The Greater Boston Housing Report Card 2006-2007:

An Assessment of Progress on Housing in the Greater Boston Area

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for

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Center for Urban and Regional Policy
Northeastern UNIVERSITY

October 2007

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

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

The Boston Foundation

The Boston Foundation, Greater Boston's community foundation, is one of the oldest and largest community foundations in the nation, with assets of close to $890 million. In 2007, the Foundation and its donors made more than $90 million in grants to nonprofit organizations and received gifts of more than $90 million. The Foundation is made up of some 850 separate charitable funds established by donors either for the general benefit of the community or for special purposes. The Boston Foundation also serves as a major civic leader, provider of information, convener, and sponsor of special initiatives designed to address the community's and region's most pressing challenges. For more information about the Boston Foundation, visit www.tbf.org or call 617-338-1700.

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Preface

The 2006-2007 Greater Boston Housing Report Card is the fifth such collaboration between Northeastern University's Center for Urban and Regional Policy (CURP), the Boston Foundation, and Citizens' Housing and Planning Association (CHAPA). Each year since its introduction in 2002, the Report Card has examined economic trends and market conditions that affect current and projected housing needs in 161 cities and towns including and surrounding Boston. Data from a variety of public and private sources are analyzed to assess the adequacy of the region's housing production and to measure progress in making housing more affordable through new production, the preservation of existing stock, and government support for housing.

This year's report continues this tradition at a time when housing and its impact on the economy has garnered national attention as a result of the collapse in the subprime lending market, rising foreclosure rates, and growing anxiety about housing values. At the same time housing affordability remains a continuing concern in high cost regions like Greater Boston.

Indeed, Greater Boston is facing a housing conundrum: homeowners and landlords are concerned about possible depreciation in the value of their properties yet at the same time the level of affordability has improved only marginally after a long run-up in prices and rents. The challenge is how to protect against a collapse in housing values while at the same time assuring sufficient new housing supply to provide more affordable options for low-income households and for young workers and their families who are just beginning to think about homeownership in Greater Boston.

Background

Housing production goals for the region were originally established in a 2000 CURP report commissioned by the Roman Catholic Archdiocese of Boston and the Greater Boston Chamber of Commerce. That report, *A New Paradigm for Housing in Greater Boston*, warned that the region's high housing costs and inadequate inventory were threatening its economic competitiveness. The authors appealed for an ambitious social compact to increase the supply of housing, calling it both a moral imperative and an economic necessity.

The *New Paradigm* report estimated that 15,660 units of housing were needed annually in the 127 municipalities that comprised the Boston metropolitan area to meet housing needs and moderate the escalation in rents and home prices. Existing production was generating only about 8,500 units a year, of which an estimated 1,300 were designated for occupancy by low or moderate income households. That left a shortfall of some 7,200 units per year. The equivalent number of units required for the 161 communities tracked in the original Housing Report Card was estimated to be 18,000 units. With actual production at just over 10,000 units, the shortfall in these communities was roughly 8,000 per year.

In 2005 CURP re-evaluated its estimate of how much new housing was needed in light of the region's increased production, sluggish economic performance, and faltering demand, but concluded that Greater Boston still needed to increase production of housing that would be attractive, affordable, and accessible to a growing workforce. Much of the recent increased production, it noted, had been targeted to households at the highest levels of income and/or those over the age of 55. Drawing a parallel to Boston's recovery from the last recession, which began slowly but accelerated rapidly, CURP reaffirmed its estimate that a total of 18,000 units per year were needed in the 161 cities and towns it covers.

Since that time, employment growth in Greater Boston has continued to be sluggish and the region's population has not grown at all. If this trend continues, demand for new housing may subside and the shortfall in housing will be less than originally forecast in 2000 and again in 2005. But accurate forecasting of population and employment trends in the current environment is all but impossible given the many economic and political uncertainties that will shape the outcome. What we do know from a growing body of research is

that a lack of housing leading to higher prices can stymie economic growth and limit the ability of a region to retain or attract young working families.

What we also know with certainty is that preparing for a variety of possible employment and population outcomes for the region is critical and that it involves, at a minimum, three components:

1. A zoning and regulatory framework that allows for adequate new production so that the region's housing supply can be increased in a timely and predictable manner if demand warrants, mitigating the region's age old problem of long delays in getting housing built when demand increases;
2. An adequate supply of housing for a cross section of ages and incomes, with particular emphasis on homes that will be attractive to young working families, a group that is critical to the Commonwealth's economic prosperity; and
3. Sufficient funding to ensure that low-income households can find permanent housing that is safe and affordable.

Purpose

The purpose of this Report Card is not to advocate for particular housing policies, but to provide an objective measure of the region's progress toward meeting its housing needs. It does so by performing the following tasks:

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

By identifying trends early on and clarifying their impact, the authors and sponsors hope that the Housing Report Card can galvanize private and public support for meeting the housing challenges faced by the Greater Boston region.

A Note on Geographic Definitions and Data Sources

Some data are available at the municipality level for each of the 161 cities and towns tracked by the Housing Report Card, but most demographic and economic data – particularly in the years between the decennial censuses – are reported only for larger geographic areas such as a state, county, or metropolitan area. Often, metropolitan area boundaries are modified in the years following a decennial census to reflect shifts in population and commuting patterns. As a result of the most recent changes, the data reported in the U.S. Census Bureau's *2005 American Community Survey* (ACS) for the Boston metro area as a whole are not directly comparable to the 2002-2004 ACS data, which had been reported in earlier versions of the Housing Report Card. To preserve the ability to monitor trends over time *for the region as a whole*, this year's report presents demographic data for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties. These five counties encompass 147 municipalities, which we now refer to as the Greater Boston region. The original 161 cities and towns had a 2000 population of 4,206,809; these 147 have a population of 4,001,752, or 95 percent of the population of the original communities. In reporting progress on a town-by-town basis, however, we have continued to include the original 161 municipalities. (See the map on the inside of the back cover of the report.)

For More Information

Some topics that were explored in depth in previous Report Cards are referenced here, but not discussed in detail. The Housing Report Card was designed as a series, and in the interest of efficiency and readability, we try not to repeat our discussion of topics and trends that do not change significantly from year to year. Readers can find additional information on historic trends in state and federal support for low-income housing in the 2002 report; comparative information on the cost of living in the nation's major metropolitan areas is included in the 2004 report; and an expanded discussion of the link between housing costs, employment, and population is provided in the 2005-2006 report. All of the Housing Report Cards, including this current one, are available at www.curp.neu.edu., www.tbf.org, and www.chapa.org.

Executive Summary

From 1995-2005, soaring home prices provided homeowners in Greater Boston with a rapidly appreciating asset and developers with a good reason to increase housing supply. However, that new housing supply never materialized, due—in large part—to restrictive local zoning and land use controls and protracted permitting processes. For this reason, home prices soared and rents rose rapidly for an entire decade (1995-2005), making housing less and less affordable to more and more households. This prompted many young working families to leave the region, dissuaded others from coming here, and discouraged business investment in the region. The extraordinarily high cost of housing helped stymie employment growth and economic development more generally. While the national economy recovered quickly from the 2000-2001 recession, regional employment increased so slowly that even today—six years later—Massachusetts has over 100,000 fewer jobs than it did before the recession began.

The current situation is not advantageous to anyone—homeowners, developers, potential homebuyers, or renters. Home prices have declined just enough to create anxiety among current homeowners. The softness in the housing market has provided only minimal relief to those who would like to buy a home here and no relief whatsoever to low and moderate income renters. Following the 160 percent increase in home prices between 1995 and 2005, the median house price in the region is now $371,000, just 6 percent below its 2005 peak. And after declining modestly between 2001 and 2004, area rents have stabilized and, in a number of submarkets, increased over the past two years.

The combination of high housing costs and stagnating household income means that affordability remains a serious problem for many homeowners and renters despite the softening housing market. As of 2006, nearly 40 percent of homeowners with mortgages were paying more than 30 percent of their gross income for housing, up from just 27 percent in 2000. More than half of renters in 2005 were paying more than 30 percent of their income in rent, up from 39 percent in 2000. Indeed, a quarter of renters, and one out of seven homeowners, were paying *half or more* of their income to cover their housing costs.

This poses a challenging housing conundrum: how do we begin to make housing more affordable over the long term, at a time when falling housing prices are creating increasing anxiety among homeowners and discouraging developers from increasing housing supply. Moreover, how do we ensure that new development, once demand recovers, is harmonious with its surroundings, sustainable, and enhances the well being of existing and future residents.

Key Findings

Economic and Demographic Trends in the Greater Boston Region

Employment Begins to Recover, Slowly

For the first time in five years, the Commonwealth is witnessing economic activity comparable to the national average—but mostly because growth in the national economy has been slowing since early in 2006. Massachusetts added 35,000 new jobs (1.1 percent) in 2006, slightly below the national rate, while in the first half of 2007 it added 29,200 jobs, growing somewhat more rapidly than the nation. Still, Massachusetts employs 102,000 fewer people today than it did in February 2001, the peak before the latest recession. The pace of employment growth in Massachusetts is such that the state will not get back to the employment levels that existed before the 2000-2001 recession until 2011. What is more troubling, this weakness is largely the result of a lackluster performance in the very industries that we have believed to be the key sectors for our future prosperity: computer services, health care, and education.

Employment growth in the Boston metro area followed a pattern similar to the state's: 27,300 new jobs were created in 2006, representing a rate of growth of 1.1

percent, and another 17,100 were added in the first six months of 2007. The gap in the employment growth rate between the Boston metro area and the U.S. has narrowed since 2002, but jobs are still being created faster nationwide than here.

Interest Rates, Housing Prices, and Rents

Declining mortgage interest rates—from 8.21 percent in January 2000 to a 40-year low of 5.23 percent in the summer of 2003—encouraged millions of households nationwide to become homeowners, including many in Greater Boston. As a result, the short-term demand for housing increased sharply. In much of the country this increased demand was accompanied by a rise in housing starts, but in Massachusetts there was no corresponding increase in the supply of single family homes. Barriers to new construction in many Commonwealth communities precluded developers from building housing fast enough to meet the new demand, even as housing prices soared.

Late in 2005 interest rates began to creep up, reaching 6 percent by the end of the year, and averaging 6.4 percent in 2006. The same monthly payment that enabled a homebuyer to obtain a $300,000 mortgage at 5.7 percent in June 2005 would only cover a $270,000 mortgage at June 2007's 6.7 percent rate. With interest rates climbing, the economic outlook uncertain, and consumer confidence faltering, demand for new housing slowed. According to the Office of Federal Housing Enterprise Oversight, Massachusetts experienced negative appreciation—falling prices—for the year ending March 2007, a distinction shared by only one other state, Michigan.

Population, Income Trends, and Migration

After experiencing back-to-back years of population decline, Massachusetts registered an incremental (1/10 of 1 percent) increase in population between July 2005 and June 2006, and the state's population is now 2.2 percent higher than it was at the time of the 2000 Census. The 161 cities and towns covered by the Housing Report Card had fared even worse, recording population losses for three consecutive years. This trend, too, was reversed between 2005-2006, also with a 1/10 of 1 percent increase. It is important to note, however, that it is foreign immigration that continues to offset domestic outmigration.

Although Massachusetts households enjoy one of the highest average incomes in the nation, income growth has stagnated here, and is likely to grow more slowly than the rest of the nation in 2008. So even with housing prices slipping, affordability for existing and would-be homeowners and renters continues to pose a serious threat to the region's prosperity.

At the beginning of the present decade, Massachusetts was experiencing an annual domestic net out-migration of about 23,000 residents. Since 2003, the net outflow of residents has ranged between 50,000 and 62,000 per year, and the largest loss of population has been in the 20-24 and 25-34 year old cohorts. Housing affordability is a key factor in the growing rate of out-migration from the Commonwealth.

Production of New Housing

Housing Starts Drop Locally and Nationally

After three years of double-digit increases, the number of new housing units permitted in Greater Boston dropped by nearly 12 percent in 2006. Single family production experienced the most acute drop, falling by more than 25 percent. Multifamily production fell by just over 2 percent. This performance mirrored the national trend, which saw permits overall fall by almost 15 percent with single family permitting down by 18 percent and multifamily by 1.3 percent.

At the current rate of permitting, an even sharper drop in new housing permits is projected for 2007. Nationally, overall permitting during the first six months of the year was down by nearly 26 percent compared to the same period in 2006, and analysts are estimating that 2007 will be the worst year for housing starts in more than a decade. Single family permitting was off by nearly 29 percent and multifamily by 14 percent. In Massachusetts, permitting is likely to drop to a level not seen since 1991. Through June, single family permitting in Greater Boston was down by 25 percent and multifamily by 26 percent. On an annual basis, this will put the number of single family homes permitted at its lowest level in at least 28 years.

Housing Production by Location

Since 2000, one third of the region's new housing production has occurred in just nine cities and four towns out of the 161 Greater Boston communities. Municipalities that led the region in permitting new

housing in 2006 achieved their numbers by approving large multifamily developments. Most also included affordable units in the mix, either because the new developments were permitted under 40B—and thus required a low income set aside—or because the municipality had an inclusionary zoning requirement. Danvers, North Andover, Billerica, and Newton are examples of the former; Boston, Cambridge, and Watertown are examples of the latter. Major 2006 developments in Quincy, Hingham, and Plymouth are age restricted to senior citizens.

As has been the case for several years, luxury condominiums and apartments in the hub of the region, suburban development permitted under Chapter 40B, age-restricted housing, and a scattering of single family homes built at medium and low densities in the outer suburban ring or on infill lots in mature suburbs, comprised the bulk of the 2006 new production. Disproportionately these new homes are targeted to the high end of the market and/or to those aged 55 or over.

Type of Housing Produced

Many of the 40B developments include moderately priced single family homes—in their market rate component as well as the "affordable" units reserved for low and moderate income households—but most of the other non-age restricted single family production is geared to the trade-up market, and priced accordingly. The production of other entry-level homes for young families is practically non-existent in the close-in suburbs. The prices of new single family homes drop the further one moves from Boston, but even in Worcester and Bristol Counties and New Hampshire's Rockingham and Strafford Counties, single family production was down in 2006.

The 2006 multifamily production, while down slightly from 2005, was the second best performance in two decades. The softness in the condominium market did result in some projects being put on hold and several condominium properties that were completed in 2006 are being marketed, at least in the short term, as rentals. Much of the new multifamily production, both rental and homeownership, is concentrated in Smart Growth locations, including formerly vacant or underutilized land and buildings in Boston and other inner core cities, surplus state properties in suburban locations, and sites adjacent to transit stations and commuter corridors.

Student housing, a major contributor to housing capacity in a region with as many colleges and universities as Boston, has risen in the past few years. In 2006 and the first quarter of 2007, construction began on more than 3,200 student units, the equivalent of approximately 812 new apartments.

Septic Systems, Lot Sizes, and Housing Prices

Greater Boston's reliance on private septic systems and wells accounts for much of the difficulty in constructing affordable single family housing. These systems are land-intensive, requiring large lot sizes that tend to preclude the construction of lower-priced units. Forty-two of the towns in Greater Boston have no public sewer system at all; another 17 have sewer systems that serve fewer than 25 percent of the homes in the community. Among more than 45 major metro areas, only Providence, Rhode Island and Birmingham, Alabama have a greater reliance on septic systems.

Rents, Home Prices, and Affordability

Greater Boston's Rental Market

Rental vacancies in the Boston metropolitan area in 2006 were in the normal range of 5-6 percent. The U.S. Census Bureau estimated the average annual vacancy rate at 5.3 percent and Reis, Inc., the principal source used by the Report Card to track historic rent and vacancy trends, pegged it at 5.03 percent. Both sources report that the vacancy rate has remained in that range through the first half of 2007.

Despite vacancy rates in the normal range and an increase in rental production, the asking price index for rental units rose 4.1 percent in 2006 to $1,644. Effective rents—the cost to the tenant after taking into account price concessions, etc.—rose by 4.5 percent to $1,565, according to Reis, Inc. This rise in rents is likely due, in part, to an increase in the renter population in 2005—the first since 2000—adding to demand for rental housing.

While the strength of the rental market varies by neighborhood and municipality, the general decline in rents experienced between 2001-2004 appears to be a thing of the past. Rents have stabilized and, in a number of sub-markets, are on the rise again. With rent levels among the highest in the nation, and vacancies within the normal range, it is unlikely that rents will

drop substantially from their current high levels, and a pressing shortfall exists for low-income renters.

Rental Affordability

The number of renter households paying more than 30 percent of their income for rent rose by nearly 9 percent between 2004 and 2005, and the number paying in excess of 50 percent jumped by 36 percent, affirming the anecdotal evidence that many of the region's renters are worse off today than they had been at the market's peak. Since most cost burdened tenants are those with the lowest incomes, they are left with little for other basic necessities like food, health care and childcare.

In its most recent annual assessment of least affordable rental markets, *Out of Reach 2006*, the National Low Income Housing Coalition (NLIHC) ranked Massachusetts 3rd, after Hawaii and California. The Commonwealth has held one of the top four positions since 2000. The Boston-Cambridge-Quincy metro area ranked 6th. (It has ranked between 5th and 7th since 2000.)

Home Sales and Prices

On the homeownership side, home sales in Massachusetts declined sharply in 2006, and they are down again through the first half of 2007. The state has now experienced declining sales in seven of the past eight quarters. Home prices, too, have fallen in each of the last six quarters statewide, most recently dropping by 1.4 percent in the second quarter of 2007.

In the Greater Boston region, the number of single family home sales in 2006 fell 15 percent from 2005 levels with the median price down 4.3 percent. Single family sales continued to slide during the first six months of 2007, falling another 6.3 percent. The median price dropped by 2 percent to $371,000, 6 percent below its 2005 peak.

The median price of single family homes sold in 2006 fell in 130 out of the 161 communities (about 81 percent) tracked in this report, and a similar pattern has emerged through the first half of 2007. This across-the-board price drop is a reversal of the trend in previous years, when prices increased year-over-year in more than 90 percent of the region's municipalities.

Greater Boston and the National Context

The real estate industry had predicted that home prices would stabilize by the end of 2006 and would begin to climb thereafter, but many analysts now expect the weakness in the market to continue into 2008 as excess inventories get absorbed. Reducing the overhang will be complicated if foreclosure sales bring added inventory to the market, if lenders tighten credit standards because of concerns about rising mortgage default rates, or if mortgage interest rates rise.

Unlike parts of the country that experienced unbridled overbuilding, Greater Boston does not have a substantial unsold inventory of newly built homes but it is witnessing a standoff between anxious would-be buyers, who think the market may drop further, and would-be sellers with inflated expectations of their property's value. New construction constitutes only about 10 percent of the home sales in any given year in Massachusetts, compared to 13-15 percent nationally. Still, the current slowdown is affecting the state's homebuilders. Much of the recent production has been targeted to empty nesters, and in many cases, restricted to households with at least one member over age 55. Units in this market segment cannot move unless potential buyers can sell their existing homes.

After appreciating at a faster rate than the national average between 1995 and 2002, housing prices in Massachusetts have trailed the national rate in the years since, appreciating by 44 percent, compared to the national rate of 54 percent.

Home Ownership Affordability

That Boston was the 3rd most expensive home buying market in the nation in 2001, and now ranks #15, is scant comfort to those who wish to purchase a home here. Affordability did improve modestly in 2006 as falling prices more than offset rising interest rates, but future interest rate increases could easily reverse these gains.

The number of communities where the median single family home would be affordable to a family earning the median household income of that community increased in 2006 and again through the first five months of 2007, to 30 and 46, respectively, after having dropped from 148 in 1998 to just 19 in 2005. Still, housing is not affordable by this measure in nearly three-quarters of Greater Boston communities.

Affordability for first-time homebuyers also increased in 2006 and 2007, but that means that now just six communities out of 161 are now affordable to these households, up from zero.

The Rise of Subprime Lending in Greater Boston

The subprime lending story is a national one, and the growing problems in the industry are sending tremors throughout the economy. Between 2001 and 2006, the rate of subprime lending in Massachusetts increased by nearly 700 percent. By contrast, the rate of prime lending increased by just 28 percent during the same period.

In the City of Boston, home loans to white and Asian borrowers dropped in 2005 (the most recent year for which data are available), while loans to Black and Latino homebuyers rose sharply, with almost all of the increase coming by way of subprime loans. Subprime loans account for a disproportionate share of the loans made in low-income minority neighborhoods in Boston.

Overall, subprime lenders accounted for 16.2 percent of total home-purchase loans in the 101 Greater Boston cities and towns for which such data are available, but more than one-third of all loans in Everett, Revere, Chelsea, Randolph, Lynn, and in certain Boston neighborhoods, all communities with substantial percentages of black and/or Latino households and with relatively low median family incomes. Because of the increasingly high levels of default associated with subprime mortgages, this clustering is worrisome.

The Growing Risk of Subprime Foreclosures

According to the most recent quarterly delinquency survey by the national Mortgage Bankers Association, one subprime borrower in seven in Massachusetts is at least 30 days past due on mortgage payments. More than 6.5 percent are in the process of being foreclosed, and many more are likely to follow suit when their adjustable rate mortgages are reset and/or low introductory rates expire. This is in marked contrast to the situation reported just a year and a half ago. At that time, Massachusetts mortgage delinquencies and foreclosures, while rising, were well below the national average.

