents continued to rise. Housing burdens for *homeowners* increased because, even with the ability to refinance existing homes, their gross incomes could not keep up with the rise in property taxes and utilities.

The Rising Cost of Living in Greater Boston

The dramatic increases in housing cost burdens in Greater Boston reflect a broader problem facing the region. The overall cost of living in the Boston metropolitan area is among the highest among all metro regions in the country and becoming more of a burden over time relative to family income. Since 2005, the Economic Policy Institute (EPI) in Washington, D.C. has produced a "family budget calculator" that measures the "income families need in order to attain a secure yet modest living standard where they live." EPI develops these budgets by estimating community-specific costs of housing, food, child care, transportation, health care, other necessities and taxes."⁸

When EPI released its first report in 2005, the estimated family budget for a four-person family of two adults and two children living in the Boston Metropolitan area came in at \$64,656, making it the single most expensive metro area in the nation. The basic budget for a similar family in the Washington, D.C. metro area was estimated at \$61,400; in the New York City region at \$58,656; and in San Francisco at \$57,624. It was 5 percent cheaper to live in the nation's capital and nearly 10 percent cheaper to live in either New York or the Bay Area.⁹ The cost of living for a similar family in Raleigh-Cary, North Carolina, according to the EPI calculator, was only \$44,124 for similar housing, food, child care, transportation, health care, other necessities and taxes. Thus, if a Boston-based family of four moved from Boston to North Carolina, it would need only two-thirds the income to have the same material standard of living.

In July 2013, EPI updated its family budget calculator using data for 2011. As **Table 1.3** reveals, the Boston metro region no longer has the distinction of being

the most expensive metro region in the country. It is actually 8th among *all* 615 large and small regions in the EPI analysis, but still 3rd most expensive among big metro regions, trailing only New York and Washington, D.C.¹⁰ For that family of four it now costs 9 percent more to live in New York than in Boston and 3.5 percent more to live in D.C.

Living costs are also rising faster in other regions. For example, in 2005 a family of four in San Francisco had to pay only 89.1 percent of what a similar family had to pay in Boston for essentially the same goods and services. By 2011, it cost the San Francisco family 98.2 percent of the Boston budget. Back in 2005, that Raleigh family that had to pay just two-thirds of the Boston family for an equivalent material standard of living now needs to budget an amount equal to three-fourths of the family in Massachusetts. In this sense, *Boston is at a smaller cost of living disadvantage today than in 2005*—and this is true when one compares Boston to all the metro areas in Table 1.3.

The problem is that while Greater Boston is now in a better *relative position*, it is in a much worse *absolute position* when it comes to living costs. This is clear from an inspection of **Table 1.4** which compares the four-person EPI budgets for the region for 2005 and 2011.

During this six year period, the cost of the basic budget increased by nearly a third (32.5 percent), increasing from \$64,656 to \$85,641. Driving the increase in Boston’s cost of living (and that of other metro areas) are steeply rising health care costs followed by the cost of transportation.¹¹ Housing costs, measured at the 40th percentile of Fair Market Rents (FMRs) calculated by the U.S. Department of Housing and Urban Development, rose by “only” 14.1 percent between 2005 and 2011 in Boston and thus was responsible for only 10 percent of the total increase in the four-person (two-adult, two-child) family budget. According to these EPI-estimated budgets, the combined cost of health care and transportation was responsible for nearly three-fourths (73.1%) of the increase in Boston’s cost-of-living.

TABLE 1.3

Basic Family Budget Calculator, Boston vs. Competitor Regions, 2011

	New York City, NY	Washington, D.C.	Boston, MA	San Francisco, CA	Minneapolis, MN	Denver, CO	Chicago, IL	Austin, TX	Miami, FL	Raleigh-Cary, NC
Monthly										
Housing	\$1,474	\$1,412	\$1,444	\$1,795	\$920	\$940	\$785	\$1,050	\$1,122	\$878
Food	\$754	\$754	\$754	\$754	\$754	\$754	\$754	\$754	\$754	\$754
Child care	\$2,006	\$1,716	\$1,505	\$953	\$1,526	\$1,233	\$1,285	\$961	\$864	\$1,062
Transportation	\$577	\$607	\$607	\$607	\$603	\$607	\$603	\$607	\$607	\$607
Health care	\$1,629	\$1,577	\$1,585	\$1,574	\$1,524	\$1,453	\$1,466	\$1,448	\$1,431	\$1,379
Other Necessities	\$570	\$554	\$563	\$652	\$428	\$434	\$394	\$462	\$480	\$418
Taxes	\$781	\$764	\$680	\$676	\$538	\$406	\$466	\$286	\$284	\$388
Total Monthly	\$7,792	\$7,385	\$7,137	\$7,011	\$6,294	\$5,827	\$5,752	\$5,568	\$5,542	\$5,485
Total Annual	\$93,502	\$88,615	\$85,641	\$84,133	\$75,527	\$69,924	\$69,028	\$66,812	\$66,501	\$65,816
Ratio of Metro Areas to Boston 2011	109.2%	103.5%	100.0%	98.2%	88.2%	81.6%	80.6%	78.0%	77.7%	76.9%
Ratio of Metro Areas to Boston 2005	90.7%	95.0%	100.0%	89.1%	85.0%	73.5%	67.6%	67.4%	67.2%	68.2%

Source: Economic Policy Institute

TABLE 1.4

Basic Family Budget Calculator, Greater Boston Metro Area, 2005 vs. 2011

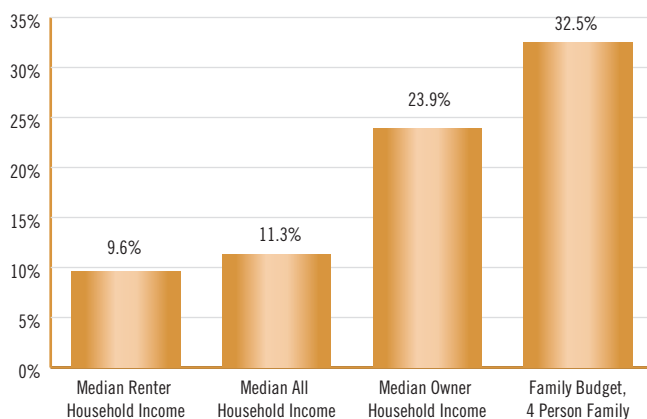
Monthly Budget	2005	2011	Percent Change
Housing	\$1,266	\$1,444	14.1%
Food	\$587	\$754	28.4%
Child care	\$1,298	\$1,505	15.9%
Transportation	\$321	\$607	89.1%
Health care	\$592	\$1,585	167.7%
Other Necessities	\$500	\$563	12.5%
Taxes	\$824	\$680	-17.5%
Total Monthly	\$5,388	\$7,137	32.5%
Total Annual Budget	\$64,656	\$85,641	32.5%
Housing as % of Total	23.5%	20.2%	-3.3 % Pts

Source: Economic Policy Institute

If household incomes were rising in tandem with living costs, the increases revealed in the EPI family budget for Greater Boston might not be such a problem. But this has not been the case. **Figure 1.14** reveals that while the family budget for a family of four increased by nearly a third (32.5 percent), median renter household income in Greater Boston increased

FIGURE 1.14

Increase in Family Budget Needs vs. Increase in Median Household Income: Renters vs. Homeowners, Five-County Greater Boston Region, 2005-2011



Source: U.S. Census Bureau, Economic Policy Institute

by only 9.6 percent. Median homeowner household income increased more than twice as much at 23.9 percent, but still fell far behind the cost of living. Combining renter and homeowner income data suggests that the cost of living rose nearly three times faster than family income, reducing material living standards substantially.

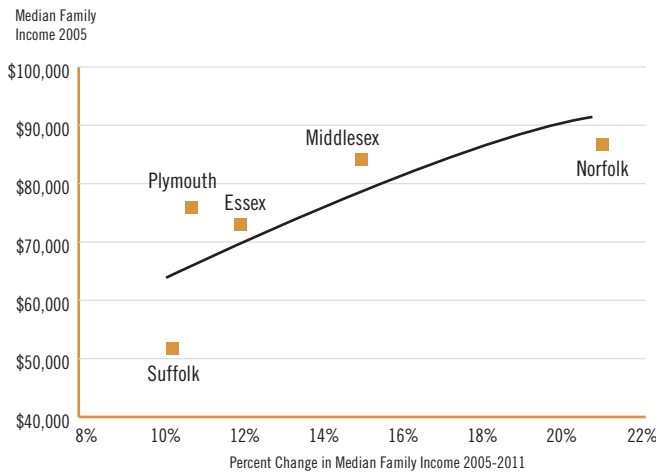
By 2011, the cost of living/household income gap was enormous, especially for renters. Median renter household income was less than half (45%) of the EPI family budget while the median homeowner was able to afford the family budget with just 10 percent to spare. Across all households, renters and homeowners combined, median income left a 23 percent deficit when trying to pay for the EPI family budget.

Growing Income Disparity in Greater Boston

The huge gap in income between renters and homeowners and their respective ability to deal with the cost of living in metro Boston is also reflected in the growing disparity between the incomes of the region's well-to-do families and those of lesser means. One way to demonstrate this is by comparing the growth in median family income between 2005 and 2011 across the five counties of the Greater Boston region. **Figure 1.15** reveals that, in general, the higher the family income in a county in 2005, the larger the percentage increase in family income between 2005 and 2011. At the bottom of the income range was Suffolk County with a 2005 Median Family Income of \$50,388. Over the next six years, nominal median family income rose by just 10.3 percent. At the other end of the income range, Norfolk County's median family income in 2005 was \$87,121—more than 70 percent higher than Suffolk's. By 2011, Norfolk's nominal median income had increased by 21 percent, twice as much as for the median family in Suffolk County. The upward trend to the regression line in Figure 1.14 demonstrates the strong correlation between the level of income in 2005 and the growth of income over the next six years. The gap in incomes between counties continues to increase producing ever larger income inequality in the region.

FIGURE 1.15

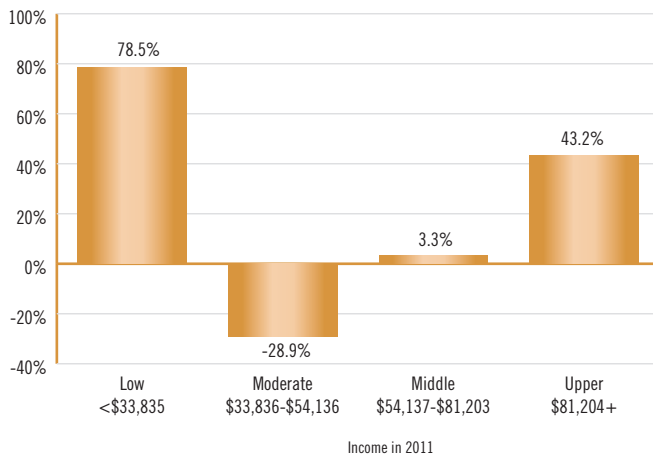
Percent Change in Nominal Median Family Income 2005-2011 vs. Initial 2005 Median Family Income, Five-County Greater Boston Region



Source: Federal Reserve Bank of Boston, *New England City Data Base*

FIGURE 1.16

City of Boston: Percent Change in Population by Income Class, 2000-2009



Source: Federal Reserve Bank of Boston, *New England City Data Base*

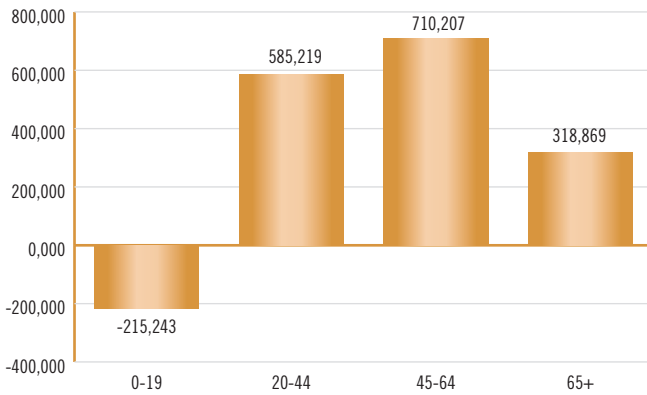
One last indicator of dramatically increased income inequality is found in data for the City of Boston. **Figure 1.16** provides a graphic image of the change in the population of the city between 2000 and 2009 by income class. During this period, the city’s population increased from a bit more than 589,000 residents to a little more than 625,000, an increase of 36,165 or 6.1 percent. The number of people living in households where median family income is less than 50 percent of the median family income of the Greater Boston region as a whole increased by more than 78 percent—from 109,183 to 194,923. At the other end of the income range, the number of individuals living in families with a median family income greater than 120 percent of the region’s median increased from 62,846 to 89,994, an increase of 43 percent. Meanwhile, the middle of the city’s income distribution was hollowed out—those in families between 50 and 120 percent of the region’s median family income. By 2009, there were 77,000 fewer moderate (50-80 percent of regional median) and middle (80-120 percent of regional median) income individuals than in 2000. It is likely that the cost of unsubsidized housing for working families in Boston has something to do with this income polarization of the city’s population. The wealthy can afford the high cost of housing and rents in the region. Low-income households can take advantage of rent vouchers and public housing. Moderate- and middle-income households have neither the income nor the access to subsidized housing. For many of them, Boston has priced them out of the housing market.

The Aging of the Massachusetts Population

One other factor is playing a role in the Greater Boston housing market. This is the aging of the Massachusetts population. After World War II, the number of young families with children soared, giving birth to the Baby Boom generation. By 1960, there were 421,000 more children aged 0 to 19 in the Commonwealth than in 1950, an increase of nearly 30 percent in a single decade. The number of children increased three times faster than the state’s population as a whole. Those new families with children needed larger homes and many moved to the suburbs to find them and what many parents perceived as better school systems. Nationwide, this demographic revolution provided the

FIGURE 1.17

Change in Massachusetts Population by Age 1960-2010



Source: U.S. Census Bureau

fuel for suburban sprawl and a boom in single-family housing construction.

Today, that Baby Boom generation who were children in the 1950s and early 1960s is rapidly aging and new families are having many fewer children. As **Figure 1.17** reveals, over the past half century since 1960, the age structure of the Massachusetts population has changed dramatically. While the state's population expanded by 1.4 million between 1960 and 2010, over the same period the number of children aged 0 to 19 actually declined by more than 215,000. There were nearly 12 percent fewer children in 2010 than fifty years earlier. By contrast, the Commonwealth now has nearly 320,000 more residents who are 65 or older and another 710,000 Baby Boomers now at least 45 years old.

The demographic shift away from families with a large number of children to empty-nesters and smaller families will almost certainly have a dramatic impact on housing demand over the next decade. Smaller families may look for smaller homes than the ones built for the Baby Boomers in the 1960s and 1970s. With more childless households, both young and old, and given the trend toward families having fewer children, there is the real possibility that in the next housing cycle, the supply of suburban single-family homes will outstrip demand while the demand for smaller homes and for apartments and condominiums will continue to grow rapidly. Indeed, the data presented later in this report suggests this trend is already underway.

Summing Up

In sum, the Great Recession left more than 15 million Americans unemployed, but even with the current recovery, more than 11.5 million still remain jobless halfway through 2013.¹² The national economy has simply not expanded fast enough since the "end" of the recession to make major inroads into the ranks of the unemployed. While personal consumption expenditures are up and non-residential fixed investment has increased by 22.2 percent since the end of the recession, sharp cuts in federal, state and local spending have kept the economy from accelerating. With such a sluggish economy, real per capita disposable income as well as median household income has failed to recover, leaving families to struggle even more to make ends meet.

The one bright spot in the economy is the national housing market. It has shown some real improvement since 2010. New and existing home sales, for the first time since 2007, are above the annual average going back to 1980. New-home construction is on the increase with production levels in 2012 reaching an annual rate of one million units. This is a far cry from the more than two million units of housing permitted in 2004 and 2005, but significantly better than the less than 600,000 units permitted in 2009. Extraordinarily low mortgage rates through the spring of 2013 helped drive housing's recovery, although rates are now moving up and may slow further increases in sales and production.

Massachusetts continues to outperform the nation's economy, but its relative edge is fast evaporating, particularly in terms of employment. Demographically, Greater Boston continues on a set of trends that are now well-established. The population continues to age rapidly, household size continues to decline and, after controlling for inflation, median household income continues to fall as is true for the nation as a whole. Households who rent are being especially savaged by the weak recovery with real median renter income down by 13.2 percent since 2000 and down 4.1 percent just between 2010 and 2011.

Because of rising housing costs and rents in the face of stagnating or falling incomes, both homeowners and renters are facing higher housing cost burdens than ever. Yet the high cost of housing is not the only

cost burden facing Boston area residents. The typical four-person family now needs almost \$86,000 a year to cover the costs of housing, food, childcare, transportation, health care, other necessities and taxes.

And what makes all this worse is growing income inequality throughout the region. Norfolk County, with the highest median family income in 2005, enjoyed more than a 20 percent increase in income by 2011. Suffolk County, with a 2005 median income little more than half of Norfolk's, saw only an 11 percent increase in their family incomes. Roughly speaking, the better off you were in 2005, the better you survived the Great Recession and its aftermath.

This then is the economic setting for the Greater Boston housing market. How it has fared is the topic for the next two chapters.

CHAPTER TWO

Home Sales, Housing Production and Foreclosures in Greater Boston

In each of the last three installments of *The Greater Boston Housing Report Card*, we reported fragments of evidence that the region's housing market was showing signs of improvement. In fact, between 2009 and 2010, after four straight years of declining home construction, the number of building permits for new housing units increased by nearly 22 percent. The number of annual single-family home sales, which had declined by nearly 34 percent from more than 35,000 in 2004 to fewer than 24,000 in 2009, finally hit bottom and appeared to stabilize. The number of foreclosure deeds, which had exploded from just 25 in 2003 to more than 3,000 in 2008, dropped by nearly 30 percent in the following year. With what appeared to be an improving overall economy, the median price of a single-family home in the five-county Boston metro region, after sinking by more than 16 percent between 2005 and 2009, rebounded by a healthy 4.4 percent in 2010.

Unfortunately, the modest optimism in the reports was not always borne out in the following year's housing market. In 2011, the number of housing permits issued in Greater Boston retreated, making that year the second worst year for construction at least since 2000. The number of home sales slipped as well. The number of foreclosure deeds jumped back to a level close to the record number in 2008. Median single-family home prices once again retreated, not only in 2011, but in 2012.

As such, we have been a bit gun shy about making predictions in such an unstable market. Nonetheless, in this year's report, we find solid improvement in housing production, home sales, foreclosure activity and median prices, providing the strongest evidence yet of a real turnaround in the Greater Boston housing market.

Home Sales Volume

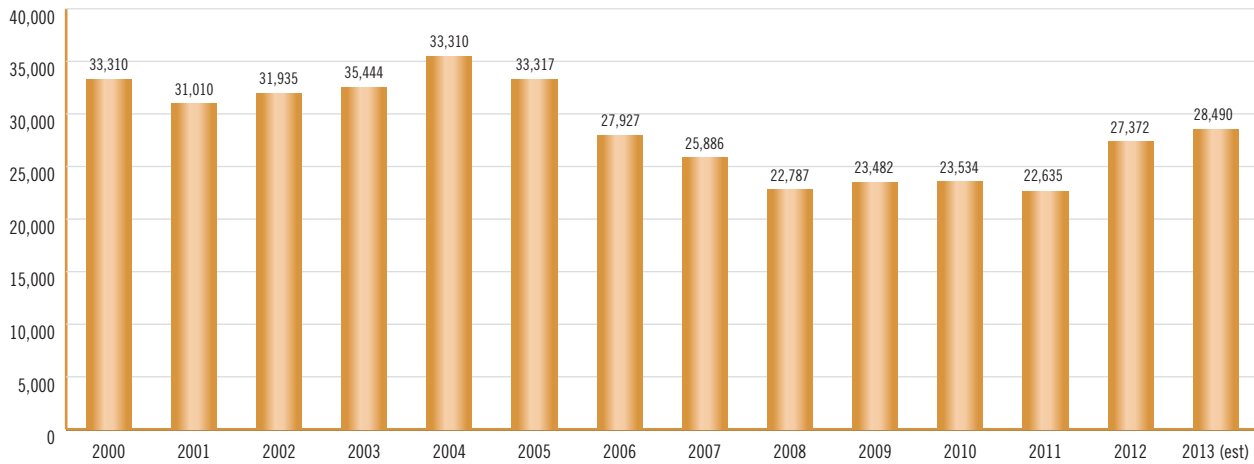
If the change in single-family home sales between 2011 and 2012 and in the first six months of 2013 is any indication, we can breathe a little easier that indeed the Greater Boston housing market is moving in the same direction as the national market—upward. Single-family home sales in the five-county Greater Boston region jumped 20.9 percent between 2011 and 2012, representing the additional sale of more than 4,700 single-family homes. At the end of 2011, fewer than 22,650 single-family homes had been sold, while a year later nearly 27,400 such homes had transferred ownership.

As **Figure 2.1** indicates, we also project single-family home sales to continue rising, though at a much slower rate in 2013. With the recent spike in mortgage interest rates, home prices are not quite the “bargain” they were last year. Moreover, sales have been constrained by a lack of homes on the market, as sellers who are in a position to delay putting their houses up for sale have done so hoping to take advantage of higher prices. We estimate that 28,500 single-family homes will be sold by the end of 2013, an increase of just four percent over last year's sales, many of which were driven by the lowest financing rates in several decades. The belief that home prices may not rise much higher because of rising interest rates will likely lead to a self-fulfilling prophesy as more homes are put on the market, easing pressure on prices. More supply could lead to more sales if demand does not weaken due to higher mortgage rates and a somewhat weaker regional economy.

The six-year trend of falling condominium sales in Greater Boston from 2006 to 2011 turned a corner in 2012, as well. Sales of condominiums jumped by more than 25 percent from fewer than 12,300 units in 2011 to more than 15,400 units in 2012 (see **Figure 2.2**). This trend is expected to slow dramatically in 2013, although the level of condo sales in 2013 should

FIGURE 2.1

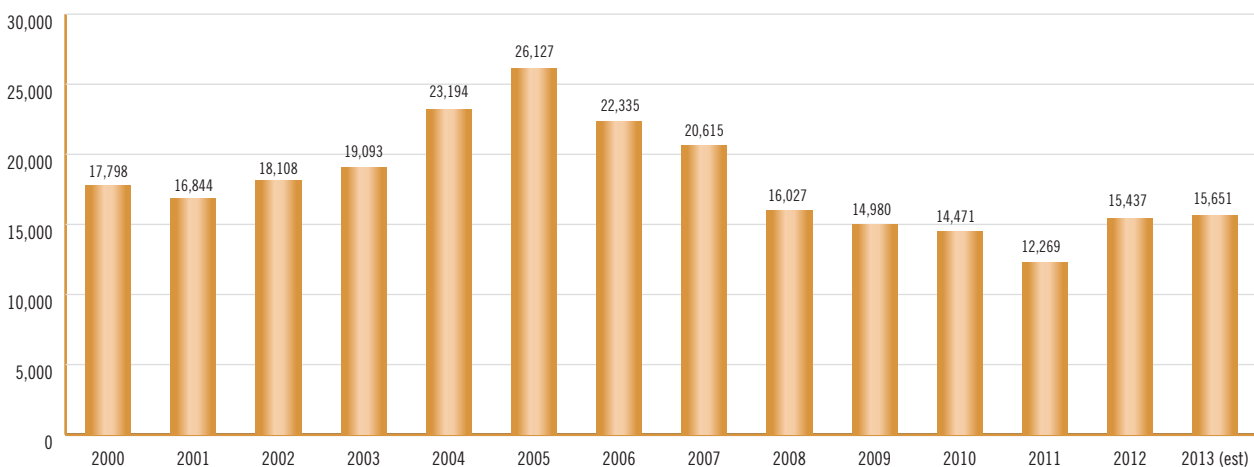
Annual Number of Sales of Single-Family Homes in Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

FIGURE 2.2

Annual Number of Sales of Condominiums in the Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

slightly exceed last year’s. Higher mortgage rates will no doubt be the reason that sales are not much higher.

Two-unit and three-unit structures in the Greater Boston Region are colloquially referred to as duplexes and triple-deckers. These types of units—especially the classic triple-deckers found in Boston, Cambridge and Somerville—had become popular in the early 1900s when developers and builders were looking to maximize square footage on narrow, rectangular urban lots. Triple-deckers were inspired by triple-decked ships

and had exteriors that gave a strong nod toward such Victorian-style architectural features as bay windows, columns and intricate scroll details. Decks or balconies are often found in the front and in the back of each unit, giving residents the opportunity to extend their living space outdoors.¹

After declining from a peak of more than 5,500 duplex sales in 2004 to less than 2,600 sales in 2009, sales of these two-unit dwellings have remained fairly constant at an average annual rate of a little more than 3,100

units. Unless mortgage rates continue to climb, we estimate that close to 3,200 duplex units will be sold in 2013. Generally, the same trend holds for triple-deckers with sales of about 1,300 expected this year. **Figure 2.3** summarizes the sales trends for two- and three-unit housing in Greater Boston from 2000 to 2013.

Following a pattern that goes back to the suburban boom after World War II, it is not surprising what types of housing are selling in which Greater Boston communities. We find that *single-family* home sales tend to be in the suburbs such as Newton, Quincy and Plymouth. Condominiums and multifamily housing tend to be in the towns and cities closest to Boston including Somerville, Cambridge and Brookline and within Boston neighborhoods such as South Boston. **Table 2.1A** summarizes the top 10 municipalities leading in single-family home sales. In 2012 and then again in 2013 (through June), Newton, Brockton, Framingham, Plymouth, Quincy, Lowell, Needham and Weymouth were among the top 10 in single-family home sales within the 161 municipalities we track in the Greater Boston metro region. Lexington fell off of the top 10 list in early 2013, while Lynn and Taunton entered at the ninth and 10th places respectively.

The sale of units in *three-unit structures* has typically been concentrated in inner-city Boston neighborhoods such as Dorchester, East Boston and Roxbury, but this

TABLE 2.1A
**Municipal Leaders in Single-Home Sales
 in Greater Boston, 2000-2013**

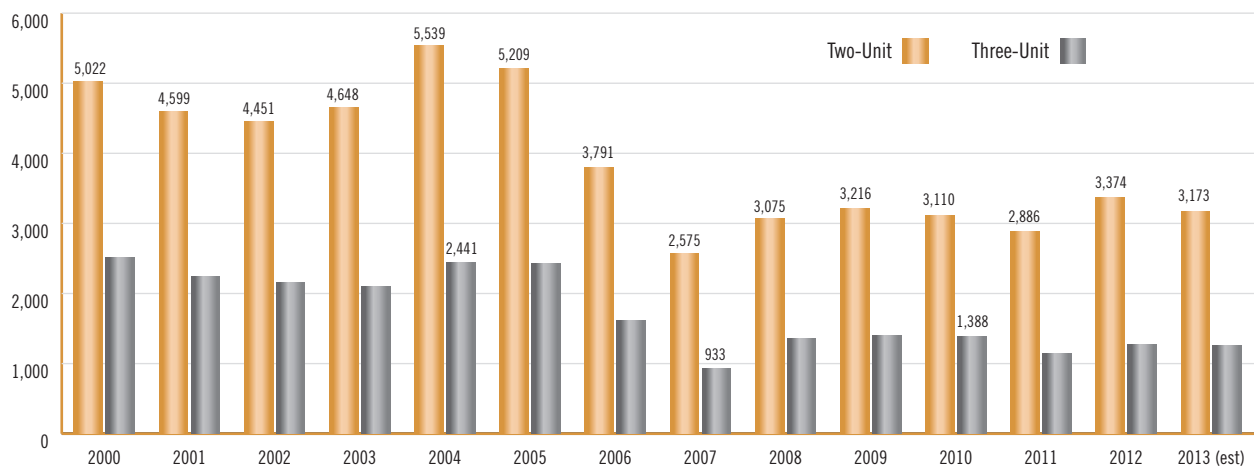
	Number of Sales (Ranking in Parentheses)		
	2010	2012	2013 (through June)
Newton	577 (2)	669 (1)	313 (1)
Brockton	620 (1)	656 (2)	307 (2)
Framingham	447 (4)	497 (6)	264 (3)
Plymouth	495 (3)	581 (4)	255 (4)
Quincy	388 (8)	506 (5)	248 (5)
Lowell	411 (6)	417 (9)	193 (6)
Needham	389 (7)	389 (12)	185 (7)
Weymouth	362 (10)	448 (8)	184 (8)
Lynn	141 (22)	390 (11)	182 (9)
Taunton	97 (34)	301 (25)	167 (10)

Source: The Warren Group

year more neighboring cities joined the ranks of the top 10 sales leaders in terms of this quintessential New England housing type. Specifically, the cities of Everett (4th), Chelsea (8th) and Lowell (10th) entered the top 10, along with the Boston neighborhood of

FIGURE 2.3

**Annual Number of Sales of Homes in Two- and Three-Unit Structures
 in the Five-County Greater Boston Region, 2000-2013**



Source: The Warren Group

South Boston (6th). Boston’s Dorchester neighborhood, Lawrence, Lynn, Somerville, Brockton and Cambridge remained as major markets for triple-decker structures (see **Table 2.1B**).