The full impact of the subprime lending problems on the national and local economies is not yet known, but the effect on individual homeowners, their tenants (if the property was a two- or three-family home), and communities with high concentrations of these loans could be devastating.

Production of New Affordable Housing

Overview

There were 2,422 new affordable housing units produced in 2006, 3.4 percent fewer than in 2005 and the first year-over-year drop since the Housing Report Card began tracking in 1999. Still, the 2006 affordable production was the second highest in at least a decade and represents a tripling of the production levels achieved in 1999 and 2000.

More than 40 percent of the region's communities permitted at least some affordable housing in 2006, the same as in 2005, and double the number that did so in 2000. The comprehensive permit (Chapter 40B) was used by nearly three-quarters (50) of these. Thirteen communities gained units through inclusionary or incentive zoning, or negotiation, and nine employed traditional subsidies.

Creating Affordable Housing in a Declining Market

While the number of new affordable units in 2006 dropped only slightly from 2005, there were important shifts in how these projects were being undertaken, associated with the overall softening of the real estate market. Massachusetts had become increasingly dependent on 40B to sustain its affordable housing production in recent years. Between 2002 and 2005, 40Bs accounted for 73 percent of the new affordable units built outside the City of Boston. In 2006, as overall production dropped, so did new development under 40B. While the comprehensive permit continued to play a dominant role in new affordable production in 2006, it was utilized in just 48 percent of the units outside the City of Boston.

Affordable Housing Leaders and Production Tools

In 2006 the traditional low-income housing developers, using a variety of tools and programs such as federal and state grants and tax credits, represented the largest share of the region's affordable housing production.

In addition to the housing created using traditional subsidies and 40B, new affordable units were

constructed in 2006 by developers of market rate housing who agreed to set aside affordable units in market rate developments under inclusionary mandates and a modest number of units produced by nonprofit organizations like Habitat for Humanity that do not rely on government funding. The 2006 inclusionary units were almost entirely attributable to developments in Boston and Cambridge, and the redevelopment of a surplus state property in Lexington. Also in 2006, construction began on the first new affordable units in 40R Smart Growth development districts, in Chelsea and Haverhill.

More than a quarter of the 2006 affordable housing production in the region—630 units—was constructed in the City of Boston. Other 2006 affordable housing leaders include Cambridge, Quincy, Lexington, Dedham, Peabody, Haverhill, and Chelsea. Currently DHCD credits 31 Greater Boston municipalities with having at least 10 percent of their housing affordable, with six having achieved that milestone since last year's Housing Report Card.

Preserving Existing Affordable Housing

Greater Boston's record on preserving its existing public and subsidized inventory was mixed in 2006-2007. Some 300 low-income units that had been built, or substantially rehabilitated, under federal or state subsidy programs between 1965 and 1985 were preserved. However, Boston, Brookline, Somerville, Lawrence, Braintree, and Andover all lost units as similar developments were removed from the subsidized inventory when their owners opted out of the programs that had restricted occupancy to low-income tenants. (The low-income tenants are rarely evicted when properties convert to market rate development—they are protected with rent subsidies for as long as they remain in their homes—but once they leave, that unit is no longer protected.)

Housing professionals had long contended that the state-funded public housing inventory was underfunded, and in 2006 the Boston, Brookline, and Cambridge Housing Authorities filed suit in Suffolk Superior Court to compel the Commonwealth to meet its obligations to support the operation and maintenance of its public housing units. The plaintiffs sought to obtain funds that had been authorized but not distributed, and also to secure sufficient and predictable funding in the future. When the newly elected Governor and his leadership team released millions of dollars owed to these three housing authorities and others, and pledged to improve conditions and funding, the suit was dropped.

Public Spending on Housing and Support for Housing

The federal Department of Housing and Urban Development (HUD) spends some $2 billion annually in Massachusetts, but only a small portion of this is funding that flows through the state's Department of Housing and Community Development (DHCD). Most of the $400 million in federal funds that does flow through DHCD goes to honor existing commitments to provide rent subsidies or home heating assistance, not new production.

In FY2007, the total spending over which DHCD had oversight included $391 million from federal sources and $258 million directly from the state. In addition, the state's quasi-public agencies, MassDevelopment and MassHousing, provided nearly $400 million in financing to support low- and moderate- income housing development and preservation in Massachusetts.

State Funding Up, Federal Funding Down

Federal support for affordable housing was down by seven percent from 2006, a drop of nearly $29 million. Funding for the HOME Program and the Community Development Block Grant Small Cities Program fell by $5 million and $13.6 million respectively, and funding was down in a number of home heating and weatherization accounts.

State spending on Housing and Community Development (DHCD) programs has increased each year since 2004, when it reached a nine-year low of $188 million. In 2008, the budget for DHCD programs will be $199 million. This represents the highest level of support from the state since 1991. In inflation adjusted dollars, however, the current spending level is 23 percent less than it was in 1991, and only half the $410 million committed in 1989.

Other State Support for Housing

In its first six months in office, the Patrick administration achieved some important milestones on the housing front. These include reorganization of the state's housing related functions and, in partnership with the legislature, securing commitments of additional funds for housing programs. Among the organizational changes, DHCD was elevated to cabinet status within a new Executive Office of Housing and Economic Development, and a Development Cabinet was created in the Governor's office. Chaired by the Governor, the Cabinet includes all of the major secretariats with responsibilities for housing, economic development, and labor, education, and transportation.

The Patrick administration recently announced a five-year capital investment plan, which would raise the State's bond cap from $1.5 billion in 2008 to $2.0 billion in 2012. The plan includes more than $170 million in funding for public housing and private affordable housing development in FY08, a 33 percent increase over the prior year.

Update on Smart Growth Initiatives

In recent years the Commonwealth has stepped up its efforts to encourage "smart growth" development with an array of financial and regulatory incentives, including financial assistance to communities that are hosting large scale new development in smart growth locations. Foremost among these new initiatives is the state's new Smart Growth Zoning law, Chapter 40R, and its companion school funding insurance program, Chapter 40S. In a short period of time, these laws have established an impressive track record. Just 18 months after Chapter 40S's passage, 15 communities had approved 40R smart-growth districts.

These districts have the potential of creating 5,700 new housing units across the state, with 4,800 in Greater Boston. In addition to the approved districts, more than 30 communities statewide (25 in Greater Boston) are actively considering them and/or have identified specific developments, with the potential of creating another 7,000 housing units, an encouraging response to a new initiative.

Smart growth planning received another public boost in May 2007, when the Metropolitan Area Planning Council (MAPC), the regional planning agency for most of the communities covered by the Housing Report Card, issued *Metro Futures*, its blueprint to guide land use in the region between now and 2030. Built on the principles of smart growth, the plan calls for concentrating new residential development in areas where the infrastructure is in place to sustain it. The plan is consistent with the Commonwealth's sustainable development principles and complements the goals of 40R.

Conclusion

Performance Against New Paradigm Goals

After achieving in 2005, 90 percent of the 18,000 unit per year housing production target established five years earlier in the *New Paradigm* report, performance against goal fell in 2006 to just 81 percent. Market rate production, which had posted year-over-year gains through 2005, retreated to below its 2004 level. New subsidized housing, while still well above its 2002-2004 performance was down by 4 percent from 2005. Only student housing, among the three tracked sectors, gained ground in 2006. At current permitting levels in 2007, it is possible that only about 55 percent of the original *New Paradigm* target will be reached by the end of this year.

The original target represented an estimate of how much housing was needed in Greater Boston to bring supply and demand into alignment given reasonable estimates of population and job growth. With slower growth than originally projected in both, housing demand has been weaker than expected so housing prices have not risen appreciably faster than general inflation and have actually declined over the past two years.

How Much is Enough?

The Housing Report Card was developed to evaluate current performance in meeting the region's housing needs. It is beyond the scope of this project to predict what might be required in 5, 10, or 15 years, especially given the uncertainty in the national housing markets and the regional economy. There is a danger in over-building—as other regions of the country are learning—just as there is in under-producing housing, as we chronically do in Massachusetts. The question we posed for this year's Housing Report Card is whether

the original housing target of 18,000 new units per year in Greater Boston is still valid.

To test this, we relied on the five year economic development forecast of the New England Economic Partnership (NEEP), the region's foremost economic forecasting organization.

Based on their best forecast of employment growth between 2007 and 2012 and assuming 1.3 workers per household, we estimate that we will still need about 18,000 new units of housing per year over the foreseeable future. Obviously, if economic growth is much slower than NEEP predicts, housing demand will be lower. If the pace of economic growth picks up, housing needs will be higher. But if Greater Boston enjoys the same job growth predicted by NEEP for Massachusetts between 2007 and 2012, 18,000 new units per year continues to be right on target for the region to adequately house what should be a growing workforce.

Challenge Moving Forward

What will be essential in any case is that state and local governments work together to assure that new production—however much is required—can be brought on line at more reasonable prices, and in a timely, predictable manner. At a minimum, this means ensuring a zoning and regulatory framework that allows for adequate new production so that the region's housing supply can be increased promptly as demand warrants. It means assuring an adequate supply of housing for a cross section of ages and incomes, with particular emphasis on homes that will be attractive to young working families, a group that is critical to the Commonwealth's economic prosperity. And finally, it means providing sufficient funding to ensure that low-income households can find permanent housing that is safe and affordable. We need to solve this housing challenge or risk further deterioration in the region's economy.

1.
Introduction

The Greater Boston Housing Report Card series was launched in 2002 to measure the progress the region was making against housing production goals that had been established three years earlier in a report prepared by Northeastern University's Center for Urban and Regional Policy at the behest of business and community leaders. That report, *A New Paradigm for Housing in Greater Boston*, had warned that the region's high housing costs and inadequate inventory were threatening its economic competitiveness, and the authors called for an ambitious five-year effort to increase housing starts by 80 percent over existing levels.

Housing production had not kept pace with demand as Boston's economy surged into overdrive in the mid-1990s following a prolonged economic recession in 1990-1991, and the region entered the 21st century short some 38,000 housing units. This was the number of additional units required to bring the housing market back into balance, lifting vacancy rates to national norms. Boosting production by this amount, the *New Paradigm*'s authors theorized, would bring home price appreciation into line with the overall rate of inflation. According to conventional economic theory, the market *should* have responded to the burgeoning demand by producing the required additional housing. It did not, and rents and home prices—already among the highest in the nation—skyrocketed.

Just three months after the original *New Paradigm* report was issued, Boston—along with the nation—sank into recession. While the nation was officially in recession for just eight months, the Massachusetts recession lasted for 27 months (December 2000—March 2003). The Commonwealth as a whole and the Greater Boston region lost population and their economies have continued to grow more slowly than the nation as a whole. Nonetheless, housing prices continued to rise steeply between 2000 and 2005, while rents remained at near all-time highs. This was despite the fact that during this period, housing starts increased by more than 50 percent, albeit from very low levels. By the second quarter of 2006, however, the prolonged slump in job growth and essentially zero population growth led to Boston's housing and rental vacancy rates rising to near normal levels. As a result, rents remained relatively stable, and home prices were finally dropping.

Why then, are we still talking about a housing crisis? There are at least three reasons:

- **Affordability** Housing affordability remains a persistent problem. While the situation is most acute for extremely low-income households, the region's high home prices make it difficult to attract and retain workers across all income levels.
- **Efficiency** The process of bringing new housing to market in a timely and efficient manner when demand does rise remains thwarted by the state's fragmented system of land use regulation and a tortuous permitting process.
- **Sustainability** Absent a road map to guide new development in a rational, equitable, and sustainable manner, haphazard growth threatens to undermine the region's quality of life.

Highlights of the 2005-2006 Report Card

Overview

Last year's Report Card concluded that the Commonwealth and the private sector had taken some important steps to address the critical housing issues the state, and the Greater Boston Region in particular, have faced for more than a decade. Increased production of new housing, including units built under the state's comprehensive permit statute, Chapter 40B,[1] had expanded the housing supply and helped bring vacancy rates closer to normal levels. Additional resources had been channeled into low-income housing production. Attention was focused in the state on the need to encourage new development in sustainable locations—to grow "smarter"—and new tools and incentives, notably Chapters 40R and 40S, had been put in place to encourage this to happen.

In terms of overall housing production in 2005, the region achieved 91 percent of the annual target estab-

lished in the 2000 *New Paradigm* report. Affordable housing production—defined as housing that qualifies for inclusion on the State's Subsidized Housing Inventory *and* is restricted to occupancy by low-income households—was up as well. The majority of the new affordable units, however, were being created under Chapter 40B and, to a lesser extent, inclusionary mandates in a handful of communities. Without additional subsidies to reduce the cost to produce and/or lower the price paid by the tenant or homeowner, units created in this way would not necessarily reach those with the greatest need. As production tools, 40B and inclusionary zoning require strong and rising market conditions unless they are accompanied by subsidies.

Even with the substantial new production, last year's Report Card cautioned that additional financial resources and a combination of appropriate incentives and sanctions were still required for Greater Boston to grow and maintain the attractive, affordable, and sustainable housing supply so essential to the region's economic vitality.

Additional Findings from 2005-2006

During the first nine months of 2005, many of the indicators monitored by the Report Card had performed much as they had in 2004: job growth remained sluggish; the region's economy continued to improve, but slowly; the rental market was relatively stable; and home prices continued to rise, but more slowly than in prior years, and more slowly than in the nation as a whole. Inventories of existing property were increasing, and more new units were being permitted as a logjam of housing developments that had been stalled in the planning and permitting process moved into construction. The upturn in production, however, was occurring just as the market was softening. By the end of 2005, with interest rates rising and inventories increasing, consumers were taking a more cautious approach to home buying.

The emerging story by the end of 2005 was a sea change in housing market conditions that left pundits debating whether the long anticipated correction was a bubble bursting, or simply an overheated market deflating. Home sales began to slow in the second quarter of 2005 and fell each succeeding quarter compared to the corresponding period a year earlier. The rate of home price appreciation dropped from an 11.8 percent year-over-year increase in the first quarter of 2005 to only 1.5 percent by the fourth quarter. By the end of the first quarter of 2006, the median single family home price had actually declined from its first quarter 2005 level, the first such price decline since 1992. The drop became more pronounced in the second quarter of 2006.

The rental market, on the other hand, showed signs of strengthening at the end of 2005 with rents stabilizing after several years of price declines. But with more new production queued up than at any point in the preceding 15 years—both rental and ownership—and much of it highly concentrated in a few locations or in specific market segments (e.g., high end rentals, luxury condos, age restricted housing), the likelihood was growing that at least some of that new production would be off-cycle by the time it was brought to market. This fear began to put a damper on plans for additional development in virtually all segments of the region's housing market.

What Has Changed Since 2005-2006

A Glass Half Empty

Looking at the Greater Boston housing market in 2007, homeowners could become uneasy, especially if they had purchased their homes when prices peaked in mid-2005. The region has now experienced home price depreciation (measured as the percent change from the same quarter a year earlier) for the past six quarters. Single family home prices for the second quarter of 2007, the most recent for which data are available, registered a 1.4 percent drop compared to the second quarter of 2006. This followed a 1.3 percent second quarter decline between 2006 and 2005 (See **Table 1.1**.) The number of single family home sales was down 5.4 percent, to its lowest level in 15 years, as fewer buyers were interested in purchasing in a market that might soften further—and those who were not under any time pressure to sell their homes, remained on the sidelines waiting for prices to firm up. Affordability for homeowners has improved slightly as a result of declining prices, but after a full decade of powerful price appreciation, it remains a problem, especially for first time homebuyers. Affordability for renters, on the other hand, has only grown worse as their inflation adjusted incomes continue to drop. To make matters worse, statewide foreclosure filings jumped by 70

percent from 11,493 in 2005 to 19,487 in 2006,[2] prompting the Governor to file legislation to provide foreclosure protections for homeowners adversely affected by subprime lenders.

TABLE 1.1

Change in Massachusetts Home Sales and Price by Quarter (Year over Year)

Quarter	# of Sales	Median Price
1Q 2005	4.5%	11.8%
2Q 2005	-5.4%	6.4%
3Q 2005	-1.5%	5.7%
4Q 2005	-8.1%	1.5%
1Q 2006	-6.5%	-0.9%
2Q 2006	-10.6%	-1.3%
3Q 2006	-23.4%	-4.9%
4Q 2006	-14.5%	-2.9%
1Q 2007	2.8%	-1.1%
2Q 2007	-5.4%	-1.4%

Source: Massachusetts Association of Realtors

Note: Table compares number of sales and median price in a given quarter to the number of sales and median price reported for the same period a year earlier (for example, there were 2.8% more sales during 1Q:2007 than there had been in 1Q:2006, but the median price was 1.1% lower). These are statewide figures. Comparable quarterly data for the 161 cities and towns covered by the Report Card were not available, but they would exhibit a similar trend.)

Or Half Full?

Still, the news has not been all bad. Home sales, though continuing to slide, are still at relatively high levels. Excess inventories are gradually being absorbed. Home buyers are finding a greater selection of homes from which to choose, at somewhat more reasonable prices, than in the recent past. Even though interest rates are rising, they remain at historically low levels, and home ownership is now within reach of more households. While Massachusetts and the Boston metro area remain among the nation's priciest housing markets, the gap between home prices here and in other parts of the country has narrowed. The economy is growing, albeit slowly, and for the first time since the 2000 recession, Massachusetts added jobs at a rate faster than the nation during the first six months of 2007.

So notwithstanding all the media focus on housing, the situation is not as bleak for current homeowners as might be imagined nor as hopeful for those who are still trying to get into the housing market.

We're Not Unique – the National Context

It is also true that Massachusetts was not the only state to experience a dramatic run up in housing prices in recent years, and it is not alone in the downturn. From 2000-2005, housing experienced a prolonged boom nationwide. Sales of both new and existing homes set records for five straight years as buyers were attracted by the lowest mortgage rates in more than four decades and what seemed to be the prospect of sure fire gains on any housing investment. But big declines in sales and starts in 2006 turned housing from one of the economy's star performers into one of its worst, with some economists estimating that this sector alone was responsible for knocking a full percentage point from the overall GDP growth rate in the third and fourth quarters of 2006.

The National Association of Realtors reported that *sales* declined in 40 states in the fourth quarter of 2006 compared to the same period in 2005. The states with the biggest declines were Nevada, Florida, Arizona, and California. The markets that had been the hottest were among those hardest hit once the five-year housing boom came to an end. By December 2006, the median home price had dropped in 40 states as well, and in nearly half the nation's largest 149 metro areas. Price declines this broad-based indicate just how substantial a price correction the nation is experiencing. Regions like the industrial Midwest where the economy is in turmoil and job layoffs are widespread are experiencing housing price declines, but the same is true in prosperous states like California, Florida, Nevada, and Arizona where a heavy influx of speculators had bid up prices even faster than in Massachusetts.

Clearly the current disarray in the housing market is a national phenomenon with its roots in the very factors that caused housing prices to skyrocket until 2005. Supply constraints aggravated the housing affordability problem in Massachusetts and in a handful of other metropolitan areas on the east and west coasts, but a host of other factors fueled the recent housing boom. These include:

- Historically low interest rates;
- A well developed and highly liquid mortgage market;
- New "alternative" mortgage instruments, which reduced initial carrying costs to very low levels, and

the aggressive marketing of such products to very low-income households and those with damaged credit;

- A relaxing of credit standards, as securitization enabled lenders to lay off the risk of loans—including subprime loans—onto investors attracted by the securities' favorable rates;
- The relative attractiveness of housing compared to other investment options; and
- The purchasing power and predilections of the giant Baby Boom generation and other emerging market segments such as recent immigrants.

Many observers note, too, the role that market psychology plays, suggesting that exuberant expectations were a major factor.[3]

The real estate industry had predicted that home prices would stabilize by the end of 2006 and would begin to climb thereafter, but many analysts now expect the weakness in the market to continue into 2008 as still large inventories of unsold homes get absorbed. Absorbing that overhang, analysts note, will be complicated if lenders tighten credit standards because of concerns about rising mortgage default rates or if mortgage interest rates rise. The fact that Massachusetts experienced less overbuilding and less property-flipping by investors than many markets may hasten its recovery, but even in areas that did not experience overbuilding, "discretionary" buyers and sellers—those who do not have to move—are waiting on the sidelines to see where the market is headed. As a result prices have fallen, but not precipitously, from their 2005 peaks and affordability remains a major problem in the region for both young working families and for low-income households generally.

Organization of Report

This year's Report Card analyzes these changes and describes where progress has—and has not—been made in the past 18 months (January 2006-June 2007). This report card follows a format similar to its predecessors:

- Section 2 provides an overview of current market conditions based on an analysis of recent economic activity and the most up-to-date demographic data available from the U.S. Census and other sources
- Section 3 describes changes in housing supply including where new production is taking place and what types of units are being developed. It also examines the infrastructure limitations that pose barriers to siting new development within the region
- Section 4 analyzes changes in rents, home prices, and housing affordability for the region as a whole and for specific towns and cities.
- Section 5 focuses specifically on affordable housing production and looks at where it is being built and for whom, who is building it, and what tools they are using. This year's report also provides an update on important 2006 accomplishments to preserve the existing public and subsidized housing inventory.
- Section 6 looks at what has happened to public funding levels and government support for housing since the last report card was issued. It also reviews the region's recent smart growth efforts and provides an update on Chapter 40R development and the Metropolitan Area Planning Council's newly minted *Metro Futures* regional master plan.
- And finally, Section 7 provides a summary conclusion of how the region performed against the production targets set forth in the *New Paradigm* report. Since those targets were established for a five-year period, and this is the fifth and final assessment against those targets, we are able to say something about how close we came to meeting those early goals.