TABLE 2.1B

Municipal Leaders in Sale of Homes in Three-Unit Structures in Greater Boston, 2000-2013

	Number of Sales (Ranking in Parentheses)		
	2010	2012	2013 (through June)
Dorchester	215 (1)	199 (1)	91 (1)
Lawrence	167 (2)	109 (2)	43 (2)
Lynn	110 (4)	59 (5)	32 (3)
Everett	38 (8)	39 (7)	28 (4)
Somerville	62 (6)	83 (3)	27 (5)
South Boston	28 (11)	26 (10)	26 (6)
Brockton	117 (3)	69 (4)	25 (7)
Chelsea	53 (7)	34 (8)	20 (8)
Cambridge	36 (10)	48 (6)	19 (9)
Lowell	28 (11)	32 (9)	17 (10)

Source: The Warren Group

TABLE 2.1C

Municipal Leaders in Condominium Sales in Greater Boston, 2000-2013

	Number of Sales (Ranking in Parentheses)		
	2010	2012	2013 (through June)
Downtown Boston	1,615 (1)	1,874 (1)	781 (1)
Cambridge	817 (2)	920 (2)	435 (2)
South Boston	567 (3)	690 (3)	292 (3)
Brookline	560 (4)	636 (4)	253 (4)
Jamaica Plain	363 (7)	367 (6)	193 (5)
Brighton	305 (6)	302 (8)	186 (6)
Somerville	413 (5)	452 (5)	172 (7)
Charlestown	253 (11)	331 (7)	168 (8)
Roxbury	210 (15)	266 (9)	160 (9)
Newton	292 (8)	232 (10)	154 (10)

Source: The Warren Group

The towns, cities and neighborhoods with the largest number of condominium sales tend to remain about the same year after year. The top four for the past three years have been Downtown Boston, Cambridge, South Boston and Brookline. Rounding out the top 10 in condo sales in 2013 are Jamaica Plain, Brighton, Somerville, Charlestown, Roxbury and Newton (See **Table 2.1C**). The Downtown Boston neighborhood continues to dominate the condominium market, accounting for slightly more than twice the number of condo sales of second-place Cambridge.

Housing Permits

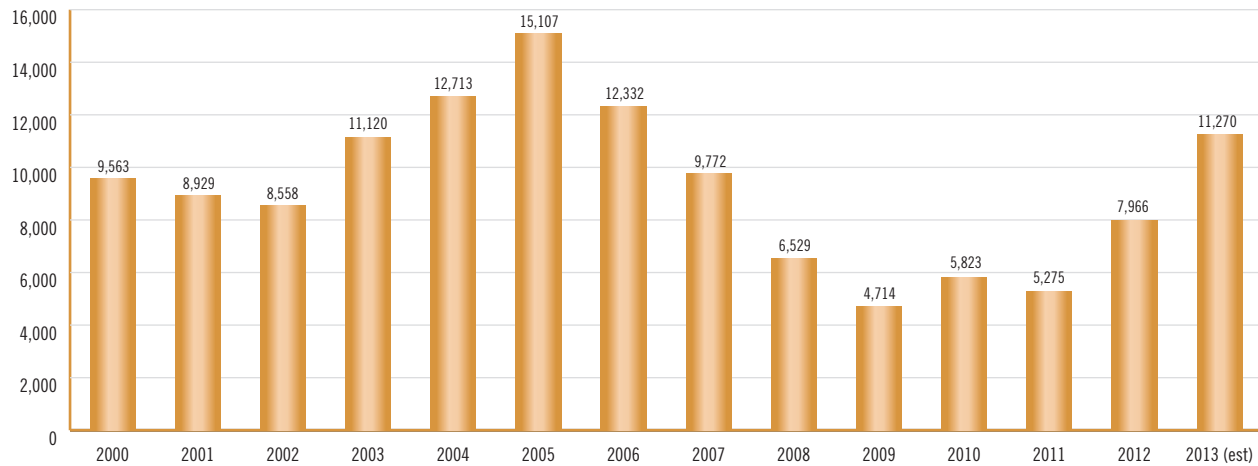
While the improvement in housing sales provides one indicator of an improved housing market in Greater Boston, it is the increase in new housing permits since 2011 that offers the most encouraging sign. As **Figure 2.4** reveals, during 2012, nearly 8,000 permits were issued, more than 50 percent more than in the previous year. Based on permits issued in just the first six months of 2013, we now project the potential construction of nearly 11,300 units for the entire year. That is another 40 percent increase in a single year and, if our projection is correct, the number of permits issued would exceed annual permit activity for all but the housing boom years of 2004-2006. In this case, 2013 would be the first time since 2006 that the number of housing permits is above 10,000 and nearly two-and-a-half times the number issued in 2009.

Table 2.2 and **Figure 2.5** provide the breakdown of housing permits issued by type of structure—single-family, two- to four-unit structures, and apartment and condominium buildings with five or more units. From 2005 through 2009, the total number of permits issued across all categories of housing declined. By 2009, new housing permits were issued at a rate less than one-third the rate during the boom year 2005. Structures with five units or more declined the most (74.5 percent), followed by two- to four-unit structures (72 percent), and finally by single-family homes (61.7 percent).

Finally, in 2010, permit activity picked up in all three categories of housing by approximately the same amount. Single-family permits increased by 21.9 percent while two- to four-unit structures and larger apartment building units increased by 22.3 and 25.8 percent, respectively.

FIGURE 2.4

Number of Housing Permits Issued in Greater Boston, 2000-2013



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

TABLE 2.2

Single-Family and Multifamily Building Permits in Greater Boston, 2000-2013

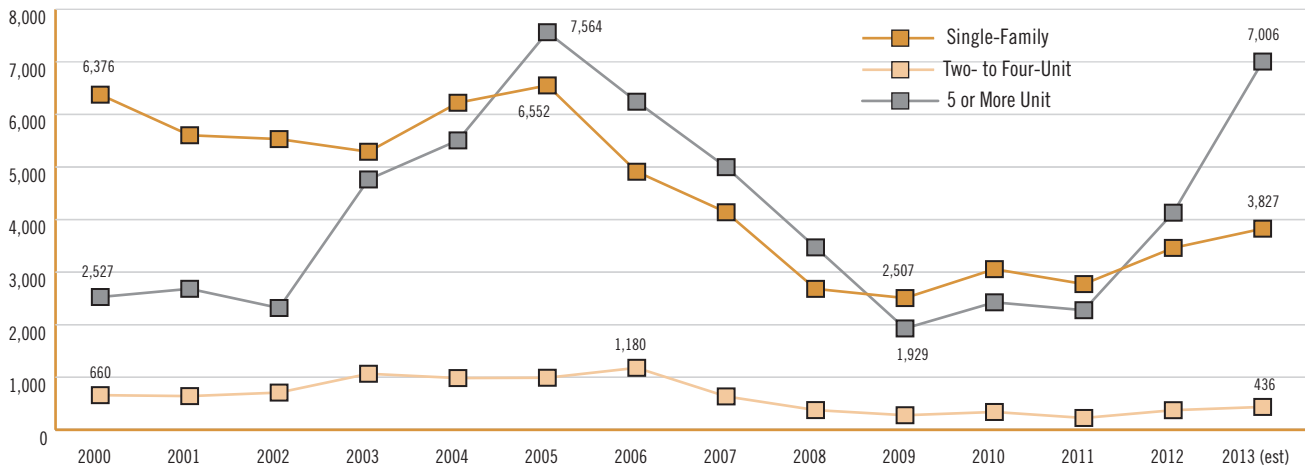
Year	Total Units	% Change from Prior Year (Total Units)	Units in Single-Family Structures	% Change from Prior Year (SF Units)	Units in 2-4 Unit Structures	% Change from Prior Year (Units in 2-4 Unit Structures)	Units in 5+ Unit Structures	% Change from Prior Year (Units in Buildings with 5+ Units)
2000	9,563		6,376		660		2,527	
2001	8,929	-6.6%	5,604	-12.1%	642	-2.7%	2,683	6.2%
2002	8,558	-4.2%	5,531	-1.3%	709	10.4%	2,318	-13.6%
2003	11,120	29.9%	5,290	-4.4%	1,067	50.5%	4,763	105.5%
2004	12,713	14.3%	6,222	17.6%	985	-7.7%	5,506	15.6%
2005	15,107	18.8%	6,552	5.3%	991	0.6%	7,564	37.4%
2006	12,332	-18.4%	4,910	-25.1%	1,180	19.1%	6,242	-17.5%
2007	9,772	-20.8%	4,139	-15.7%	636	-46.1%	4,997	-19.9%
2008	6,529	-33.2%	2,682	-35.2%	376	-40.9%	3,471	-30.5%
2009	4,714	-27.8%	2,507	-6.5%	278	-26.1%	1,929	-44.4%
2010	5,823	23.5%	3,057	21.9%	340	22.3%	2,426	25.8%
2011	5,275	-9.4%	2,773	-9.3%	226	-33.5%	2,276	-6.2%
2012	7,966	51.0%	3,461	24.8%	374	65.5%	4,131	81.5%
2013 (est.)	11,270	41.5%	3,827	10.6%	436	16.6%	7,006	69.6%
Percentage Change								
2000-2005	58.0%		2.8%		50.2%		199.3%	
2005-2009	-68.8%		-61.7%		-71.9%		-74.5%	
2009-2010	23.5%		21.9%		22.3%		25.8%	
2010-2013 (est.)	93.5%		25.2%		28.2%		188.8%	
2012-2013 (est.)	41.5%		10.6%		16.6%		69.6%	

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

Note: The annualized estimates of 2013 housing permits were calculated by doubling the number of permits issued through June.

FIGURE 2.5

Number of Housing Units Permitted in the Five-County Greater Boston Region, by Structure Type, 2000-2013



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

What is most important, however, in the housing trend since 2011, is the shift in the type of housing for which developers are seeking permits. Between 2011 and our projection for 2013, we expect to see more than a doubling in permit activity with a two-year grand total of more than 19,200 permits. Of this number, more than 11,000 will be for rental apartment/condo units in 5+ unit buildings—nearly 60 percent of the total permits in the region.

Indeed, this marks a major realignment in the production of housing stock in Greater Boston and reflects the fact that developers appear to be well aware of the demographic trends discussed at length in Chapter 1. **Table 2.3** provides graphic evidence of this shift in housing supply. As late as 2000-2002, nearly two-thirds (64.7 percent) of all permits were for single-family homes and only roughly one-quarter (27.8 percent) were for units in apartment/condo complexes. By 2011-2013, the single-family share of total permits was down to about two-fifths (41 percent). Permits for larger buildings now represented more than half of the total (54.7 percent). If our projections for 2013 prove accurate, this trend will continue to strengthen. We estimate only a third (34 percent) of all permits issued in 2013 will be for single-family homes while two-thirds will be for two- to four-unit structures

and—most prominently—buildings with five or more units. Essentially, production will have completely reversed direction in a matter of not much more than a decade.

TABLE 2.3

Proportion of Housing Permits by Type of Structure

	Single Family	2-4 unit	5+ Unit
2000-2002	64.7%	7.4%	27.8%
2011-2013	41.0%	4.2%	54.7%
2013 (Est)	34.0%	3.9%	62.2%

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

Housing Production by Type and Location

As is the regular practice in the *Housing Report Card*, we report the number of permits issued by each city and town in the five-county Greater Boston region as a means to monitoring trends in new housing production in the region. **Table 2.4** contains the details of the municipalities with the most and fewest numbers of permits overall and by structure type. In 2012, the City of Boston issued 1,776 new housing permits, up from 351 in 2010, and remained the city with the highest number of total permits. Boston had more than three times the number of permits of the second-ranked Town of Natick (548 permits) and 4.5 times the third-ranked City of Cambridge (392 permits).

Plymouth continues to lead the 161 municipalities in permits for single-family units with 185 issued in 2012, many of them in the Pine Hills development. Among the 15 municipalities with the most single-family permits, Billerica, Newton and Taunton saw declines compared to 2010. All other municipalities in the top 15 experienced an increase in the number of permits between 2010 and 2012. The City of Boston is seeing a virtual housing boom in structures of five or more units. With 1,571 units in such buildings permitted in 2012, it increased production sixfold compared to the construction level in 2010.

Despite the apparent new building boom, there are still a large number of Greater Boston communities where almost no housing production is occurring. According to the U.S. Census Permit Data, Boxboro, Harvard, Nahant, Somerville and Swampscott issued not a single permit for any kind of housing in 2012. **Appendix A** provides statistics on permit activity for all 161 Boston metro communities.²

TABLE 2.4

Municipalities Adding the Most and Fewest New Housing Units in 2010 and 2012

2012 Rank	Municipality	Total Units Permitted in 2012	Total Units Permitted in 2010
Most Permits			
1	Boston	1776	351
2	Natick	548	34
3	Cambridge	392	38
4	Lynnfield	196	18
5	Plymouth	185	223
6	Chelsea	165	112
7	Wakefield	162	35
8	Concord	137	386
9	Saugus	117	75
10	Hopkinton	110	53
11	Everett	108	56
12	Westford	103	90
13	Methuen	102	51
14	Braintree	102	49
15	Lakeville	98	23

2012 Rank	Municipality	Total Units Permitted in 2012	Total Units Permitted in 2010
Fewest Permits			
138	Boxford	4	4
138	Essex	4	15
138	Winthrop	4	0
141	Hamilton	3	5
141	Hanson	3	15
141	Holbrook	3	11
141	Medford	3	2
141	Millville	3	0
141	Plympton	3	3
147	Wenham	2	1
148	Hopedale	1	5
149	Boxboro	0	4
149	Harvard	0	0
149	Nahant	0	0
149	Somerville	0	1
149	Swampscott	0	0

continued next page

TABLE 2.4

Municipalities Adding the Most and Fewest New Housing Units in 2010 and 2012 (cont.)

2012 Rank	Municipality	Single-Family Units Permitted in 2012	Single-Family Units Permitted in 2010
Most Permits			
1	Plymouth	185	132
2	Westford	103	80
3	Methuen	98	51
4	Lexington	97	71
5	Billerica	79	96
6	Needham	73	48
7	Wellesley	69	49
8	Newton	68	82
9	Acton	59	48
10	Andover	56	24
11	Bedford	55	15
12	North Andover	54	42
13	Weymouth	54	45
14	Taunton	49	55
15	Winchester	49	13

2012 Rank	Municipality	Units in 5+ Unit Structures Permitted in 2012	Units in 5+ Unit Structures Permitted in 2010
Most Permits			
1	Boston	1571	264
2	Natick	515	0
3	Cambridge	359	30
4	Lynnfield	180	0
5	Chelsea	156	112
6	Wakefield	128	0
7	Saugus	103	58
8	Concord	102	308
9	Everett	89	35
10	Braintree	86	36
11	Arlington	81	40
12	Lakeville	76	0
13	Beverly	74	0
14	Melrose	71	10
15	Canton	68	35

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

2012 Rank	Municipality	Single-Family Units Permitted in 2012	Single-Family Units Permitted in 2010
Fewest Permits			
145	Hamilton	3	5
145	Hanson	3	13
145	Holbrook	3	11
145	Medford	3	0
145	Millville	3	0
145	Plympton	3	3
151	Merrimac	2	4
151	Watertown	2	0
151	Wenham	2	1
154	Hopedale	1	5
155	Arlington	0	1
155	Chelsea	0	0
155	Boxboro	0	4
155	Harvard	0	0
155	Nahant	0	0
155	Somerville	0	1

125 municipalities did not permit any multifamily housing in 2010

126 municipalities did not permit any multifamily housing in 2012

The Role of Chapter 40R in Housing Production

Since its passage in 2004, we have been tracking municipal adoption of the Commonwealth's Chapter 40R housing legislation which established monetary incentives to encourage the state's cities and towns to create Smart Growth Overlay Zoning Districts where denser, transit-oriented, as-of-right housing could be produced. The early record of this legislation was somewhat discouraging. Almost as soon as its regulations were promulgated and distributed to communities throughout the state, the housing bubble burst and almost no new housing of any type was being built—in 40R districts or anywhere else. As such, the first few years of Chapter 40R seemed to be a failure. While a group of municipalities went through the motions of creating 40R zoning districts within their communities, the actual production of housing within these districts was quite limited.

This began to change for the better in 2011 as the housing market began to recover, as we had predicted. By August of that year, 31 cities and towns in Massachusetts had approved Smart Growth Districts under Chapter 40R, 20 of which were in the Greater Boston area.³ Within these approved districts, land was set aside which could ultimately accommodate the as-of-right construction of 12,000 units of housing, 7,500 of which are in municipalities within the Boston metro region.

A year later, in August 2012, the Massachusetts Department of Housing and Community Development reported that 1,211 units of housing had been completed within 12 of the original 40R districts, with two additional communities reporting that construction was underway in their designated 40R neighborhoods.

During the past year, Chapter 40R construction has continued apace. As of August 2013, there were now more than 1,500 units complete, with nearly 875 additional units under construction or pending the issue of building permits. Nineteen of the 31 Chapter 40R municipalities have such activity ongoing (See **Table 2.5** on next page).

What is most encouraging is that of the 1,516 units already built, all but a handful (2.5 percent) are units in multifamily structures—precisely the type of housing so badly needed in the Commonwealth. More than half

of the constructed units have two bedrooms or more, making many family-friendly. Eighty-five percent are rental units while 38 percent are affordable for households earning 80 percent or less of area median income.⁴ None are age-restricted.

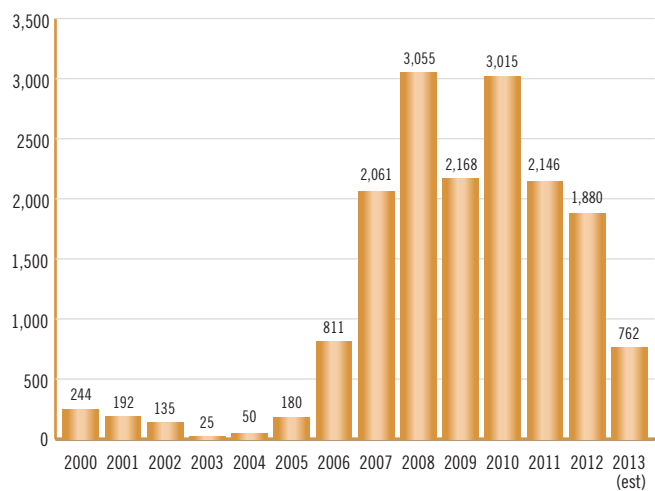
The existing 33 Smart Growth Districts in the original 31 Chapter 40R municipalities still have room for more than 9,500 additional as-of-right housing units. If the housing market remains reasonably strong through 2014, we can expect even more housing to be built under this landmark legislation.

Foreclosure Activity in Greater Boston

In addition to the encouraging news we have on the housing construction front, there is also very good news regarding foreclosures in Greater Boston. The number of foreclosure deeds for single-family homes exceeded 3,000 in 2008 and 2010. But since then, the number of households losing their homes to foreclosure has declined sharply each year. We now estimate that for all of 2013, there will be about 760 final foreclosures, only 40 percent of the number in 2012 and less than a quarter of the number in the peak year 2008. The trend in foreclosure deeds may be seen in detail in **Figure 2.6**.

FIGURE 2.6

Annual Number of Foreclosure Deeds in Single-Family Homes in the Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

TABLE 2.5

Housing Units Constructed in Chapter 40R Smart-Growth Districts in Massachusetts

Municipality	District Name	Units Constructed Under 40R Permits				Building Permits Issued, Under Construction	Pending Building Permits
		Single-Family Units	Units in 2- to 3-Unit Structures	Units in Multiunit Structures	Total Units Constructed		
Amesbury	Gateway Village						
Belmont	Our Lady of Mercy	2	11	4	17		
Boston	Olmstead						
Bridgewater	Waterford Village						
Brockton	Downtown		2		2	25	71
Chelsea	Gerrish Ave			120	120		
Chicopee	Chicopee Center						
Dartmouth	Lincoln Park						
Easton	Queset						98
Easthampton	Smart Growth Overlay						50
Fitchburg	Smart Growth Overlay						
Grafton	Fisherville Mill						
Haverhill	Downtown			362	362		
Holyoke	Smart Growth Overlay	1	4		5		55
Kingston	1021 Kingston's Place						
Lakeville	Res. At Lakeville Station			100	100	104	
Lawrence	Arlington Mills			75	75		
Lowell	Smart Growth Overlay						52
Lunenburg	Tri-Town			99	99		
Lynnfield	Planned Village Development					180	
Marblehead	Pleasant Street						
Marblehead	Vinnin Square						
Natick	SGOD						138
North Andover	Osgood Landing						
North Reading	Berry Center			406	406		
Northampton	Sustainable Growth	11	3	48	62		
Norwood	St. George Ave		4	11	15		
Pittsfield	Smart Growth Overlay			100	100		
Plymouth	Cordage Park						
Reading	Gateway			100	100	100	
Reading	Downtown			53	53		
Sharon	Sharon Commons						
Westfield	Southwick Road						
Totals		14	24	1,478	1,516	409	464

Total units constructed, under construction, or pending: 2,389

Number of 40R districts with completed units: 14

Additional 40R districts with units under construction: 0

Additional 40R districts with pending building permits: 1

Total number of 40R districts with units completed, under construction, or pending: 19

Total number of approved 40R districts: 33

Percentage of approved 40R districts with units completed, under construction, or pending: 58%

Source: Massachusetts Department of Housing and Community Development, August 2013

This dramatic improvement in foreclosures is driven in part by the improving economic conditions the Commonwealth experienced in 2011 and 2012, especially regarding employment growth. However, with employment growth apparently stalling in the Commonwealth in 2013, it is possible that foreclosures could spike again next year. The decline in foreclosures has also been due to both federal and state action aimed at providing homeowners with assistance to keep them from losing their homes. The Obama Administration's new housing policies discussed in Chapter 5 may help some households that would otherwise face foreclosure by permitting them to refinance their homes at lower mortgage rates, despite carrying mortgages that are still higher than the current value of their homes.

Tables 2.6A, 2.6B, and 2.6C provide data on foreclosure statistics for single-family homes, homes in three-unit structures and condominiums respectively for the communities with the highest number of foreclosure deeds. Through June 2013, Brockton leads in foreclosures for single-family homes, followed by Lowell and Plymouth. The Dorchester neighborhood of Boston leads in foreclosures on homes in three-unit structures, followed by Brockton and Revere. Lowell leads in foreclosures on condominiums, followed by Haverhill and Plymouth.

With respect to single-family foreclosures, Brockton, Lowell, Plymouth, Taunton, Lynn and Haverhill have all been in the top 10 in terms of foreclosure deeds from 2010 through 2013. The communities with the highest number of condominium foreclosures are Lowell, Haverhill, Lynn and Dorchester, all of which have remained on the high foreclosure list since 2010, but Brockton and Marlborough have now been replaced by Plymouth and Dracut. Lowell and Lynn have the distinction of being on the top 10 list of foreclosures since 2010 for all three types of housing structures.

Not only are the number of actual foreclosure deeds falling sharply, but the number of foreclosure petitions in single-family homes in the five-county Greater Boston region continues to decline as well. This bodes well for the future level of foreclosure deeds since the foreclosure petition is the first action taken down the foreclosure path. The number of petitions peaked in 2007 at nearly 16,000 and declined until 2011, dropping

TABLE 2.6A

Municipalities with the Highest Number of Single-Home Foreclosure Deeds in Greater Boston, 2010-2013

	Number of Deeds (ranking in parentheses)		
	2010	2012	2013 (through June)
Brockton	234 (1)	158 (1)	36 (1)
Lowell	120 (3)	76 (3)	20 (2)
Plymouth	98 (4)	63 (5)	16 (3)
Taunton	74 (8)	72 (4)	15 (4)
Lynn	124 (2)	85 (2)	14 (5)
Haverhill	79 (7)	33 (10)	10 (6)

TABLE 2.6B

Municipalities with the Highest Number of Three-Unit Foreclosures in Greater Boston, 2010-2013

	Number of Deeds (ranking in parentheses)		
	2010	2012	2013 (through June)
Dorchester	86 (1)	27 (1)	18 (1)
Brockton	49 (2)	21 (2)	15 (2)
Revere	10 (11)	2 (14)	11 (3)
Haverhill	18 (7)	3 (13)	6 (4)
Lynn	42 (4)	16 (3)	5 (5)
Lowell	15 (8)	6 (7)	5 (5)

TABLE 2.6C

Municipalities with the Highest Number of Condominium Foreclosures in Greater Boston, 2010-2013

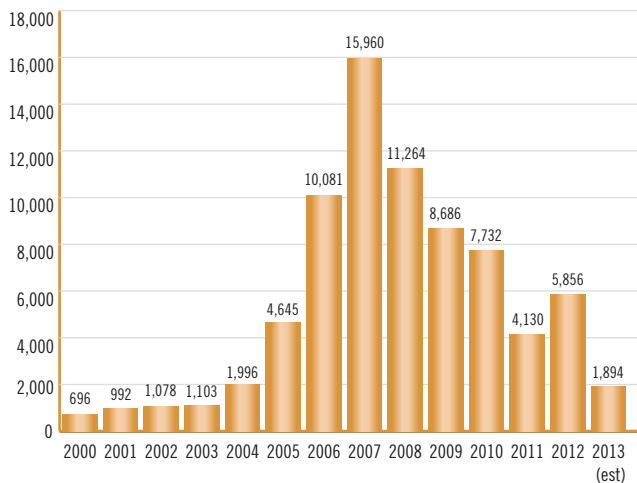
	Number of Deeds (ranking in parentheses)		
	2010	2012	2013 (through June)
Lowell	86 (2)	42 (1)	12 (1)
Haverhill	58 (4)	40 (3)	10 (2)
Plymouth	49 (9)	19 (12)	7 (3)
Lynn	57 (5)	26 (5)	6 (4)
Dracut	34 (11)	25 (6)	6 (4)
Dorchester	181 (1)	26 (5)	6 (4)

Source: The Warren Group

below 4,200. There was a slight bump up in 2012, to nearly 5,900 petitions. However, a significant decline in 2013 is predicted, which, if correct, will show that the number of petitions this year will be less than 1,900—less than a third of the 2012 total. These trends are shown in **Figure 2.7**.

FIGURE 2.7

Annual Number of Foreclosure Petitions in Single-Family Homes in the Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

Conclusion

At the end of our exploration of home sales, housing permits, Chapter 40R’s impact on housing production, and foreclosures in the *2012 Housing Report Card*, we noted that “Finally, in 2012, we see more evidence that the housing crisis in Greater Boston is beginning to abate. Sales are picking up and new housing permits are being issued in greater numbers than we have seen since 2008. With sales increasing, housing developers are becoming more optimistic about their ability to sell new units if they construct them.”⁵

Now, a year later, this observation has been confirmed with continuing strength in home sales, a hefty increase in housing construction, and a sharp decline in foreclosures. With the recovery of the housing market, more developers are taking advantage of Chapter 40R to construct housing in the communities that had the foresight to create Smart Growth Overlay Zoning Districts.

Moreover, over the last two years, developers have read the demographic tea leaves and have switched rather dramatically from producing single-family homes to constructing apartment buildings containing rental units and condominiums. With 7,000 units of multifamily housing expected to be permitted in 2013 in Greater Boston alone, it is not inconceivable that Gov. Deval Patrick’s call for 10,000 units of such housing units across the state per year through 2020 will reach fruition, at least for the current year.

Potentially, there are two flies in the ointment. First, with rising mortgage rates, both sales and permitting activity may slow in 2014. Second, if employment continues to stagnate in the Commonwealth and unemployment continues to rise, it is possible that housing demand will soften, reducing sales and leading developers to cut back on construction plans. Foreclosures could reverse direction and begin to increase again.

So for next year and beyond, much will depend on the course of interest rates and the health of the economy at large.

CHAPTER THREE

Home Prices and Rents in Greater Boston

Home Prices in Greater Boston

For fourteen consecutive years, from 1992 through 2005, the prices of single family homes in Greater Boston consistently increased.¹ The upward trend accelerated to a double-digit annual rate beginning in 1998, leading to a string of seven straight years during which annual home price appreciation remained above 10 percent, leaping by 17.7 percent in 2000 alone (See **Figure 3.1**). Boston's housing boom was so hot that between January 1998 and December 2004, the typical home in the region more than doubled in price, increasing 119 percent. Based on the Case-Shiller price index and data from the Warren Group, we estimate that the median price for a single-family home in the five-county Boston metro area increased from \$177,000 in 1998 to nearly \$386,000 in the span of just six years.²

Boston was hardly alone. San Diego experienced nearly a tripling in home prices during the 1998-2004 housing boom, with San Francisco's prices rising by 144 percent; Washington, D.C.'s by 130 percent; and Miami by 122 percent.

The "irrational exuberance" of the housing boom could never have been sustained. Fueled by rising family income and lax mortgage lending standards, American households raced to buy homes before prices could rise even faster. In the 30 years between 1960 and 1990, the homeownership rate in the U.S. increased by a mere 3.9 percent. In the single decade between 1995 and 2004, the white homeownership rate increased by 7.2 percent; the Hispanic rate by 14.3 percent; the African-American rate by 15.0 percent; and the Asian-American rate by nearly 18 percent.³

Ultimately, a significant number of those who bought homes at inflated prices and under conditions of lax lending practices could not afford them. Even before the Great Recession began, foreclosures began to increase and these had a depressing effect on the housing market. Once the recession began in late 2007, the stream of foreclosures turned into a torrent. Housing vacancy rates rose sharply and a hot sellers' market turned sour. The number of vacant housing units

nationwide increased by three million between 2005 and 2008.⁴ With so much excess supply, home prices plummeted. Across the largest 20 metro regions in the country, single-family home prices dropped by 35 percent between July 2006 and March 2012.⁵ Cities that had experienced the most irrationally exuberant markets now faced the worst consequences of the housing bubble. Las Vegas led all regions with home prices plunging by nearly 62 percent. Phoenix prices fell by more than half (53%), while the typical home in Miami and in San Diego lost at least 40 percent of its value.

By national standards, Boston's housing price collapse was quite modest. While home prices were dropping by an average of 35 percent in major metro areas, in Boston the damage was limited to 18 percent, according to the Case-Shiller index. Single-family home prices in Boston dropped in each year between 2006 and 2008, recovered slightly in 2009, and then fell further in 2010 and 2011.

Since the end of 2012, prices are finally increasing again, though not at startling rates for the Greater Boston region as a whole. Lower prices, highly favorable mortgage rates and modest improvements in Boston's job market are all incentivizing homeownership. With housing demand increasing and vacancy rates falling, home prices appear to be on a more or less stable upward trajectory region-wide—with the exception of price spikes in some of the most attractive City of Boston neighborhoods and some of the region's more prestigious suburbs.⁶ Since 2005, Downtown Boston single-family home prices have soared by more than 55 percent to \$2.3 million. Charlestown has seen its median single-family home price rise by nearly 43 percent over the same period, topping \$780,000 in June of this year. Single-family homes in Concord are selling for 24 percent more than during the previous peak in 2005.⁷

On the other hand, there are still home-price "bargains" in some of Greater Boston's municipalities. At \$212,075 in June 2013, the median selling price for a single-family home in Millville is still nearly 40 percent less than in 2005. The same is true in the town of Essex, and

in the tiny town of Plympton, where the median price of homes for sale dropped from \$515,000 to \$268,000. As such, on *average*, price appreciation on single-family homes throughout the region remains positive, but modest.

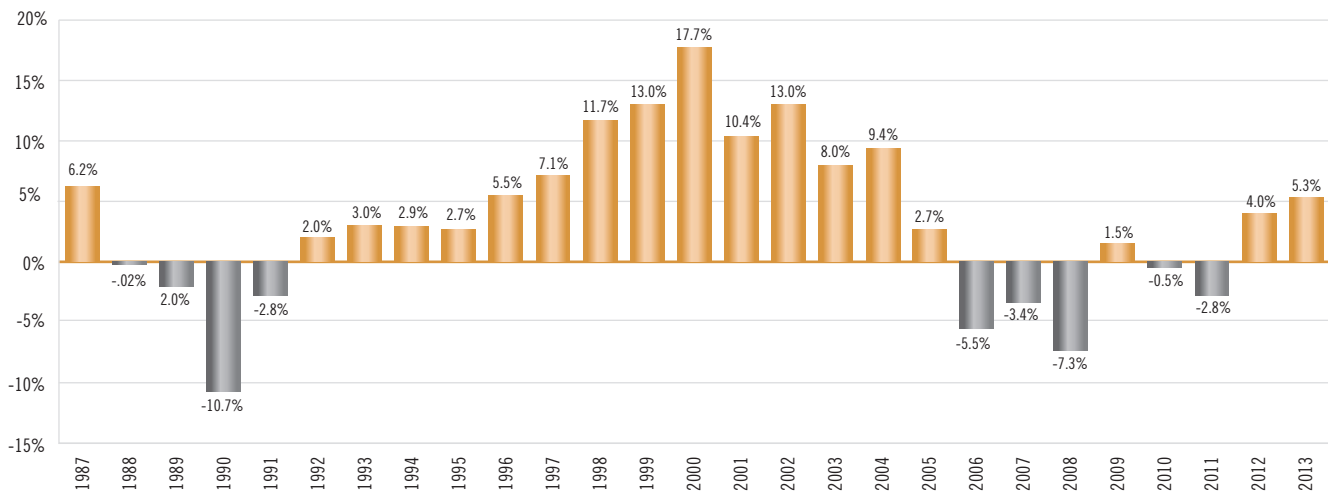
These price increases reflect increased housing demand in many of Greater Boston’s communities. As we saw in Chapter 2, stronger demand for housing led to a 16 percent increase in single-family home sales and a 7 percent increase in the sale of condominiums in 2012 compared to the early post-recession year 2010. Increased demand, fueled by low mortgage rates and lower unemployment in 2012 provided the opportunity for sellers to raise their offer prices in many towns and cities.

Homeowner Vacancy Rates and Housing Prices

The recovery of prices in the homeownership market is intimately linked to the decline in the homeowner housing vacancy rate. As **Figure 3.2** reveals, the explosion in home prices in Greater Boston before 2005 was driven by the fact that the number of vacant properties that might have been available for sale had dropped to extraordinary low levels—as low as 3/10ths of one percent of the total housing stock. This made for a sellers’ bonanza. But as vacancy rates increased sharply between 2004 and 2007, partly as a result of increased foreclosures and tightened mortgage market regulations, prices tumbled. Now with vacancy rates back in a more normal range of 1.0 to 1.5 percent, the stage has been set for modest increases in home prices and that is precisely what we have seen. It would not be surprising with the vacancy rate falling to 1.1 percent in the second quarter of 2013 to see home prices continue to rise for the rest of the year and possibly into 2014, despite recently elevated mortgage and unemployment rates.

FIGURE 3.1

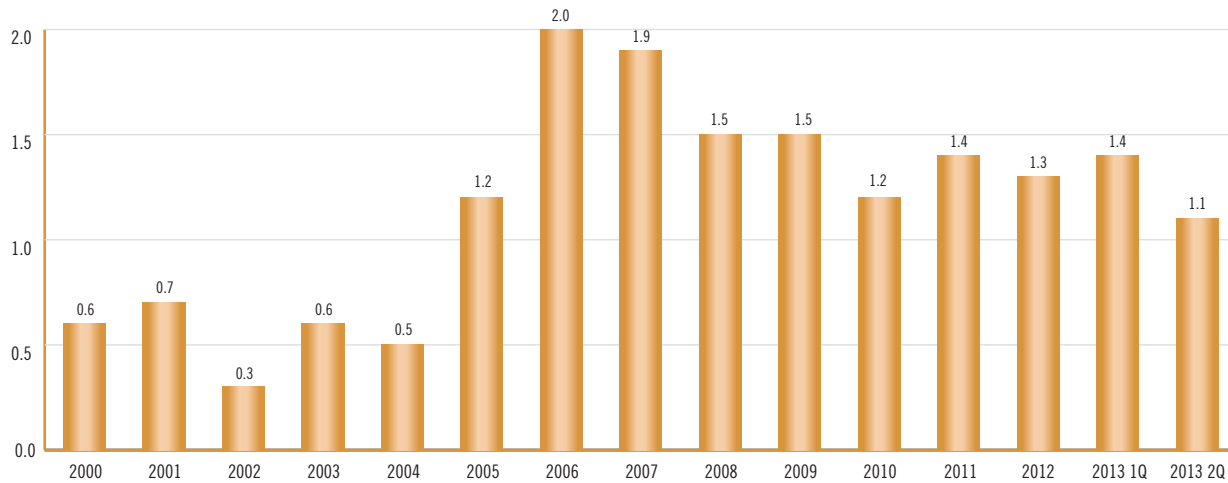
Annual Percentage Change in Case-Shiller Single Family Home Price Index, Greater Boston Metropolitan Area, 1987-2013 (May)



Source: Case-Shiller Home Price Index

FIGURE 3.2

Homeowner Vacancy Rate, Greater Boston, 1990-2013



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

FIGURE 3.3

Annual Median Price of Single-Family Homes in Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

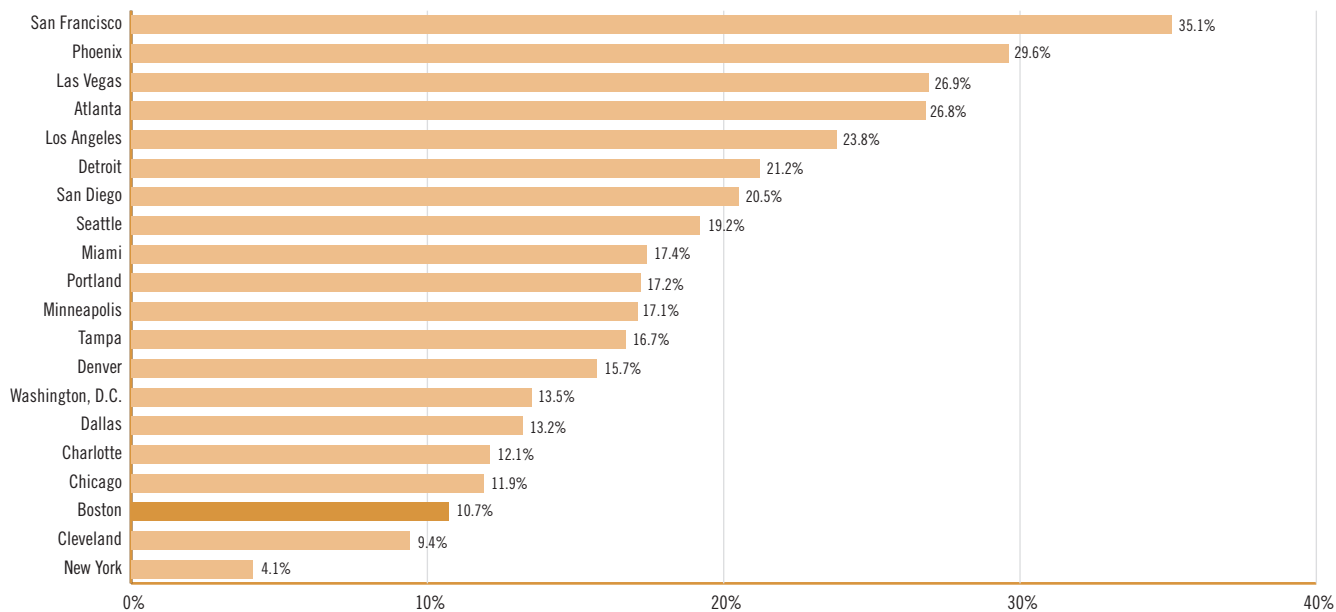
Indeed, based on data from the Warren Group, single-family home prices increased by 6.6 percent during the first six months of 2013, rising from \$332,000 in 2012 to \$354,100 (See **Figure 3.3**) Unlike the period between 2000 and 2005, when median prices rose from \$260,000 to more than \$405,000, the median home price seems to have stabilized over the past five years in a narrow band around \$350,000. What might happen over the next few years to these prices will have a lot to do with

the changing demographics of the region, the trend in mortgage rates, and the broader economic fortunes of the country and the region.

The relative stability of Greater Boston single-family home prices is confirmed in a comparison of price increases across the 20 Case-Shiller metro areas. As **Figure 3.4** demonstrates, the single-family home price index for Boston has increased only 10.7 percent

FIGURE 3.4

Percent Change in Seasonally-Adjusted Case-Shiller Home Price Index for 20 Metro Areas, February 2012 – May 2013



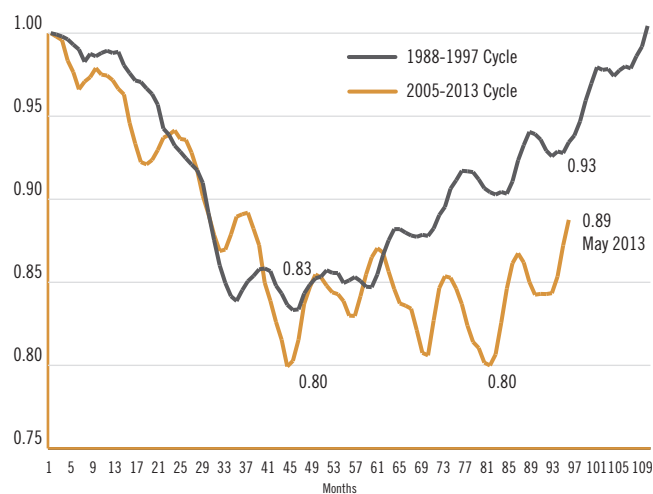
Source: S&P/Case-Shiller Home Price Index

between its low in February 2012 and May 2013. Only Cleveland and New York have experienced smaller price increases. Those metro regions that saw the greatest losses in home values during the housing bust—San Francisco, Phoenix and Las Vegas—have seen price rebounds anywhere from two and a half times to more than three times the increase in Greater Boston.

If the rate of increase in single-family home price continues at the rate between March 2012 (when the index was at 80 percent of its September 2005 peak) and May 2013 (when the index was at 89 percent) as shown in **Figure 3.5**, it will take another 17 months to make up the remaining 11 points to reach an index of 100. In other words, at the current rate of price appreciation, the price of a single family home in Greater Boston could return to its 2005 peak by late 2014. If this occurs, the full recovery of housing prices since the bubble burst in September 2005 will have taken 110 months—more than nine years—almost exactly the same time span for the region’s previous housing cycle that lasted from 1988 to 1997 (107 months).

FIGURE 3.5

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



Source: S&P/Case-Shiller Home Price Index

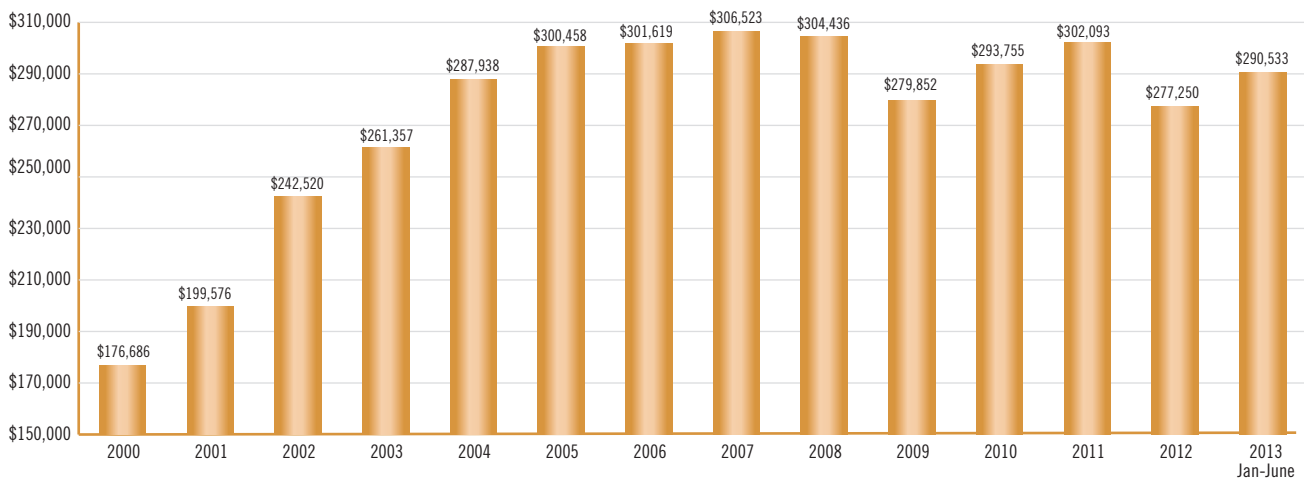
Condominium and Multiunit Housing Prices

Prices for Greater Boston condominiums increased even faster than single-family home prices during the housing boom. From 2000 through 2005, the median condo price soared by 70 percent from just under \$177,000 to more than \$300,000 (See **Figure 3.6**). During this same period, single-family home prices appreci-

ated by 56 percent. During the housing bust, condo prices did not fall as precipitously as those for single-family homes—declining by 8.7 percent between 2007 and 2009 vs. 14.7 percent. As such, the ratio of condo prices to single-family prices increased almost steadily from 2000 through 2008, rising from 0.68 to 0.85. Since then, the typical condo has sold for between 82 and 85 percent of the median single-family home (See **Figure 3.7**). This presumably reflects the growing demand

FIGURE 3.6

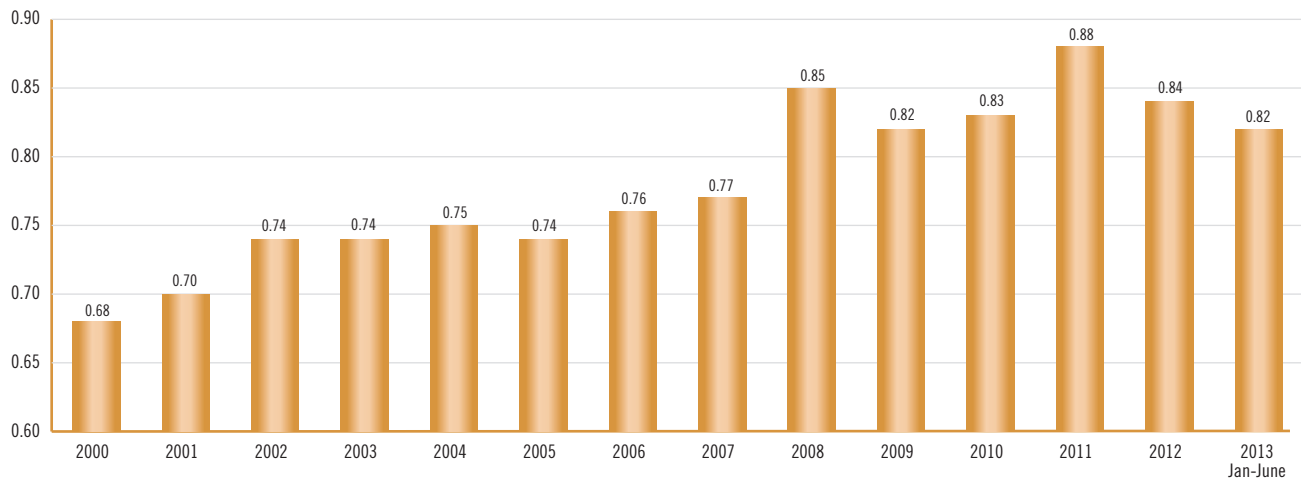
Annual Median Price of Condominiums in Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

FIGURE 3.7

Ratio of Condominium to Single-Family Home Prices in Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

for smaller housing units in condominium complexes, very likely due to the aging of the Greater Boston population and the demand for such units by younger households. Condo prices in the first six months of 2013 were up 4.8 percent over 2012. Like the recent price rise for single-family homes, future prices of condos will largely be determined by changing demographics, mortgage rates and the state of the economy.

Though Boston stands in a more favorable position compared to other metro areas in the nation in terms of recent housing price increases, the prices for specific housing types like two- and three-unit structures have recently gone through the roof. **Figure 3.8** shows the evolution of annual average home prices in two- and three-unit structures since 2000.

Between 2000 and 2005, the median Greater Boston price for housing with 3 units—the classic “Triple Decker”—exploded from \$225,500 to \$492,200. The 118 percent increase during this period compares with increases of 56 percent for single-family homes and 70

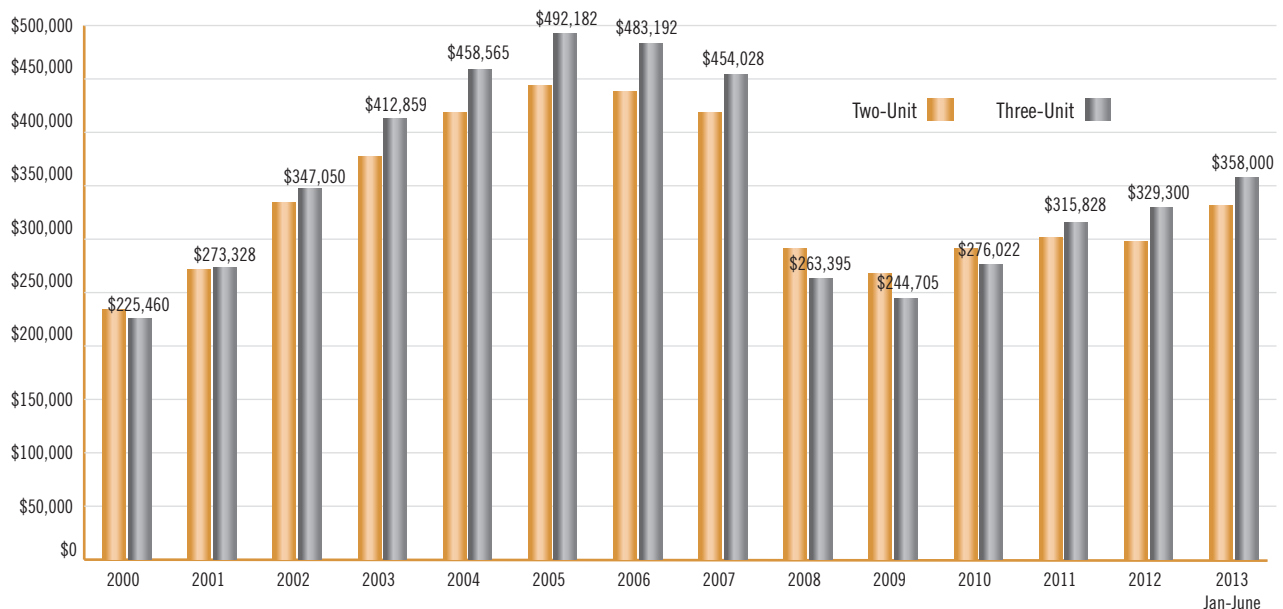
percent for condominiums. During the housing boom, investors were snapping up triple-deckers, sending their prices skyward.

When the housing bubble burst, many of these purchases ended up in foreclosure and the price of two- and three-unit structures fell back to earth. By 2009, nearly all of the earlier appreciation had evaporated so that the price of this housing was only 9 percent higher than in 2000.

Once again, however, investors are driving up the price of such housing. Since 2009, the median price of three-unit structures has skyrocketed from roughly \$245,000 to \$358,000, a 46 percent increase. This is more than 10 times the increase in single-family prices and 12 times the appreciation for condominiums. Nonetheless, as of mid-2013, the median selling price for two- and three-unit structures are still nowhere close to the peaks attained in 2005. Two-unit homes are selling at 34 percent less than the peak price of 2005. In the case of three-unit homes, the price is 37 percent less.

FIGURE 3.8

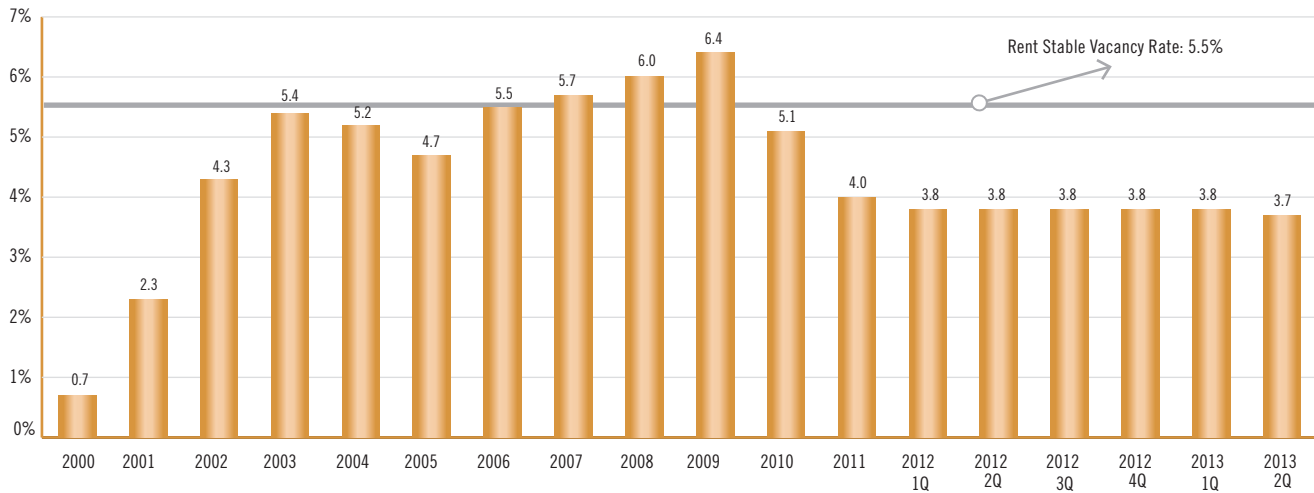
Annual Median Price of Homes in Two-Unit and Three-Unit Structures in Five-County Greater Boston Region, 2000-2013



Source: The Warren Group

FIGURE 3.9

Greater Boston Rental Vacancy Rate, 2000-2013: II



Source: Reis.com

The Rental Market in Greater Boston

Housing rents, like home prices, are highly correlated with vacancy rates—the proportion of the housing stock vacant and potentially available for occupancy. **Figure 3.9** provides the data on Greater Boston’s rental vacancy rate from 2000 through the second quarter of 2013. As the figure shows, the vacancy rate in 2000 was extraordinarily low (0.7 percent) but rose sharply to 5.4 percent during the 2001-2003 economic recession. Rates remained relatively high through 2009 and then fell precipitously so that by mid-2013, the vacancy rate was hovering in the 3.8 percent range. As we shall demonstrate in a moment, a new statistical analysis suggests that at rental vacancy rates of roughly 5.5 percent, rents tend to stabilize. At vacancy rates above this level, rents have a tendency to fall as sellers lower effective rents in order to fill their units. At vacancy rates below 5.5 percent, rents begin to rise as renters compete for existing units and a buyers’ market turns into a sellers’ market.