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

- Appendix A presents the municipality-by-municipality results of the 2006-2007 affordability gap analysis discussed in Section 4.
- Appendix B is the municipal scorecard, a diagnostic tool for local leaders to use in evaluating their own performance in the larger regional context. By aggregating housing production data from several sources, the scorecard facilitates comparison across individual municipalities of the contribution each is making to increase the supply of affordable housing (discussed in Section 5). Appendix B illustrates that some communities have responded proactively to the region's housing challenges while others continue to lag.

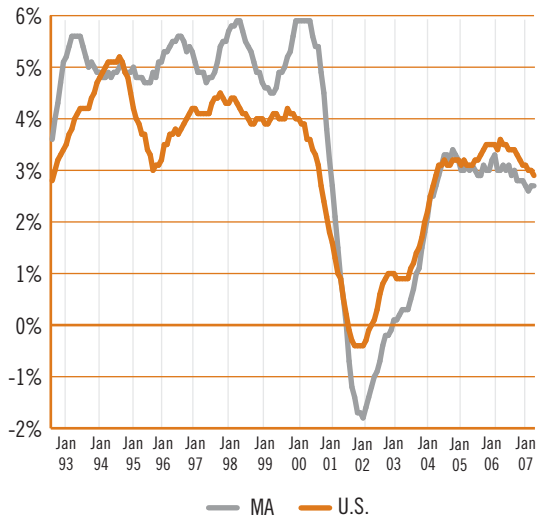
2.
Current Market Conditions

Analysts differ on how deep and prolonged the region's housing recession will be, and how great a drag it will be on the Commonwealth's economic recovery. A similar debate, meanwhile, is taking place at the national level where home sales and housing starts have plummeted, inventories have risen, and house price appreciation has slowed or turned negative in many markets.

In Massachusetts home sales, prices and construction starts were down in 2006. They have continued to slide through the first six months of 2007, while delinquencies and foreclosures have continued to climb. This comes despite a slight recovery in the state's overall economy. Measured by employment, output, labor force, and population growth, 2006 was the region's best performance to date in its otherwise lackluster economic recovery, and the outlook has continued to improve a bit through the first six months of 2007 relative to national trends. This section reports on recent economic activity, job growth, and population movement and examines the link between employment growth and housing prices.

FIGURE 2.1

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



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

Economic Update

Overview

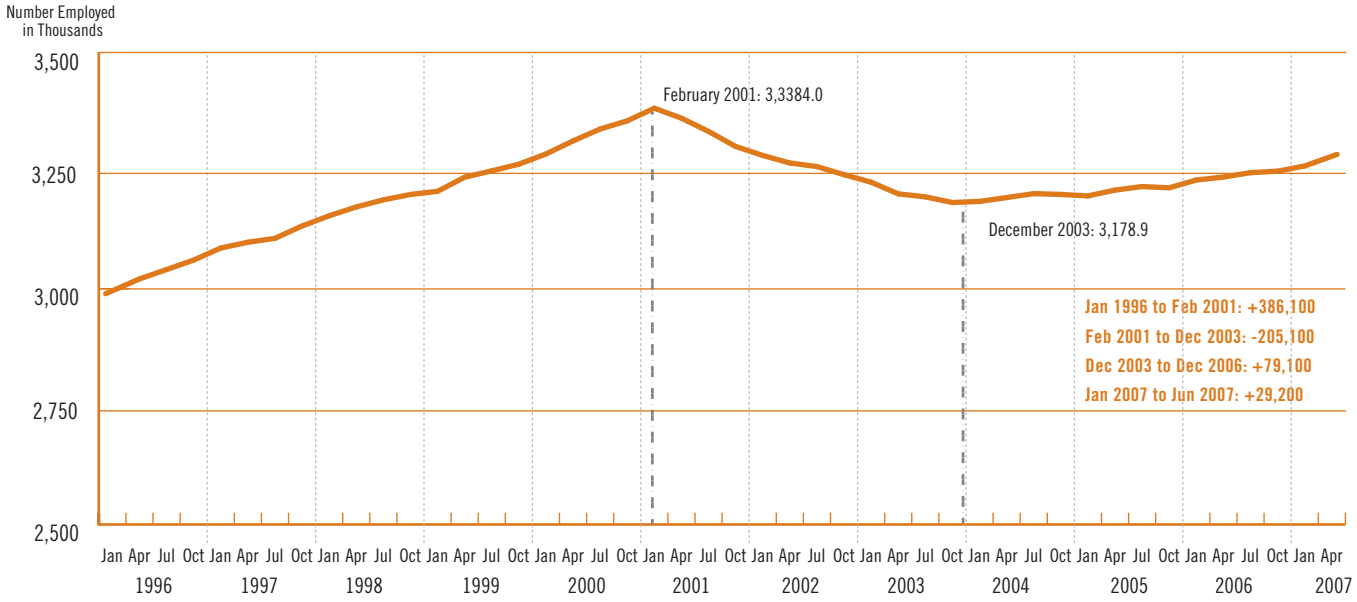
The Economic Activity Index is a monthly indicator derived from total nonfarm employment levels, unemployment rates, average hours worked in manufacturing, and wage and salary disbursements. Developed by economists at the Federal Reserve Bank of Philadelphia, the index is a measure of overall economic performance. It illustrates the pace of growth in real gross state product relative to the July 1992 levels for each of the 50 states. While the Massachusetts economy has been gaining strength since bottoming out in 2002, and has been in positive territory for the past three years, it grew at a slower rate than the nation as a whole through 2006, registering a 2.8 percent rise compared to 3.2 percent for the nation. (**Figure 2.1**). Through April 2007, however, the Commonwealth registered a 2.7 percent year over year gain, closing in on the 2.9 percent gain for the nation.

Employment

The Massachusetts economy added just 35,000 new jobs (1.1 percent) in 2006, lagging the national growth rate of 1.7 percent. Another 29,200 jobs were created in the first six months of 2007, this time at a rate of increase slightly greater than that experienced by the country as a whole. Even with this recent improvement, there were at mid-year 102,000 fewer people working in the Commonwealth than there had been at the pre-recession peak in February 2001. (See **Figure 2.2.)** Moreover, the current rate of job growth is still so anemic that at this pace, employment in the Commonwealth will not be back to its previous peak until sometime in 2011.

FIGURE 2.2

Total Massachusetts Non-Farm Employment

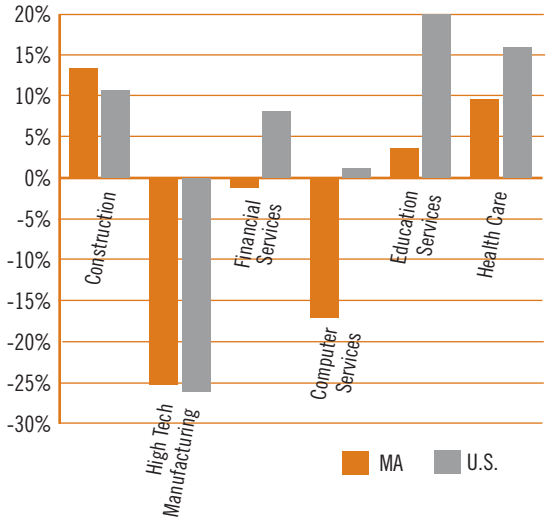


Source: U.S. Bureau of Labor Statistics

Figure 2.3 provides additional information on where Massachusetts employment has been particularly weak. Between 2000 and 2006, the Commonwealth actually experienced a somewhat higher job growth rate in construction than the nation as a whole. It lost nearly a quarter of its high tech manufacturing employment base, but so did the country. Where Massachusetts performed poorly relative to the rest of the nation was in financial services, computer services, private education, and health care. While the U.S. experienced an 8 percent increase in jobs in the financial services industry, the state lost jobs. Nationally computer service employment expanded by about 2 percent, but it plummeted by nearly 18 percent in Massachusetts. Private education employment grew in the Commonwealth, but at only one-fifth the national rate. Health care employment expanded by a robust 10 percent here, but this was only two-thirds the rate the nation recorded. Thus, the Commonwealth's weak job performance can be traced to a less than stellar performance in the very industries that we have believed to be the key sectors for our future prosperity: computer services, health care, and education.

FIGURE 2.3

Employment Growth by Sector (2000-2006) Massachusetts v. U.S.



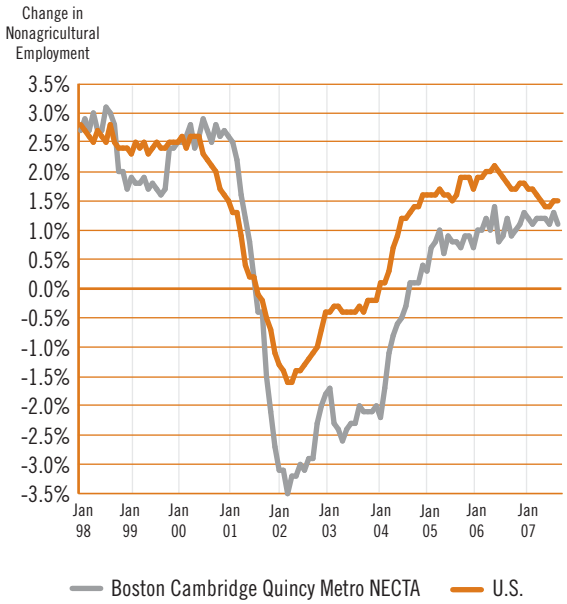
Source: U.S. Bureau of Labor Statistics

Employment growth in the Boston metro area,[4] the economic engine of the state and New England, followed a similar pattern: 27,300 new jobs were created in 2006, representing a rate of growth of 1.1 percent, and another 17,100 were added in the first six months of 2007. Generating the most new jobs were the professional and business services and education and health services sectors, adding 10,100 and 12,900 jobs respectively. As **Figure 2.4** demonstrates, the gap in the employment growth rate between the Boston Metro area and the U.S. has narrowed since 2002, but jobs are still being created faster nationwide than here in Boston.

While three out of five workers in the Greater Boston region work in the Boston-Cambridge-Quincy "metropolitan division," the workforce is spread out over a much larger commuting area as **Table 2.1** indicates. Moreover, the growth in the outer reaches of the region has been slightly faster than in the Boston-Cambridge-Quincy center. Between the beginning of 2004 and April 2007, the Boston-Cambridge-Quincy labor market (the core) has expanded by 3.8 percent. Framingham has grown by 5.2 percent; Haverhill-

FIGURE 2.4

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



Source: U.S. Bureau of Labor Statistics

TABLE 2.1

Where People Work in and Around Greater Boston (in 000's)

# of Jobs*	Boston-Cambridge-Quincy	Brockton-Bridgewater-Easton	Framingham	Haverhill-North Andover-Amesbury	Lowell-Billerica-Chelmsford	Lynn-Peabody-Salem	Nashua, NH	Worcester	Leominster-Fitchbury-Gardner	New Bedford
# Employed at Peak (1/2001)	1,772.9	92.0	157.7	82.3	125.6	104.1	127.9	246.2	54.0	67.4
# Employed at Trough (1/2004)	1,634.1	89.2	148.3	74.7	117.0	101.4	126.7	242.3	51.5	64.4
# Jobs Lost Peak to Trough	138.8	2.8	9.4	7.6	8.6	2.7	1.2	3.9	2.5	3.0
Chg 1/01 - 1/04	7.8%	3.0%	6.0%	9.2%	6.8%	2.6%	0.9%	1.6%	4.6%	4.5%
Jobs added Since 1/2004	61.5	2.9	7.7	4.2	2.1	1.6	8.0	8.1	-0.3	3.7
Chg 1/2004 - 4/2007	3.8%	3.3%	5.2%	5.6%	1.8%	1.6%	6.3%	3.3%	-0.6%	5.7%
# Employed, April 2007	1,695.6	92.1	156	78.9	119.1	103	134.7	250.4	51.2	68.1
4/2007 Jobs Compared to Prior Peak	-77.3	0.1	-1.7	-3.4	-6.5	-1.1	6.8	4.2	-2.8	0.7
% Below Peak	-4.4%	0.1%	-1.1%	-4.1%	-5.2%	-1.1%	5.3%	1.7%	-5.2%	1.0%
# Jobs added 1/2006 - 4/2007	31.9	1.1	0.6	1.2	1	0.8	2.3	4.2	0.1	1.6

Source: U.S. Bureau of Labor Statistics, 4/2007 (Employment in 000s, not seasonally adjusted)

Boston-Cambridge-Quincy as percent of All Employment—62.6% at peak, 61.6% currently

* Total nonagricultural employment, NECTA divisions of the Boston-Cambridge-Quincy Metropolitan NECTA and the Nashua, Worcester, Fitchburg, and New Bedford metro areas. To get total jobs in the Boston-Quincy-Cambridge Metropolitan NECTA (aka the metro area), you must add up its 6 metropolitan divisions, including the one bearing the same name as the larger metro area (Boston-Cambridge-Quincy)

North Andover-Amesbury by 5.6 percent, New Bedford by 5.7 percent, and Nashua, New Hampshire by 6.3 percent. This certainly affects where new housing and better transportation is most needed.

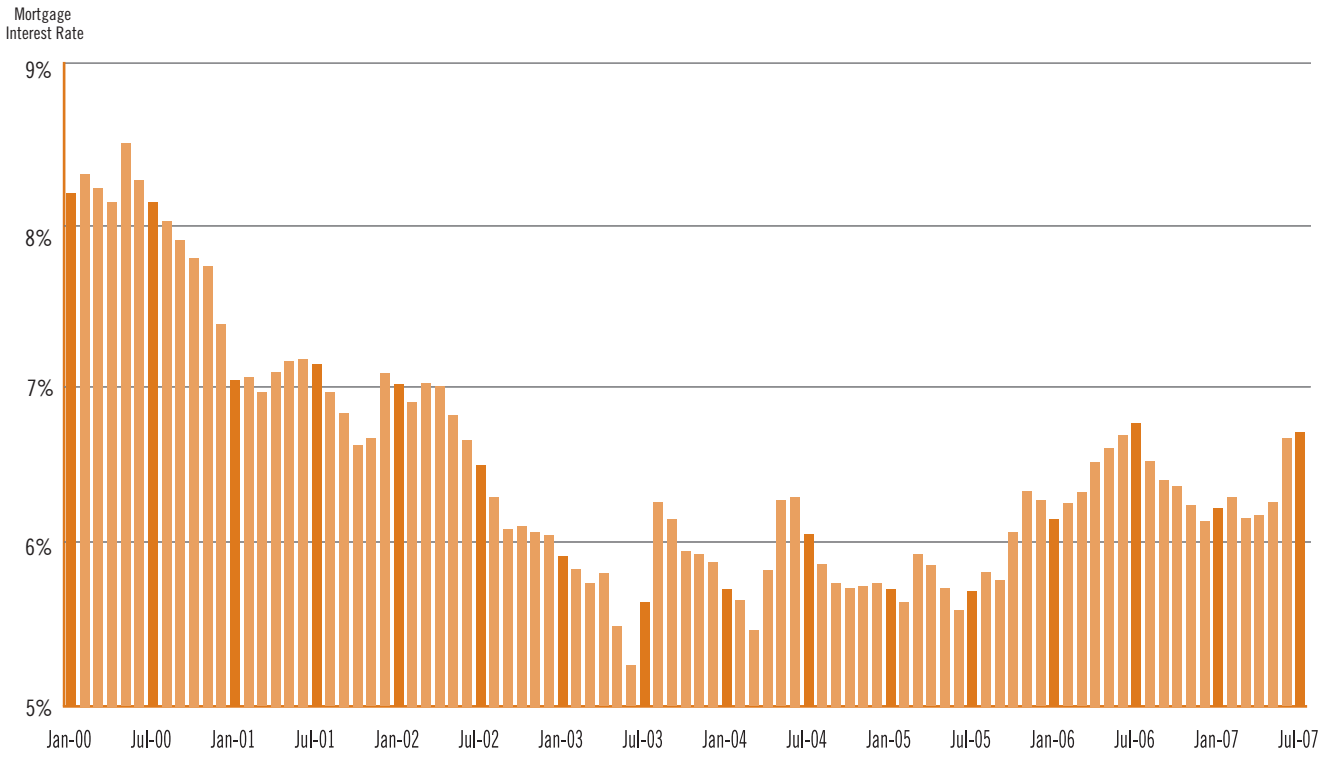
Interest Rates

A good part of the story about home prices is related to the trend in interest rates. As **Figure 2.5** reveals, the average 30-year fixed rate mortgage declined from 8.21% in January 2000 to 5.71% in January 2005. This substantial decline in interest rates encouraged millions of households nationwide to become homeowners, including many in Greater Boston. As a result, the short-term demand for housing increased sharply. In much of the country this increased demand was accompanied by a rise in housing starts, but in Massachusetts there was no corresponding increase in the supply of single family homes. Strict zoning and land use regulations in many Massachusetts communities precluded developers from building housing fast enough to meet the new demand, even as housing prices soared.

With interest rates beginning to rise in 2005 from their 40-year lows, demand began to slow. By July 2007, rates were nearly a full point higher than they had been two years earlier. Rising interest rates have both a real and perceived dampening effect on house prices. The increase in interest rate from July 2005's 5.7% to June 2007's 6.7% added 11% onto the cost of a $300,000 fixed rate 30-year mortgage. That means the same monthly payment that had "bought" a $300,000 mortgage in 2005 covered only a $270,000 mortgage two years later. By the same token, that payment would have covered only a $232,000 mortgage five years earlier at 2000's prevailing rate of 8.0%. As the cost to carry drops, more people jump into the market bidding prices up, which is what happened between 2000 and 2005.[5] When the cost to carry rises—as it is doing now—the number of qualified buyers goes down, putting downward pressure on prices.

FIGURE 2.5

National Average 30-Year Mortgage Rates (January 2000-July 2007)



Source: Freddie Mac Primary Mortgage Market Survey, Conventional Conforming 30-Year Fixed Rate Mortgage Series

Housing Market

In 2007, the region's housing market has continued to soften with the Office of Federal Housing Enterprise Oversight ranking Massachusetts 49th of the 50 states in terms of price appreciation for the year ending March 31, 2007. Only Michigan, with its depressed auto industry, saw prices decline by more. The recent Massachusetts experience, of course, stands in sharp contrast to the double-digit increases posted annually between 1999 and 2004. Trends in home prices are discussed in greater detail in Section 4, but many analysts now expect housing prices to continue to decline through the remainder of 2007 and the first two quarters of 2008. The most recent projections from the New England Economic Partnership (NEEP) suggest that the sharpest declines in home prices will be in the second, third, and fourth quarters of 2007, followed by more modest reductions, and then slow recovery.

NEEP predicts a peak-to-trough decline in the region's median housing price of just under 12 percent. This compares to Moody's economy.com forecasted peak-to-trough decline of 8 percent for the nation as a whole. While this represents a significant drop—both for the Greater Boston region and the nation as a whole—the decline is not expected to be as pronounced as it was in the recession of the late 1980s and early 1990s. Even with a 12 percent decline from peak prices, the median price of existing single family homes in Greater Boston would fall only to about their 2003 level, or $343,000. They would remain 50 percent higher than they were in 2000, and nearly double their 1997 selling price. So even with a major market correction, affordability will continue to be a problem for many households, including young working families.

Income

The affordability problem has been compounded by what has happened, and continues to happen, to household income. Massachusetts residents continue to enjoy one of the highest incomes in the nation, but income growth for lower and middle income wage earners has stagnated in recent years. Moreover, income is expected to grow more slowly than the national average over the coming year. Between 1999 and 2005, nominal household income in the Greater Boston region increased by just over 13 percent.

In light of slow income growth, we can assess what has happened to affordability for Boston area homebuyers between 1999 and 2007. By combining data on housing prices, interest rates, and household incomes, and using the 12 percent peak-to-trough price decline projected by NEEP, we can develop three separate measures of housing affordability

(1) Household income available for housing expense compared to the income required to qualify for a mortgage—This is the affordability index presented in Appendix A for each of the municipalities covered by the Report Card. If a median income household has exactly enough income to qualify for a loan on the median priced home, the index will be 1.00. If the index is above 1.00, the homebuyer has more than enough income to qualify; below that, the housing is unaffordable.

(2) Median house price expressed as a multiple of income—This is a frequently used measure of affordability, but it may exaggerate the affordability problem in periods of rapidly rising home prices, but low interest rates, as we experienced during the first half of this decade.

(3) Cost to carry a mortgage as a percent of income—This measure accounts for changes in interest rates as well as price and income change.

As **Table 2.2** illustrates, all three measures tell the same story: even if prices drop from their 2005 highs by 12 percent, Boston area homebuyers will find housing only marginally more affordable. The area's housing will remain substantially less affordable than it was at the beginning of the decade.