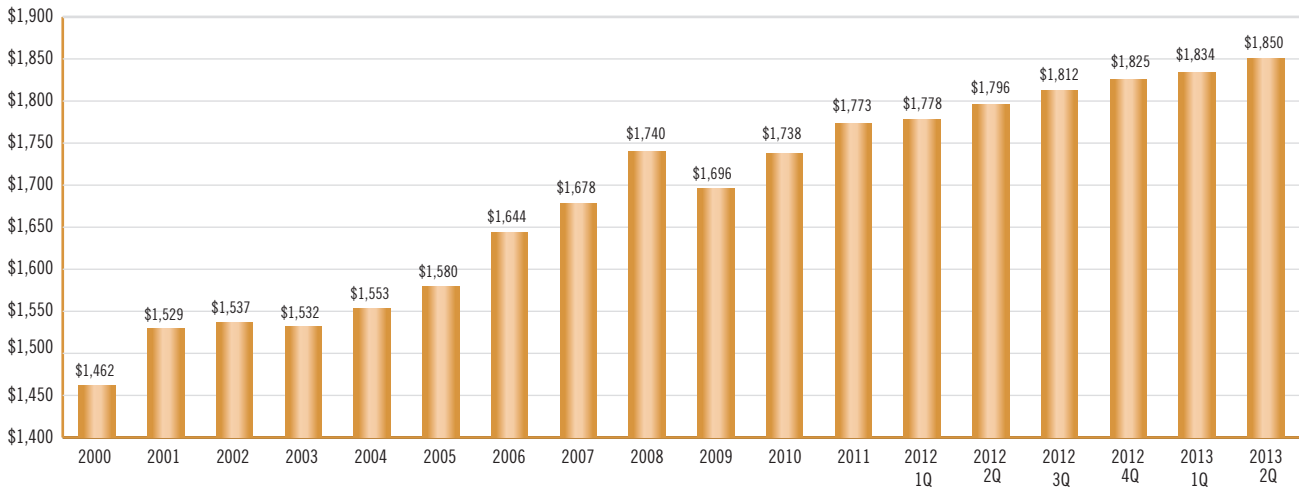
Figure 3.10A reveals that even as vacancy rates increased between 2000 and 2008, Greater Boston asking rents continued to rise steadily, but effective rents including discounts (such as a rent-free month) actually declined from 2001 through 2003 reflecting

the increasing availability of rental units (See **Figure 3.10B**). The tightening of the rental market in terms of lower vacancy rates between 2003 and 2005 permitted landlords to limit discounts and effective rents increased. Once the vacancy rate began to increase again, effective rents increased for the next two years and then fell back once the rate hit a record 6.4 percent in 2009.

It was at that point that the collapse in the homeownership market began to have a major impact on rents. Rising foreclosures forced former homeowners into the rental market. Young households that might have been ready to make the transition from renting to homeownership remained on the sidelines, either because they could not obtain mortgage financing or they were hesitant to buy a home when home prices looked like they might continue to fall. These two factors led to a sharp increase in the demand for rental units. In addition, as we detailed in the *2010 Greater Boston Housing Report Card*, the number of graduate students in the Greater Boston region increased by more than 22,000 between 2000 and 2009, putting even greater strain on the rental market as only 8 percent of the more than 100,000 graduate students now enrolled in the region’s public and private universities live in campus residence halls.⁸

FIGURE 3.10A

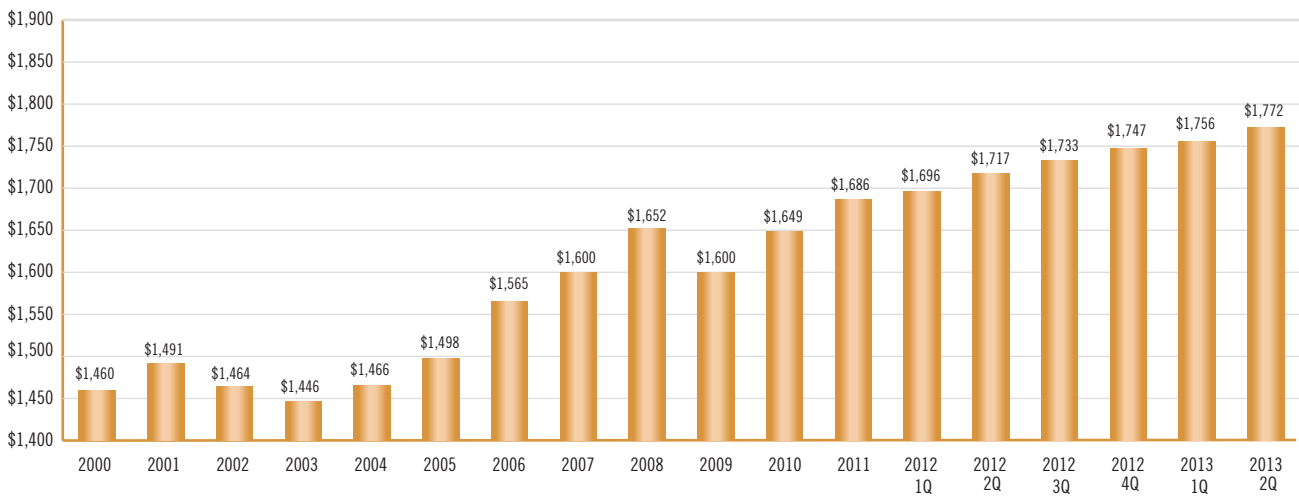
Average Annual Asking Rents in Greater Boston, 2000-2013: II



Source: Reis.com

FIGURE 3.10B

Average Annual Effective Rents in Greater Boston, 2000-2013: II



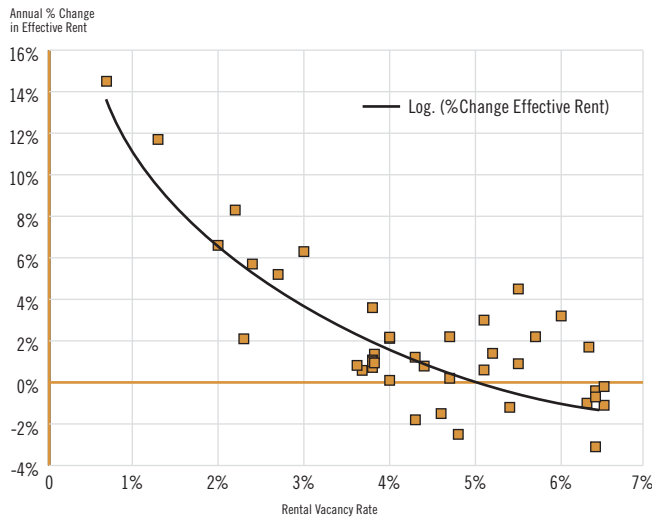
Source: Reis.com

The result was that rental vacancy rates dropped sharply and as a consequence asking and effective rents began to rise again, despite the fact that the region was still suffering the aftermath of the Great Recession and renter households were facing shrinking incomes. Between 2009 and mid-2013, the average asking rent in Greater Boston increased by 9.1 percent while the average effective rent rose by 10.8 percent. As long as vacancy rates remain as low as they are, rents

will remain on their upward trajectory. Moreover, the big jump we found in the prices of two- and three-unit homes in the first half of 2013 could be a contributing factor to increased rent in the future. Those who have purchased these buildings at inflated prices will likely try to raise their rents to improve the return on their higher-cost investments.⁹

FIGURE 3.11

Relationship between Rental Vacancy Rate and Annual Percentage Change in Effective Rent, Greater Boston, 1990-2013



Source: Reis.com

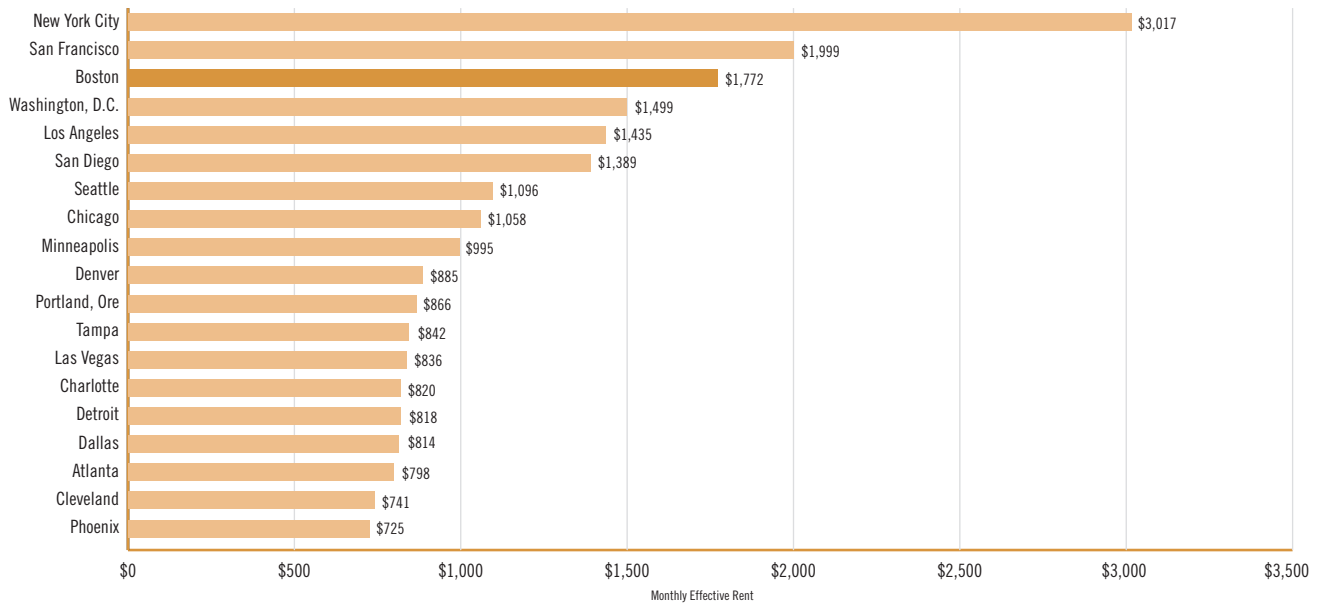
To gauge the likelihood of future rent hikes, it is instructive to examine more closely the long-term relationship between annual changes in rental vacancy rates and changes in effective rents. **Figure 3.11** provides the evidence for a reasonably strong inverse relationship between the two. The log-linear line fit to the data points for 1990 through mid-2013 essentially demonstrates that unless the supply of rental units in Greater Boston is large enough to maintain a 5.5 percent vacancy rate or higher, effective rents are going to rise and as the rate falls further and further below 5.5 percent, the size of annual rent increases will climb higher and higher.

When it comes to moderating rents, the only substitute for a greater supply of rental housing is a decline in demand, but this would signal a renewed increase in net out-migration from the state—something that would not bode well for the future prosperity of the Commonwealth or Greater Boston.

Finally, we can ask how rents in Greater Boston compare to those in other metro regions. **Figure 3.12** provides the answer to this question. Of the 20 metro regions in the Case-Shiller index, only New York and San Francisco have more expensive rents in mid-2013

FIGURE 3.12

Average Monthly Effective Rents in Selected U.S. Metro Areas, 2013:II



Source: Reis.com

than the Boston metro area. The average effective rent in Washington, D.C. is more than 15 percent below Boston's; Seattle's average effective rent is 38 percent lower than ours; and to rent a typical apartment in a large set of metro regions including Denver, Portland (Ore.), Tampa, Las Vegas, Detroit, Dallas, Atlanta, and Cleveland costs a family less than half what it costs in Boston. At some point, young households will take into account the rent differential these figures reveal and make location decisions partly based on the cost of rental housing. Greater Boston may be a terrific place to live, but if household incomes continue to stagnate, the cost of living could again trump livability.

The Future Trajectory of Home Prices and Rents

Trying to forecast the future trend in home prices and rents in Greater Boston is fraught with difficulty because there are so many factors that impinge on both. If the pace of economic growth accelerates, employment will pick up and make it possible for more households to contemplate a home purchase. Other things equal, this will lead to demand outstripping housing supply, leading to a continuation of rising home prices. On the other hand, if household incomes fail to rise, the amount families can spend on a new home becomes more tightly constrained, leading to some softness in home prices.

Demographics also come into play. As the Greater Boston population continues to grow older, it is likely that empty-nesters will decide at some point to sell their existing homes and downsize into smaller homes, condominiums or rental units. This could depress single-family home prices, but increase condo prices and rents. This is a phenomenon we already have begun to see. Unlike their parents, younger households might contribute to this demand shift from homeownership to condo and rental properties. With smaller families and an apparent desire to move back into the city or village centers from homes in sprawling suburbs, the demand for single-family homes may decline just as the supply of such homes increases as aging Baby Boomers put their homes on the market. This, too, would depress single-family home prices and accelerate the pace of rents and condo prices. And, finally, rising mortgage rates could also depress home

prices as the cost of homeownership rises in the form of higher monthly mortgage payments.

The one factor that could most assuredly keep both home prices and rents from accelerating is an increase in housing stock. If the increase in housing permits we noted in Chapter 2 is sustained and the number of rental apartment units for working families and graduate students increases, Greater Boston could see a sustained period of relatively stable home prices and rents which ultimately would benefit the region and the Commonwealth.

Hard as it is to forecast future home prices and rents, our comprehensive analysis of demographics and economics suggest a most likely scenario. Despite the recent rise in home prices, we do not expect to see anything like the housing bubble we experienced between 2000 and 2005. In the short run, higher mortgage rates and continued sluggish economic growth will keep housing demand from far outstripping the supply of single-family homes. In the long run, the aging of the region's Baby Boomers will augment the supply of such housing stock while the demand for such housing by younger households will be muted as a result of smaller families and a desire to live in urban centers and village settings rather than sprawling suburbs. Most likely, this will result in keeping home price appreciation fairly modest, while leading to continued increases in condo prices.

As for rents, the key will be whether the current increase in the development of multifamily housing we reported in Chapter 2 continues. Developers have read the tea leaves as we have and are building more apartment units to satisfy demand. This is particularly true in the City of Boston where the Boston Redevelopment Authority reports that currently 5,000 residential units are under construction, of which all but 500 are rentals.¹⁰ If the same occurs in Boston's suburbs, we may see rents also moderate, a good sign for both younger and older households ... and a good omen for continued economic growth in the Commonwealth.

CHAPTER FOUR

Zoning and Housing Production

The Dukakis Center began its initial research into Greater Boston's housing market in the year 2000 in response to what had been annual double-digit increases in single-family home prices dating back to 1995. The object of that research, ultimately published in *A New Paradigm for Housing in Greater Boston*, was to understand the key factors contributing to those spectacular increases in the cost of housing.¹ The report found that the single-family home vacancy rate had sunk to such a low level that it created a "seller's market" where buyers had little negotiating power, leading to escalating prices. The vacancy rate was so low because housing production was well below what was necessary to stabilize prices, given housing demand. Using a statistical model that linked changes in home prices to vacancy rates, the *New Paradigm* report suggested that during the next five years 38,000 additional single-family housing units would need to be produced over and above current production levels to keep home price appreciation rising no faster than normal inflation. This did not occur, and housing prices continued to soar during the ensuing five years between 2000 and 2005.

The big question was why housing supply was not keeping up with housing demand. After all, if the demand for Chevys increased, one could be pretty sure that General Motors would ramp up production to satisfy consumer preferences. Why was this not happening in the housing market?

The report investigated a range of potential causes for the lack of housing supply. The high cost of land, the difficulty of assembling land for development, high construction costs and strict building codes were noted as contributing to the weakness in housing supply. But the most important factor—and the one contributing to each of these other factors—was the use of local zoning laws by the Commonwealth's cities and towns to restrict new development. The key barrier to meeting the region's housing needs was not so much economic as political and social. At the time of the report, Massachusetts ranked 47th out of the 50 states in the issuance of housing permits per capita.²

The resistance to permit more housing development had its roots in a number of perceived costs that worried municipalities. One was that additional housing might increase the local tax burden because new residents would send children to local public schools and increase the need for new roads, sewers, and other infrastructure. Another was the fear that lower income families would move into town and, by their mere presence, lower property values. While few voiced explicit racist arguments about potential new residents, opposition to new development would be cloaked in language that raised the fear that new housing, particularly multifamily housing and subsidized housing, would "destroy the character and/or design of the community."

To this day, zoning continues to be a key issue in the Greater Boston housing market. As such, in this year's report card we are devoting this entire chapter to a fresh analysis of the impact of zoning, introducing a new statistical analysis of what types of zoning are conducive to the production of new housing and by implication which are not.

Background

We essentially inhabit a world built for Baby Boomers. Since the end of the Second World War, the modern zoning template has been focused on accommodating the Baby Boom with the expansion of single-purpose, child-oriented residential developments throughout America's suburbs.³ The most obvious physical symbol of this Baby Boomer orientation is the paradigmatic suburban single-family house, situated near the center of an ample lot, set back a fair distance from the street with side and rear property lines shared with neighbors.

The percentage of the nation's total housing inventory represented by single-family homes peaked in 1960, near the tail end of the Baby Boom, at 66 percent and has consistently stayed above 60 percent in the years since. The remainder of the housing stock consists of all other housing types, including single-family

attached houses, apartments in two- to four-unit buildings, those in larger apartment or condo complexes, and mobile homes.⁴

As the Baby Boomer generation enters its retirement years, many members will choose to “age in place” and continue to occupy their homes as long as they can. However, many others will feel the financial and emotional weight of having “too much house” (and perhaps too much grass to mow) and will want to sell their homes at some point during their retirement and move into housing that is smaller, more affordable, and easier to maintain. Arthur C. Nelson of the University of Utah has found that while 80 percent of 65-year-olds nationwide are homeowners (the highest homeownership rate of any age group), approximately 4 percent of senior homeowners move each year, and about three-fifths of those who move relocate into some form of rental housing.⁵ Nelson projects that one and a half to two million homes will be put on the market by seniors toward the end of the decade, contributing to a national net surplus of four million homes between 2020 and 2030 for which there will be difficulty finding buyers.⁶

This “Great Senior Sell-Off,” as Nelson terms it, will come as younger Millennials who are now 20 to 34 years old choose to locate in denser housing patterns than their parents. Professionals in this age cohort are indeed already proving to have housing preferences quite different than their Baby Boomer predecessors. These differences can be generally identified as a willingness to live in smaller spaces and an embrace of more walkable communities. As reported in a recent *Boston Globe* article, “(t)his generation wants the access and convenience that the city provides ... (and is) much less interested in having a big lawn.”⁷ At any rate, their ability to even contemplate purchasing larger, single-family homes will likely be hamstrung by existing levels of debt (e.g. student loans) and stagnant incomes.⁸

While the general strength of the Boston real estate market will likely insulate it from the more dire effects that a Great Senior Sell-Off may have nationwide, a growing mismatch in the supply and demand for housing will nevertheless have significant implications for the region’s housing market. Such a mismatch will likely become increasingly problematic as the demographics of Greater Boston continue to shift, leading to a need for the development of more housing other than single-family.

Effects of Zoning Regulations in Greater Boston

What gets built where is essentially the product of municipally-controlled local zoning ordinances that control the variety of uses and physical characteristics of structures, including houses, apartment buildings and other residential structures. In the United States, local control of zoning is seen as virtually inviolable, often equated with “an impressive list of desiderata: democracy, freedom from Big Brother, and the American Dream of a big home on five acres.”⁹ This has played out in the land-use context in the adoption of “cap and spread” zoning regulations across the country. Locked in a symbiotic relationship with the automobile, “cap and spread” zoning has led to development that is low in density and communities that are more exclusive, as well as more “spread out” and “sprawling” than they would have been without such regulation.¹⁰

With its tradition of strong town government, veneration of local control is especially prominent in Massachusetts. Unfortunately, municipal control over land-use regulation has allowed the Commonwealth’s municipalities to adopt zoning bylaws and ordinances that, reflective of the commonly held planning wisdom of several decades, have not only allowed but mandated the sprawling, often socially and segregated landscape that marks much of the Greater Boston region. Zoning regulation has included the exclusion of multifamily housing across vast swaths of most towns and the imposition of certain dimensional requirements, including minimum lot size and setback requirements that simultaneously limit potential residential density and increase housing costs. As such, it can be argued the predominance and ubiquity of the suburban single-family home, and the corresponding dearth of alternative forms of housing in Greater Boston, did not arise by accident or by the workings of the market. Rather it was the unavoidable, if not intended, consequence of vesting most land use regulatory power at the municipal level.

The Greater Boston area has been the focus of considerable study regarding land use regulation, especially its impact on housing types and affordability. Glaeser and Ward (2009) found that although three of the four metropolitan areas with the largest percentage increases in housing prices in

the United States between 1980 to 2004 were located in Greater Boston, housing supply in the region did not respond to this demand-driven price signal. The supply of new homes in the region (as measured by the number of residential permits issued annually) actually declined over a similar time frame, falling off from a peak of approximately 30,000 in 1971 to less than 10,000 in 2002.¹¹ The real estate boom of the early 2000s reversed this trend only modestly, with the number of new permits increasing to 15,000 in 2005, before falling to 4,700 in 2009 as the housing bubble burst.¹²

This lack of new supply has been felt particularly strongly in rental housing, which is often located in precisely the multifamily housing that is heavily regulated, if not completely excluded by most zoning in the region. In fact, echoing Glaeser and Ward, Schuetz (2009), noted that while almost 40 percent of renter households in the Boston Metropolitan Statistical Area pay more than 30 percent of their income for rent, a level comparable to that paid in other heavily regulated large cities such as New York City and San Francisco, new construction of rental housing is fairly scarce.¹³ Indeed, the scarcity of new rental housing is evidenced by the fact that in 2010, 125 municipalities in Greater Boston did not issue a single permit for new multifamily housing; in 2011, that number increased to 132.¹⁴

While it is difficult to get an exact measure of the net benefits of zoning restrictions, there is a large and growing amount of evidence that conventional land-use approval processes impose substantial costs on housing production. Several studies have found similar results in Greater Boston, and have attributed much of the region's high housing prices to municipal zoning regulations. Of particular note have been findings related to the "minimum lot size requirements" that mandate that a certain amount of land be devoted to each dwelling unit (often a quarter acre in older suburbs, much more in some highly restrictive towns). Zabel found that these regulations have a statistically significant impact on housing prices of up to 20 percent.¹⁵ Even where multifamily dwellings are allowed, Schuetz found that minimum lot requirements often restrict such housing to low densities comparable to single-family developments.¹⁶

Glaeser and Ward discovered that minimum lot size is the single most important land use regulation and saw a "robust negative effect of minimum lot size on the amount of building in Greater Boston between 1980 and 2002, a time frame in which the area saw a dramatic increase in land-use regulation. Ultimately, minimum lot size requirements have become such a potent constraint on the development of new housing in Greater Boston because the region has extremely little undeveloped land and larger lot requirements reduce the opportunities to subdivide land into developable properties."¹⁷

The Conservative Effect of Zoning

By and large, zoning bylaws are devised and implemented largely to preserve existing conditions and prevent "neighborhood change." From this perspective, the negatives attributed to relatively large lot single-family zoning, e.g., high housing prices, segregation, sprawl, etc., are not to be seen as unexpected consequences or unavoidable side effects. Rather, they are precisely the outcomes desired by those who design, adopt, implement and enforce most current zoning policies. It is not simply that zoning is flawed or has failed to fulfill its promises, nor is it that there is "too little" zoning. Rather it is conceivable that there may be "too much" of it and its coercive power is invested in those who have deeply held interests in its continued vitality.

Many of the above negative consequences of zoning were seen as early as 1924 by federal District Judge David C. Westenhaver. He invalidated Euclid, Ohio's zoning ordinance which was famously challenged by a local landowner. In his decision striking down the ordinance, Westenhaver wrote:

The plain truth is that the true object of the ordinance in question is to place all the property in an undeveloped area of 16 square miles in a straitjacket. The purpose to be accomplished is really to regulate the mode of living of persons who may hereafter inhabit it. In the last analysis, the result to be accomplished is to classify the population and segregate them according to their income or situation in life.

(Ambler Realty Co. v. Village Of Euclid, Ohio, et al., 297 F. 307 (1924))

Westenhaver's trenchant and prescient observation was, obviously, disregarded. Two years later, the U.S. Supreme Court overturned his decision in its landmark 5-4 *Euclid v. Ambler* decision that upheld the constitutionality of zoning and launched the land use regulation revolution that would sweep the nation in the following years.

The Difficulties of Changing Zoning

Zoning has indeed proven to be the "straitjacket" Westenhaver perceived it to be. Once in place, single-family zoning has proven to be difficult to modify or change in any substantive way, prompting one observer to note that single-family zoning, like a diamond, is forever.¹⁸ To continue the gemological metaphor, it has also been used largely to preserve the suburban *status quo* in amber.

Massachusetts' zoning enabling act, M.G.L. c. 40A, provides for the modification of town zoning bylaws and districting maps only with a two-thirds vote of Town Meeting (Boston's zoning was enabled under separate legislation and has a different structure). However, in practice, single-family neighborhoods are rarely rezoned to allow for denser residential use. As an illustration, from 1970 to 1999, only three of Massachusetts' 351 municipalities saw a net decrease in the amount of acreage occupied by single-family homes, representing a mere 3/1000th of a percent of such acreage statewide. These communities were Cambridge, Chelsea and Lawrence. This strongly suggests that single-family zoning districts are largely impervious to incursions by other uses, keeping their built form intact regardless of economic and demographic changes.

This stagnation stands in stark contrast to traditional urban growth patterns, where villages and towns historically grew into cities by growing outward and upward in response to demand. Indeed, the widespread adoption of zoning in the decades since *Euclid* can be seen as something of a rupture, a significant disruption of previous patterns and practices that has contributed to the oft-cited litany of negative outcomes (sprawl, segregation and rising housing costs).

Whereas land development was once largely guided by geography, market demand and economic conditions, and constrained by nuisance law and social

convention, local government's assumption of control over land use, as legitimized by *Euclid*, represented a radical change in the once intensely local scope of land-use decision making.¹⁹ Rather than the use of property being merely the concern of the owner and the neighborhood, it became subject to the approval of the entire town as expressed by municipal boards or town meeting. By widening the scope of every land-use decision and dispute and making these decisions an area of governmental concern and control, Euclidean zoning ensures that rather than limiting the number of the people involved to those most closely affected, those with little or no "skin in the game"—such as town meeting voters from across the municipality—now have control over minute details of what can get built where.

As such, current zoning, at least in the suburban setting, serves largely to protect the perceived interests of single-family homeowners, "protecting" their homes from "incompatible" uses such as multifamily dwellings or mixed-use developments. Since homeowners have a financial incentive to discourage new construction that would reduce the scarcity value of their asset, the appeal of zoning is also based upon its ability to restrict the development of new housing units of almost any kind. By constraining the supply of housing available in their towns, incumbent property owners are able to artificially inflate housing prices.²⁰ With such "rent-seeking" behavior, homeowners can be seen as having "captured" the land-use regulation institutions in their towns.

W.A. Fischel attributed this wide support for suburban-style zoning to what he termed the "homevoter hypothesis."²¹ In short, the hypothesis posits that since homeowners represent the large majority of voters in most suburban communities, the policies adopted by those municipalities will reflect their preferences. Since in many cases homeowners' houses represent nearly all of their owners' non-retirement assets and that losses in property values resulting from adverse "neighborhood effects" cannot be insured against (unlike those from fire, theft, etc.), zoning is seen as a "second-best" protection from what they perceive as potentially catastrophic financial losses. Such concerns might seem especially tangible for those owners who have first-hand experience of the dramatic neighborhood changes that were seen in many urban and inner-ring suburban neighborhoods in the second half of the

20th century. As such, opposition to zoning changes that increase residential densities may be better understood as economically rational behavior on the part of incumbent residents, especially given the unknown nature of the outcomes (whether rationally feared or not) that might result from such development.

Ultimately, as Fischel observed, “homeowners are more likely to oppose development because of the nature of their asset. They must live in it, so there are personal stakes to be reckoned, and they cannot insure against devaluation from neighborhood effects. A nation of homeowners is likely to be a nation of NIMBYs (Not In My Back Yard), and their anxieties are likely to be manifest in zoning laws.”²²

Now, after about nine decades of zoning during which expectations about zoning’s effectiveness have been fully capitalized into home prices for several generations, can one realistically expect “homevoters” to approve zoning reforms that increase the density and the mix of uses that many associate with negative externalities, decreased value of their largest asset and the diminishment of enjoyment of their home? This is a conundrum that begs our attention.