TABLE 2.2

Tracking Shifts in Homeownership Affordability

Year	Affordability Index Median HH Income/ Income Reqd*	Median House Price as Multiple of Median HH Income	Cost to Carry as % of Median HH Income
1999	1.05	3.8	31.50%
2005	0.74	6.3	44.60%
2007	0.81	5.3	40.60%

* Assumes 80% fixed rate, 30-year mortgage at prevailing rate on the median priced single family home as reported by the Warren Group Publications for 1999 and 2005; real estate taxes and insurance equal to 1.5% of sales price; and qualifying debt-to-income ratio of 33%; household income as reported in the 2000 Decennial Census (1999) and the *American Community Survey* (2005); 2007 income was estimated to have increased 2% per year in 2006 and 2007. 2007 median home price was estimated to have dropped from its 2005 high by 12%.

Economic Outlook

Economists at the New England Economic Partnership predict that the region's economic growth will continue at a moderate pace. Although the continued weakness in the housing market will have a negative influence on growth, it should be offset by increased national and worldwide demand for the technology products and knowledge-based services that the region supplies. NEEP projects an average annual rate of employment growth over the next five years of 0.85 percent, slightly greater than the long-term average rate of growth of 0.69 percent from 1980 through 2006, but well below the average for the two prior expansions in the 1980s and 1990s (4.8 percent and 2.2 percent, respectively).

If Massachusetts can meet this forecasted employment growth rate, total employment in the Commonwealth will grow by 142,000 jobs between May 2007 and May 2112. Greater Boston (the Boston-Cambridge-Quincy Metropolitan NECTA) would grow by 107,000 if it matched the state growth rate.

Of course, this is just one forecast. There are a number of factors that affect employment growth in any one state or region and therefore it is difficult to accurately project the jobs trajectory into the next decade. If a national recession were to take hold in the next five years, employment would again decline. Recall that Massachusetts is still more than 100,000 jobs shy of its peak before the 2001 recession. Section 7 looks at how the region's housing demand might be expected to grow under varying employment projections.

Demographic Update

After having experienced back to back years of population decline, Massachusetts registered an incremental increase in population (1/10 of 1 percent) between July 2005 and June 2006. The population of the Bay State now stands at 6, 437,193, a gain of 135, 917 (2.2 percent) over what had been reported in the 2000 Census. The 161 cities and towns covered by the Housing Report Card had fared even worse, recording population losses for three consecutive years. This trend, too, was reversed between 2005-2006, also with a 1/10 of 1 percent increase. The region's population now is just 1.1 percent higher than it was in 2000.

While the Census Bureau's 2006 population estimates are available for inclusion in the 2006-2007 Report Card, most other demographic data comes from the Bureau's *American Community Survey* (ACS), which lags by one year. Thus, the data included in this section, which document some important, but subtle shifts in the region's population since 2000, are from the 2005 survey. **Table 2.3** highlights some of these shifts for Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties.[6]

Noteworthy changes from prior years include the following:

- The number of households increased incrementally in 2005, reversing three years of declines, but it is still 0.57 percent lower than it was in 2000.
- Inflation adjusted incomes have fallen, most dramatically for renter households. Real median renter income in 2005 was nearly 8 percent lower than it had been five years earlier. Real median homeowner income was up by just 1 percent.
- Affordability is a growing problem, with a rising number of cost burdened renters and homeowners. The increase has been particularly pronounced among renter households, half of whom now pay in excess of 30 percent of income for rent, including one in four who pay more than 50 percent. Nearly 40 percent homeowners are paying in excess of 30 percent for their house payments, up from just 27 percent of homeowners in 2000.
- Accompanying the sharp increase in home values between 2000 and 2005 was an increase in real estate taxes, homeowner's insurance, and home heating fuel costs that has resulted in an increase in housing expenses even for homeowners who own their property outright.
- The number of housing units grew at the same rate as the number of households between 2004-2005, but since 2000 the increase in housing supply has exceeded the increase in households, contributing to a rise in vacancies. Total housing units are up by 2 percent while the number of households is down by about half a percent.
- The number of renter households grew by 3 percent in 2005, marking the first time in five years that there has been an increase in renters and a decline in owner-occupants. Still, there are 8 percent fewer renter households living in the five counties than there had been in 2000, while the number of owner occupants has increased by more than 4 percent during the same period.

TABLE 2.3

Demographic Profile, 1990, 2000-2005

Indicator*	1990	2000	2002	2004	2005	% Change/ 2004-2005	% Change/ 2000-2005
Population	3,783,817	4,001,752	3,908,316	3,881,809	3,864,921	-0.44%	-3.42%
Households	1,410,238	1,533,041	1,517,712	1,516,275	1,524,296	0.53%	-0.57%
Real Median Household Income*	$60,037	$62,481	$65,569	$64,060	$62,462	-2.49%	-0.03%
Real Median Family Income*	$72,038	$76,492	$79,145	$77,779	$76,706	-1.38%	0.28%
Real Median Homeowner Income*	NA	$80,995	$82,925	$80,936	$81,886	1.17%	1.10%
Real Median Renter Income*	NA	$38,780	$39,602	$39,762	$35,748	-10.10%	-7.82%
Families Below Poverty Level	59,124	59,913	58,882	68,687	68,038	-0.94%	13.56%
Total Housing Units	1,510,420	1,593,023	1,606,322	1,616,578	1,625,201	0.53%	2.02%
Occupied Units	1,412,190	1,532,549	1,517,712	1,516,275	1,524,296	0.53%	-0.54%
Vacant Units	98,230	60,474	88,610	100,303	100,905	0.60%	66.86%
Owner Occupied Units	812,660	916,817	937,890	965,201	956,373	-0.91%	4.31%
Renter Occupied Units	599,530	615,732	579,822	551,074	567,923	3.06%	-7.76%
Median Value Owner Occupied Units*	$267,573	$253,378	$337,613	$393,461	$411,870	4.68%	62.55%
Median Gross Monthly Rent*	$960	$891	$1,028	$1,032	$1,042	0.94%	16.91%
Renter HHs Paying >30% of Income for Rent	41.7%	39.2%	42.9%	46.1%	50.1%	8.74%	27.74%
Renter HHs Paying >50% of Income for Rent	NA	18.4%	21.9%	21.9%	25.0%	14.25%	35.75%
Median Monthly Owner Cost (w mortgage)*	$1,630	$1,709	$1,810	$1,901	$1,981	4.20%	15.90%
Median Monthly Owner Cost (w/o mortgage)*	$497	$523	$528	$599	$622	3.92%	19.03%
Homeowners (w mortgage) Paying >30%*	28.3%	26.7%	30.8%	37.5%	39.3%	4.91%	47.09%
Homeowners (w mortgage) Paying >50%*		9.0%	9.2%	14.1%	13.9%	-2.01%	54.36%

Source: U.S. Census Bureau *American Community Survey* (ACS), 2001-2005, Decennial Census, 1990 and 2000.

*All income and housing costs are reported in 2005 dollars

The Link Between Home Prices, Jobs, and Population

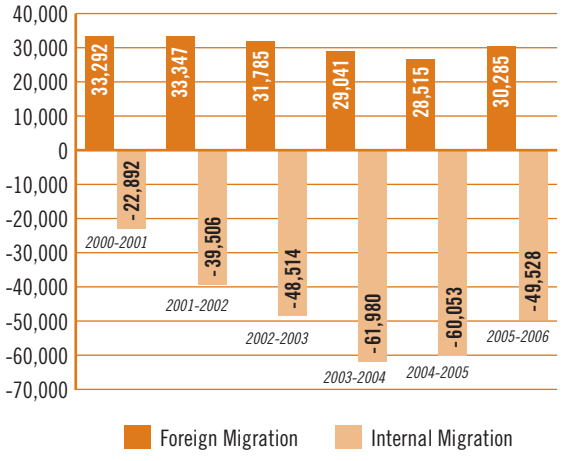
Out-migration from Massachusetts is closely correlated with the performance of the state's economy and job growth. Since 2000 net domestic out-migration—the difference in the number of people moving into the state and the number leaving (not including foreign immigrants)—increased annually from a loss of 3,623 in 2000 to 61,522 in 2005. This corresponds to the high levels of job loss between 2001 through early 2004. In 2006, as the state's economy began to add jobs, there was a modest improvement: a net out-migration of just 49,529 (see **Figure 2.6**).

The loss in population due to domestic out-migration is particularly acute among young individuals aged 20 to 34, as **Figure 2.7** demonstrates. Between 2000 and 2005, the population of 20 to 24 year olds and 25 to 34 year olds declined by nearly 9 percent—while there was population growth nationally among the former group and a decline of less than 3 percent among the latter.

Last year's Report Card documented in some detail the relationship between housing costs, employment, and population, and that will not be repeated here except to say that we now have strong evidence that metro areas whose average housing cost puts them in the top decile in terms of housing costs nationally are essentially pricing themselves out of the market in terms of population and employment growth. The continuing pattern we see in net domestic outmigration and in the loss of young working age residents is at least partly a manifestation of the link between high housing costs and demographic trends.

FIGURE 2.6

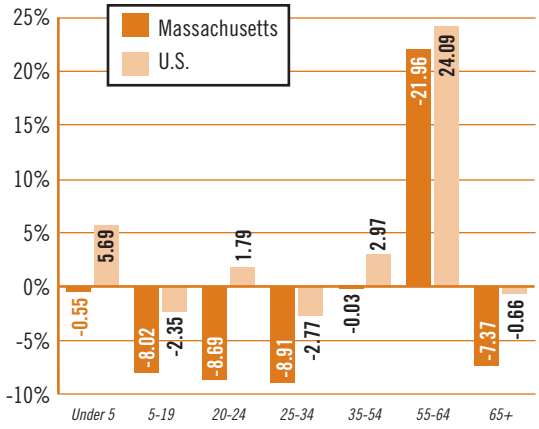
Massachusetts Domestic Net-Migration and Foreign Immigration



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

FIGURE 2.7

Percent Change in Population by Age Cohort, Massachusetts v. U.S., 2000-2005



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

Population Shifts within the Region

According to the Census Bureau's most recent population estimates, the fastest growing communities—in terms of absolute population gain, not percentage increase—include Peabody and Hingham where the growth has resulted from the construction of Linden Ponds (Hingham) and Brooksby Village (Peabody), large continuing care retirement communities that have added more than 1,700 new housing units in Peabody since 2000 and 800 in Hingham. The Hingham development, which opened in 2004 also will include more than 1,700 units when fully built out. Other high growth communities include Plymouth and Middleborough, the region's largest municipalities in terms of landmass, as well as Raynham, Abington, Quincy, Billerica, Burlington, Pembroke, Marlborough, Franklin, Boston, Middleton, and Andover.

The fastest growing communities elsewhere in the Massachusetts include a number of Worcester and Bristol County cities and towns on the periphery of the Boston metro area: Worcester, Grafton, Shrewsbury, Uxbridge, Charlton, Rutland, Northbridge, Holden, Attleboro, and North Attleborough.

3.
Housing Production in the Region

Across the nation—even in supply-constrained markets like Greater Boston—2006 was the year that the housing boom market abruptly shifted gears. Waning demand, rising inventories, tightening credit standards in the wake of the subprime debacle, rising interest rates, and consumer wariness led to a sharp drop in new construction throughout much of the country in 2006 and through the first six months of 2007. Greater Boston was no exception. This section of the Housing Report Card examines recent changes in the region's housing supply, including the type and location of housing permitted during 2006 and through the first half of 2007.

The primary source used to estimate housing production here, and elsewhere, is building permit data collected by the U.S. Census Bureau through its Building Permits Survey. Despite some limitations, the Building Permits Survey is widely recognized as the national standard, and over 98 percent of all permits issued result in actual production.[8] CURP supplements and verifies the building permit data with its own extensive tracking system for key market segments and targeted programs (e.g., subsidized housing, student housing, age restricted housing) to ensure a more complete and accurate assessment of the region's housing production than is provided by building permits alone.

Overall Production Levels

After three years of double digit increases, the number of new housing units permitted in Greater Boston dropped by nearly 12 percent in 2006. Single family permitting declined by more than 25 percent, while multifamily (units in buildings of 5 or more units) fell by just over 2 percent. By 2006, single family production was accounting for less than 40 percent of the region's permits, the lowest level since the Report Card began tracking this statistic. (See **Table 3.1**)

TABLE 3.1

Single Family v. Multifamily Building Permits in Greater Boston

Year	Total Units	% Change Over Prior Year (Total Units)	Units in Single Family Structures	% Change from Prior Year (SF Units)	Single Family as % of Total	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 w 5+ units)
1998	10,846		8,639		79.7%	574		1,633	
1999	10,662	-1.7%	7,775	-10.0%	72.9%	746	30.0%	2,141	31.1%
2000	10,342	-3.0%	7,102	-8.7%	68.7%	701	-6.0%	2,539	18.6%
2001	9,701	-6.2%	6,313	-11.1%	65.1%	686	-2.1%	2,702	6.4%
2002	9,520	-1.9%	6,408	1.5%	67.3%	764	11.4%	2,348	-13.1%
2003	12,121	27.3%	6,020	-6.1%	49.7%	1,093	43.1%	5,003	113.1%
2004	13,556	11.8%	7,000	16.3%	51.6%	994	-9.1%	5,562	11.2%
2005	15,561	14.8%	7,270	3.9%	46.7%	1,015	2.1%	7,276	30.8%
2006	13,759	-11.6%	5,429	-25.3%	39.5%	1,224	20.6%	7,107	-2.3%
2007 est.	9,950	-27.7%	4,094	-24.6%	41.1%	713	-41.7%	5,228	-26.4%

Source: U.S. Census Bureau Building Permit Survey for the 161 cities and towns

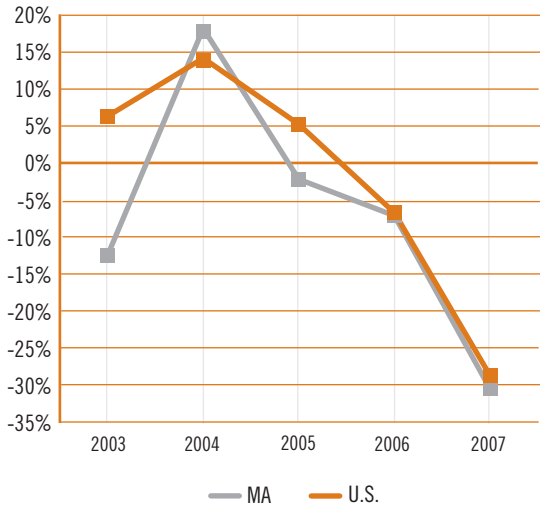
Note: The number of multifamily units (5+) and total units for 2005 has been revised downward by 384 from what was reported in last year's Housing Report Card. Those units were carried forward into 2006. 2007 estimate is based on preliminary data from the Boston-Cambridge-Quincy MA-NH Metro Area and is not directly comparable to prior years.

Boston's 2006 performance mirrored the national trend, which saw permits overall fall by almost 15 percent with single family permitting down by 18 percent and multifamily by 1.3 percent. Unlike Greater Boston, however, over the past decade, single family permits accounted for 75 percent of all activity nationally. Moreover, single family permitting rose by 28 percent nationally over the past decade (1996-2006), while it fell by 28 percent here

The permitting of new homes has dropped even more sharply in 2007, as **Figure 3.1** illustrates. Nationally overall permitting during the first six months of the year was down by nearly 26 percent compared to the same period in 2006, and analysts are estimating that 2007 will be the worst year for housing starts in more than a decade. Single family permitting was off by nearly 29 percent and multifamily by 14 percent. In Massachusetts, permitting is likely to drop to a level not seen since 1991. Through June single family permitting in Greater Boston was down by 25 percent and multifamily by 26 percent. On an annual basis, this will put the number of single family homes permitted at its lowest level in at least 28 years.

FIGURE 3.1

Year-Over-Year change in Units Authorized by Buidling Permits, 2003-2007



Source: U.S. Census Bureau Building Permits

2006 Housing Production by Type and Location

Permitting of new housing units in 2006 was up over 2005 levels in just 44 Greater Boston communities out of the 161 while single family permitting rose in only 37. In both cases, this was about half the number of municipalities that experienced increased production in 2005. More than 70 percent (114) of the region's cities and towns are now permitting fewer single family residences than they were in 2000.

Multifamily housing was permitted in 45 communities in 2005, slightly less than the 48 that had permitted such units in each of the preceding three years, but a substantial improvement over 1998 and 1999 when only 20 communities permitted any multifamily units. In 43 municipalities, including 16 of those that permitted multifamily housing, production is occurring under the provisions of Massachusetts General Law (MGL) Chapter 40B.

Development continues to be unevenly distributed throughout the region due to differences in local economic considerations, environmental constraints, infrastructure capacity, local land use regulations, and the dictates of the market. Between 2000-2005, nine cities and four towns accounted for one-third of the region's new housing. The cities are: Boston, Quincy, Peabody, Cambridge, Marlborough, Haverhill, Waltham, Revere, and Salem; the towns include Plymouth, Billerica, Burlington, and Franklin. Two-thirds of the growth during the same period occurred in 50 of the 161 municipalities, including these thirteen.

As was the case in 2005, the principal production drivers in 2006 were luxury rental apartments and condominiums in the inner core; suburban development permitted under 40B; age restricted housing, including active adult developments and independent living apartments; and single family homes built at medium and low densities in the outer suburban ring or on infill lots in mature suburbs.[9] This new production is disproportionately targeted to the high end of the market and/or to those aged 55 or over. Many of the 40B developments include moderately priced single family homes in their market rate component—in addition to the units specifically reserved for low and moderate income households—but most of the other non-age restricted single family production is geared to the

trade-up market, and priced accordingly. As would be expected, prices of new single family homes drop the further one moves from Boston. But even in Worcester and Bristol Counties (and New Hampshire's Rockingham and Strafford Counties)—areas that had witnessed significant new single family construction in the "under $500,000 range"—production was down in 2006.

Table 3.2 identifies those communities that led the region in permitting new housing in 2006 and those that permitted the fewest new homes. All of the 2006 top producers achieved their numbers by approving large multifamily developments. Most also included affordable units in the mix, either because the new developments were permitted under 40B—and thus required a low income set aside—or because the municipality had an inclusionary zoning requirement. Danvers, North Andover, Billerica, and Newton are examples of the former; Boston, Cambridge, and Watertown are examples of the latter. Major 2006 developments in Quincy, Hingham, and Plymouth are age restricted to senior citizens.

Multifamily Homes

The Greater Boston region continued its improvement on the multifamily front right through 2006, even though the softness in the condominium market has resulted in some projects being put on hold. A few developers are rethinking their rental options, and still others are phasing their developments. Several condominium properties that were completed in 2006 are being marketed, at least in the short term, as rentals (e.g., the Brickworks in Cambridge and Parkway Heights in Everett). This is the reverse of what was happening in 2003 and 2004 when projects planned as rental were converted mid-construction, or soon thereafter, to condominium in response to rapidly appreciating condominium prices and falling rents.

Much of the new multifamily production, both rental and homeownership, is concentrated in Smart Growth locations. These include formerly vacant or underutilized land and buildings in Boston and other inner core cities, surplus state properties in suburban locations, and sites adjacent to transit stations and commuter corridors. One such example, Station Landing, was the recipient of a Commonwealth Massachusetts 2006 Smart Growth Award. Built in Medford adjacent to the MBTA's Wellington Station, Station Landing provides a mix of uses, including commercial and retail space, restaurants, health and fitness facilities, in addition to a variety of housing types.

Other 2006 rental developments[10] include Avalon at Lexington Hills in Lexington and Avalon at Hathorne Hill in Danvers, both former state hospital sites. Construction also commenced on a number of suburban rental developments permitted under the provisions of Chapter 40B. These include Princeton Commons in Chelmsford, Heritage at Bedford Springs in Bedford, Fairfield Green in Dedham, Quail Run in Stoughton, Spence Farm in Reading, and Highland Glen in Westwood. The Cordovan in Haverhill and Arborpoint at Woodland Station, both examples of transit oriented rental development in urban locations, were also permitted under 40B. New residences were begun at the Natick Mall, and in Boston and Cambridge construction commenced on nearly 3,500 new rental and condominium homes.

Single Family Homes

Just the opposite has been occurring in single family home construction. Low to begin with, it fell sharply in 2006 and again in the first half of 2007. Much of what little is being built is being permitted under 40B, is age restricted, or both. The number of municipalities permitting only single family homes had declined from 60 percent in 2001 to 47 percent in 2004, but in 2005 it increased to 55 percent where it remained in 2006. More than half of the municipalities in Greater Boston permitted fewer than 25 single family homes in 2006.

With an increasing number of organizations and individuals calling for compact development and a return to small lot sizes—one-quarter acre and less—this year's Report Card, for the first time, examines the major infrastructure barrier to increased housing production in much of the region: the lack of public sewers for wastewater disposal.

Sewers v. Septic

Forty-three municipalities in and around Boston—home to half the Commonwealth's residents—are within the jurisdiction of the Massachusetts Water Resources Authority (MWRA), but 45 percent of the towns not serviced by MWRA have no public sewers at all. In fact over 30 percent of the homes

TABLE 3.2

Municipalities Adding the Most and Fewest New Housing Units in 2006

2006 Rank	5 Year Rank 2001-2005	Municipality	Total Units Permitted 2006
Top 15			
1	1	Boston	2,419
2	11	Cambridge	898
3	2	Quincy	641
4	30	Danvers	500
5	13	Hingham	374
6	9	Revere	299
7	40	Dedham	297
8	42	North Andover	294
9	5	Billerica	246
10	12	Newton	246
11	3	Plymouth	225
12	7	Waltham	219
13	29	Braintree	214
14	83	Watertown	199
15	34	Chelmsford	182
Bottom 15			
15	12	Harvard	8
15	23	Cohasset	8
15	42	Hopedale	8
15	22	West Bridgewater	8
11	50	Pepperell	7
11	32	Millis	7
9	37	Berlin	6
9	6	Chelsea	6
7	2	Avon	5
6	18	Maynard	4
6	100	Milton	4
4	1	Nahant	3
4	13	Sherborn	3
4	10	Swampscott	3
1	7	Hamilton	2
0	5	Topsfield	1

2006 Rank	Single 5 Year Rank 2001-2005	Municipality	Family Units Permitted 2006
Top 15			
1	1	Plymouth	182
2	3	Lowell	143
3	67	Tyngsborough	116
4	15	Westford	105
5	31	Salisbury	98
6	78	Danvers	95
7	6	Haverhill	95
8	12	Boston	94
9	2	Billerica	90
10	9	Taunton	89
11	4	Wareham	87
12	23	Brockton	85
13	5	Middleborough	84
14	28	Franklin	75
15	8	Methuen	75
Bottom 15			
14	10	Somerville	6
14	31	West Bridgewater	6
14	54	Berlin	6
14	49	Millis	5
12	4	Avon	5
12	9	Medford	4
10	15	Maynard	4
10	32	Milton	4
9	2	Nahant	3
7	11	Sherborn	3
7	8	Swampscott	3
4	5	Watertown	2
4	3	Winthrop	2
4	43	Salem	2
3	14	Hamilton	2
2	6	Topsfield	1
1	1	Chelsea	0

2006 Rank	5 Year Rank 2001-2005	Municipality	Multifamily Units Permitted 2006
Top 15			
1	1	Boston	1967
2	6	Cambridge	857
3	2	Quincy	584
4	20	Danvers	355
5	9	Hingham	340
6	22	Dedham	285
7	8	Revere	266
8	45	North Andover	192
9	41	Watertown	187
10	16	Newton	180
11	14	Braintree	180
12	11	Billerica	156
13	18	Saugus	134
14	7	Waltham	125
15	19	Canton	109
Bottom 15			

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

in Massachusetts, as well as many small businesses and institutions, are not served by public sewers. Homes that are not connected to public sewers must utilize another system for sewage disposal. In most cases these are privately-owned and maintained on-site subsurface sewage disposal systems consisting of a septic tank and a leaching field that treat wastewater flows, generally of less than 10,000 gallons per day.[11]

Septic systems that are not properly located and maintained can release pathogens and nutrients into surface and ground waters, endangering drinking water supplies and wildlife habitat, and their regulation is widely recognized as an important and legitimate function of government. But the challenge of supporting sustainable new development in communities without adequate water and sewer infrastructure is one of the most daunting planning challenges the region faces.

Title 5 (aka Title V) of the State Environmental Code,[12] establishes minimum requirements governing the construction and maintenance of all septic systems, but many communities have adopted standards that are more restrictive than those established by the state. Title 5, which is administered locally by Boards of Health, establishes minimum lot size requirements, soil suitability, percolation rate, depth to groundwater, and other standards for septic systems. One of the major barriers to encouraging compact development in unsewered areas has been the requirement of 10,000 square feet of land per bedroom (a one acre lot for a four bedroom house). The Massachusetts Department of Environmental Protection has approved a number of innovative alternative (I/A) technologies for on-site sewage disposal systems that offer several advantages over conventional septic,[13] but many communities do not allow their use. Many also prohibit shared systems, a restriction that can render large parcels undevelopable even though portions of the site may be well suited to development.

All of the towns covered by the Greater Boston Housing Report Card that are not served by the MWRA were surveyed by the Pioneer Institute[14] in 2004 to ascertain, among other things, what percent of their homes were on public sewer systems. The results are summarized in **Table 3.3**. Forty-two of the towns in Greater Boston have no public sewer system; another 17 have sewer systems that serve fewer than 25 percent of the homes in the community. These municipalities are shown on **Map 3.1**.

TABLE 3.3

Percent of Homes Served by Public Sewer in Non-MWRA Communities

No houses on sewer	44.2%
1-25% of homes on sewer	14.4%
26-50%	15.4%
51-75%	11.5%
76-98%	9.6%
99-100%	4.8%

Source: Pioneer Institute, 2004 Survey

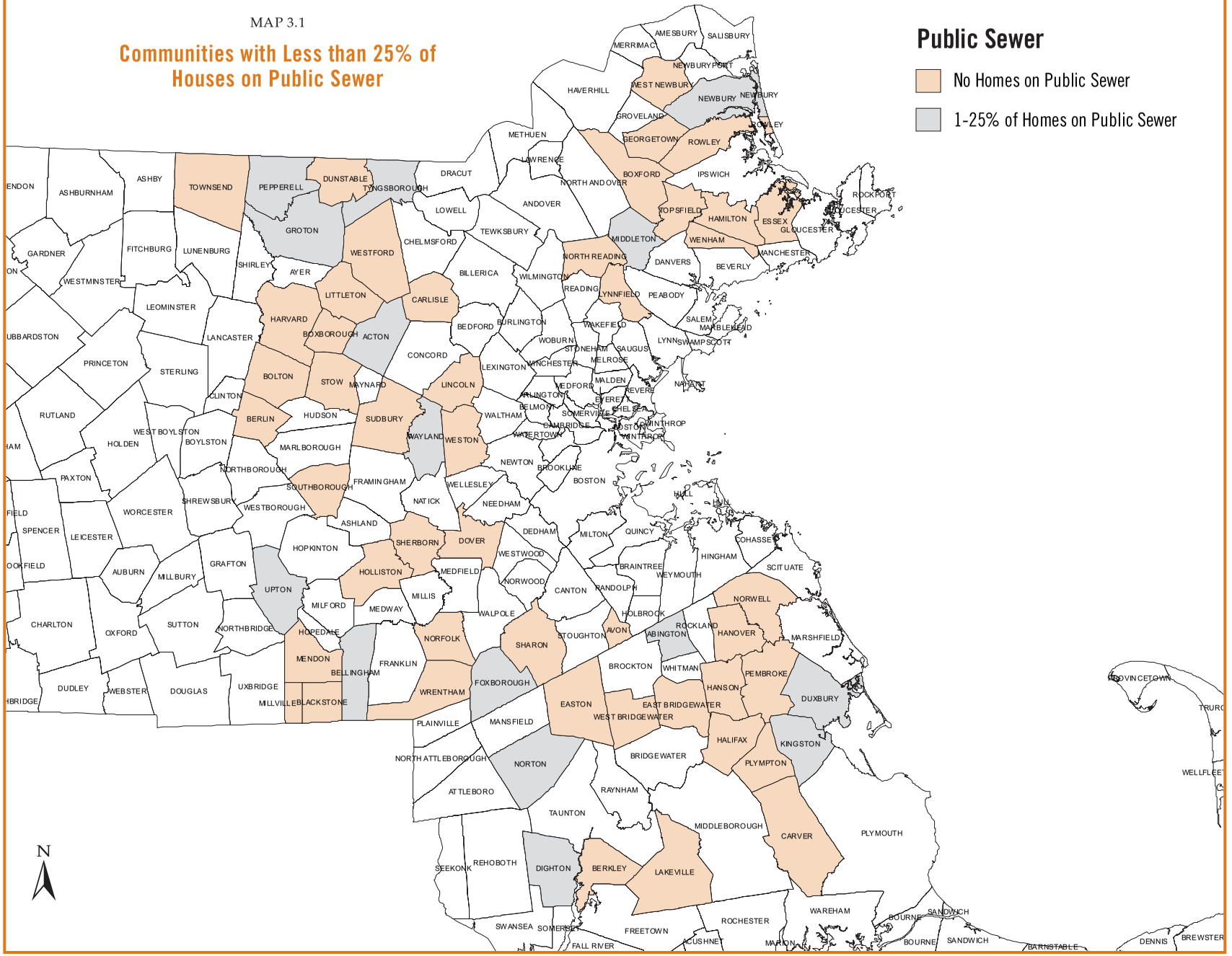
We also reviewed data from more than 45 major metropolitan areas to ascertain how unique this region was in its dependence on septic for waste water disposal. A related concern was the Boston metro area's dependence on individual wells for drinking water, and how these two together affected building densities and lot size requirements. **Table 3.4** reveals the striking results.

The source of Table 3.4 is the *American Housing Survey* (AHS),[15] the largest regular national housing sample survey in the United States. The data for Boston and a number of other metro areas is nearly a decade old at this point. Nonetheless, we are presenting it here because we believe it provides a valid comparison. Earlier versions of the AHS, the 2000 Census, and current surveys by trade associations such as the National Association of Homebuilders and their local affiliates support the conclusion that if a metro area relied heavily on septic and wells in 1990, 1993, 1998, and 2000, it was likely to be heavily dependent on them in 2007. As Table 3.4 illustrates, Boston is more dependent on septic than any other large metro area with the exception of Providence, Rhode Island and Birmingham, Alabama. And because septic systems are land intensive, it comes as no surprise that Greater Boston exhibits one of the largest average lot sizes among major metro areas.

There is a direct correlation between dependence on septic and lot size. Massachusetts and its municipalities will need to commit to finding safe and effective solutions to wastewater disposal in unsewered areas—if indeed those areas are otherwise appropriate for

MAP 3.1

Communities with Less than 25% of Houses on Public Sewer



Source: Pioneer Institute 2004 Survey

TABLE 3.4

Lot Size and Reliance on Septic and Wells by Metro Area

Metro Area	AHS Year	Median lot size (in acres) Single FamilyStructures	percent wells	percent septic
Anaheim	2002	0.16	0.0%	0.0%
Atlanta	2004	0.58	2.0%	17.9%
Baltimore-Towson	1998	0.37	19.1%	18.2%
Birmingham-Hoover	1998	0.84	2.8%	48.8%
Boston	1998	0.98	7.3%	48.6%
Buffalo-Niagara Falls	2002	0.71	10.4%	29.1%
Charlotte	2002	0.44	11.3%	14.7%
Chicago	2003	0.26	9.3%	8.0%
Cincinnati-Middletown	1998	0.48	1.6%	16.1%
Cleveland	2004	0.48	25.6%	27.8%
Columbus	2002	0.34	9.1%	12.1%
Dallas	2002	0.23	0.0%	6.3%
Denver	2004	0.22	2.4%	5.7%
Detroit-Warren-Livonia	2003	0.24	22.2%	21.6%
Distict of Columbia	1998	0.30	8.6%	12.3%
Hartford-West Hartford-East Hartford	2004	1.81	36.4%	41.1%
Houston-Sugar Land-Baytown	1998	0.25	8.4%	14.5%
Indianapolis-Carmel	2004	0.34	5.6%	10.0%
Kansas City	2002	0.28	0.0%	4.7%
Los Angeles	2003	NA	0.0%	0.0%
Memphis	2004	0.43	5.5%	12.7%
Miami	2002	0.21	3.1%	4.1%
Milwaukee-Waukesha-West Allis	2002	0.79	24.0%	22.4%
Minneapolis-St. Paul-Bloomington	1998	0.41	22.7%	23.5%
New Orleans	2004	0.19	18.3%	20.6%
Northern NJ	2003	NA	0.0%	4.0%
NY (Nassau, Suffolk, Orange Counties)	2003	NA	7.3%	13.8%
Oklahoma City	2004	0.37	20.6%	30.1%
Philadelphia-Camden-Wilmington	2003	0.64	9.5%	22.1%
Phoenix-Mesa-Scottsdale	2002	0.21	1.2%	4.4%
Pittsburgh	2004	0.68	18.3%	24.2%
Portland-Vancouver-Beaverton	2002	0.19	4.9%	11.6%
Providence-Fall River-Warwick	1998	0.81	21.1%	57.9%
Riverside-San Bernadino	2002	0.22	0.3%	9.1%
Rochester	1998	0.69	9.4%	26.0%
Sacramento--Arden-Arcade--Roseville	2004	0.21	3.7%	6.7%
Salt Lake City	1998	0.36	0.9%	2.8%
San Antonio	2004	0.23	5.3%	14.9%
San Diego	2002	0.26	2.1%	5.5%
San Francisco-Oakland-Fremont	1998	0.18	0.0%	0.0%
San Jose-Sunnyvale-Santa Clara	1998	0.17	0.0%	1.9%
Seattle	2004	0.21	3.9%	16.1%
St. Louis	2004	0.38	4.5%	15.8%
Tampa-St. Petersburg-Clearwater	1998	0.23	8.1%	14.3%
Virginia Beach-Norfolk-Newport News	1998	0.46	14.3%	17.9%

Source: U.S. Census Bureau American Housing Survey, various years

higher density development—or incur the cost of installing sewers in more locations.

Targeted Markets

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

Student Housing

Higher education is one of Greater Boston's major industries, and the area's colleges and universities have a tremendous—and largely positive—impact on the economic, cultural, social, and intellectual life of the region. The presence of large numbers of college students competing for housing in the private market, however, can present special challenges to their host neighborhoods. The City of Boston alone is home to more than 62,000 full-time undergraduates, and the colleges and universities attended by these students provide on campus housing for less than one half of their student bodies.

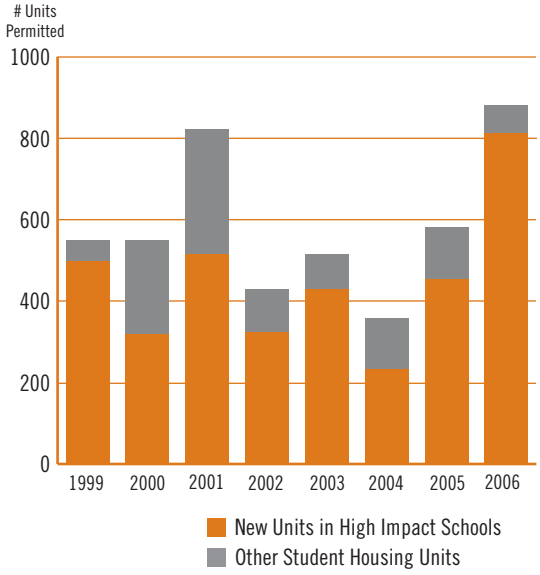
The impact of students living off campus, competing with non-students for a limited supply of affordable rental housing was an especially critical concern between 1997 and 2001 when Boston had the tightest rental market in the nation. Over the past decade, colleges and universities in Boston and Cambridge have built new dormitories to accommodate nearly 4,000 students, the equivalent of freeing up 1,000 apartment units, and it is widely believed that this production helped ease the region's rental crunch as they came on line beginning in 2001. Additional student housing was built on campuses elsewhere in the region.

Student housing production in the high impact areas of Boston, Cambridge, and Medford began to pick up again in 2005. In 2006 and the first quarter of 2007, construction commenced on student housing for more than 3,200 undergraduate and graduate students, the equivalent of 812 new apartments.[16] This includes large undergraduate facilities at Boston University and Northeastern and graduate student housing at MIT in Cambridge. Even Boston's smaller colleges, Emerson and Suffolk, added new units through new construction and the acquisition and/or conversion of non-residential properties. **Figure 3.2**, which tracks the production of student housing by building permit year, illustrates the substantial increase in the high impact areas from 233 units in 2004 to 453 units in 2005 to 812 units in 2006.

The student housing pipeline remains strong. Harvard, Northeastern, Boston University, Boston College, and Berklee College of Music all have proposals on the drawing boards, and the Boston Redevelopment Authority is currently reviewing the city's first proposal for new private (non-university-affiliated) student housing in the Fenway.

FIGURE 3.2

New Student Housing by Year Permitted



Source: Data provided by individual schools and universities

Affordable Subsidized Housing

Affordable housing production, including rehabilitation and preservation efforts, is addressed in detail in Section 5, but **Table 3.5** summarizes the progress made in 2006 in adding affordable units to the State's Subsidized Housing Inventory (SHI, or the "40B" list). New developments begun in 2006, with an affordable component,[17] created more than 5,000 new units of housing, counting both market rate and affordable

TABLE 3.5

New Affordable Housing Production in Greater Boston

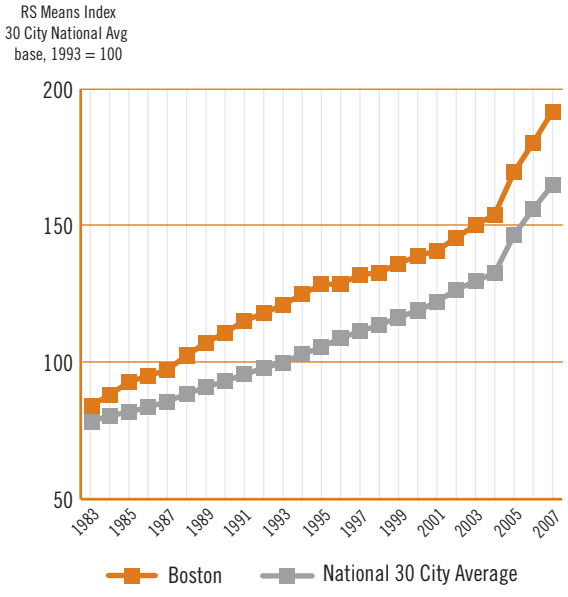
Year	New Affordable Units	New Homeowner Units	Affordable Homeowner Units	New Rental Units	Affordable Rental Units	Units that count on Subsidized Inventory (40B list)
2002	1,427	815	246	1,681	1,181	1,927
2003	1,889	1,512	510	2,758	1,379	3,268
2004	1,997	2,006	638	3,160	1,359	3,798
2005	2,508	3,095	1,205	2,931	1,303	4,119
2006	2,422	2,124	775	2,890	1,647	3,665

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

units. They will result in the addition of 3,665 units to the SHI. Nearly half will serve low-income households; 68 percent of the income restricted units will be rental and 32 percent will be homeownership. While affordable housing production was down in 2006, the drop was not as great as that experienced in market rate production.

FIGURE 3.3

Historical Construction Costs, Boston v. National 30-City Average



Source: R.S. Means Historical Construction Cost Index

Construction Costs Continue to Rise, but at a Slower Rate

Despite the drop off in housing starts, the cost of construction continued to rise in 2006, though not as rapidly as in 2004 and 2005. Rising fuel costs were identified as a significant factor in the increased cost of doing business in 2006. The R.S. Means Company produces a cost index (**Figure 3.3**) that measures change in construction costs over time and in different parts of the country. The index includes labor and material, but not land or other peripheral expenses such as architectural or engineering fees. Figure 3.3 shows that the Boston metropolitan area's 2006 cost increase of 6.3 percent was greater than the 5.6 percent reported for the 30-city average. In 2005 and 2004 Boston had posted increases somewhat lower than the average, but the region remains a high cost area with construction costs generally about 15 percent above the national average.

The Housing Pipeline

Rising construction costs, unexceptional job growth, waning consumer confidence, and an overhang of unsold inventory—more existing than new—have curtailed plans for additional large-scale development in the near term. There have not been any major new additions to the pipeline in the past 18 months, although some of the existing projects have made progress securing approvals and/or financing.

Nonetheless, the housing pipeline remains strong. The development permitting process is so arduous in Massachusetts that those developers who have learned how to navigate the system and have the financial wherewithal to do so are willing to wait out the market downturn.

CURP is tracking nearly 24,000 units within the 40B pipeline in Greater Boston communities, 4,000 (15 percent) fewer than what was reported two years ago. The reduction is due to several factors: a substantial backlog of 40B developments that commenced construction in 2005 and 2006; the decline in the number of new proposals entering the pipeline by 20 percent in 2005 and another 40 percent in 2006; and 1,500 units that had been seeking approval as 40Bs have moved into the 40R queue. (Chapter 40R is the Smart Growth Zoning statute enacted in 2004, an update on which is included in Section 6.)

Major market rate developments have been proposed that could add more than 20,000 new housing units, nearly half of them in the City of Boston. Most of these are for multifamily development in urban areas or along transit corridors. Not included in this number are more than 9,000 units of age restricted housing, which—like the 40B pipeline—is concentrated in the suburbs.

While the production pipeline remains robust, history suggests that only about 60 percent of it is likely to get built. Even with the "expedited permitting" provided under Chapter 40B or the financial incentives attached to Chapter 40R, the permitting process can take several years to traverse. This is as true in the cities as it is in the suburbs, and the process is even more protracted for those developing low-income housing because they must weave together a complex web of financial subsidies.

Because the process is so arduous, those with a coveted site—especially one with approvals in place—are likely to try to wait out the current market uncertainty. A few developers, in fact, are aggressively pushing forward in the hope that they will be bringing desirable new product to the market just as the economy rebounds and demand picks up again.

4.
Rents, Home Prices, and Affordability

Last year's Report Card noted that rents and home prices in Greater Boston rose in tandem between 1998 and 2001 but diverged sharply after the economy began to decline in early 2001, with rents moderating while home prices continued to escalate. By the end of 2005, the situation had reversed: rents had begun to creep up and home prices were falling. Rent levels and vacancies remained relatively stable in 2006 and through the first half of 2007, but home sales and prices have continued to decline. Current data are sending mixed signals. Analysts do not agree on where the market is headed, though there is emerging consensus that house prices will continue to slide but not as steeply as in the past. Of course, what happens in the "for sale" side of the housing market affects what happens in the rental market. This section reports on changes in rents, home prices, sales activity, and affordability in the past year and a half.