Massachusetts’ Unique Characteristics

Beyond the general antipathy toward new development generally held by homeowners nationwide, Massachusetts and Greater Boston have some characteristics that complicate efforts to the reform of zoning regulation even further. First, Massachusetts’ strong tradition of town government, to the near-complete absence of county and/or regional governance, may play a crucial role as the resulting “fragmentation of political authority across a large number of municipalities ... may encourage NIMBYism since each small town can easily refuse to develop affordable housing without considering the impact on regional housing and labor markets.”²³

Second, certain characteristics of the state’s residents may also play a significant role as well. For example, reinforcing other work on zoning, Schuetz found that communities with “more affluent, highly educated populations are more restrictive of high-density development.”²⁴ Massachusetts’ political leanings may also have a role in determining its land-use policies.

Studying cities in California, Kahn found an association between a municipality’s overall political ideology and the number of new housing permits it issues—the more liberal the city, the *fewer* permits it issues.²⁵

A third, and perhaps the greatest impediment to zoning reform, may be the statutory requirement that zoning changes are subject to town meeting approval requiring a two-thirds super-majority. In most jurisdictions outside Massachusetts, rezoning requests go through a series of public hearings, planning board votes and city council approval. Only in extraordinary situations are land use decisions subjected to public referendums. When they are it is usually in the context of especially contentious situations.

Staley’s study of such “ballot-box zoning” found that where rezoning cases are subject to referenda through local ordinance, the higher transaction costs and uncertainty surrounding the approval process can increase uncertainty or the perception of randomness and discourage land development which, in turn, can translate into reduced economic growth.²⁶ Indeed, even without ballot-box voting, the costs involved in obtaining a zoning amendment may only be worth it for large developers with deep pockets and long time horizons.

The Impact of Zoning Regulations on Multifamily Housing Development in Massachusetts

With this background understanding of the whys and wherefores of zoning regulation, we set out in this year’s report card to undertake a new statistical analysis to examine which zoning regulations are most conducive to the development of multifamily housing in the Commonwealth and which are not. What we found was that municipalities that zone explicitly for multifamily housing in cluster developments registered the largest increase in multifamily housing from 2005 to 2012. Municipalities that zone for and mandate affordable housing as part of residential developments as well as those that contain 40R districts also experienced a significant increase in multifamily housing relative to all other communities. Not surprisingly, those that explicitly exclude multifamily housing have had the poorest record of constructing such housing.

Methodology

These findings are based on a statistical analysis of the Pioneer Institute's *Housing Regulation Database*, which includes data on the state of zoning in 187 municipalities in Eastern Massachusetts as of December 2004.²⁷ We also utilized data on municipalities with state approved 40R districts as of June 2013.²⁸ While 161 municipalities in Greater Boston are the subject of this report, this analysis includes only 159 municipalities, as the Pioneer Institute's study excluded data from the City of Boston and the Town of Wareham.

Zoning regulations in the Commonwealth vary greatly from one municipality to another and there is an enormous variety of zoning laws. With this in mind, the Pioneer Institute included 64 different variables related to zoning in its *Housing Regulation Database*. As this report is focused on the connection between zoning and multifamily housing production, our analysis focused on just 37 of these variables. These variables provided valuable data for questions such as:

- Is multifamily housing (three or more units / building) allowed in any district in the municipality, and by what process?
- If multifamily housing is permitted anywhere in the municipality by right, is site-plan review required?
- If bylaws list a minimum tract or parcel size necessary for multifamily development, what is the size?
- Are attached single-family houses or townhouses allowed in any district?
- Does the zoning bylaw or ordinance impose age restrictions on multifamily housing in any district?
- Does the zoning bylaw or ordinance have provisions to allow cluster development?
- Does the bylaw include any provisions for inclusionary zoning (affordable housing)?
- Does the zoning bylaw indicate a planned or targeted growth rate that limits the annual number of residential permits issued in the municipality?

Multifamily Housing Permit Data

To carry out our analysis, multifamily building permit data from 2005 to 2012 for each of the 159 municipalities analyzed was collected from the U.S. Census Bureau's Building Permit Survey.²⁹ These permit data were used to measure the impact of the zoning variables we used in our final analysis.³⁰

To account for the varying size and population of the 159 municipalities analyzed we normalized each municipality's 2005-2012 multifamily housing permit total based on its total housing unit stock in 2000. These data were collected as a part of the 2000 U.S. Census.³¹ **Table 4.1** indicates that between 2005 and 2012, Greater Boston's municipalities increased their multifamily housing stock by up to 25 percent above the level of their total housing stock in 2000, but the average increase was just 2.03 percent. The city of Boston, not included in our analysis, increased its multifamily housing stock by 3.17 percent during this time. The distribution of multifamily housing production is shown in **Figure 4.1**. Accordingly,

The top **20** Greater Boston municipalities increased multifamily production by 4.91 percent or more

An additional **27** municipalities increased multifamily production above the 2.03 percent all-municipality average

79 municipalities increased multifamily production by up to the 2.03 percent all-municipality average

33 municipalities produced no multifamily housing at all

TABLE 4.1

Multifamily Housing Growth in Greater Boston, 2005-2012

#	Municipality	Multifamily Growth	#	Municipality	Multifamily Growth	#	Municipality	Multifamily Growth
1	North Reading	25.01%	41	Groton	2.51%	81	Harvard	0.63%
2	Groveland	20.80%	42	Marlborough	2.48%	82	Framingham	0.63%
3	Hingham	11.43%	43	Sharon	2.46%	83	Millville	0.63%
4	Bedford	10.15%	44	Ayer	2.31%	84	Winchester	0.62%
5	Lynnfield	9.34%	45	Arlington	2.25%	85	Scituate	0.61%
6	Concord	9.04%	46	Hopkinton	2.24%	86	Marblehead	0.60%
7	Saugus	8.95%	47	Plainville	2.03%	87	Lexington	0.57%
8	Cohasset	8.41%	48	Wellesley	1.87%	88	Millis	0.52%
9	Merrimac	8.32%	49	Weymouth	1.78%	89	Taunton	0.50%
10	Burlington	8.12%	50	Waltham	1.70%	90	Newburyport	0.48%
11	Randolph	8.10%	51	Wakefield	1.66%	91	Milton	0.43%
12	Braintree	7.88%	52	Ashland	1.66%	92	Duxbury	0.39%
13	Canton	7.83%	53	Ipswich	1.50%	93	Methuen	0.30%
14	Tewksbury	6.64%	54	Hanover	1.48%	94	Salem	0.29%
15	Lakeville	6.55%	55	Dracut	1.42%	95	Bellingham	0.27%
16	Stoughton	5.88%	56	Haverhill	1.39%	96	Stoneham	0.26%
17	Quincy	5.72%	57	Marshfield	1.37%	97	Lynn	0.24%
18	Chelsea	5.58%	58	Townsend	1.32%	98	Plympton	0.23%
19	Mansfield	4.96%	59	Plymouth	1.18%	99	Pepperell	0.20%
20	Dedham	4.91%	60	Maynard	1.11%	100	Shirley	0.19%
21	Andover	4.62%	61	Berkley	1.06%	101	Medford	0.18%
22	Abington	4.58%	62	Salisbury	1.06%	102	Middleton	0.17%
23	Billerica	4.55%	63	Lincoln	1.03%	103	Woburn	0.17%
24	Cambridge	4.49%	64	Gloucester	0.95%	104	West Bridgewater	0.16%
25	Berlin	4.48%	65	Hanson	0.94%	105	Reading	0.16%
26	Danvers	4.31%	66	Chelmsford	0.94%	106	Raynham	0.14%
27	Natick	4.20%	67	Newton	0.92%	107	Newbury	0.14%
28	Everett	4.10%	68	Lawrence	0.77%	108	Rockland	0.14%
29	Foxborough	4.10%	69	Littleton	0.75%	109	Walpole	0.13%
30	Pembroke	4.07%	70	Westford	0.73%	110	Southborough	0.13%
31	Franklin	3.98%	71	Malden	0.71%	111	Kingston	0.13%
32	Melrose	3.71%	72	Holliston	0.70%	112	Swampscott	0.12%
33	North Andover	3.62%	73	Essex	0.69%	113	Rockport	0.10%
34	Westwood	3.49%	74	Brookline	0.68%	114	Medway	0.09%
35	Watertown	3.45%	75	Lowell	0.67%	115	Dighton	0.09%
36	Revere	3.07%	76	Winthrop	0.67%	116	Hopedale	0.09%
37	Peabody	3.00%	77	Brockton	0.67%	117	Manchester	0.09%
38	Tyngsborough	2.86%	78	Rowley	0.65%	118	Norton	0.08%
39	Hudson	2.83%	79	Beverly	0.65%	119	Easton	0.08%
40	Middleborough	2.63%	80	Norwood	0.64%	120	Wayland	0.06%

continued on next page

TABLE 4.1

Multifamily Housing Growth in Greater Boston, 2005-2012 (continued)

#	Municipality	Multifamily Growth	#	Municipality	Multifamily Growth	#	Municipality	Multifamily Growth
121	Belmont	0.06%	134	Carver	0%	147	Nahant	0%
122	Wrentham	0.06%	135	Dover	0%	148	Needham	0%
123	Bridgewater	0.05%	136	Dunstable	0%	149	Norfolk	0%
124	Somerville	0.05%	137	East Bridgewater	0%	150	Norwell	0%
125	Wilmington	0.04%	138	Georgetown	0%	151	Sherborn	0%
126	Acton	0.04%	139	Halifax	0%	152	Stow	0%
127	Amesbury	0%	140	Hamilton	0%	153	Sudbury	0%
128	Avon	0%	141	Holbrook	0%	154	Topsfield	0%
129	Blackstone	0%	142	Hull	0%	155	Upton	0%
130	Bolton	0%	143	Lancaster	0%	156	Wenham	0%
131	Boxborough	0%	144	Medfield	0%	157	West Newbury	0%
132	Boxford	0%	145	Mendon	0%	158	Weston	0%
133	Carlisle	0%	146	Milford	0%	159	Whitman	0%

Source: U.S. Census Building Permits Survey

North Reading's 25 percent multifamily housing growth from 2005 to 2012—far, far greater than any other municipality in our analysis—can be attributed to several factors. Not only is multifamily housing allowed, but the minimum tract size for multifamily developments is 30 acres, larger than any other municipality in our analysis. North Reading is also home to the 46-acre Berry Center/Edgewood Apartments 40R District which contains 406 multifamily units. The construction of these 406 multifamily units significantly contributed to North Reading experiencing such a substantial increase in multifamily housing during this time.

Groveland's growth, the second highest in our sample of municipalities, can be attributed to allowing multifamily housing in cluster developments, but also to having inclusionary zoning provisions, and allowing multifamily housing on large sites of five or more acres. Inclusionary zoning allows developers to build more units on a land parcel than normally permitted, as long as the developer agrees to set aside a number of the units as affordable to low and moderate income households. This type of voluntary inclusionary zoning provides an incentive for developers to operate in these communities.³² Chelsea, Lynnfield and

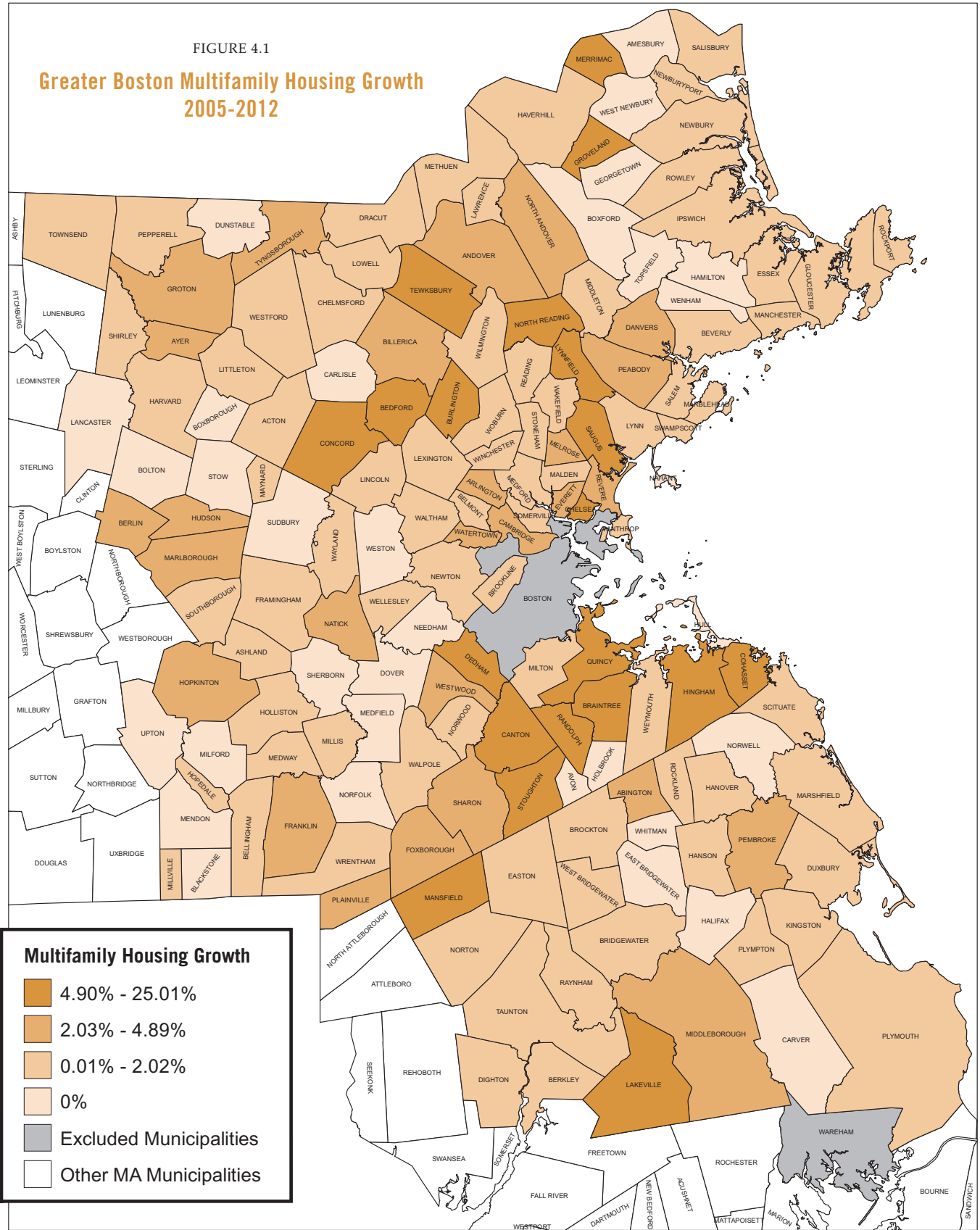
Lakeville's high multifamily housing growth rate, like North Reading's, can be attributed to the significant number of multifamily units built in their 40R districts, 120, 180 and 204 units respectively. Cohasset, Canton, Mansfield and Saugus's high multifamily growth is partially attributed to mandating higher than average (10-plus acres) minimum tract sizes for multifamily development. Bedford's 10.15 percent multifamily housing growth rate (the 4th highest) is likely due to inclusionary zoning provisions.

The Keys to Multifamily Housing Development

According to our analysis, the three factors that are most important to induce multifamily housing production are local provisions for cluster development, inclusionary zoning and enactment of Chapter 40R Smart Growth Overlay Zoning. The term "cluster development" refers to a residential development that contains homes closer together than allowed by the underlying zoning in order to conserve open space for recreation. As the goal of cluster development is to locate homes close together to conserve otherwise developed open space, it is

FIGURE 4.1

Greater Boston Multifamily Housing Growth 2005-2012



Source: U.S. Census Building Permits Survey

most prevalent in communities where there tends to be a surplus of land. In these communities cluster development often takes the form of a self-contained development at a higher density than is typical of traditional single-family subdivisions. Cluster development can be an especially useful tool for communities looking to permit higher density residential development in concentrated areas without affecting their underlying zoning. Our analysis found that municipalities that allowed multifamily housing in cluster developments experienced some of the largest increases in multifamily housing production from 2005 to 2012.

Communities with inclusionary zoning bylaws also had higher than average rates of multifamily production. Such zoning requires developers of large housing projects to set aside anywhere from 10 to 20 percent of these new units with prices or rents affordable to low- and moderate-income households. Implicit in such zoning is permission to build multifamily housing.

Chapter 40R provides monetary incentives from the Commonwealth to municipalities that rezone parts of their community for denser, transit-oriented housing.

Detailed Analysis

The importance of zoning related to cluster development, inclusionary affordable housing and 40R was confirmed by our statistical analysis. Among the 13 zoning regulations we included in our study, these three turned out to be the only ones that had a statistically significant relationship to the production of multifamily housing. For analysis purposes we operationalized these zoning regulations into 37 variables (See **Appendix B**).

These variables covered zoning regulations related to:

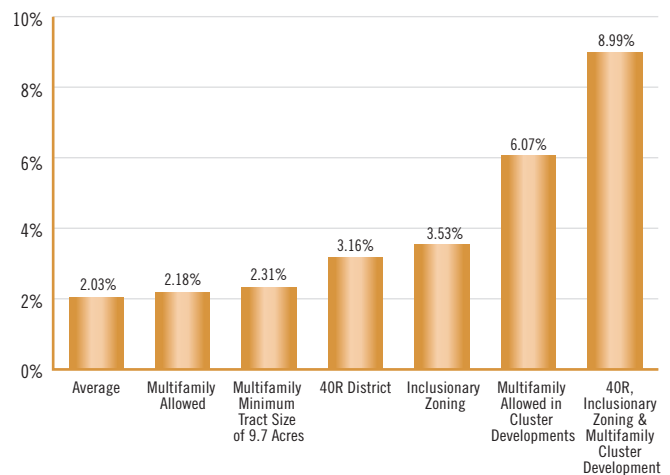
- The circumstances (e.g. by right, by special permit, in cluster developments) under which multifamily developments are allowed
- The special permit granting authority (e.g. planning board, zoning board of appeals, city council or board of selectmen) overseeing housing development
- Whether site plan review is required
- Minimum tract size or parcel size required for a multifamily development

- Minimum lot size required for a multifamily development
- Permission for attached single-family houses or townhouses
- Age restrictions on multifamily housing developments
- Permission for accessory apartments
- Provisions for cluster zoning or residential development
- Requirements for inclusionary multifamily development
- Existence of a planned or targeted growth rate that limits the annual number of residential permits grante
- An approved Chapter 40R district

Of all the variables we entered into the statistical analysis, five proved to be statistically significant factors. As **Figure 4.2** shows, we found that municipalities that allow multifamily housing by right or special permit require a minimum tract size of 9.7 acres or greater for multifamily development, contain a 40R District(s), have inclusionary zoning, and/or allow multifamily housing in cluster developments saw the greatest growth in multifamily housing growth.

FIGURE 4.2

Multifamily Housing Growth in Greater Boston, 2005-2012



Source: Dukakis Center Analysis of Pioneer Institute Zoning Data

What can explain these results?

Multifamily Housing Allowed

In the 144 municipalities that allowed multifamily housing by any means, multifamily housing production increased on average by 2.18 percent between 2005 and 2012 as a percentage of the municipality's 2000 total housing stock. This was slightly above the average amount of multifamily housing developed across all municipalities—2.03 percent. This suggests that simply allowing multifamily housing alone does not guarantee a community will increase its multifamily housing stock by very much. Indeed, 26 of the 33 communities that saw no multifamily housing constructed between 2005 and 2012 legally allow such housing to be built.

Minimum Tract Size for Multifamily Development

The 76 municipalities that set a minimum tract size for multifamily development saw their multifamily housing production increase by .06 percent per acre. Those communities which had, on average, a minimum tract size of 9.7 acres saw their multifamily housing stock increase by 2.31 percent. While counterintuitive in the sense that setting a larger minimum tract size appears to set a higher barrier to multifamily development by limiting areas where it is geographically feasible, the larger the minimum tract size, the more space there is for multifamily units to be built and the less opposition from homeowners.

Chapter 40R Districts

In the 20 municipalities within Greater Boston that have adopted 40R smart growth zoning, multifamily housing production increased by 3.16 percent, more than 50 percent higher than the average for all 159 communities in the analysis.

Inclusionary Zoning

In the 22 municipalities that allowed affordable housing through inclusionary zoning, multifamily housing production increased by 3.53 percent, nearly 75 percent higher than the 2.03 percent average for all municipalities in the analysis.

Multifamily Housing Allowed in Cluster Developments

In the five municipalities that only allowed multifamily housing in cluster developments, multifamily housing production increased by 6.07 percent, nearly triple the regional average.

Multifamily Allowed in Cluster Developments, Inclusionary Zoning and 40R

Finally, our analysis suggests that municipalities that combine cluster developments with inclusionary zoning and the adoption of Chapter 40R are likely to see even greater increases in multifamily housing production. Specifically municipalities that allow multifamily housing in cluster developments, have inclusionary zoning provisions, and adopt 40R zoning would theoretically have experienced nearly a 9 percent increase in their multifamily housing production from 2005 to 2012, more than quadruple the regional average of 2.03 percent during this time period.

Recommendations

Based on these results, we conclude that in order to meet the growing demand for smart growth-oriented multifamily housing it is imperative to advocate for:

1. Adoption of multifamily cluster development zoning in the 104 municipalities which do not currently allow it
2. Adoption of inclusionary zoning provisions in the zoning bylaws of the 137 municipalities which do not currently contain such provisions
3. Adoption and approval of state approved 40R zoning in the 139 municipalities which do not currently contain such smart growth zoning
4. Encouragement of municipalities to set aside large tracts of land specifically for multifamily housing development.

While advocating for each of these individual zoning changes will go a long way to producing the amount of multifamily smart growth housing needed to meet growing demand, adoption of several of these zoning changes simultaneously is likely to have a multiplier effect on multifamily housing production, helping to meet the growing demand by aging Baby Boomers and younger Millennials alike. While currently not

politically popular, failure to adopt such zoning changes will almost surely lead to an inadequate supply of multifamily housing to meet anticipated demand.

The Commonwealth can encourage the adoption of these zoning changes by demonstrating that the feared consequences of such zoning reform have not been visited on the communities that have taken steps to reduce zoning limitations. An analysis of home values in these communities would likely show that the development of multifamily housing production has no statistically significant impact on single-family home values and that diversifying the composition of the resident population does not affect the value of housing assets, public school quality, crime rates or local infrastructure.³³ Moreover, encouraging the use of Chapter 40R by those communities that have not yet done so would allow those communities to benefit from the additional local aid that this state zoning law permits, along with the use of Chapter 40S which insures 40R communities against any extraordinary increases in public school costs.

All of this would help meet the increased multifamily housing demand that Greater Boston will face over the next decade.

CHAPTER FIVE

Public Policy and Public Spending in Support of Housing

Since the publication of last year's *Greater Boston Housing Report Card* in November 2012, with its call for increasing overall housing production in the region to 12,000 - 19,000 units each year through 2020, the Commonwealth has devoted a great deal of attention to the housing issue. Now in 2013, Boston Mayor Thomas M. Menino and President Barack Obama have weighed in with housing plans of their own. At no time during the past decade has more public policy attention been devoted to housing at the local, state, and federal level.

Just a day before the release of last year's report in November 2012, the Commonwealth held its first statewide housing and community development conference in 10 years, with more than 1,000 in attendance in Worcester. To underscore the importance of building more housing to meet the Commonwealth's economic-development goals, the conference was addressed by Governor Deval Patrick, Lieutenant Governor Tim Murray, Secretary of Economic Development Greg Bialecki, and Undersecretary for Housing and Community Development Aaron Gornstein. Housing was back on the state's agenda big time.

New Massachusetts Housing Initiatives

During this historic conference, Governor Patrick unveiled his plan for the statewide development of 10,000 new units of multifamily workforce housing per year through 2020—consistent with the goal set in the *Greater Boston Housing Report Card* for the Boston region. The Governor tasked the Executive Office of Housing and Economic Development (EOHED) to work with local communities to provide incentives to encourage this development. As Patrick put it, "Access to housing for our middle- and moderate-income families is an important component in the Commonwealth's continued growth to retain and build our young and innovative workforce."¹

As part of the housing plan, the state's Department of Housing and Community Development (DHCD)

announced a new *Compact Neighborhoods* policy to complement Chapter 40R.² Under the new policy, the state would provide additional financial incentives for communities that build more densely—at least eight units per acre for multifamily homes and at least four units per acre for single-family homes. The incentives would include priority access to state infrastructure funding.³ To be eligible to participate in the new program, municipalities would have to identify an "as-of-right" base or overlay zoning district and adopt the Compact Neighborhood Zoning requirements which include allowing a minimum number of "Future Zoned Units" in the Compact Neighborhood equal to at least one percent of the year-round housing stock in the community; provide that no fewer than 10 percent of all units constructed be "affordable"; and not impose any age restrictions on occupancy. The new policy augments state encouragement of housing development that already exists under Chapter 40B, Chapter 40R, and Chapter 40S.

To help communities plan for these new housing developments, DHCD has made changes in its *Priority Development Fund* to make more resources available for both Chapter 40R proposals and for the new Compact Neighborhood program.⁴ When this announcement was made, there was \$183,000 available for planning for these new districts, with housing advocates such as the Commonwealth Housing Task Force (CHTF) urging more funds for this effort. Most smaller communities do not have the in-house capacity to carry out the somewhat complicated planning and preparation of applications that meet all state requirements for these programs. These funds can be used for:

- Planning, outreach and adoption of Chapter 40R smart growth zoning overlay districts.
- Planning, outreach and adoption of other high impact up-zoning approaches that increase unit-per-acre zoning regulations within city / town centers and / or near transit.

Along with these new housing initiatives, MassDevelopment began highlighting its *Multifamily Loan*

Program to be used for rental housing developments in downtown and transit-oriented locations well-aligned for both 40R and the new Compact Neighborhoods program.⁵ EOHEd also announced that an additional \$38 million would now be available for 26 additional MassWorks Infrastructure Program grants to support economic development and housing creation throughout the Commonwealth, with multifamily housing being a priority.⁶

The state also began to pay more attention to housing in its Gateway cities, the older industrial cities in the state. DHCD began accepting applications for the new *Housing Development Incentive Program* (HDIP—Chapter 40V) to facilitate the development of primarily market-rate housing within new Housing Development Zones in Gateway Cities in Massachusetts.⁷ (The Gateway Cities in Massachusetts are those with a population greater than 35,000 and less than 250,000, a median household income below the state average, and a rate of educational attainment of a bachelor’s degree or above that is below the state average). The program is limited to developments in which at least 80 percent of the units will be priced for households at or above 110 percent of area median income as defined by the municipality and approved by DHCD. Municipalities that participate must offer at least a partial property tax exemption on the increase in value attributable to the market-rate units, and developers can apply for a state tax credit for up to 10 percent of the cost of developing the market-rate units.

Just one week after announcing the Compact Neighborhoods policy in November 2012, the Patrick Administration took further action to improve housing prospects for the homeless. Among these changes were strengthened health and safety inspections, the expansion of the “no-fault” eligibility category to help families facing eviction, and provision for homeowners who have been foreclosed to be eligible for state Emergency Assistance.⁸ These actions build on the new Residential Assistance for Families in Transition Program (RAFT) established in August 2012, providing nearly \$9 million in legislative funding for homelessness prevention programs, a 6.5 percent increase for local housing authorities to operate public housing, and a \$20 million boost in capital spending for affordable housing preservation and production.⁹

Affordable Housing Preservation and Chapter 40T

Assuring sufficient affordable housing, especially for low- and moderate-income households, requires not only additional construction, but keeping existing affordable housing from becoming unaffordable. According to the Community Economic Development Assistance Corporation (CEDAC), starting in the mid-1960s and continuing through the late 1970s, nearly one million affordable housing units were produced nationwide through federally assisted mortgage programs to private developers in return for below-market rate 40-year mortgages.¹⁰ These projects were developed under the Low Income Housing Tax Credit (LIHTC), Section 236 of the National Housing Act, and apartments supported by Section 8 project-based vouchers.¹¹

Since these federal programs went into effect nearly 50 years ago, Massachusetts has been a major beneficiary. Nearly 1,500 projects have taken advantage of this program in the Commonwealth, leading to the construction of more than 145,000 housing units. Developers of these projects are committed to maintaining the properties as affordable for a period of time ranging from 20 to 40 years.¹²

CEDAC keeps an up-to-date database on this housing stock. As of July 2013, more than 129,000 households were living in these affordable units in Massachusetts. But as the program has aged, more and more of these units face “expiring use.” Owners of these properties can begin to charge market-rate rents as the affordability commitments expire. Already more than 14,000 existing subsidized units have been lost to expiring use.¹³ CEDAC estimates that by 2015, more than 18,600 additional units in more than 100 housing projects could revert to market rate—more than 12,100 of them in Greater Boston’s 161 communities. **Appendix A** provides a list of these communities and the potential number of expiring use housing units. The number of at-risk expiring use units in 2015 could be more than a third higher (36 percent) than the number estimated in 2012.