On one topic there is widespread agreement: the challenge of affordability in the high cost Boston market will remain regardless of how quickly the market recovers. **Table 4.1**, from the Census Bureau's most recent (2005) *American Community Survey*, illustrates Massachusetts' comparative ranking among the 50 states on a range of relevant indicators.[18]

Greater Boston: A High Cost but Stable Rental Market

CURP analysis of the region's rental market is derived from two primary sources, one focusing on historical and existing rents and vacancy levels, the other on advertised rents:

- Average rents and vacancies for the region are available going back to 1990 from Reis, Inc., a national source of commercial real estate trends and analytics. Effective rents take into account any concessions provided by landlords such as a month's free rent. The data are based on quarterly surveys of professionally managed apartment complexes of 40 or more units throughout the metro area and provide a good historical overview of the market.
- Median advertised rents for two-bedroom apartments in 15 Boston neighborhoods and 25 surrounding communities are compiled by the City of Boston's Department of Neighborhood Development (DND) from *The Boston Sunday Globe* real estate section. Advertised rents only relate to units new to the market or to units that are changing hands, but permit us to observe what is happening

TABLE 4.1

How Massachusetts Ranks on Key Housing Indicators, 2005

Category	Amount	Rank
Median value for owner occupied homes	$361,500	3
Median monthly housing cost for owner occupied units with mortgage	$1,781	3
Median monthly housing cost (gross rent) for renter occupied units	$902	4
Median contract rent	$799	4
Percent of mortgaged households spending 30 percent or more on housing	37.3%	9
Percent of renter households spending 30 percent or more on housing	46.4%	9
Home price to income ratio	6.32	3
Mortgage payment to gross rent ratio	1.97	6
Median income homeowner households	$79,234	4
Median income renter households	$31,820	11

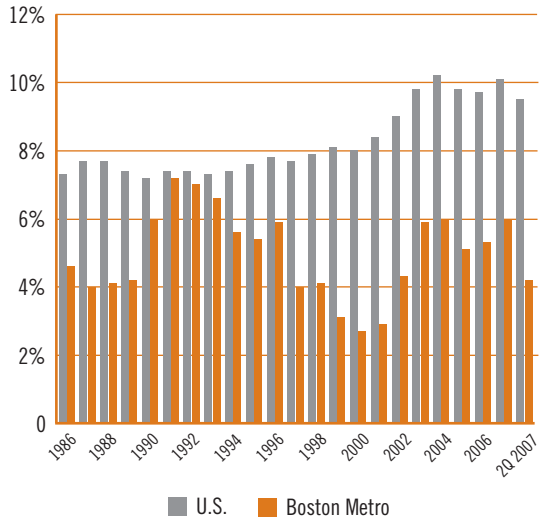
Source: U.S. Census Bureau, *American Community Survey* 2005

to rents across 20 individual towns and cities in the immediate Boston area.[19]

Figure 4.1 tracks rental vacancy rates in the Boston metro area and the nation as a whole and demonstrates that, even in recovery, Boston's rental vacancy rates remain well below national levels. Not since 1990-1992 have rental vacancy rates in Boston been close to the national rate. In 2006, the Census Bureau estimated that the average vacancy rate in the Boston metropolitan area was 5.3 percent. This represented a slight increase from 2005's annual average rate of 5.1 percent but was below the 6 percent reached in 2004. Vacancies jumped in the first quarter of 2007 to 6 percent before dropping back to 4.2 percent in the second quarter. This compares with a second quarter rate of 9.5 percent for the country as a whole.

FIGURE 4.1

Rental Vacancy Rates Boston Metro v. U.S.



Source: U.S. Census Bureau Quarterly Vacancy Survey

Figure 4.1 demonstrates that there has been a general upward trend in national vacancy rates between 1996 and 2007, but a slightly downward trend in Greater Boston. That the region's rental vacancy rates remain on the low end of a "normal" level of 5.0 to 6.0 percent helps explain why rents here have not fallen despite slow population growth and a sluggish job market.

The Trend in Greater Boston Rents: Reis, Inc.

Reis reports that the average rental vacancy rate for the Boston metro area has been dropping—though modestly—since 2004, from 5.2 percent that year to 5.1 percent in 2005 to 5.0 percent in 2006. Like the Census survey, Reis notes an increase in vacancies at year end 2006 and in the first quarter of 2007, a trend it attributes to the continued growth of the region's rental inventory. CURP estimates that more than 4,600 new rental units were completed during 2006 offering a range of amenities for those able to spend upwards of $20,000-$25,000 per year in rent. Examples of recently completed rental communities include Stonegate on the Marlborough/Southborough line in the 495 growth corridor; Archstone Boston Common in Boston's Chinatown neighborhood and the Trilogy in the Fenway; Alterra at Overlook Ridge, built on the site of an abandoned quarry on the Revere/Malden line; Jefferson at Dedham Station, near that town's commuter rail terminal; and the Apartments at Boott Mills and Washington Mills, adaptive reuse projects in Lowell and Lawrence. A similar number is expected to be completed in 2007.

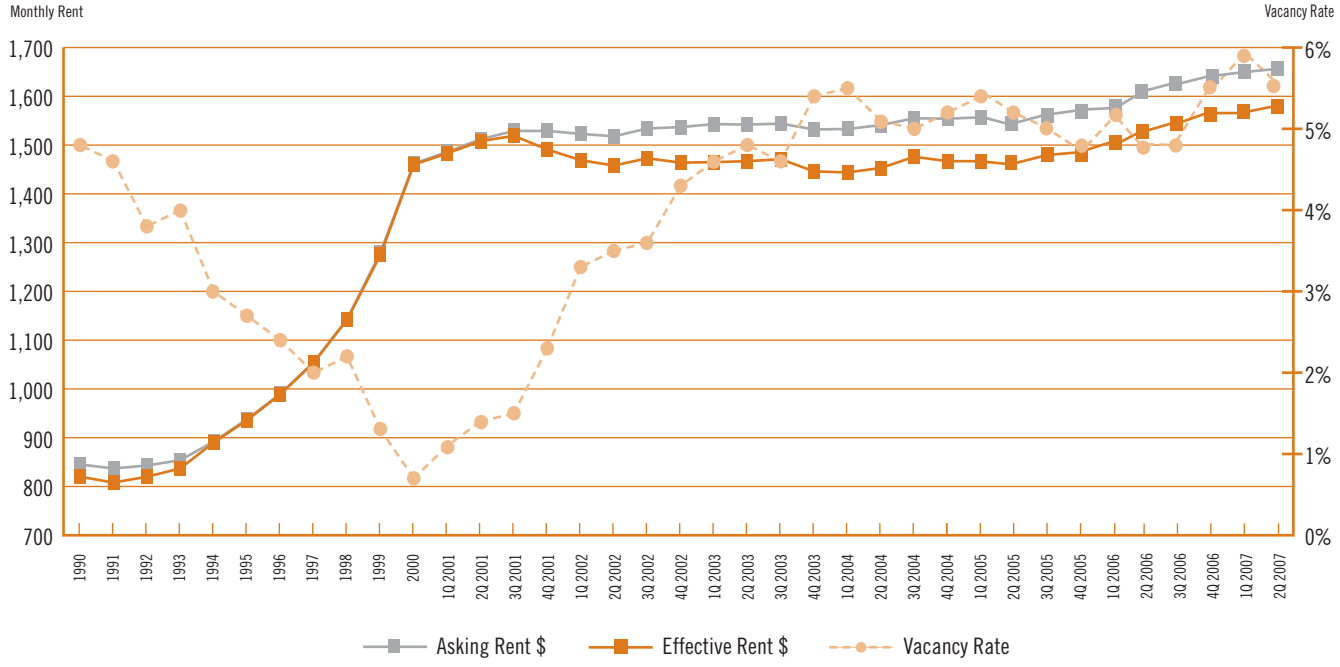
Despite the increases in rental production and vacancy rates near normal levels, the Reis asking price index increased by 4.1 percent in 2006 to $1,644 compared with 2005, and the effective rent rose by 4.5 percent to $1,565. By the second quarter of 2007 asking rents had climbed to $1,659 with an effective rent of $1,582, both representing a little better than a 3 percent year over year increase. From 1994-2001, with vacancy rates never rising above 3 percent, the asking rent was the effective rent. Since 2002, however, there has been more room for negotiation and effective rents have generally been about 5 percent below asking rents. For the most part, though, the incentives are being offered to new tenants in the recently completed high-end developments, not in the more affordable "bread and butter" stock. **Figure 4.2** documents the changes in asking rents, effective rents, and vacancy rates since 1990.

Advertised Rents: Boston Globe

While the Reis data provide the historical context, the City of Boston's Department of Neighborhood Development's (DND) survey of advertised rents in *The Boston Sunday Globe* provides a reasonable indicator of market conditions faced by those currently seeking to rent an apartment. All of the communities in the survey experienced sharp increases in asking rents

FIGURE 4.2

Historic Apartment Rent and Vacancy Data



Source: Reis, Inc.

between 1998 and 2001, before dropping back modestly since that time. The rent increases in every case exceeded 20 percent; most were substantially higher. Three communities saw asking rents jump more than 50 percent; in nine others, the increase was between 30-50 percent.

Rents fell as the market softened between 2001 and 2004, but the decline was much more modest than the prior run-up had been, exceeding 15 percent in only two towns. By 2005 the market had regained some stability. Some communities began to see rents inch up in 2006, but others registered modest declines. In 12 of the 20 for which there was sufficient data in both years, advertised rents in 2006 were within 5 percent of what they had been in 2005, and in 17 of the 20 they remained within 10 percent.

Table 4.2 documents the changes in Greater Boston's rental market between 1998 and 2006 based on advertised rents. In only one municipality, Lexington, was the asking rent higher in 2006 than it had been in 2001. In six of the others, rents were either unchanged from their 2001 highs or down by less than 10 percent. Eleven saw asking rents drop by between 10 and 20 percent.

A similar pattern was evident in the City of Boston's neighborhoods. After rising sharply between 1998 and 2001, asking rents declined but at a much more modest pace. (See **Table 4.3**) With the exception of the already high cost Central (downtown) area, all Boston neighborhoods witnessed at least a 25 percent increase in advertised rents between 1998 and 2001, with four increasing by more than 40 percent. Between 2001 and 2004, the situation reversed: advertised rents dropped in 13 neighborhoods, while remaining unchanged in Dorchester. The downtown was again the exception with advertised rents there rising regardless of the trend elsewhere. As was the case in the surrounding communities, the drop in asking rents in Boston was modest compared to their steep rise over the prior four years. Also mirroring the experience in the surrounding communities, rents have vacillated in the past two years, with some areas showing greater strength than others.

TABLE 4.2

Median Advertised Rents for 2-Bedroom Apartments in Boston Area Cities and Towns, 1998-2006

City/Town	1998	2001	2004	2005	2006	%Change 1998-2001	%Change 2001-2006
Arlington	$1,100	$1,500	$1,300	$1,250	$1,250	36.4%	-16.7%
Belmont	$1,225	$1,600	$1,350	$1,350	$1,400	30.6%	-12.5%
Brookline	$1,400	$1,800	$1,650	$1,838	$1,800	28.6%	0.0%
Cambridge	$1,400	$1,750	$1,550	$1,600	$1,575	25.0%	-10.0%
Chelsea	$1,100	$1,350	$1,195	$1,500	$1,300	22.7%	-3.7%
Dedham	$1,000	$1,275	$1,100	$1,200	$1,125	27.5%	-11.8%
Everett	$775	$1,200	$1,100	$975	$1,000	54.8%	-16.7%
Framingham				$1,075	$1,200		
Lexington	$1,300	$1,648	$1,600	$1,500	$1,800	26.8%	9.2%
Lynn				$1,000	$999		
Malden	$850	$1,250	$1,175	$1,190	$1,125	47.1%	-10.0%
Medford	$950	$1,400	$1,200	$1,200	$1,200	47.4%	-14.3%
Melrose	$950	$1,400	$1,275	$1,295	$1,375	47.4%	-1.8%
Needham	n/a	**	$1,350	$1,475	**	**	
Newton	$1,300	$1,600	$1,450	$1,400	$1,450	23.1%	-9.4%
Quincy	$850	$1,250	$1,300	$1,250	$1,250	47.1%	0.0%
Revere	$788	$1,288	$1,100	$1,098	$1,195	63.5%	-7.2%
Somerville	$1,050	$1,400	$1,298	$1,200	$1,250	33.3%	-10.7%
Stoneham	n/a	n/a	$1,225	**	$1,125	**	
Waltham	$975	$1,350	$1,250	$1,200	$1,150	38.5%	-14.8%
Watertown	$1,200	$1,500	$1,300	$1,250	$1,300	25.0%	-13.3%
Winchester	$1,050	$1,750	$1,350	$1,373	$1,448	66.7%	-17.3%
Winthrop	$900	$1,228	$1,200	$1,200	**	36.4%	

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

** Number of cases too small for statistical significance

In four Boston neighborhoods asking rents increased in 2006 over 2005, two remained unchanged, and four dropped. In every case, though, the change was less than 10 percent. As Table 4.3 illustrates, 2006 asking rents in most Boston neighborhoods remain 5 to 16 percent below their 2001 peaks. Running counter to this trend, however, has been the experience in four of the City's priciest rental markets. Asking rents in Back Bay/Beacon Hill, Central (downtown) Boston, South End, and Jamaica Plain are now above their 2001 levels, substantially above in the case of Central and the South End.

Although there is still considerable variation among neighborhoods and municipalities, the general decline in rents experienced between 2001-2004 appears to be a thing of the past. The renter population grew in 2005 for the first time since 2000, increasing demand for rental housing. With the uncertainty in the home

TABLE 4.3

Median Advertised Rents for 2-Bedroom Apartments in City of Boston Neighborhoods, 1998-2006

Neighborhood	1998	2001	2004	2005	2006	%Change 1998-2001	%Change 2001-2006
Allston/Brighton	$1,200	$1,500	$1,300	$1,300	$1,300	25.0%	-13.3%
Back Bay/ Beacon Hill	$1,900	$2,400	$2,250	$2,450	$2,600	26.3%	8.3%
Central	$2,200	$1,875	$2,200	$2,200	$2,300	-14.8%	22.7%
Charlestown	$1,400	$1,925	$1,650	$1,550	$1,650	37.5%	-14.3%
Dorchester	$800	$1,295	$1,300	$1,200	$1,200	61.9%	-7.3%
East Boston	**	$1,200	$1,100	$1,100	$1,200	**	0.0%
Fenway/Kenmore	$1,350	$1,900	$1,498	$1,225	$1,598	40.7%	-15.9%
Hyde Park	$850	$1,275	$1,250	$1,200	$1,200	50.0%	-5.9%
Jamaica Plain	$1,100	$1,400	$1,325	$1,400	$1,525	27.3%	8.9%
Mattapan	**	$1,250	$1,200	$1,200	$1,100	**	-12.0%
Roslindale	$900	$1,300	$1,225	$1,225	$1,200	44.4%	-7.7%
Roxbury	**	$1,300	$1,250	$1,200	$895	**	**
South Boston	$1,200	$1,500	$1,400	$1,400	$1,300	25.0%	-13.3%
South End	$1,500	$2,000	$1,950	$2,200	$2,350	33.3%	17.5%
West Roxbury	$1,000	$1,400	$1,225	$1,250	$1,200	40.0%	-14.3%

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

** Number of cases too small for statistical significance

buying market, some who could afford to purchase a home are electing to rent instead. Even with another 4,600 new units scheduled to come on line in 2007, the rental market for the time being is healthy and well balanced from the point of view of developers and landlords. What it is not, and is unlikely to become anytime soon, is affordable for low and moderate income households and even many young professionals. With rent levels among the highest in the nation, and vacancies within the normal range, it is unlikely that rents will drop substantially from their current high levels.

Rental Affordability

The region's extraordinary renaissance in rental production and an unprecedented boom in student housing construction coupled with a substantial reduction in the number of renter households—until 2005—did take pressure off the overheated rental market. As a result, Boston's rental vacancy rate, the lowest in the nation in 2000, has risen to near normal levels. But this has not yet translated into improved affordability for many renters. The 2005 *American Community Survey* reported that the number of renter households paying more than 30 percent of their income for rent rose by nearly 9 percent between 2004 and 2005, and the number paying in excess of 50 percent jumped by 36 percent, affirming the anecdotal evidence that many of the region's renters are worse off today than they had been at the market's peak. Since most cost burdened tenants are those with the lowest incomes, they are left with little for other basic necessities like food, health care and childcare.

In general, renter households have substantially lower incomes than their home owning counterparts: $35,748 compared to $81,886 in 2005. They have also experienced a greater drop in real income in recent years. As a result, an increasing supply of apartments

with asking prices in excess of $1,500 per month is of little benefit to them. The high quality new rental production *does* provide an attractive option to those renter households who can afford it, and 30 percent of the region's renters *can afford* a monthly rent of at least $1,500. Increasingly, it is also providing a competitive alternative for older homeowners who wish to downsize.

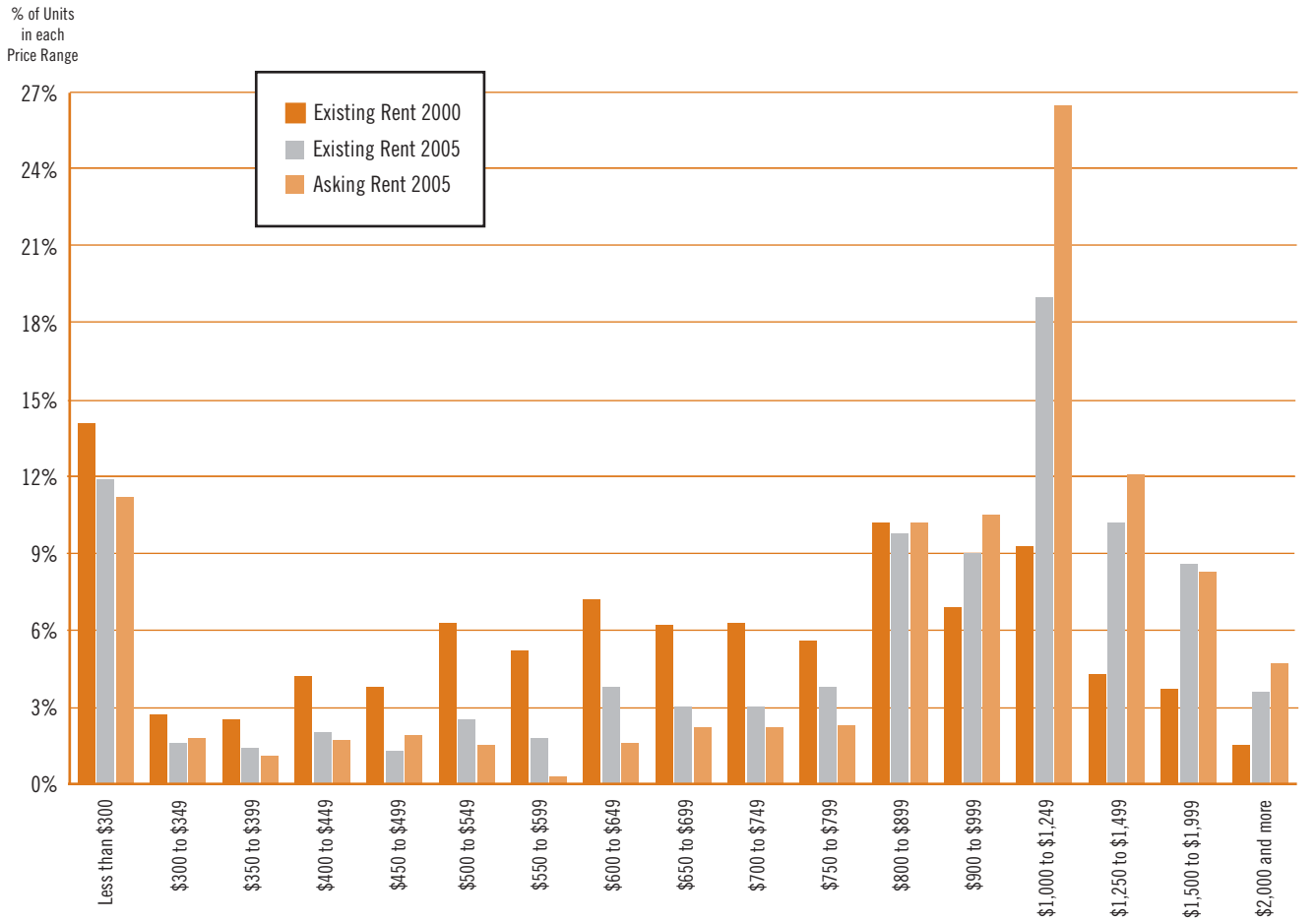
The squeeze comes for those low-income renters left to fend for themselves in a marketplace with increasingly fewer low cost options. **Figure 4.3** illustrates the shifting cost profile of the region's rental inventory, from 2000 to the present, including asking rent levels of units currently vacant and available for rent. Nearly two out of five (38.6%) of the region's renter households can afford to pay a monthly rent of no more than $625. The 2005 ACS reports that just 25 percent of the available units are so priced. New construction requires a rent at least twice that amount, and often much more.

Not surprising, in its most recent annual assessment of least affordable rental markets, *Out of Reach 2006*, the National Low Income Housing Coalition (NLIHC) ranked Massachusetts 3rd, after Hawaii and California. The Commonwealth has held one of the top four positions since 2000. The Boston-Cambridge-Quincy metro area ranked 6th. (It has ranked between 5th and 7th since 2000.)

In the Boston metro area,[20] the fair market rent (FMR) recognized by the federal Department of Housing and

FIGURE 4.3

Erosion of Low-Cost Rentals



Source: U.S. Census Bureau, 2000 Decennial Census and the 2005 *American Community Survey*

Urban Development (HUD) for a two-bedroom apartment is $1,366. In order to afford this level of rent and utilities, without spending more than 30 percent of its income, a household must earn $54,640 annually. Assuming a 40-hour work week, 52 weeks a year, a worker needs to earn $22.65 an hour to afford the FMR for a two-bedroom home. This is called the "housing wage."

Since a Massachusetts worker earning the *minimum wage* makes $6.75 an hour, (s)he must work 134 hours a week, 52 weeks a year, in order to afford the FMR for a two-bedroom apartment. Alternatively, she could afford the rent if she shared expenses with 2.4 other full time workers, each earning the minimum wage. Moving up the economic ladder, the estimated *average hourly wage* for a renter in Massachusetts in 2006 was $15.68. Even at this amount, a worker would need to work 58 hours a week, year round, to afford a two-bedroom apartment.

A Growing National Concern: Affordable Rental Housing for Very Low-income Households

While Boston is noteworthy for its extremely high rent levels,[21] the challenge of housing affordability for the lowest income Americans is a national problem that traces its roots, in large part, to income stagnation among low, moderate, and even middle income workers and to changes made to the tax code 20 years ago that made investment in real estate relatively less attractive than other investments. The most pressing rental "deficit," or shortfall, now exists for extremely low-income renters, those earning 30 percent or less of the area median income, as several national studies have documented recently. In Greater Boston, a three-person household earning less than $22,750 annually is considered extremely low income, as is a four-person household earning less than $25,250.

The National Low Income Housing Coalition reports that, even if every existing affordable rental unit in the country housed an extremely low-income household, there would still be a shortfall of 2.8 million units. And, the gap between the demand and the supply of housing for those with extremely low incomes is growing. Meanwhile, the rental housing market facing households at 80 percent of the area median income is fairly well balanced nationwide, with many areas registering a surplus of affordable units.

Continued Weakness in the Home Buying Market

On the homeownership side, the number of home sales in the region is still declining, but not at the rates experienced a year ago. Single family home sales in Massachusetts fell 14.5 percent in the fourth quarter of 2006, but rose in the first quarter of 2007 by 2.8 percent before retreating again in the second quarter with a 5.4 percent drop. (Change is measured over the same quarter a year earlier.) As Table 1.1 in Section 1 illustrated, the state has experienced declining sales in seven of the past eight quarters. Home prices, too, have fallen in each of the last six quarters, most recently dropping by 1.4 percent in the second quarter of 2007. The weakest performance to date was registered in the third quarter of 2006 when sales were down by 23.4 percent from the prior year, and the median price of single family homes sold was 4.9 percent lower than it had been during the same period a year earlier.

Industry analysts consider the Massachusetts market to be at equilibrium for buyers and sellers when 7.5 to 8.5 months of housing supply exists. **Table 4.4**, which presents a snapshot of key market indicators for a single month—June—from 2004-2007, documents the softening market. Data are provided by the Massachusetts Association of Realtors and are for the whole state. Both single family homes and condominiums show similar trends: the number of listings and months of supply rose for three years before dropping back somewhat in 2007; the number of days on the market has continued to rise; the number of sales continues to drop as does the median single family home price. The median condominium price rose in 2007, but this may be the result of more newly constructed units in the mix, not an increase in the price of existing homes.

According to the Warren Group, publishers of *Banker and Tradesman*, single family sales in Greater Boston[22] through June 2007 were down 2.3 percent compared to a year earlier, while the median price dropped 2.8 percent, to $371,000. Condominium sales were down as well, by 2.9 percent, with a drop in the median price of 1.7 percent to $297,000. **Figure 4.4** documents these trends. Sales of 2-4 family dwellings fared even worse. Fueled by the condominium conversion frenzy that began in 2003, sales of these small multifamily proper-

TABLE 4.4

Snapshot of a Housing Market in Transition

Single Family Homes	Supply in Months	% Change	# of Listings	% Change	# of SF Homes Sold	% Change	Median Sales Price	% Change	Avg Listing Time (days)	% Change
Jun-04	5.0	-18.0%	29,712	-4.5%	6,051	24.7%	$360,000	12.8%	NA	NA
Jun-05	5.9	18.0%	35,820	20.6%	6,115	1.1%	$373,750	3.8%	84	NA
Jun-06	7.6	28.8%	38,664	7.9%	5,105	-16.5%	$370,000	-1.0%	111	32.1%
Jun-07	7.7	1.3%	38,018	-1.7%	4,959	-2.9%	$364,000	-1.6%	126	13.5%
Condominiums	**Supply in Months**	**% Change**	**# of Listings**	**% Change**	**# of Condos Sold**	**% Change**	**Median Sales Price**	**% Change**	**Avg Listing Time (days)**	**% Change**
Jun-04	5.0	-20.6%	11,662	12.7%	2,329	44.5%	$265,000	12.8%	NA	NA
Jun-05	5.5	10.0%	15,362	31.7%	2,781	19.4%	$286,750	8.2%	66	NA
Jun-06	7.5	36.4%	17,830	16.1%	2,382	-14.3%	$283,500	-1.1%	98	48.5%
Jun-07	7.2	-4.0%	16,999	-4.7%	2,352	-1.3%	$296,000	4.4%	124	26.5%

Source: Massachusetts Association of Realtors Monthly Reports

ties rose to all time highs in 2004, with prices peaking a year later. Through June 2007, 2-4 family sales are down nearly 40 percent statewide, with an 8.1 percent drop in median price. It is estimated that 2007 sales are likely to be 46 percent below the 2004 mark.

The companion **Figure 4.5** illustrates the year over year percentage change in the median single family home price from 1988 on. From 1989 to 1992 housing prices declined for three years in a row as the economy fell into recession, losing about 14 percent of their nominal value. During the more recent recession (2001), and subsequent period of anemic economic growth, price appreciation remained positive. That has now changed, and the region has experienced back-to-back price declines of 4.3 percent in 2006 and 3.9 percent through the first five months of 2007.

The National Perspective

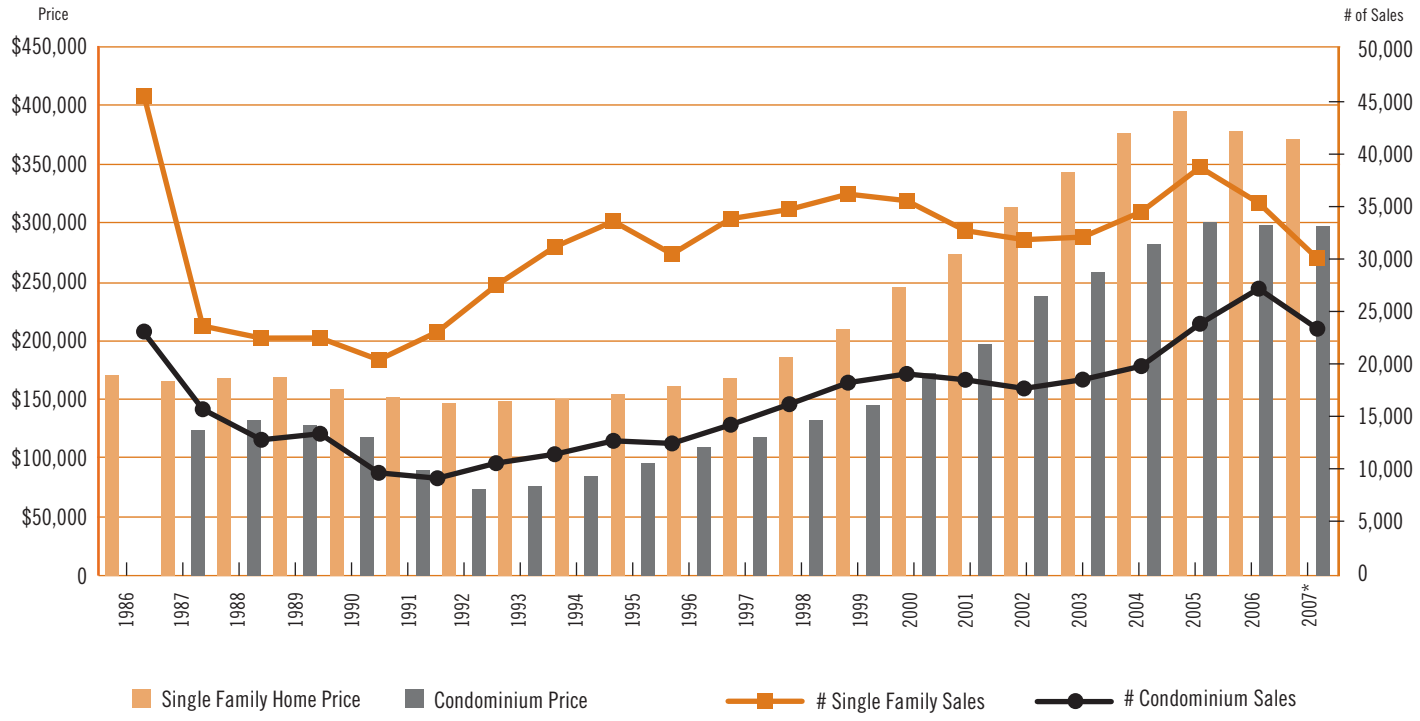
The nation continued to experience double digit housing price appreciation for a full year after the Boston and Massachusetts housing markets had begun to cool, as **Figure 4.6** illustrates. This figure compares home price appreciation in the Boston metro area to the nation as a whole. While the Commonwealth has enjoyed the highest rate of price appreciation of all 50 states when viewed over a 27-year perspective (since 1980)—and Boston has likewise held the same distinction among metro areas—much of that increase was driven by the spectacular run-up in prices in the mid-1980s, increases that were off a relatively low 1980 baseline that closely resembled the national average in terms of median home price. Many other states have experienced greater price appreciation in recent years, including Nevada, California, Arizona, and Florida. All of these states are now experiencing price corrections, and some are likely to see prices tumble more dramatically than Massachusetts in 2007 and 2008.

For the five years ending March 31, 2007, Massachusetts experienced a 44 percent appreciation in housing prices, ranking 26th among the states and lagging the U.S. rate of 54 percent. During the same period, Florida experienced price appreciation of 102 percent, California 99 percent, Nevada and Maryland 96 percent, Arizona 94 percent, Rhode Island 76 percent, and New Jersey 74 percent.

Unlike parts of the country that experienced unbridled overbuilding, Greater Boston does not have a substan-

FIGURE 4.4

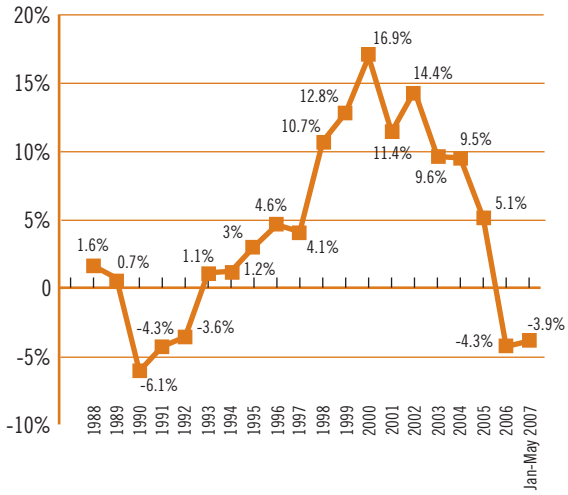
Number of Sales and Median Price of Single Family Homes and Condominiums



Source: The Warren Group Publications

FIGURE 4.5

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

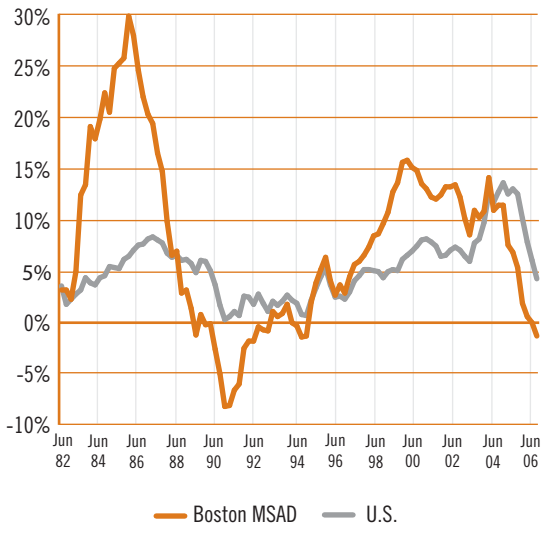


Source: The Warren Group Publications

* 2007 change is Jan-June median price change from year-end 2006

FIGURE 4.6

Home Price Index Boston Metro v. U.S.



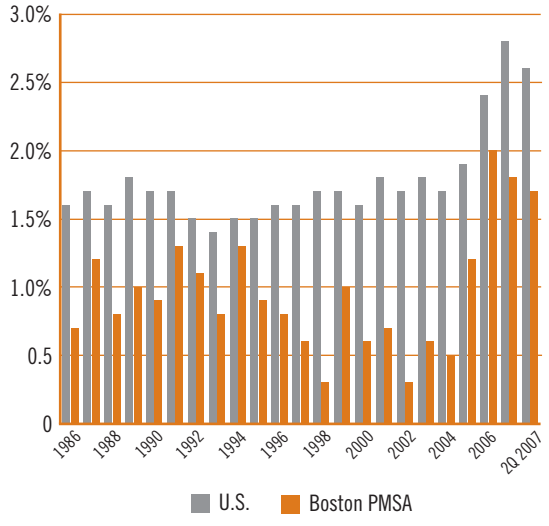
Source: Office of Federal Housing Enterprise Oversight House Price Index

tial unsold inventory of newly built homes. What the region is encountering is a standoff between anxious would-be buyers, who think the market may drop further, and would-be sellers with inflated expectations of their property's value, not a glut of new homes caused by overbuilding. New construction constitutes only about 10 percent of the home sales in any given year in Massachusetts, compared to 13-15 percent nationally. Still, the current slowdown is affecting the state's homebuilders. Much of the recent production has been targeted to empty nesters, and in many cases, restricted to households with at least one member over age 55. Units in this market segment cannot move unless potential buyers can sell their existing homes.

For most of the Commonwealth's long term owners, the recent downturn in the market is unlikely to erode the substantial gains they have enjoyed over the term of their ownership, but the psychological impact is enormous. Many homeowners, who had contemplated selling, are unwilling to lower their asking price because they believe their property is worth what similar properties fetched in the summer of 2005. Rather than reduce their asking price, they may take the house off the market or let it languish with an unattainable price tag.

FIGURE 4.7

Homeowner Vacancy Rates Boston Metro v. U.S.



Source: U.S. Census Bureau Quarterly Vacancy Survey

Home Prices and Sales Fall as Inventories Rise

Homeowner vacancy rates fluctuate more than rental rates do, but typically increasing vacancy rates and rising inventories are harbingers of falling prices. Two figures illustrate these trends. **Figure 4.7**, which tracks homeowner vacancy rates in the Boston metro area against national norms, shows that the region's sliding home sales corresponded to rising vacancy rates, beginning in the third quarter of 2005. Boston's homeowner vacancy rate, like its rental vacancy rate, still remains well below national norms and this helps to explain why recent price declines have been quite modest. Not since 1994 has the Greater Boston homeowner vacancy rate come close to the national rate.

Figure 4.8 tracks the number of listings of homes for sale in Massachusetts over the past decade. This figure underscores the seasonal nature of the home sales market, but the trends are apparent: as inventories fell, prices rose; when inventories began to rise, prices softened. This figure includes both single family dwellings and condominiums.

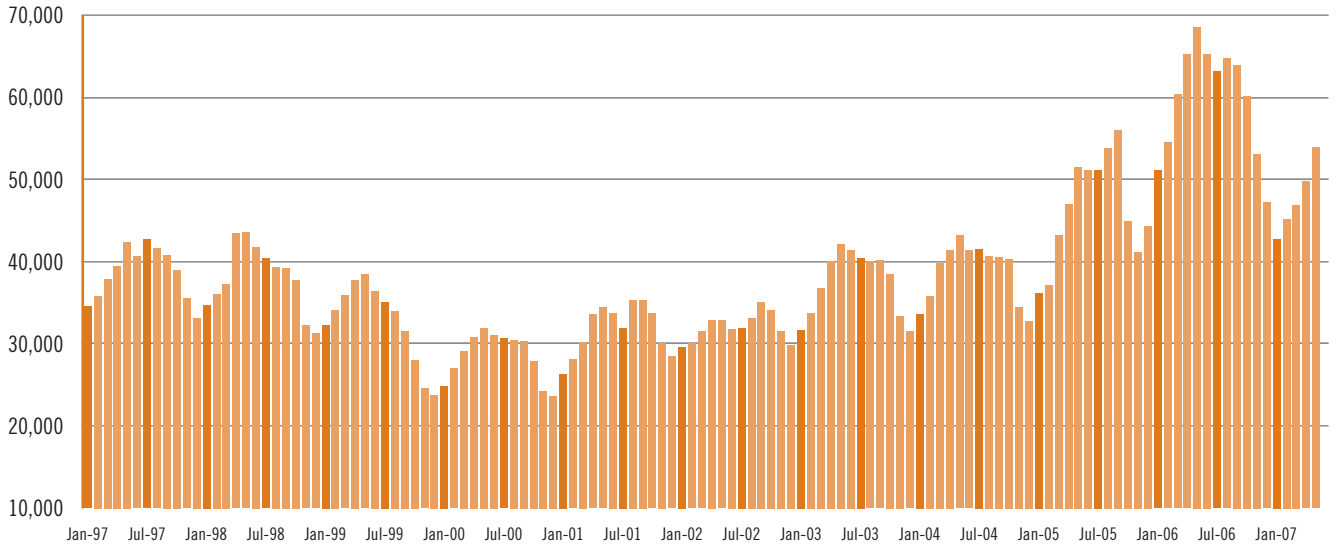
Homeownership Affordability

That Boston was the third most expensive home buying market in the nation in 2001, and now ranks #15, is scant comfort to those who wish to purchase a home here. Affordability did improve modestly in 2006 as falling prices more than offset rising interest rates, but future interest rate increases could easily reverse these gains.

The median price of single family homes sold in 2006 ranged from $243,950 in Lawrence to $1.2 million in Weston. Prices were down in more than 80 percent (130) of the communities tracked by the Housing Report Card compared to 2005. They rose in 16 percent (26), and were unchanged in 3 percent (5). This represented a stunning turnaround from 2004 and 2005 when median home prices increased year over year in more than 90 percent of the region's municipalities. In 50 percent of the communities, the 2006 price decline ranged from 0.8 percent to 7.4 percent. The median price of single family homes sold through the first five months of 2007 exhibited a similar pattern. Prices were down from the 2006 (full year) level in 80 percent of the communities and up in only 20 percent. The median price is the mid point, the price at which half the sales are more expensive and half are less. Changes

FIGURE 4.8

Total Residential Listings in Massachusetts



Source: Massachusetts Association of Realtors

in median price are as likely to be caused by variation in the mix of homes sold as they are by market conditions, but the fact that price declines are as widespread as they are certainly points to a deteriorating market.

Table 4.5 provides further evidence that 2006 was the year that the Boston market shifted gears. In 1998, the median price of a home was less than $300,000 in 136 Greater Boston cities and towns. That number dropped every year through 2005, when the median single family home sold for less than $300,000 in only seven municipalities—less than 5 percent of the region's 161 communities. At the other end of the spectrum, the number of communities with median single family home prices above $500,000 increased during the same period, from 4 to 43, including four where the median price topped $1,000,000 in 2005.

With home prices declining in 2006, the number of communities with a median single family sales price of less than $300,000 doubled from 7 to 14. Even with this improvement, however, fewer than 9 percent of the 161 Greater Boston communities had median selling prices under $300,000, so while housing affordability improved, it did not improve by very much. In 2006, just one town could boast a median home price in excess of $1,000,000, down from four the year before.

Affordability Gap Analysis

To better understand the affordability problem, CURP prepares annually a town by town "affordability gap" analysis. The analysis estimates the number of communities that would be affordable to their existing residents if those residents were attempting to purchase a home there at current prices. A municipality's housing is considered "affordable" for this analysis if the annual cost of supporting a mortgage, real estate taxes, and homeowner's insurance does not exceed one-third of the annual median income of households in that community. CURP also estimates the affordability gap for those unable to come up with a 20 percent down payment. Considered a "first time homebuyer" analysis, the calculation is the same but both the homebuyer's household income and the purchase price of the home are estimated to be just 80 percent of the median for the community and the down payment is assumed to be 10 percent with private mortgage insurance.