To preserve as many of these affordable units as possible, the Patrick Administration promulgated Chapter 40T and the Legislature enacted the new regulation in 2009. Under 40T, the Commonwealth has broad

powers to purchase expiring use properties so as to retain their affordability. Owners are prohibited from selling to others without complying with the law and if they do intend to sell such a property, DHCD has a right of first refusal to purchase it.

According to CEDAC, from January 2010 through January 2012, after the enactment of Chapter 40T, no project lost affordability as a result of a sale (although, as noted above, losses were sustained when owners of expiring use properties retained ownership and did not voluntarily extend affordability). Of the 109 projects with 9,134 units facing expiring use, 28 have been sold to preservation purchasers, extending the period of affordability to 2,888 units.¹⁴ Between February 2012 and June 2013, 97 additional projects across the Commonwealth would have been eligible for market-rate conversion. Of these, CEDAC reports, only two—one in Weymouth and the other in Worcester—face a high risk of doing so. These two currently contain 325 units of affordable housing.

Clearly, Chapter 40T has been a major contributing factor to maintaining affordability in the Commonwealth and Greater Boston for low-income households. MassHousing's *Affordable Housing Trust Fund* (AHTF) provides another mechanism for boosting the inventory of affordable housing. In June of this year, DHCD announced \$9.3 million in AHTF loan closings for affordable housing projects in Boston, Centerville, Haverhill, Paxton, Westhampton and Worcester. The AHTF financing will help create or substantially rehabilitate 318 apartments or single-room occupancy units in the six communities. As Undersecretary for Housing and Community Development Gornstein said in a statement about the loan closings, "The projects will provide quality affordable housing to low-income and working families, senior citizens and formerly homeless individuals as we work toward our goal of creating 10,000 new multifamily units in Massachusetts."¹⁵

Housing Bond Bill Passes Legislature

On July 30th, 2013, the Massachusetts Senate passed a major housing bond bill authorizing \$1.4 billion in capital spending during the next five years for various housing projects and extending the Low Income Housing Tax Credit at \$20 million per year through 2020.¹⁶

The bill, in conference committee in September, includes:

- \$500 million for repairs and improvements to public housing
- \$305 million for the *Affordable Housing Trust Fund*, used to create and preserve affordable housing for households at or under 110 percent of the area median income
- \$100 million for the *Capital Improvement and Preservation Trust Fund*, which assists in the preservation and improvement of existing privately owned, state or federally assisted affordable rental developments
- \$135 million for the *Housing Stabilization and Investment Trust Fund*, which provides funding for the acquisition, preservation and rehabilitation of affordable housing, including foreclosed and distressed properties.
- \$80 million for the *Housing Innovations Trust Fund* to support innovative and alternative forms of rental housing, including single-person occupancy units, transitional and permanent housing for homeless people, domestic violence shelters, supportive housing for seniors and veterans, and housing for substance-abuse recovery
- \$55 million for the home modification program, which assists physically disabled individuals with home improvements to ensure they can live at home
- \$50 million for a public housing demonstration program to utilize innovative and replicable public housing finance tools to reduce ongoing capital costs
- \$47 million for the *Facilities Consolidation Fund*, which provides community-based housing for clients of the Department of Developmental Services and the Department of Mental Health
- \$45 million for the *Commercial Area Transit Node Housing Program*, which produces housing in commercial areas served by transit
- \$38 million for the community-based housing program, which assists persons with disabilities to live in the least restrictive settings possible

This use of bond finance will enhance long-term housing opportunities for thousands of households throughout the state.

Proposed Zoning Reform

As Chapter 4 demonstrated, current zoning regulations pose perhaps the greatest barrier to producing multi-family housing in the Commonwealth. Representative Stephen Kulik and Senator Daniel Wolf have now filed *An Act Promoting the Planning and Development of Sustainable Communities*, H. 1859, which updates Massachusetts' land use laws to meet the state's need for workforce housing, reduce commutes, and preserve farmland and forests.¹⁷ The bill had a public hearing on May 14, 2013, and remains in the Municipalities Committee.

The bill provides benefits to municipalities through statewide reforms, and offers enhanced incentives and tools to communities that choose to opt in to these reform measures. Communities can opt in by changing local regulations in order to meet economic development, housing, and natural resource protection goals. The bill strives to effect the delicate balance between environmental preservation and the need for making more land available for housing development.

This bill takes pieces of zoning reform efforts from prior legislative sessions to create a more streamlined bill that gives cities and towns the tools they need to shape their futures, while providing more certainty to landowners and developers, thus reducing the time and "soft costs" of developing housing.

Key provisions include:

- providing explicit statutory language allowing municipalities to mandate the creation of affordable housing projects, which can count toward their 40B requirements
- increasing local oversight by providing the option to adopt regulations for minor subdivisions in place of Approval Not Required (ANR) provisions
- consolidated permitting that brings all decision-making boards together at the beginning of project reviews
- establishing a clear process for development impact fees
- addressing vested rights by providing standardized zoning protections for development projects proposed in building permits, special permits and subdivision plans

- creating the *Planning Ahead for Growth Act* which grants additional tools and incentives to communities that choose to opt in by making specific zoning changes consistent with the state's Sustainable Development Principles. Benefits of planning ahead for growth include broader use of impact fees, natural resource protection zoning at very low densities, shorter vesting periods, the ability to regulate the rate of development, and priority for state infrastructure funding.

If this proposed legislation is ultimately enacted, it could usher in a new era of zoning that provides municipalities with the ability to regulate housing development while offering developers a clearer path to construction.

Public Housing Reform

The Governor and Mass NAHRO (National Association of Housing and Redevelopment Officials) have filed two different versions of public housing reform, both aimed at long-term sustainability of the state's public-housing stock.¹⁸ The Administration proposes the consolidation of 240 housing authorities into six regional housing authorities (RHAs) in order to modernize operations and financial management. The RHAs would take ownership of all public housing assets currently owned by local housing authorities and assume responsibility for fiscal and operational management of all state and federal public housing in each region. The legislation allows communities to retain control over land use and significant redevelopment decisions including change of use, ownership or the financing structure of an existing building or vacant land, but cedes management of properties to the RHAs.

Mass NAHRO proposes encouraging collaborative administrative functions such as waiting lists, vacant unit turnover, procurement and capital improvements as well as strengthening accountability at the local level. The Mass NAHRO proposal includes a provision for an assessment and evaluation tool that would make it possible to identify troubled housing authorities and direct corrective action and technical assistance accordingly. In addition, all housing authorities with state-funded units would be subject to mandatory annual independent public audits.

In addition to the public housing reform efforts of the Governor and Mass NAHRO, *An Act Relative to Public Housing Innovations Pilots*, H. 1146, and S. 592, has been refiled as a way to promote innovative strategies in public housing.¹⁹ This legislation, filed by Representative Jeffrey Sanchez and Senator Harriet Chandler, would reduce and streamline regulatory and statutory requirements for participating housing authorities. The program would maximize the efficient use of funds received by a housing authority. By not restricting the use of appropriated funds to one narrow purpose, the Commonwealth would allow housing authorities to more effectively address local needs, which differ by locality. The bill would also authorize innovative program design on issues such as rent calculation. This could serve to reduce the administrative burden and cost on a housing authority, and would reduce the burden on tenants to produce the personal information often necessary to document income and exclusions.

Energy Efficiency Housing Funding

Legislation to encourage energy efficiency improvements in affordable rental housing has been refiled by Representative Kevin Honan and Senator Sal DiDomenico in order to help defray what is often a significant capital cost involved in constructing or rehabilitating housing to ensure that the structures minimize energy use. *An Act Relative to Affordable Housing Energy Efficiency*, H.1122 and S.1574, would dedicate funding to make new and existing multifamily affordable housing more energy efficient.²⁰

Clearly, the Commonwealth's executive and legislative leaders have come to fully understand the importance of providing affordable housing for their constituents, both as a moral obligation to low- and moderate-income households and as an economic necessity to retain working families in the state.

Mayor Menino's Housing Plans for the City of Boston

While the Commonwealth has ambitious plans for increasing housing throughout the state, Boston's Mayor Thomas M. Menino unveiled early in September 2013 his own blueprint for building 30,000 homes in the city by 2020.²¹ The plan calls for \$16.5 billion

in public and private investment in housing, using a variety of tools to encourage the development of both market-rate and affordable homes. Of the 30,000 proposed housing units, 5,000 would be constructed for middle-income families on city-owned parcels that would be made available for development, particularly in lower cost neighborhoods such as East Boston, Dorchester, and Roxbury. The city would increase fees on real-estate developers to subsidize the construction of these units in return for providing developers with a streamlined permitting process, allowance for taller buildings, and relaxation of parking requirements in large housing structures.

The plan also calls for the production of housing for 10,000 full-time students. To make these units affordable to students, the Menino blueprint calls for more flexibility in the city's regulations on housing unit size. Already, smaller units with 450 square feet or less have been allowed in the South Boston Innovation District. The new plan calls for even greater flexibility to meet the needs of elderly residents, families with children, and young professionals.

If the Menino Plan is successful, the amount of multifamily housing constructed in Boston will provide enormous help in meeting the state's target for 10,000 units of multiunit housing a year through 2020. The added supply should help meet expected demand and therefore begin to slow the increase in housing prices and rents.

President Obama's Housing Policy 2013

The Obama Administration has also weighed in on the housing front. Shortly before this Housing Report Card for 2013 went to press, President Barack Obama delivered a major address in Phoenix laying out his vision for U.S. housing policy. Although pressed by his Democratic base since early in his first term, the President had spent little time or rhetoric on specific housing issues in his first five years in office, with the exception of the problem of rising foreclosures as a result of the economic meltdown that began in 2007. His domestic focus has been on rescuing a failing economy and trying to stimulate job creation. Both efforts, of course, had a significant and positive impact on the housing market.

The essential elements of the President's plan are:²²

- Support for legislative action to allow and encourage more U.S. families to refinance their homes at low interest rates, thus cutting their monthly payments and strengthening family budgets.
- A promise to issue an executive order to expand the pool of borrowers eligible for loans from federally-backed programs so that many borrowers without the highest-quality credit can now receive loans.
- Continued support for 30-year mortgages, a feature of American housing policy that had been instrumental in allowing large numbers of American families to own homes.
- A call for "an end to the federally owned mortgage giants Fannie Mae and Freddie Mac ... placing the vast majority of financial risk on private-sector lenders."
- A fee on mortgage-backed security transactions to provide a funding source for affordable housing for low- and moderate-income households.

The White House has published a graphic (see page 67) to illustrate some of the main points of the President's plan.²³

Of particular interest to the housing situation in Massachusetts, the President stated, "We've got to make sure that we are creating affordable opportunities when it comes to rental properties. In the run-up to the crisis, banks and governments too often made everybody feel like they had to own a home even if they weren't ready and didn't have the payments. That's a mistake we should not repeat." And the next day, in an interview with Zillow, the President further "suggested [that] having affordable rental options available while people were saving up for a down payment was essential."²⁴ He also called on communities to reduce barriers to the construction of low- and moderate-income multifamily rental housing.

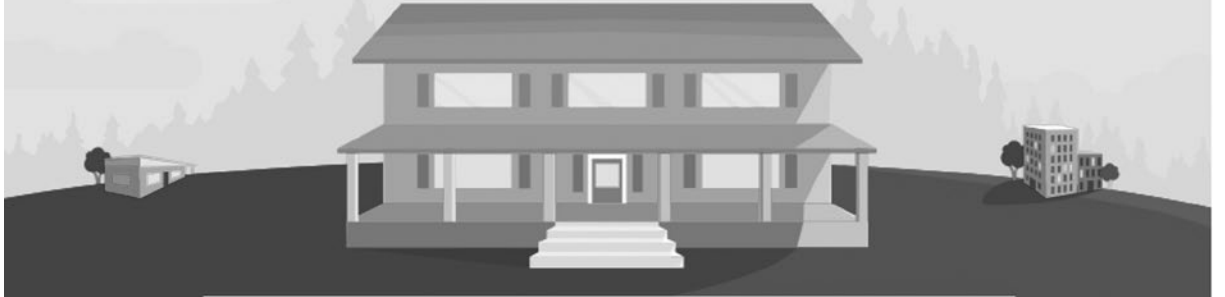
Reaction to the President's announcement has been generally positive, especially from groups representing the producers and developers of housing. Reaction from low-income housing advocates was somewhat less enthusiastic, as they focused on the lack of specific funding requests for extremely low-income housing and for the homeless.²⁵

While few in the affordable housing world would contest the need for reform of Fannie Mae and Freddie Mac, both GSEs (Government Sponsored Entities) have become profitable and have paid back billions of dollars to the Federal Government following their bailouts during the financial crisis. As reported by the Associated Press, Fannie Mae earned \$10.1 billion in the second quarter of 2013 alone and will repay \$10.2 billion to the US Treasury. The AP reported on August 9, 2013, that "The housing recovery that began last year has made Fannie and Freddie profitable again. Together they will have paid back about \$146 billion of their government loans [\$116 billion of which went to Fannie Mae] by next month. Those payments are helping make this year's federal budget deficit the smallest since President Obama took office in 2009."²⁶ Fannie Mae's sibling, Freddie Mac, which earned \$5 billion in the second quarter of 2013, will repay \$4.4 billion to the US Treasury and is requesting no additional subsidies.²⁷

Perhaps more important for the long run is finding a way to fill the role that Fannie and Freddie have played in the provision of affordable rental housing over the last several decades. Especially since 1992 and the establishment of aggressive goals for the GSEs related to affordable housing, Fannie particularly has supported the development and rehabilitation of affordable housing through the purchase of Low-Income Housing Tax Credits and its participation in the financing of affordable housing mortgage loans, often in partnership with state housing finance agencies. Because of the scale of Fannie Mae investments, and the expertise the entity has developed over time, it will be difficult to substitute for Fannie's role and impact.

Clearly, given the experience during the financial crisis, both Fannie and Freddie need to undergo at least significant reform and improved oversight. But Fannie and Freddie have also helped to make our system of stable and predictable 30-year mortgages (when the system works as intended) the envy of the world in its ability to extend homeownership opportunities broadly to the middle class and, as discussed above, to support the financing of affordable multifamily rental housing. If Fannie and Freddie are in fact eliminated, their replacement(s) must be designed to maintain that stability and support.

PRESIDENT OBAMA'S PLAN FOR
 A BETTER
FOUNDATION
 FOR
MIDDLE CLASS HOMEOWNERSHIP



OFFER A BETTER BARGAIN FOR RESPONSIBLE HOMEOWNERS

We can further strengthen the housing market while ensuring that no communities or homeowners are left behind by the housing recovery.

A TYPICAL FAMILY
 COULD SAVE \$3,000
 PER YEAR

- Help responsible families refinance
- Increase home values with immigration reform
- Cut red tape for mortgages
- Create & preserve affordable rental housing

REFORM THE HOUSING FINANCE SYSTEM

It's time to end an era of housing bubbles and taxpayer bailouts, and build a new housing finance system that works for responsible middle class families.

UNSUSTAINABLE:
 OVER 80% OF
 MORTGAGES ARE
 GUARANTEED BY
 THE GOVERNMENT

- Put private capital at the center of the mortgage system
- Protect the 30 year and other safe mortgages
- End Fannie and Freddie's failed business model
- Support affordability & access to homeownership

NO MORE
 TAXPAYER
 BAILOUTS!

MAKE MORTGAGES SAFE AND SIMPLE

For most middle class families, buying a home is the most important financial decision they will ever make, and more can be done to ensure that mortgages are as safe, sustainable and simpler to understand.

UNDER 3 PAGES,
 NO FINE PRINT

- Finalize simplified mortgage disclosure forms
- Increase lender transparency and accountability
- Align lender and borrower interests
- Level the playing field for community-based banks

CONFIRM
 MEL WATT
 AS FHFA
 DIRECTOR

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Public Spending on Housing in the Commonwealth

The Commonwealth has two sources of funds to assist homeowners, renters, and developers of housing. One is from its own revenue, the other from a variety of federal programs. A large chunk of the state’s funds used for housing are annual operating funds; the remainder is made up of capital or trust funds used for investment in public housing and to subsidize affordable housing construction. All of these funds are processed through the state’s Department of Housing and Community Development (DHCD). Traditionally, DHCD operating funds have been used to provide rental assistance and public housing subsidies, and to pay for administration of the agency. Since FY2010, however, operating funds for homelessness programs have also been administered by DHCD. As a result, efforts to address homelessness and the overall need for affordable housing are increasingly integrated. DHCD also manages capital funds that are authorized every five years through the passage of a housing bond bill. As previously mentioned, a \$1.4 billion bond bill is pending to renew important funds for the preservation of existing subsidized housing units and creation of new affordable housing.

Federal funds for housing are made available directly to a number of local agencies, including Massachusetts’ larger cities and local public housing authori-

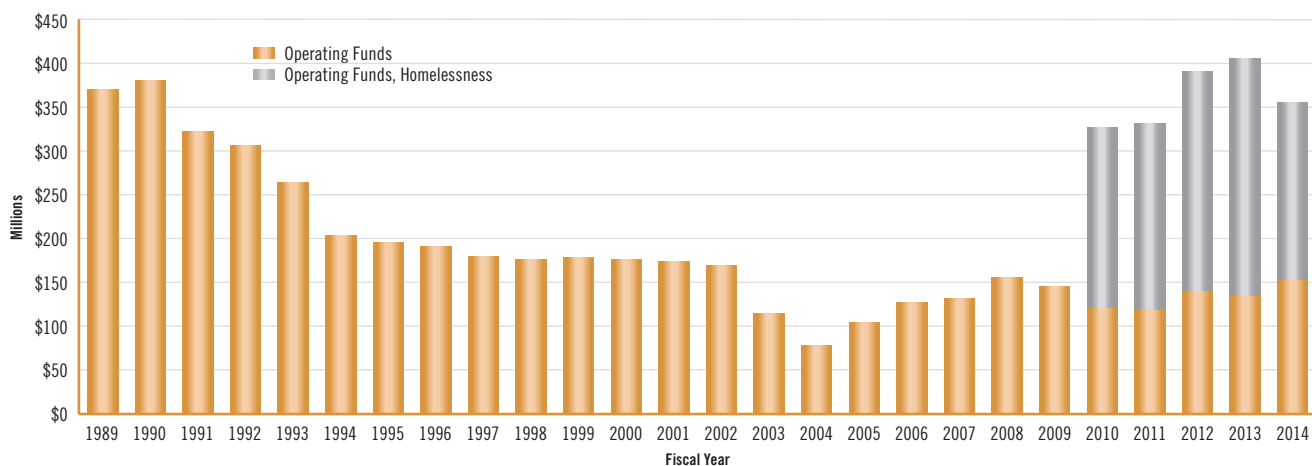
ties. DHCD also receives federal funds for a number of programs including the Section 8 rental voucher program, new housing development and rehabilitation, energy assistance and various neighborhood stabilization programs. DHCD also received federal funds from the 2009 American Recovery and Reinvestment Act (ARRA). These funds have been depleted, and automatic spending cuts called for in the Budget Control Act of 2011 (“Sequestration”) are beginning to take a bite out of what DHCD can spend on housing. Altogether, DHCD had \$973 million in FY2013 to spend on housing, homelessness and community services.

DHCD Operating Funds

In FY1990, DHCD state-issued operating funds peaked at \$382 million (in FY2013 dollars), and declined rapidly over the next eight years to \$177 million in FY1997. For the next five years, operating spending for housing continued to decline, but at the slower pace of two percent per year, and some of this decline was balanced with increases in capital spending via state bonding authority. Operating funds were slashed in FY2003 and again in FY2004, leaving the agency with only \$78 million in FY2004. While state-supplied funding for housing has recovered somewhat since 2004, state funding for DHCD’s core housing programs has never recovered to the levels seen in 2000 to 2001, and taking into account inflation, remains 60 percent lower than FY1990 (see **Figure 5.1**).

FIGURE 5.1

DHCD Real Operating Funds (FY2013\$), FY1989 – FY2014



Source: Massachusetts/DHCD budget documents, the *Massachusetts Budget Dashboard*, and the Massachusetts Budget and Policy Center.

In FY2010, state homeless programs were shifted from the Department of Transitional Assistance to DHCD, more than doubling DHCD's state-supplied operating funds. With the onset of recession, demand by families for the largest homelessness program, Emergency Assistance (EA), increased 74 percent from September 2007 to September 2009.²⁸ Federal ARRA funds, through the Homelessness Prevention and Rapid Re-Housing Program (HPRP), provided the state with some financial relief and the opportunity to lay the groundwork for moving from a shelter-based system to one that was centered on the "Housing First" model. In this approach, preserving existing tenancies with short-term assistance or the provision of rental assistance is considered more cost effective than shelters or motels. In the long run, the goal is to shift resources away from shelters, but the demand for EA has remained high, even as some families have been shifted into HPRP and the state's new HomeBASE program (short-term rental assistance and services). As a result, supplemental appropriations have been needed every year to meet program demand, and recognizing that the use of motels would continue, a separate line item was created in FY2013 to pay motel costs needed to shelter families experiencing homelessness.

For FY2013, DHCD began to implement a more truly integrated approach to affordable housing and homelessness. A portion of EA funding (shelters and motels)

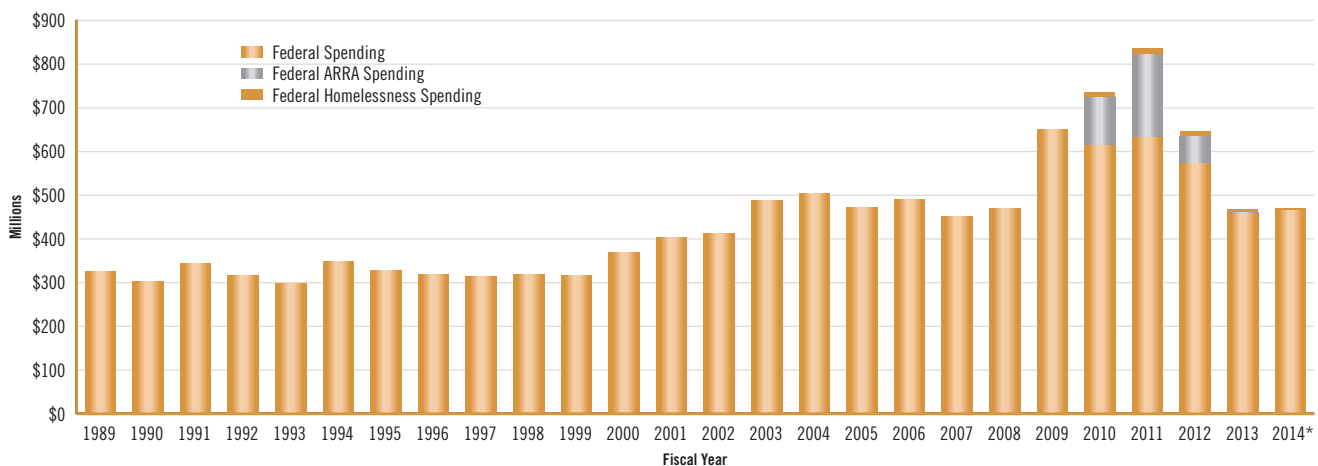
was shifted to prevention and rapid rehousing, and funding for long-term housing (rental vouchers) was increased. The provision of more long-term housing for people and families experiencing homelessness continues in FY2014, with an 11 percent increase in funding for the Massachusetts Rental Voucher Program (MRVP). On the other hand, operating funds needed for shelter, rapid rehousing, and homelessness prevention are expected to decline in FY2014. This decline is off-set in part by a new \$20 million Housing Preservation and Stabilization Trust Fund. Though the overall Massachusetts economy has improved over the last year, the number of families seeking shelter/homelessness assistance remains high. At the end of August 2013, DHCD reported that 1,700 families remained in motels. As a result, a reduction in funding to homelessness programs may need to be revisited during FY2014.

Federal Spending through DHCD

Through the 1990s, inflation-adjusted federal spending through DHCD was relatively stable, averaging \$320 million a year (in FY2013 dollars). (See **Figure 5.2**.) From FY2000 to FY2009, federal spending increased every year, with the exception of FY2005 and FY2007. As a result of these increases, federal funds to DHCD peaked in FY2009, at \$649 million. American Recovery and Reinvestment Act (ARRA) funds contributed to a

FIGURE 5.2

Total Real Federal Spending through DHCD (FY2013\$), FY1989 – FY2014



*Note: Full information on FY2014 federal spending not yet available.

Source: Massachusetts/DHCD budget documents and the *Massachusetts Budget Dashboard*

further expansion of the state’s housing efforts, with \$109 million in funding in FY2010 and \$190 million in FY2011. However, DHCD can no longer rely on ARRA funds; DHCD received less than \$3 million from the expiring program in FY2013. In addition, both the current sequestration and proposed budget cuts undermine crucial funding for housing programs managed by DHCD. According to an analysis by the National Low Income Housing Coalition, the sequestration resulted in cuts to housing vouchers and the Home Investments Partnerships Program (“HOME”), and the U.S. House of Representatives has proposed steep cuts in HOME and in Community Development Block Grant (CBDG) funds for Federal FY2014.²⁹

Figure 5.3 shows the level of total DHCD spending (federal, as well as state operating and capital funds), excluding the new homelessness funding, from FY1989 to FY2014 (in FY2013 dollars). From FY1989 to FY1997, total funds declined by 45 percent, from \$1.1 billion to \$608 million. While there was some recovery in total spending from FY1998 to FY2008, what really helped were federal cash infusions in FY2010 and FY2011, which pushed total funding for housing programs in the Commonwealth back over the \$1 billion threshold, before falling back due to the expiration of ARRA funds, combined with other federal cuts. Recent

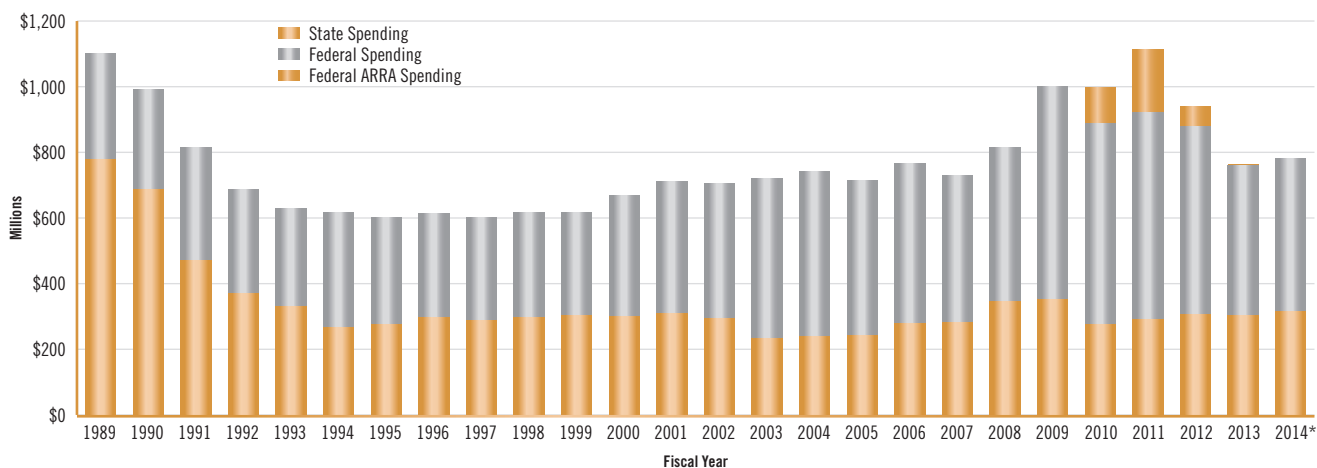
increases in state funding do not fill the gap left by reduced federal funding. As a result, FY2013 spending is 31 percent lower than FY2011. Though anticipated federal and state capital spending levels for FY2014 could change, as of this writing, DHCD expects to receive at best a two percent real increase in funding for housing for FY2014.

Conclusion

For the past year, the Patrick Administration has been devoting a great deal of effort to ensure an adequate housing stock for the future. Its November 2012 housing conference set the tone, with the Governor establishing 10,000 units of new multifamily units a year through 2020 as the target production level for the state. Its new Compact Neighborhoods program, which complements its commitment to the Chapter 40R Smart Growth Overlay District legislation, will provide additional financial incentives for denser, transit-oriented housing. Its Priority Development Fund, while needing more resources to be fully effective, is aimed at helping municipalities plan for both Chapter 40R and Compact Neighborhood districts. Its commitment to providing greater access to state infrastructure funds to those municipalities

FIGURE 5.3

Total Real DHCD Spending (FY2013\$), including Federal Share ARRA, FY1989 – FY2014 (excluding homeless program funds)



Source: Massachusetts/DHCD budget documents, the *Massachusetts Budget Dashboard*, and the Massachusetts Budget and Policy Center.

that permit more housing should also incentivize multifamily housing construction. Focusing not just on its advantaged cities and towns, the state's Housing Development Incentive Program will facilitate the development of market-rate housing in Gateway Cities, which may help attract middle-class households back to these older industrial communities. The Commonwealth is also developing new programs to prevent homelessness and using Chapter 40T to prevent affordable housing units in previously subsidized developments from converting to market rate.

The reauthorization of \$1.4 billion in capital financing for housing programs will be a welcome tool to help meet the Commonwealth's housing needs. New legislation to promote local zoning reform as well as public housing reform, if passed this year, could also play an important role in the future.

All of this is encouraging. The problem is that funding for all of the state's housing programs face the same fiscal constraints as other budget priorities. While FY2014 real operating spending for DHCD programs from state funds is scheduled to increase slightly over FY2013 spending, the fact is that inflation-adjusted spending in the current fiscal year is no higher than in FY2008.

Moreover, the federal government will provide little help. After boosting funds for state housing to over \$800 million in FY2011, in part due to the surge in spending under the American Recovery and Reinvestment Act of 2009, federal assistance to housing in the Commonwealth will likely sink to no more than \$465 million in FY2014.

Adding state and federal funds together, DHCD will have less than \$800 million for housing programs in the state in FY2014 (excluding funds for homeless programs), 27 percent less than in FY2011.

So while the state has grasped the importance of housing development as a critical factor in the state's future economic development, its ability to fund critical programs to meet our housing needs will be mightily challenged in the coming year.

CHAPTER SIX

Conclusion

We began this 11th edition of the Greater Boston Housing Report Card by posing a series of questions concerning the state of the housing market in the region. Our goal was to use this year's report to provide the latest evidence that would allow us to:

- assess emerging trends in home sales, housing production, and foreclosures
- track home prices and rents and consider what the future might hold in terms of housing affordability
- consider the potential for another housing bubble in Greater Boston
- statistically test the impact of municipal zoning regulations on housing production; and
- review new housing policies of the Commonwealth and the federal government

Using all of the information we have presented in the previous five chapters, we can provide a set of broad conclusions regarding each of these issues.

Home Sales

First off, there is some good news to report. Single-family home sales, which had been essentially flat from 2008 through 2011, rebounded in 2012, increasing nearly 21 percent year-over-year with sales expected to rise another 4 percent by the end of 2013. Record low mortgage rates, dipping to 3.3 percent in 2012, drove home sales last year. This year, the sales pace remains relatively strong, but the rate of increase has slowed, as rising interest rates are dissuading some potential homebuyers from entering the market. There is also a short-term barrier to more sales on the supply side. In some parts of the region there is little housing on the market and therefore fewer sales. Some homeowners who have a desire to sell their homes, but no immediate need to do so, have been on the sidelines this past summer waiting to see if prices might rise a bit more before they place their homes on the market. However, we believe as buyers recognize that they may face even higher mortgage rates if they delay their purchases, and once sellers recognize that prices may already be

approaching their peak, both demand for and supply of existing homes may increase, leading to stronger sales later this year or in 2014.

Condominium sales in Greater Boston tracked single-family home sales, increasing by a healthy 26 percent in 2012, with slower gains in sales volume through the first half of 2013—a reaction to the same limitation of rising mortgage rates and tight inventories.

Housing Construction

By far, the best housing news of the year was that new home construction staged a powerful rally in 2012, and 2013 is shaping up to be even better. In 2012, nearly 8,000 units of new housing were permitted throughout Greater Boston, the best performance since 2008. Production last year was up more than 50 percent over 2011 and, if our projections for all of 2013 prove accurate, more than 11,000 new housing units may go into production this year, representing another 40 percent year-over-year increase.

Equally noteworthy and welcome is that production is shifting dramatically, away from single-family housing to multifamily. In 2012, 57 percent of the permits issued in Greater Boston for new housing were in multiunit structures. In 2013, we estimate, two-thirds of new production will be of this type with only one-third being new single-family homes. This completely reverses the proportions from a decade earlier when nearly two-thirds of the new permits issued between 2000 and 2002 were for the traditional one-family home. Developers have clearly paid attention to the demographic projections for the region, recognizing the growing preference that aging Baby Boomers and young Millennials have for smaller housing units in denser, often transit-oriented neighborhoods.

Part of the new construction boom is happening in the state's Chapter 40R Smart Growth Overlay districts. More than 1,500 units of housing have now been constructed in these districts, the vast majority being for rental apartments—the type of housing in the Commonwealth most needed today to meet demand.

Another 800 units are currently under construction or pending production under the Chapter 40R program. As previous Housing Report Cards have projected, now that the housing market is in recovery, this landmark legislation first implemented in 2005 is finally bearing fruit.

Foreclosures

There are also encouraging tidings on the foreclosure front. In 2012, 1,880 households lost their homes to foreclosure deeds, but this was down from more than 3,000 two years earlier. If the first six months of 2013 are any indication, the number of foreclosure deeds for the entire year will sink to fewer than 800, the lowest recorded since 2005 and just 40 percent as high as in 2012.

New foreclosure petitions, the first step in the foreclosure process, are also projected to be substantially lower in 2013 after spiking in 2012. If our projection for the entire year, based on the first six months of petition data, is accurate, there will be fewer than 1,900 new foreclosure proceedings for all of 2013 in Greater Boston, the lowest number since 2003, well before the housing bubble burst.

We have been searching for signs of a real housing market recovery for the past three years. The data on home sales, construction and foreclosures for 2012 and the first half of 2013 suggest the recovery is finally here.

Home Prices

It should be no surprise that a sharp increase in housing demand would lead to an increase in home prices. With the homeowner vacancy rate dropping to its lowest point since 2004, home prices in Greater Boston began to finally rebound in the first half of 2013. Since falling in 2012 to its lowest level since 2002, the median price of a single-family home in the region has jumped 6.7 percent through the first half of this year. Condominium prices have increased by nearly 5 percent.

But where demand is really soaring, leading to rapid home price increases, is in the market for two- and three-unit buildings, including the traditional “Triple Decker.” The median price for apartments and condos in these three-unit structures has increased for four

straight years so that by mid-2013, these units were selling for 46 percent more than in 2009 and nearly 9 percent more than a year ago. The appreciation differential between single-family homes and units in multi-family buildings is reflecting the rapidly changing demographics of Greater Boston.

Recognizing the new demographics of the region, the sharp price increases for multifamily units are being driven by renewed investor demand for such properties.

Is there Another Housing Bubble on the Horizon?

With such good news about sales, production and foreclosures, and the rebound in home prices, is it possible that housing price appreciation will once again increase by annual double-digit rates as we experienced between 1995 and 2005? With little housing inventory on the market, particularly in some City of Boston neighborhoods and in some of the region’s most attractive suburbs, buying a home has been a frustrating process for a good number of families now in the market. Bidding wars have broken out in some communities, leading to higher prices. If this were to continue, the next few years would look much like the housing bubble of 1995 to 2005.

But there are a host of reasons why we believe that housing price appreciation will be much more moderate over the next decade relative to the boom years. One is that household incomes have been stagnating and there is little to suggest that they will increase rapidly in the near future. The overall economy of the nation and the Commonwealth is expanding, but at a very slow rate. Unemployment remains a persistent problem. Under such conditions, household incomes will increase only slowly, if at all, dampening housing demand for all but the most affluent.

A second reason for expecting moderating home prices has to do with the mortgage market. Mortgage rates are rising and while they may not continue to rise at the same rate as in the first half of 2013, they will almost certainly not return to the low levels of 2011 and 2012 as the Federal Reserve Board begins reining in its “quantitative easing” policy over the next year or so.

A third reason, and perhaps the most important, is related to demography. As the huge Baby Boomer generation ages, many will wish to downsize. This will likely put a large number of single-family suburban homes on the market relative to the past decade. This added supply of larger homes will swell housing inventories and almost surely keep single-family housing prices from appreciating rapidly over the next decade. Single-family prices may return to their 2005 record highs, but we do not expect them to increase much farther than that as more and more Baby Boomers reach the age where they are ready to give up the homes where they raised their families.

Finally, as noted above, new housing production is finally kicking in, especially for multifamily apartment and condominium units. If this trend continues, the growing demand for such housing will be at least partially satisfied, taking some of the pressure off of condo prices.

As such, despite the hot market for housing in some Greater Boston communities today, the chances of another full-blown housing bubble in the region seems remote. Unfortunately, even without a housing price bubble, home prices in many parts of the region will remain for many households barely affordable.

Rents

Unlike single-family home prices, which until recently remained near their lowest levels since the early 2000's, rents have continued to increase almost every year in the region right through the Great Recession and its aftermath. Demand for rental units is so strong relative to supply that the rental market vacancy rate has slipped to 3.7 percent, nearly two percentage points lower than the 5.5 percent vacancy rate that normally results in stable rents. For the eighth year in a row, the average asking rent in Greater Boston has increased so that by the first half of 2013, it reached \$1,850 per month. Even after taking into account various discounts offered by landlords, the effective rent in Greater Boston reached \$1,772, making the region the third most costly place to rent among large metro areas in the country, surpassed by only New York and San Francisco. The average effective monthly rent in places like Denver, Portland (Ore.), Charlotte and Dallas are all less than half the monthly rent in Boston. While the recovery in home prices makes owning a home in

Greater Boston difficult for many households, particularly those seeking homes in choice City of Boston neighborhoods and the most attractive suburbs, the incessant rise in rents often makes renting even more difficult. Given the rental market in Greater Boston, the recent spurt in multifamily housing construction provides a hopeful sign that rent increases might begin to moderate as more rental units come on the market augmenting supply in the face of growing demand.

Housing Affordability: Homeownership

Trends in home prices and rents on the one hand, and in housing affordability on the other, are not necessarily the same, for affordability is determined by three factors, not one. The first, of course, is the price of housing measured by the mortgage payments homeowners pay or the monthly rents that renters have to cover for their housing. We have long advocated for policies that result in building sufficient housing supply to moderate home prices and rents.

But affordability is also a function of household income. As long as incomes are rising at least as fast as prices and rents, affordability—for the population as a whole—remains constant or improves. When incomes rise slower than housing costs or actually decline, more and more families become housing-cost burdened. This is precisely the problem in Greater Boston. Between 2000 and 2011, the nominal annual median income of homeowner households in the region increased by 31.8 percent. During the same period, the nominal median price of a single-family home in the region increased by 32.7 percent. As such, it is not surprising that even with home prices falling by an average of nearly 15 percent during the second half of the decade, homes in Greater Boston are no more affordable today to the median household than in 2000.

Affordability is also a function of changes in the income distribution. Median income is the income of the middle household when you array all households from the poorest to the richest. Half of the households make more than the median income; half make less. But if the incomes of the two halves are diverging—with the top half improving their incomes while the bottom half does not—it is possible that even if median income matches median home prices, the proportion

of households facing a high housing cost burden will increase. That is what has happened in Greater Boston. In 2000, about 27 percent of homeowners were spending 30 percent or more of their income on housing. By 2011, the proportion was up to 40 percent.

Hence the real problem with homeownership in Greater Boston for new households trying to get into this market is three-fold: home prices are rising; median incomes are just barely keeping up with rising prices; and the income distribution is turning against lower income homeowners, driving up their housing cost burdens.

Housing Affordability: Rents

The problem for renters is much grimmer. Rents have not declined like housing prices while median renter income has increased by only 13 percent between 2000 and 2011 – well less than half the increase for homeowners. (Controlling for inflation, renter incomes have actually declined by 13 percent.) As such, the proportion of renters paying more than 30 percent of their gross income in rent has increased from 39 percent in 2000 to more than half of all Greater Boston renters (51.3 percent) in 2011. The proportion having to devote more than *half* their income to rent has increased from 18.4 percent to more than a quarter of all renters (26.4%).

As such, affordability burdens for both homeowners and renters continue to increase, but especially for renters.

The Role of Zoning Regulations on the Supply of Multifamily Housing

With persistent increases in rents and condo prices, it is clear that we need to continue building even more multifamily housing to accommodate demand. What may constrain such housing supply in the future is what has limited it in the past: zoning regulations that favor single-family homes over multifamily structures or ban multifamily developments altogether.

Of the 159 municipalities we tracked, we found that 20 had good-to-excellent records when it came to issuing permits for multifamily housing between 2005 and 2012. These ranged from North Reading, Groveland, Hingham and Lynnfield to Quincy, Chelsea, Mansfield and Dedham. On the other hand, we discovered 33 communities that had not permitted a single unit for such housing during this entire eight-year period.

The question we raised was what types of zoning regulations are most conducive to successful multifamily housing production. Working with data prepared by the Pioneer Institute from a detailed listing of zoning regulations in each of Greater Boston municipalities, we found that simply allowing multifamily housing and not banning it altogether is no guarantee of its development. What increases the probability of multifamily development are: zoning regulations that set aside large tracts of land for larger housing developments; “cluster development” zoning that provides explicitly for dense housing development surrounded by open space; “inclusionary zoning” that allows developers to construct more units of housing on a given parcel than zoning would normally permit as long as the developer sets aside some of the units as affordable for low and moderate income households; and adoption of Chapter 40R, the Commonwealth’s Smart Growth Overlay Zoning District law. On average, 40R communities have permitted 56 percent more units of multifamily housing than the “average” community (as a percent of total housing stock); municipalities with inclusionary zoning provisions have permitted 74 percent more; and those allowing cluster development have issued three times as many permits as the average community.

These statistical results suggest that to meet our multifamily housing requirements in Greater Boston, we need to persuade communities to reform their zoning regulations, encouraging them to adopt the provisions that seem to have worked well to provide such housing in some of the region’s communities without any apparent harm to current neighborhoods or the environment.

Public Policy and Public Spending in Support of Housing

Finally, in this year's report we need to applaud Governor Patrick, the state Legislature, and Boston Mayor Tom Menino for their heightened attention to housing as both a moral obligation of government and as an economic necessity to maintain the Commonwealth's prosperity. The Governor's commitment to encourage the production of 10,000 units of multifamily housing per year through 2020, the new *Compact Neighborhoods* policy complementing Chapter 40R, continued support for the Priority Development Fund to help communities plan for new housing development, new initiatives for market rate housing in the state's Gateway Cities, and action to preserve affordable housing are all to be commended.

Mayor Menino's new blueprint for developing 30,000 additional units of housing in the City of Boston by the end of this decade is also noteworthy. We need to assure that this heightened attention turns into real accomplishment. Our initial projection for housing production throughout 2013 suggests that the state is on the right track, but we need to be sure that the state's housing efforts continue to move forward, along with the housing plans for Boston and the Greater Boston region.

Doing this with limited state and federal funds will make this more difficult, but the state's Department of Housing and Community Development appears to be using its funds in an efficient and effective manner. To be sure that the Commonwealth keeps its eye on the prize when it comes to our housing needs requires constant vigilance. With support from such organizations as the Commonwealth Housing Task Force (CHTF) and CHAPA, one hopes the pressure will be there when it comes to meeting our housing needs. We have made good progress these past two years in beginning to meet those needs. We now need to redouble our efforts.

Endnotes

Chapter 1

¹ The “official” dating of U.S. recessions is determined by the National Bureau of Economic Research (NBER) and released in its publication *U.S. Business Cycle Expansions and Contractions*, <http://www.nber.org/cycles.html>.

² See Richard Pear, “Median Income Up, but below 2009 Levels,” *New York Times*, August 22, 2012.

³ Bloomberg News, “U.S. Home Sales Surge Ahead to Three-Year High,” August 18, 2013. <http://www.timesofoman.com/News/Article-21091.aspx>.

⁴ U.S. Department of Housing and Urban Development, Building Permit Survey, “New Privately-Owned Housing Units Authorized by Building Permits in Permit-Issuing Places,” <http://www.census.gov/construction/bps/uspermits.html>.

⁵ See Christopher S. Rugaber, “Sales of New Homes Slump 13.4% in July,” *The Boston Globe*, August 24, 2013, p. B7.

⁶ See Alan Clayton-Matthews, “Massachusetts Current and Leading Indicators,” *New England Economic Project*, July 2013.

⁷ See Christopher S. Rugaber, “July Jobless Rate Rises in 28 States,” *The Boston Globe*, August 20, 2013, p. B7.

⁸ Elise Gould, Hilary Wething, Natalie Sabadish, and Nicholas Finio, “What Families Need to Get By: The 2013 Update of EPI’s Family Budget Calculator,” Economic Policy Institute Issue Brief #368 (Washington, D.C.), July 3, 2013, p. 1.

⁹ For details on the Basic Family Budgets for each of these cities and others for 2005, see Barry Bluestone, Chase Billingham, Eleanor White, Marvin Siflinger, Tim Davis, and Tim Reardon, *The Greater Boston Housing Report Card 2012*, November 2012, Table 1.1, p. 17.

¹⁰ The most expensive metro regions in the country in 2011 for a four-person family with two adults and two children were, in order:

1. New York, NY HUD Metro FMR Area	\$93,502
2. Nassau-Suffolk, NY HUD Metro FMR Area	\$93,363
3. Westchester County, NY Statutory Exception Area	\$91,120
4. Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area (District of Columbia)	\$88,615
5. Stamford-Norwalk, CT HUD Metro FMR Area	\$87,609
6. Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area (Virginia)	\$87,387
7. Hilo, HI MSA	\$87,337
8. Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area	\$85,641

Source: Elise Gould, Nicholas Finio, Natalie Sabadish, and Hilary Wething, *Economic Policy Institute 2013 Family Budget Calculator: Technical Documentation*, Economic Policy Institute Working Paper #297, July 3, 2013.

¹¹ For the purpose of calculating the family budgets, EPI uses two health-care cost components: insurance premiums and out-of-pocket costs. EPI budget transportation costs are based on Federal Highway Administration travel surveys and refer to vehicle miles traveled for work and other purposes. For details on these calculations, see Elise Gould, Nicholas Finio, Natalie Sabadish, and Hilary Wething, *Economic Policy Institute 2013 Family Budget Calculator: Technical Documentation*, Economic Policy Institute Working Paper #297, July 3, 2013.

¹² U.S. Bureau of Labor Statistics, U.S. Department of Labor, Economic Situation Summary, August 2, 2013.

Chapter 2

¹ City of Boston. *History of the Triple Decker*. <http://www.cityofboston.gov/3D/whatis/history.asp>.

² The number of housing permits shown in Appendix A is slightly larger than the number in Table 2.2. The reason for this is that the data for Table 2.2 refer to the five counties of Greater Boston—Essex, Middlesex, Norfolk, Plymouth, and Suffolk. The data in Appendix A cover 161 individual cities and towns vs. the 143 in the five-county region.

³ Barry Bluestone and Chase Billingham, *The Greater Boston Housing Report Card 2011* (Boston, MA: The Boston Foundation, October 2011), p. 59.

⁴ These statistics were prepared for the *Greater Boston Housing Report Card* by the Massachusetts Department of Housing and Community Development.

⁵ Barry Bluestone, Chase Billingham, Eleanor White, Marvin Siflinger, Tim Davis, and Tim Reardon, *The Greater Boston Housing Report Card 2012* (Boston, MA: The Boston Foundation, November 2012), p. 41.

Chapter 3

¹ The data for this time series on home prices are drawn from the Case-Shiller Single Family Home Price Index for the Greater Boston Metropolitan Area, published by McGraw-Hill, Standard and Poor's S&P Dow Jones Indices. <http://us.spindices.com/index-family/real-estate/sp-case-shiller>.

² According to data released by the Warren Group, the median single-family home price for the five counties of Essex, Middlesex, Norfolk, Plymouth, and Suffolk was \$385,560 in 2004. The Case-Shiller single-family price index for Greater Boston in January 1998 was 79.24. The index in December 2004 stood at 173.42, indicating a 118 percent increase in home prices over this period.

³ U.S. Census Bureau, "Homeownership and Housing Vacancy Survey." <http://www.census.gov/housing/hvs/data/histtabs.html>.

⁴ U.S. Census Bureau, "Homeownership and Housing Vacancy Survey." op. cit.

⁵ Case-Shiller Single Family Home Price, op. cit.

⁶ Jay Fitzgerald, "Buyer Prepare: Tight Supplies, Rising Prices, Higher Interest Rates Ahead in Fall Housing Market," *The Boston Globe*, September 1, 2013, p. G1.

⁷ These data are from the Warren Group and reported in Jay Fitzgerald, op. cit., p. G5.

⁸ Barry Bluestone, Chase Billingham, Jessica Casey, and Anna Gartsman, *The Greater Boston Housing Report Card 2010: Taking Stock in an Uncertain Time* (Boston: The Boston Foundation, October 2010), esp. Chapter 4.

⁹ One possible exception to this "need" to raise rents are those investors like Harold Brown, chairman and chief executive of The Hamilton Co. His company is now landlord to some 5,500 residential units in Boston, many of which were purchased during the years when multiunit structures were dropping in price. According to an interview in *The Boston Globe*, Mr. Brown is not particularly worried about the possibility of an apartment building boom leading to rent reductions. Because of his approach to buying properties at the bottom of the market, "he estimates he can lower rents nearly 40 percent and still break even." See Shirley Leung, "Buy or Sell? Real Estate Guru is Stumped," *The Boston Globe*, August 21, 2013, p. B5.

¹⁰ Shirley Leung, op. cit., p. 5.

Chapter 4

¹ Barry Bluestone, Charles C. Euchner, and Gretchen Weismann, *A New Paradigm for Housing in Greater Boston*, The Center for Urban and Regional Policy, Northeastern University, Revised Edition, February 2001.

² *A New Paradigm for Housing in Greater Boston*, op. cit., p. 11.

³ A.C. Nelson (2009). "Catching the Next Wave: Older Adults and the 'New Urbanism.'" *Generations*, 33(4), 37-42.

⁴ <http://www.census.gov/hhes/www/housing/census/historic/units.html>.

⁵ Mary Umberger, "Get ready for Great Senior Sell-Off." *Chicago Tribune*. April 1, 2013. See http://articles.chicagotribune.com/2013-04-01/classified/sc-cons-0328-umberger-20130329_1_boomers-housing-market-homes.

⁶ Umberger, op.cit.

⁷ Casey Ross, "Boston Humming as Appeal of Life in City Booms" *The Boston Globe*, March 3, 2013. http://www.bostonglobe.com/business/2013/03/03/young-professionals-fuel-boston-fast-growth-rate/yeD2mUI7q3613vYYQnEK1M/story.html?s_campaign=8315.

⁸ Umberger, op. cit.

⁹ Jonathan Levine, *Zoned Out: Regulation, Markets, and Choices in Transportation and Metropolitan Land Use* (New York: Resources for the Future Press, 2006).

- ¹⁰ W. A. Fischel (1999), “Does the American Way of Zoning Cause the Suburbs of Metropolitan Areas to be too Spread Out?” *Governance and Opportunity in Metropolitan America*, 15, 1-19.
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- ¹³ Jenny Schuetz, “No Renters in my Suburban Backyard: Land Use Regulation and Rental Housing,” *Journal of Policy Analysis and Management* 28, no. 2 (2009): 296-320.
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- ¹⁵ Jeffrey Zabel and Maurice Dalton. “The Impact of Minimum Lot Size Regulations on House Prices in Eastern Massachusetts.” *Regional Science and Urban Economics*, Vol. 41, no. 6 (2011): 571-583.
- ¹⁶ Jenny Schuetz, “No Renters in my Suburban Backyard: Land Use Regulation and Rental Housing,” op.cit., p. 304.
- ¹⁷ Edward L. Glaeser and Bryce A. Ward. “The Causes and Consequences of Land Use Regulation: Evidence from Greater Boston.” Op. cit.
- ¹⁸ Jonathan Levine, *Zoned Out: Regulation, Markets, and Choices in Transportation and Metropolitan Land Use*, op. cit.
- ¹⁹ A. J. Cappel, “A Walk Along Willow: Patterns of Land Use Coordination in Pre-Zoning New Haven (1870-1926),” *The Yale Law Journal*, 101(3), 617-642.
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- ²¹ W. A. Fischel, *The Homevoter Hypothesis: How Home Values Influence Local Government Taxation, School Finance, and Land-Use Policies* (Cambridge, Harvard University Press, 2001).
- ²² Fischel, op. cit.
- ²³ Jenny Schuetz, “Guarding the Town Walls: Mechanisms and Motives for Restricting Multifamily Housing in Massachusetts,” *Real Estate Economics*, Vol. 36, No. 3 (2008) pp. 555-586.
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- ²⁶ S. R. Staley, “Ballot-Box Zoning, Transaction Costs, and Urban Growth”, *Journal of the American Planning Association*, Vol. 67, No. 1, pp. 25-37, 2001.
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Chapter 5

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- ¹⁵ The Warren Group, *Banker and Tradesman*, June 13, 2013.
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Appendix A Municipal Scorecard

Municipality	Production and Sales							
	Total Housing Units (2010 Census)	Units Permitted in 2012	Number of Single Family Home Sales January Through June 2012	Number of Single Family Home Sales January Through June 2013	Percent Change in Number of Single Family Sales, June 2012-June 2013	Median Single Family Home Selling Price June 2012	Median Single Family Home Selling Price June 2013	Percent Change in Median Single Family Sales Price, June 2012-June 2013
Abington	6,377	12	68	55	-19.1%	\$264,750	\$245,000	-7.5%
Acton	8,530	59	87	83	-4.6%	\$480,000	\$472,500	-1.6%
Amesbury	7,110	23	48	70	45.8%	\$249,800	\$293,750	17.6%
Andover	12,423	56	152	147	-3.3%	\$490,500	\$545,000	11.1%
Arlington	19,974	89	143	135	-5.6%	\$486,000	\$537,000	10.5%
Ashland	6,609	25	63	74	17.5%	\$290,000	\$326,875	12.7%
Avon	1,769	8	27	20	-25.9%	\$170,000	\$266,950	57.0%
Ayer	3,462	42	21	24	14.3%	\$210,000	\$251,000	19.5%
Bedford	5,368	55	68	63	-7.4%	\$509,500	\$549,900	7.9%
Bellingham	6,365	25	62	68	9.7%	\$239,950	\$249,000	3.8%
Belmont	10,184	27	87	83	-4.6%	\$679,000	\$765,000	12.7%
Berkley	2,187	5	24	16	-33.3%	\$262,000	\$290,000	10.7%
Berlin	1,189	16	8	10	25.0%	\$473,000	\$407,500	-13.8%
Beverly	16,641	86	124	144	16.1%	\$359,450	\$337,500	-6.1%
Billerica	14,481	93	163	155	-4.9%	\$276,000	\$326,000	18.1%
Blackstone	3,628	5	41	28	-31.7%	\$213,900	\$258,625	20.9%
Bolton	1,738	19	31	29	-6.5%	\$420,000	\$415,000	-1.2%
Boston	272,481	1776	562	133	-76.3%	\$340,000	\$408,200	20.1%
Boxboro	2,073	0	13	24	84.6%	\$595,000	\$480,313	-19.3%
Boxford	2,757	4	37	56	51.4%	\$450,000	\$544,450	21.0%
Braintree	14,302	102	144	142	-1.4%	\$320,000	\$348,250	8.8%
Bridgewater	8,336	24	74	78	5.4%	\$279,500	\$300,700	7.6%
Brockton	35,552	32	328	307	-6.4%	\$140,450	\$175,000	24.6%
Brookline	26,448	61	74	84	13.5%	\$1,137,500	\$1,253,500	10.2%
Burlington	9,668	43	86	86	0.0%	\$364,145	\$402,500	10.5%
Cambridge	47,291	392	56	66	17.9%	\$779,500	\$854,000	9.6%
Canton	8,762	73	72	94	30.6%	\$382,000	\$425,500	11.4%
Carlisle	1,758	8	27	34	25.9%	\$625,000	\$682,500	9.2%
Carver	4,600	9	37	15	-59.5%	\$211,400	\$239,000	13.1%
Chelmsford	13,807	18	131	149	13.7%	\$315,000	\$329,900	4.7%
Chelsea	12,621	165	22	21	-4.5%	\$179,950	\$237,000	31.7%
Cohasset	2,980	17	55	48	-12.7%	\$697,500	\$836,000	19.9%
Concord	6,947	137	87	112	28.7%	\$729,000	\$843,250	15.7%
Danvers	11,135	27	94	89	-5.3%	\$341,200	\$340,000	-0.4%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2012	Foreclosure Auctions, 2012	Foreclosure Deeds, 2012	Foreclosure Deeds (2012) as a Percentage of Total Units (2010)	Adoption of Community Preservation Act	Year of Election Approving Community Preservation Act	Expiring Use Units at Risk 2015
Abington	35	29	11	0.17%			0
Acton	19	6	2	0.02%	Y	2002	0
Amesbury	29	21	15	0.21%			0
Andover	18	19	0	0.00%			0
Arlington	16	1	2	0.01%			70
Ashland	29	23	8	0.12%	Y	2002	0
Avon	11	9	7	0.40%			0
Ayer	10	9	6	0.17%	Y	2001	20
Bedford	7	6	2	0.04%	Y	2001	96
Bellingham	57	39	22	0.35%			161
Belmont	8	9	0	0.00%	Y	2010	0
Berkley	17	24	11	0.50%			0
Berlin	5	0	2	0.17%			40
Beverly	51	31	15	0.09%	Y	2012	0
Billerica	85	63	31	0.21%			81
Blackstone	28	18	12	0.33%			48
Bolton	6	0	5	0.29%			0
Boston	271	236	79	0.03%			3802
Boxboro	5	3	1	0.05%			0
Boxford	15	15	5	0.18%	Y	2001	0
Braintree	48	44	13	0.09%	Y	2002	443
Bridgewater	52	22	10	0.12%	Y	2005	0
Brockton	420	342	158	0.44%			383
Brookline	7	4	2	0.01%			99
Burlington	27	21	7	0.07%			113
Cambridge	5	3	0	0.00%	Y	2001	476
Canton	25	11	4	0.05%	Y	2012	25
Carlisle	4	2	1	0.06%	Y	2001	18
Carver	69	47	26	0.57%	Y	2006	0
Chelmsford	50	29	18	0.13%	Y	2001	36
Chelsea	14	0	5	0.04%			101
Cohasset	14	10	5	0.17%	Y	2001	0
Concord	8	6	2	0.03%	Y	2004	30
Danvers	33	31	7	0.06%			83

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2010 Census)	Units Permitted in 2012	Number of Single Family Home Sales January Through June 2012	Number of Single Family Home Sales January Through June 2013	Percent Change in Number of Single Family Sales, June 2012-June 2013	Median Single Family Home Selling Price June 2012	Median Single Family Home Selling Price June 2013	Percent Change in Median Single Family Sales Price, June 2012-June 2013
Dedham	10,191	81	97	120	23.7%	\$320,000	\$367,500	14.8%
Dighton	2,591	24	18	25	38.9%	\$250,000	\$250,000	0.0%
Dover	1,969	12	38	32	-15.8%	\$840,500	\$854,375	1.7%
Dracut	11,351	44	111	98	-11.7%	\$230,000	\$257,500	12.0%
Dunstable	1,098	8	12	16	33.3%	\$370,500	\$375,450	1.3%
Duxbury	5,875	32	112	104	-7.1%	\$517,500	\$567,450	9.7%
East Bridgewater	4,906	33	44	45	2.3%	\$249,950	\$274,000	9.6%
Easton	8,155	21	64	92	43.8%	\$367,250	\$374,000	1.8%
Essex	1,600	4	9	18	100.0%	\$415,000	\$329,500	-20.6%
Everett	16,715	108	49	44	-10.2%	\$225,000	\$256,250	13.9%
Foxborough	6,895	38	67	63	-6.0%	\$330,000	\$355,000	7.6%
Framingham	27,529	19	232	264	13.8%	\$301,500	\$330,549	9.6%
Franklin	11,394	32	103	129	25.2%	\$350,000	\$355,000	1.4%
Georgetown	3,044	16	40	43	7.5%	\$292,130	\$355,000	21.5%
Gloucester	14,557	38	83	76	-8.4%	\$287,000	\$306,500	6.8%
Groton	3,989	15	42	48	14.3%	\$390,000	\$415,251	6.5%
Groveland	2,439	70	28	23	-17.9%	\$296,225	\$340,000	14.8%
Halifax	3,014	14	35	29	-17.1%	\$213,246	\$285,000	33.6%
Hamilton	2,880	3	41	44	7.3%	\$357,500	\$442,500	23.8%
Hanover	4,852	17	59	60	1.7%	\$418,000	\$386,500	-7.5%
Hanson	3,589	3	26	40	53.8%	\$244,750	\$303,500	24.0%
Harvard	2,047	0	16	29	81.3%	\$487,500	\$530,000	8.7%
Haverhill	25,657	42	163	155	-4.9%	\$220,199	\$253,000	14.9%
Hingham	8,953	55	122	127	4.1%	\$665,000	\$633,500	-4.7%
Holbrook	4,274	3	53	62	17.0%	\$228,000	\$239,150	4.9%
Holliston	5,087	29	65	51	-21.5%	\$340,000	\$388,000	14.1%
Hopedale	2,285	1	19	14	-26.3%	\$353,000	\$333,500	-5.5%
Hopkinton	5,128	110	91	89	-2.2%	\$500,000	\$520,000	4.0%
Hudson	7,998	22	64	70	9.4%	\$255,950	\$268,000	4.7%
Hull	5,762	6	53	47	-11.3%	\$295,000	\$305,000	3.4%
Ipswich	6,007	7	48	65	35.4%	\$393,500	\$400,000	1.7%
Kingston	5,010	35	47	61	29.8%	\$258,000	\$331,250	28.4%
Lakeville	4,177	98	59	61	3.4%	\$257,000	\$262,900	2.3%
Lancaster	2,614	40	40	21	-47.5%	\$221,000	\$280,000	26.7%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2012	Foreclosure Auctions, 2012	Foreclosure Deeds, 2012	Foreclosure Deeds (2012) as a Percentage of Total Units (2010)	Adoption of Community Preservation Act	Year of Election Approving Community Preservation Act	Expiring Use Units at Risk 2015
Dedham	53	1	13	0.13%			75
Dighton	27	17	11	0.42%	Y	2010	0
Dover	6	5	1	0.05%			0
Dracut	61	49	17	0.15%	Y	2001	24
Dunstable	6	3	18	1.64%	Y	2006	0
Duxbury	28	0	2	0.03%	Y	2001	48
East Bridgewater	53	32	7	0.14%			0
Easton	43	30	9	0.11%	Y	2001	0
Essex	11	4	2	0.13%	Y	2007	0
Everett	37	1	23	0.14%			160
Foxborough	28	0	6	0.09%			64
Framingham	83	72	31	0.11%			581
Franklin	58	28	13	0.11%			58
Georgetown	23	13	4	0.13%	Y	2001	38
Gloucester	28	33	10	0.07%	Y	2008	80
Groton	13	9	6	0.15%	Y	2004	0
Groveland	12	11	4	0.16%	Y	2004	0
Halifax	31	31	14	0.46%			0
Hamilton	15	5	3	0.10%	Y	2005	0
Hanover	30	23	11	0.23%	Y	2004	0
Hanson	50	26	13	0.36%	Y	2008	0
Harvard	9	69	2	0.10%	Y	2001	0
Haverhill	113	69	33	0.13%			331
Hingham	26	18	5	0.06%	Y	2001	61
Holbrook	46	31	18	0.42%			0
Holliston	18	24	8	0.16%	Y	2001	0
Hopedale	9	9	2	0.09%			0
Hopkinton	16	14	9	0.18%	Y	2001	0
Hudson	34	36	12	0.15%	Y	2007	40
Hull	44	0	15	0.26%			0
Ipswich	19	6	3	0.05%			28
Kingston	33	36	20	0.40%	Y	2005	20
Lakeville	35	2	17	0.41%			0
Lancaster	16	0	8	0.31%			0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2010 Census)	Units Permitted in 2012	Number of Single Family Home Sales January Through June 2012	Number of Single Family Home Sales January Through June 2013	Percent Change in Number of Single Family Sales, June 2012-June 2013	Median Single Family Home Selling Price June 2012	Median Single Family Home Selling Price June 2013	Percent Change in Median Single Family Sales Price, June 2012-June 2013
Lawrence	27,137	22	80	76	-5.0%	\$152,500	\$172,750	13.3%
Lexington	12,019	97	204	198	-2.9%	\$693,500	\$775,000	11.8%
Lincoln	2,617	8	27	26	-3.7%	\$835,000	\$982,500	17.7%
Littleton	3,477	31	39	46	17.9%	\$376,000	\$422,473	12.4%
Lowell	41,431	19	194	193	-0.5%	\$175,000	\$210,000	20.0%
Lynn	35,776	26	167	182	9.0%	\$175,000	\$217,750	24.4%
Lynnfield	4,354	196	57	55	-3.5%	\$422,500	\$495,000	17.2%
Malden	25,161	12	99	96	-3.0%	\$273,000	\$308,500	13.0%
Manchester	2,394	6	32	28	-12.5%	\$685,825	\$698,000	1.8%
Mansfield	8,746	38	71	75	5.6%	\$340,000	\$350,000	2.9%
Marblehead	8,838	16	104	114	9.6%	\$481,250	\$525,000	9.1%
Marlborough	16,416	21	92	126	37.0%	\$263,500	\$278,250	5.6%
Marshfield	10,940	5	134	132	-1.5%	\$318,000	\$336,500	5.8%
Maynard	4,447	12	51	59	15.7%	\$274,500	\$320,000	16.6%
Medfield	4,237	16	81	67	-17.3%	\$549,900	\$569,900	3.6%
Medford	24,046	3	153	113	-26.1%	\$340,000	\$385,000	13.2%
Medway	4,613	5	70	52	-25.7%	\$286,000	\$368,450	28.8%
Melrose	11,751	80	97	97	0.0%	\$381,000	\$405,000	6.3%
Mendon	2,091	6	23	20	-13.0%	\$282,599	\$336,000	18.9%
Merrimac	2,555	8	17	20	17.6%	\$274,900	\$335,250	22.0%
Methuen	18,340	102	167	160	-4.2%	\$220,000	\$245,000	11.4%
Middleborough	9,023	87	84	79	-6.0%	\$225,000	\$245,000	8.9%
Middleton	3,045	44	28	28	0.0%	\$428,500	\$391,250	-8.7%
Milford	11,412	35	98	89	-9.2%	\$255,000	\$280,000	9.8%
Millis	3,158	5	29	28	-3.4%	\$291,500	\$332,950	14.2%
Millville	1,162	3	14	10	-28.6%	\$255,000	\$212,075	-16.8%
Milton	9,700	5	145	128	-11.7%	\$425,000	\$490,500	15.4%
Nahant	1,677	0	11	8	-27.3%	\$386,500	\$390,288	1.0%
Natick	14,121	548	127	166	30.7%	\$387,500	\$422,500	9.0%
Needham	11,122	73	192	185	-3.6%	\$670,000	\$730,000	9.0%
Newbury	2,936	18	38	29	-23.7%	\$420,500	\$384,000	-8.7%
Newburyport	8,264	33	83	93	12.0%	\$360,000	\$490,000	36.1%
Newton	32,648	68	309	313	1.3%	\$755,000	\$855,000	13.2%
Norfolk	3,121	40	39	62	59.0%	\$390,000	\$439,125	12.6%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2012	Foreclosure Auctions, 2012	Foreclosure Deeds, 2012	Foreclosure Deeds (2012) as a Percentage of Total Units (2010)	Adoption of Community Preservation Act	Year of Election Approving Community Preservation Act	Expiring Use Units at Risk 2015
Lawrence	89	79	2	0.01%			364
Lexington	19	14	4	0.03%	Y	2006	72
Lincoln	3	3	1	0.04%	Y	2002	125
Littleton	24	8	3	0.09%	Y	2007	0
Lowell	163	141	76	0.18%			299
Lynn	198	164	85	0.24%			505
Lynnfield	19	7	4	0.09%			0
Malden	64	0	29	0.12%			35
Manchester	8	0	0	0.00%	Y	2005	0
Mansfield	32	31	12	0.14%			0
Marblehead	18	21	7	0.08%			0
Marlborough	55	45	30	0.18%			68
Marshfield	91	48	16	0.15%	Y	2001	0
Maynard	25	19	11	0.25%	Y	2006	0
Medfield	13	10	3	0.07%			0
Medford	43	10	15	0.06%			93
Medway	19	17	7	0.15%	Y	2001	0
Melrose	32	26	13	0.11%			107
Mendon	18	14	6	0.29%	Y	2002	0
Merrimac	16	11	6	0.23%			38
Methuen	122	79	2	0.01%			0
Middleborough	88	1	38	0.42%	Y	2010	0
Middleton	14	17	8	0.26%	Y	2004	48
Milford	52	49	31	0.27%			61
Millis	11	10	6	0.19%	Y	2006	0
Millville	12	7	7	0.60%			0
Milton	48	5	11	0.11%			139
Nahant	7	3	1	0.06%	Y	2004	0
Natick	24	26	11	0.08%			235
Needham	10	12	4	0.04%	Y	2004	20
Newbury	11	5	1	0.03%			0
Newburyport	14	19	5	0.06%	Y	2002	98
Newton	29	30	10	0.03%	Y	2001	75
Norfolk	23	1	6	0.19%	Y	2001	0

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2010 Census)	Units Permitted in 2012	Number of Single Family Home Sales January Through June 2012	Number of Single Family Home Sales January Through June 2013	Percent Change in Number of Single Family Sales, June 2012-June 2013	Median Single Family Home Selling Price June 2012	Median Single Family Home Selling Price June 2013	Percent Change in Median Single Family Sales Price, June 2012-June 2013
North Andover	10,964	54	107	121	13.1%	\$426,500	\$438,000	2.7%
North Reading	5,633	17	70	76	8.6%	\$396,250	\$433,500	9.4%
Norton	6,741	17	59	73	23.7%	\$228,000	\$280,000	22.8%
Norwell	3,675	22	56	73	30.4%	\$475,000	\$560,000	17.9%
Norwood	12,479	17	89	100	12.4%	\$322,750	\$353,500	9.5%
Peabody	22,220	15	161	141	-12.4%	\$297,500	\$315,000	5.9%
Pembroke	6,552	30	64	90	40.6%	\$272,500	\$308,950	13.4%
Pepperell	4,348	13	44	61	38.6%	\$220,500	\$295,000	33.8%
Plainville	3,482	23	30	34	13.3%	\$236,449	\$352,250	49.0%
Plymouth	24,800	185	271	255	-5.9%	\$275,000	\$275,000	0.0%
Plympton	1,043	3	17	11	-35.3%	\$303,500	\$268,000	-11.7%
Quincy	42,838	23	221	248	12.2%	\$300,000	\$330,000	10.0%
Randolph	12,008	25	137	126	-8.0%	\$200,000	\$229,500	14.8%
Raynham	5,066	31	51	35	-31.4%	\$270,000	\$271,800	0.7%
Reading	9,617	13	101	110	8.9%	\$421,000	\$443,000	5.2%
Revere	22,100	20	79	86	8.9%	\$215,000	\$250,000	16.3%
Rockland	7,051	13	56	65	16.1%	\$228,750	\$238,000	4.0%
Rockport	4,223	8	27	25	-7.4%	\$372,500	\$387,500	4.0%
Rowley	2,253	11	32	28	-12.5%	\$389,500	\$420,200	7.9%
Salem	19,130	17	78	103	32.1%	\$235,000	\$295,000	25.5%
Salisbury	4,550	17	29	21	-27.6%	\$248,000	\$245,000	-1.2%
Saugus	10,775	117	74	108	45.9%	\$267,000	\$297,500	11.4%
Scituate	8,035	30	122	106	-13.1%	\$393,375	\$434,000	10.3%
Sharon	6,456	32	99	115	16.2%	\$360,000	\$444,800	23.6%
Sherborn	1,495	5	31	28	-9.7%	\$610,000	\$720,000	18.0%
Shirley	2,427	10	24	22	-8.3%	\$207,000	\$227,000	9.7%
Somerville	33,720	0	50	44	-12.0%	\$412,500	\$520,500	26.2%
Southborough	3,460	11	49	66	34.7%	\$455,000	\$453,500	-0.3%
Stoneham	9,458	14	68	79	16.2%	\$352,000	\$371,000	5.4%
Stoughton	10,787	43	89	104	16.9%	\$255,000	\$287,000	12.5%
Stow	2,526	11	32	44	37.5%	\$422,500	\$446,500	5.7%
Sudbury	5,951	48	127	119	-6.3%	\$620,000	\$675,000	8.9%
Swampscott	5,888	0	55	62	12.7%	\$385,000	\$406,000	5.5%
Taunton	23,896	52	131	167	27.5%	\$215,000	\$225,000	4.7%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2012	Foreclosure Auctions, 2012	Foreclosure Deeds, 2012	Foreclosure Deeds (2012) as a Percentage of Total Units (2010)	Adoption of Community Preservation Act	Year of Election Approving Community Preservation Act	Expiring Use Units at Risk 2015
North Andover	25	14	0	0.00%	Y	2001	0
North Reading	26	0	5	0.09%			0
Norton	46	29	17	0.25%			24
Norwell	15	11	2	0.05%	Y	2002	0
Norwood	35	0	8	0.06%			35
Peabody	90	73	18	0.08%	Y	2001	411
Pembroke	57	56	18	0.27%	Y	2006	0
Pepperell	25	16	7	0.16%			40
Plainville	12	12	5	0.14%			0
Plymouth	254	178	63	0.25%	Y	2002	58
Plympton	10	9	6	0.58%	Y	2008	0
Quincy	88	57	31	0.07%	Y	2006	82
Randolph	126	93	44	0.37%	Y	2005	176
Raynham	28	18	10	0.20%			0
Reading	20	1	4	0.04%			0
Revere	63	2	24	0.11%			0
Rockland	51	5	9	0.13%			0
Rockport	11	7	3	0.07%	Y	2002	30
Rowley	9	7	3	0.13%	Y	2001	0
Salem	53	41	16	0.08%	Y	2012	322
Salisbury	20	8	2	0.04%			0
Saugus	68	57	20	0.19%			0
Scituate	24	25	1	0.01%	Y	2002	0
Sharon	32	32	9	0.14%	Y	2004	0
Sherborn	5	2	0	0.00%			0
Shirley	5	15	13	0.54%			0
Somerville	11	21	4	0.01%	Y	2012	16
Southborough	16	8	5	0.14%	Y	2003	0
Stoneham	29	1	9	0.10%	Y	2013	0
Stoughton	64	53	17	0.16%	Y	2008	0
Stow	5	7	4	0.16%	Y	2001	22
Sudbury	23	18	8	0.13%	Y	2002	0
Swampscott	15	15	5	0.08%			0
Taunton	155	122	72	0.30%			191

Appendix A Municipal Scorecard, continued

Municipality	Production and Sales							
	Total Housing Units (2010 Census)	Units Permitted in 2012	Number of Single Family Home Sales January Through June 2012	Number of Single Family Home Sales January Through June 2013	Percent Change in Number of Single Family Sales, June 2012-June 2013	Median Single Family Home Selling Price June 2012	Median Single Family Home Selling Price June 2013	Percent Change in Median Single Family Sales Price, June 2012-June 2013
Tewksbury	10,848	42	118	115	-2.5%	\$278,450	\$317,000	13.8%
Topsfield	2,175	27	29	28	-3.4%	\$535,000	\$466,250	-12.9%
Townsend	3,385	8	29	34	17.2%	\$205,200	\$226,450	10.4%
Tyngsborough	4,206	15	40	46	15.0%	\$280,250	\$345,000	23.1%
Upton	2,832	7	30	49	63.3%	\$328,000	\$353,000	7.6%
Wakefield	10,500	162	77	81	5.2%	\$372,500	\$390,000	4.7%
Walpole	9,040	34	99	105	6.1%	\$370,000	\$400,000	8.1%
Waltham	24,926	31	154	162	5.2%	\$380,000	\$400,250	5.3%
Wareham	12,256	24	160	128	-20.0%	\$170,000	\$203,000	19.4%
Watertown	15,584	14	42	53	26.2%	\$410,000	\$450,000	9.8%
Wayland	5,021	36	92	74	-19.6%	\$520,500	\$575,500	10.6%
Wellesley	9,189	69	196	158	-19.4%	\$865,000	\$1,026,500	18.7%
Wenham	1,430	2	22	28	27.3%	\$524,750	\$465,250	-11.3%
West Bridgewater	2,669	17	24	29	20.8%	\$227,750	\$279,900	22.9%
West Newbury	1,580	16	16	26	62.5%	\$437,500	\$525,000	20.0%
Westford	7,876	103	97	127	30.9%	\$420,000	\$460,000	9.5%
Weston	4,008	29	77	81	5.2%	\$1,360,000	\$1,172,400	-13.8%
Westwood	5,431	12	85	70	-17.6%	\$600,000	\$557,500	-7.1%
Weymouth	23,480	54	195	184	-5.6%	\$272,500	\$280,000	2.8%
Whitman	5,522	25	53	48	-9.4%	\$230,000	\$235,000	2.2%
Wilmington	7,808	30	111	129	16.2%	\$340,000	\$349,900	2.9%
Winchester	7,986	49	100	118	18.0%	\$748,000	\$807,500	8.0%
Winthrop	8,320	4	32	40	25.0%	\$282,250	\$322,450	14.2%
Woburn	16,309	36	124	115	-7.3%	\$330,000	\$330,100	0.0%
Wrentham	3,869	31	52	50	-3.8%	\$291,753	\$406,250	39.2%
Greater Boston (161 communities)	1,787,857	8,125	13,206	13,184	-0.2%	\$377,752	\$409,950	8.5%

Appendix A Municipal Scorecard, continued

Municipality	Foreclosure Activity				Affordability and At-Risk Units		
	Petitions to Foreclose, 2012	Foreclosure Auctions, 2012	Foreclosure Deeds, 2012	Foreclosure Deeds (2012) as a Percentage of Total Units (2010)	Adoption of Community Preservation Act	Year of Election Approving Community Preservation Act	Expiring Use Units at Risk 2015
Tewksbury	49	31	28	0.26%	Y	2006	0
Topsfield	8	11	19	0.87%			0
Townsend	36	32	3	0.09%			0
Tyngsborough	25	15	18	0.43%	Y	2001	0
Upton	12	1	6	0.21%	Y	2003	0
Wakefield	43	0	4	0.04%			0
Walpole	35	0	8	0.09%			0
Waltham	33	0	9	0.04%	Y	2005	66
Wareham	130	109	60	0.49%	Y	2002	24
Watertown	8	10	4	0.03%			0
Wayland	16	4	0	0.00%	Y	2001	0
Wellesley	8	9	5	0.05%	Y	2002	13
Wenham	2	2	3	0.21%	Y	2005	0
West Bridgewater	15	17	6	0.22%	Y	2008	0
West Newbury	6	6	3	0.19%	Y	2006	0
Westford	27	16	6	0.08%	Y	2001	0
Weston	9	6	1	0.02%	Y	2001	0
Westwood	15	8	4	0.07%			211
Weymouth	141	95	36	0.15%	Y	2005	199
Whitman	49	3	20	0.36%			0
Wilmington	46	1	17	0.22%			0
Winchester	7	11	3	0.04%			0
Winthrop	15	0	7	0.08%			56
Woburn	44	6	22	0.13%			39
Wrentham	23	17	8	0.21%			0
Greater Boston (161 communities)	6,344	4,195	2,097	0.12%			12,130

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

Foreclosure data represent the number of foreclosures on single-family, 2-family, 3-family, and condominium properties.

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

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

Appendix B
Zoning Variables Used in Zoning Impact Analysis

Multifamily Housing Zoning Regulations

- MFALLOW: Is multifamily housing (3+ units/building) allowed in any district in the municipality, and by what process?
- MFALLOW1: Is multifamily housing allowed by right only?
- MFALLOW2: Is multifamily housing allowed by special permit only?
- MFALLOW3: Is multifamily housing allowed by cluster/planned development only?
- MFALLOW4: Is multifamily housing allowed by right and special permit?
- MFALLOW5: Is multifamily housing allowed by right and cluster?
- MFALLOW6: Is multifamily housing allowed by special permit and cluster?
- MFALLOW7: Is multifamily housing allowed by right, special permit, and cluster?
- MFSGPA1: Special permit granting authority is municipal planning board
- MFSGPA2: Special permit granting authority is zoning board of appeals
- MFSGPA3: Special permit granting authority is municipal city council or board of selectmen
- MFSGPA4: Special permit granting authority is municipal planning board and zoning board of appeals
- MFSGPA5: Special permit granting authority is municipal zoning board of appeals and city council or board of selectmen
- MFSGPA6: Special permit granting authority is municipal planning board and city council or board of selectmen
- MFSGPA7: Special permit granting authority is municipal planning board, zoning board of appeals, city council or board of selectmen
- SITEPLAN: If MF is permitted anywhere in the municipality by right, is site plan review required?
- MFPARCEL: If bylaws list a minimum tract or parcel size necessary for multifamily development, what is the size in number of acres?
- MFMINLOT: If the bylaws indicate a minimum lot size required for multifamily housing, what is the minimum number of square feet?
- UNITAREA: If the bylaws indicate a minimum lot area per dwelling unit, what is the area in number of square feet?
- TOWNHOUSE: Are attached single-family houses or townhouses allowed in any district?
- TOWNHOUSE1: Are some attached single-family houses or townhouses allowed in any district by right?
- TOWNHOUSE2: Are attached single-family houses or townhouses allowed in any district by special permit?

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- MFSENIOR: Does the zoning bylaw or ordinance impose age restrictions on multifamily housing in any district?
 - ONLYOLD: Is multifamily housing only permitted in the municipality if it is restricted to seniors?
 - ACCESAPT: Are accessory apartments allowed by right or by special permit in any district?
 - ACCESAPT1: Are some accessory apartments allowed by right or by special permit in any district by right ?
 - ACCESAPT2: Are some accessory apartments allowed by special permit only in any district?

Cluster Development

- CLUSTER: Does the zoning bylaw or ordinance have provisions to allow flexible or cluster zoning for residential development?
- CLUSTER1: Does the zoning bylaw or ordinance have provisions to allow flexible or cluster zoning for residential development by right only?
- CLUSTER2: Does the zoning bylaw or ordinance have provisions to allow flexible or cluster zoning for residential development by special permit only?
- CLUSTER3: Does the zoning bylaw or ordinance have provisions to allow flexible or cluster zoning for residential development by right and special permit?

Inclusionary Zoning

- INCLUDE: Does the bylaw include any provisions for inclusionary zoning?
- INCLUDE1: Does the bylaw include any provisions for optional inclusionary zoning?
- INCLUDE2: Does the bylaw include any provisions for mandatory inclusionary zoning?
- INCLUDE3: Does the bylaw include any provisions for optional and mandatory inclusionary zoning?

Growth Management

- GROWRATE: Does the zoning bylaw indicate a planned or targeted growth rate that limits the annual number of residential permits issued in the municipality?

Chapter 40R

- 40R: Has the municipality at least one Chapter 40R district?

Notes