The number of communities where the median single family home would be affordable to a family earning that municipality's median household income increased in 2006 and again through the first five months of 2007, to 30 and 46 respectively, after having

TABLE 4.5

Home Price Distribution, 1998-2006

# of Communities with Median Single-Family Sales Price	1998	2000	2001	2002	2003	2004	2005	2006
Below $100,000	4	0	0	0	0	0	0	0
$100,000 - $199,999	82	41	14	5	0	0	0	0
$200,000 - $299,999	50	68	74	62	43	19	7	14
$300,000 - $399,999	16	32	42	52	61	74	71	74
$400,000 - $499,999	4	10	12	22	30	33	40	36
$500,000 - $999,999	4	9	18	19	25	35	39	36
$1,000,000 and Above	0	0	0	0	1	1	4	1

% of Communities with Median Single-Family Sales Price	1998	2000	2001	2002	2003	2004	2005	2006
Below $100,000	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
$100,000 - $199,999	51.3%	25.6%	8.8%	3.1%	0.0%	0.0%	0.0%	0.0%
$200,000 - $299,999	31.3%	42.5%	46.3%	38.8%	26.9%	11.9%	4.4%	8.8%
$300,000 - $399,999	10.0%	20.0%	26.3%	32.5%	38.1%	46.3%	44.4%	46.3%
$400,000 - $499,999	2.5%	6.3%	7.5%	13.8%	18.8%	20.6%	25.0%	22.5%
$500,000 - $999,999	2.5%	5.6%	11.3%	11.9%	15.6%	21.9%	24.4%	22.5%
$1,000,000 and Above	0.0%	0.0%	0.0%	0.0%	0.6%	0.6%	2.5%	0.6%

% of Communities with Median Single-Family Sales Price	1998	2000	2001	2002	2003	2004	2005	2006
Below $300,000	85.0%	68.1%	55.0%	41.9%	26.9%	11.9%	4.4%	8.8%
$300,000 - $499,999	12.5%	26.3%	33.8%	46.3%	56.9%	66.9%	69.4%	68.8%
$500,000 and Above	2.5%	5.6%	11.3%	11.9%	16.3%	22.5%	26.9%	23.1%

Source: The Warren Group Publications

dropped from 148 municipalities in 1998 to just 19 in 2005. Affordability for first-time homebuyers increased as well in 2006 and 2007, and now six communities could be so considered. But even with this improvement, the number of communities considered affordable today is a far cry from the 92 percent that were deemed affordable by this analysis in 1998. **Table 4.6** summarizes the findings of this year's affordability gap analysis. The detailed listing and methodology are included in **Appendix A**.

This year, for the first time, CURP is able to show the price distribution of homes sold, an important complement to the municipality-by-municipality median prices. Shrewsbury-based MLS Property Information Network (MLSPIN), the largest multiple listing service in New England, provided the Report Card with valuable new information about the distribution of homes sold in 2006 and those currently on the market (July 2007) in the 161 cities and towns covered by the Report Card. Viewed together, **Figure 4.9** and **Table 4.7** show what share of the homes sold last year were affordable to different income groups. Sixty percent of the homes sold in 2006 in the 161 Greater Boston communities were priced below $400,000; nearly half sold for under $350,000. The homes priced under $400,000 were evenly split between condos and single family resi-

TABLE 4.6

Summary of Affordability Gap Analysis

Year	Communities Affordable to Median Income Homebuyer Purchasing Median Priced House (20% downpayment)	Percent Affordable	Communities Affordable to First Time Homebuyer Earning 80% of Median Purchasing House Priced at 80% of Median (10% downpayment)	Percent Affordable
1998	148	92%	116	72%
2000	101	63%	87	54%
2001	86	53%	42	26%
2002	77	48%	17	11%
2003	59	37%	5	3%
2004	27	17%	1	<1%
2005	19	12%	0	0%
2006	30	19%	1	<1%
2007*	46	29%	6	4%

Source: The Warren Group Publications

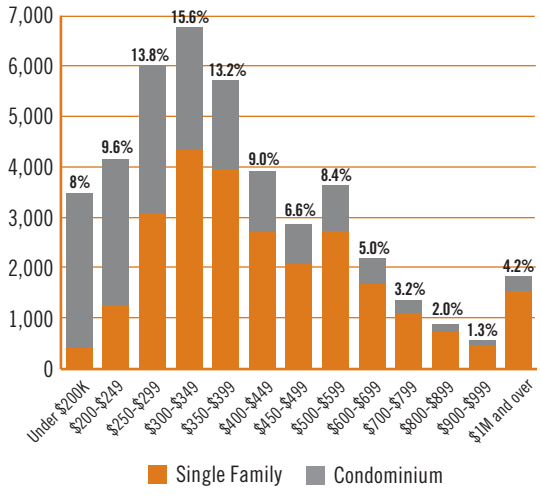
dences; among those priced below $350,000, the split was 45 percent single family, 55 percent condominiums. This translates into some 9,000 single family homes that sold for under $350,000 and 13,000 that sold for less than $400,000 in 2006.

Where the number of single family homes drops off sharply is in the "under $250,000" price range. Just 22 percent of those sales were single family. Fewer than 9 percent of *all home sales* in 2006, condominium or single family, were priced below $200,000. Among current listings (July 2007), just 2 percent (348 homes) were priced at under $200,000; 16 percent (2,921) were priced between $200,000 and $299,000; and 27 percent (4,892) were priced between $300,000 and $399,000.

The companion Table 4.7 provides information on what share of total home sales in 2006 were at prices affordable to households of different means. According to the table, a household with an income of $68,000 would be able to purchase a home with a maximum selling price of just about $300,000. In 2006, about 31 percent of all homes sold—single family and condo—were affordable by households with this income or less. To get some idea of who could afford this housing, recall from Table 2.2 that the median household income in 2005 was around $62,400. Assuming the median income in the region rose at the same rate in 2006 as it did in 2005—just 2 percent, to about $64,000—half the region's households were in a position to afford just 31 percent of the houses. Of course, for those with incomes below the median, the number of options was much more limited. Moreover, most of these households would have had to limit their search to condos since only about a third (34.7%) of the units selling for less than $300,000 were single family homes.

FIGURE 4.9

Distribution of Single Family Homes Sold in 2006*



Source: MLS Property Information Network (MLSPIN)

* data labels indicate price range's share of total home sales

TABLE 4.7

Who Could Afford to Purchase a Home in 2006

Approximate Income Required		Distribution of 2006 Home Sales			% of Sales
Low	High	Price Range	Single Family	Condominium	
	$46,000	Under $200K	402	3,078	8.0%
$46,000	$57,000	$200 - $249.9	1,258	2,898	9.6%
$57,000	$68,000	$250 - $299.9	3,077	2,923	13.8%
$68,000	$80,000	$300 - $349.9	4,326	2,424	15.6%
$80,000	$91,000	$350 - $399.9	3,939	1,767	13.2%
$91,000	$102,000	$400 - $449.9	2,705	1,210	9.0%
$102,000	$114,000	$450 - $499.9	2,073	790	6.6%
$114,000	$137,000	$500 - $599.9	2,719	920	8.4%
$137,000	$159,000	$600 - $699.9	1,669	517	5.0%
$159,000	$182,000	$700 - $799.9	1,102	264	3.2%
$182,000	$205,000	$800 - $899.9	728	158	2.0%
$205,000	$228,000	$900 - $999.9	467	100	1.3%
$228,000		$1M and Over	1,538	292	4.2%

Source: CURP analysis of MLS Property Information Network (MLSPIN) data and U.S. Census Bureau *American Community Survey* 2005

How Do Homebuyers in Massachusetts Compare to Homebuyers in Other Parts of the Country?

CURP routinely examines industry surveys and reports to ascertain if, and how, Massachusetts homebuyers differ from their counterparts in other parts of the country, with a particular interest in understanding how the state's high prices affect first time home buyers. The Profile of Home Buyers and Sellers, an annual survey undertaken by the National Association of Realtors in cooperation with their state affiliates including the Massachusetts Association of Realtors, provides a snapshot of homebuyers in the Bay State and their national counterparts. The most recent profile is based on an eight page questionnaire mailed to more than 4,000 Massachusetts consumers who bought homes between July 2005 and July 2006. The survey yielded 205 usable responses, a 5.1 percent response rate. We now have data from two years (2005 and 2006), and **Table 4.8** highlights some of the findings.

The 2006 survey results illustrate that some striking differences remain between Boston home buyers and their counterparts in other states. It is noteworthy, though, that Boston became somewhat more affordable in 2006, as other regions became less so. The typical Massachusetts homebuyer in 2005 had an income 23 percent higher than the typical household nationwide, but (s)he was purchasing a home that was 81 percent more expensive. A year later in 2006, the Massachusetts income premium had fallen to 15 percent, but the Bay State home price premium had dropped to 52 percent. In 2005, one-third (33%) of homes purchased nationwide sold for less than $150,000, while only 4 percent of Massachusetts homes did. In 2006, the comparable figures were 28 percent nationwide and 6 percent in Massachusetts. While 52 percent of homes purchased nationwide sold for less than $200,000 in 2005 compared to only 14 percent in the Commonwealth, a year later the gap had narrowed to 46 percent versus 18 percent.

Even the price premium on newly constructed homes declined from 2005 to 2006, from 85 percent above the average national price to 60 percent. First time homebuyers continue to represent the same proportion of buyers here as nationwide, and the price premium

TABLE 4.8

Homebuyer Profile, Massachusetts v. U.S.

	2005		2006		Change 05-06	
All Home Buyers	**MA**	**U.S.**	**MA**	**U.S.**	**MA**	**U.S.**
Median Income	$87,700	$71,600	$82,600	$71,800	-5.8%	0.3%
% with Incomes <$45,000	12%	21%	12%	21%	0.0%	0.0%
% with Incomes <$55,000	19%	32%	19%	31%	0.0%	-3.1%
% with Incomes <$75,000	37%	53%	41%	52%	10.8%	-1.9%
Median Age	38	40	38	41	0.0%	2.5%
Median Price of Home Purchased	$352,000	$195,000	$325,000	$214,000	-7.7%	9.7%
Median Price - New Home	$418,500	$226,300	$400,000	$250,000	-4.4%	10.5%
Median Price - Previously Owned Home	$344,000	$185,000	$319,900	$200,000	-7.0%	8.1%
Median % Financed	81%	87%	86%	91%	6.2%	4.6%
% Purchasing Homes Price <$150,000	4%	33%	6%	28%	50.0%	-15.2%
% Purchasing Homes Price <$200,000	14%	52%	18%	46%	28.6%	-11.5%
% Purchasing Newly Constructed Home	11%	23%	11%	22%	0.0%	-4.3%
Median Price of a Newly Constructed Home	$418,500	$226,300	$400,000	$250,000	-4.4%	10.5%
Of Newly Constructed Home Buyers, % Paying <$200,000	0%	41%	0%	32%	*	-22.0%
Of Newly Constructed Home Buyers, % Paying <$300,000	25%	70%	16%	62%	-36.0%	-11.4%
Of Newly Constructed Home Buyers, % Paying >$500,000	32%	9%	37%	13%	15.6%	44.4%
% Purchasing Detached Single Family Home	69%	75%	65%	75%	-5.8%	0.0%
% Purchasing Townhouse/Row House	7%	9%	8%	9%	14.3%	0.0%
% Purchasing Unit in Building with 2-4 Units	7%	7%	12%	3%	71.4%	-57.1%
% Purchasing Unit in Building with 5 or More Units	11%	2%	13%	8%	18.2%	300.0%
Size (in Square Feet)	1,767	1,816	1,688	1,815	-4.5%	-0.1%
Price per Square Foot by Type of Home	$211	$109	$200	$118	-5.2%	8.3%
Detached Single Family	$206	$106	$200	$112	-2.9%	5.7%
Townhouse	$224	$124	$176	$136	-21.4%	9.7%
Unit in 2-4 Unit Structure	$277	$100	$202	$129	-27.1%	29.0%
Unit in Structure with 5 or More Units	$252	$163	$224	$189	-11.1%	16.0%
First Time Home Buyers						
First Time Buyers as % of All Home Buyers	43%	40%	45%	36%	4.7%	-10.0%
Median Age of First Time Buyers	32	32	32	32	0.0%	0.0%
% < Age 25	5%	14%	7%	12%	40.0%	-14.3%
% Between 25-34	63%	50%	66%	51%	4.8%	2.0%
Median Price of Home Purchased	$296,000	$150,000	$269,000	$165,000	-9.1%	10.0%
Size (in Square Feet) First Time Homebuyers	1,432	1,546	1,483	1,516	3.6%	-1.9%
Median Income	$80,200	$57,200	$75,800	$58,300	-5.5%	1.9%
% with Incomes <$45,000	12%	32%	10%	32%	-16.7%	0.0%
% with Incomes <$55,000	19%	47%	25%	46%	31.6%	-2.1%
% with Incomes <$75,000	27%	16%	47%	70%	74.1%	337.5%
% Purchasing Detached Single Family Home	65%	69%	63%	66%	-3.1%	-4.3%
% Purchasing Townhouse/Row House	5%	11%	9%	13%	80.0%	18.2%
% Purchasing Unit in Building with 2-4 Units	7%	3%	13%	3%	85.7%	0.0%
% Purchasing Unit in Building with 5+ Units	16%	9%	13%	11%	-18.8%	22.2%
% Purchasing Home Costing < $150,000	5%	49%	5%	44%	0.0%	-10.2%
% Purchasing Home Costing < $200,000	22%	68%	22%	64%	0.0%	-5.9%
Repeat Home Buyers						
Median Price of Home Purchased by Repeat Buyers	$405,000	$235,000	$370,000	$249,000	-8.6%	6.0%
Median Income Repeat Buyers	$96,700	$83,200	$91,900	$81,900	-5.0%	-1.6%
% with Incomes <$45,000	12%	14%	12%	15%	0.0%	7.1%
% with Incomes <$55,000	19%	23%	13%	23%	-31.6%	0.0%
% with Incomes <$75,000	34%	42%	32%	43%	-5.9%	2.4%
% Over 55	28%	30%	31%	30%	10.7%	0.0%
% Purchasing Detached Single Family Home	72%	79%	66%	80%	-8.3%	1.3%
% Purchasing Townhouse/Row House	9%	8%	7%	7%	-22.2%	-12.5%
% Purchasing Unit in Building with 2-4 Units	8%	2%	11%	3%	37.5%	50.0%
% Purchasing Unit in Building with 5 or More Units	8%	5%	13%	6%	62.5%	20.0%

Source: National Association of Realtors

they paid for their home in 2006 was 63 percent, down from 97 percent in 2005. Again, none of this suggests the affordability challenge has been resolved. It does show that some progress has been made.

Rising Delinquencies and Foreclosures: How Great a Risk?

Subprime lending has been in the news a lot during the past eighteen months. It refers to the extension of credit to borrowers who are considered "high risk." Subprime loans carry higher interest rates, points and fees than conventional loans—often substantially higher—and over the past decade a profitable industry evolved to originate, service, and finance these loans. Now, rising delinquency rates and increasing foreclosures in the subprime market nationwide are wreaking havoc from Main Street to Wall Street. According to the most recent quarterly delinquency survey by the national Mortgage Bankers Association (MBA),[23] one subprime borrower in seven in Massachusetts is at least 30 days past due on mortgage payments. More than 6.5 percent are in the process of being foreclosed, and many more are likely to follow suit when their adjustable rate mortgages are reset and/or low introductory rates expire.

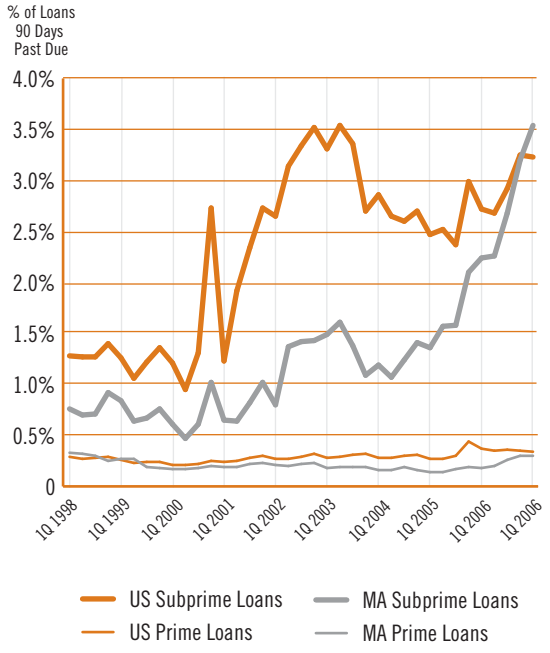
The Rise of Subprime Lending in Greater Boston

Just a year and a half ago Massachusetts mortgage delinquencies and foreclosures, while rising, were well below the national average. This is illustrated in **Figure 4.10**, which tracks loans that are 90 days or more past due for the state and for the nation as a whole. Now the Commonwealth is experiencing delinquency and default rates that are higher than the national norms and rising at a faster rate. As is evident from this figure, which reports conventional prime and subprime loans separately, the problem exists almost entirely within the subprime market.

The same MBA survey, which captures an estimated 80 percent of all existing loans, provides a good indication of the explosive growth in subprime lending in Massachusetts and elsewhere. In the first quarter of 2001, just 1.8 percent of Massachusetts conventional loans included in the survey were subprime. By the end of 2006, 12.4 percent were. This represents nearly a 700 percent increase. By comparison, the number of prime

FIGURE 4.10

Prime and Subprime Mortgage Delinquencies, Massachusetts v. U.S.



Source: Mortgage Bankers Association of America

loans increased by just 28 percent during the same period. The national trend was similar. Subprime loans historically have had higher delinquency and default rates than prime loans, but responsible subprime lending can benefit borrowers who might not otherwise be able to access credit. Analysis of recent subprime lending, however, suggests that much of it would not fall into the category of responsible lending.

The Housing Report Card monitors mortgage lending patterns, delinquencies, and foreclosures using data from a number of number of sources. The most comprehensive analysis of lending in the Greater Boston area, based on Home Mortgage Disclosure Act (HMDA) data, is prepared annually by Dr. James Campen of UMass Boston for the Massachusetts Community and Banking Council.[24] Dr. Campen's analysis of lending patterns from 2005, the most recent year for which data are available, confirms earlier reports that black and Latino borrowers and neighborhoods are much more likely than their white counterparts to receive subprime (higher cost) loans. The number of home purchase loans to white and Asian

borrowers in the City of Boston dropped in 2005, but loans to black and Latino homebuyers rose sharply, with almost all of the increase accounted for by subprime lenders. Subprime lenders made a disproportionate share of their Boston loans to minority borrowers in the city's lower-income minority neighborhoods, and they accounted for a disproportionately large share of all loans made to these borrowers and neighborhoods. The subprime lenders share of loans to low and moderate income borrowers, however, was considerably smaller than their share of the overall home purchase mortgage market.[25]

Overall, subprime lenders accounted for 16.2 percent of total home-purchase loans in the 101 Greater Boston cities and towns for which such data are available,[26] but more than one-third of all loans in Everett, Revere, Chelsea, Randolph, Lynn, and in certain Boston neighborhoods, all communities with substantial percentages of black and/or Latino households and with relatively low median family incomes. Because of the increasingly high levels of default associated with subprime mortgages, this clustering is worrisome. The full impact of the subprime lending problems on the national and local economies is not yet known, but the effect on individual homeowners and communities with high concentrations of these loans could be devastating.

The Link Between Subprime Lending and Rising Foreclosures

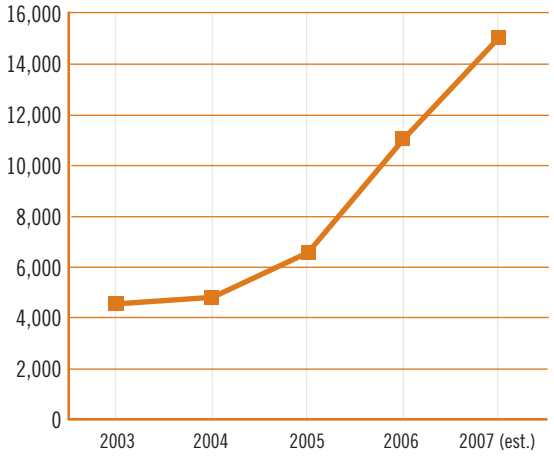
In a strong and rising housing market, homeowners who find themselves unable to meet their mortgage obligations may be able to sell their home and pay off the mortgage or refinance under more advantageous terms. But with home prices dropping, fewer buyers in the market, interest rates rising, and underwriting standards being tightened, many are now likely to lose their homes to foreclosure. Compounding the weakness in the housing market is the fact that many borrowers who bought at the peak of the market did so with mortgage products that required low monthly payments initially, but which have—or soon will—increase, in some cases quite dramatically. The result has been a spike in foreclosures, which are now at their highest level in nearly fifteen years.

The first step in the foreclosure process is a lender's filing in land court of a petition stating its intent to foreclose. Of course, not all foreclosure proceedings result in the homeowner losing his home in a foreclosure sale, but the filing is a widely accepted warning sign of financial distress on the part of the homeowner.

Figure **4.11** illustrates the dramatic rise in foreclosure petitions in Greater Boston's five principal counties since 2003.

FIGURE 4.11

Rising Foreclosures in Greater Boston



Source: www.foreclosuresmass.com

Deja Vu

The 1990-1991 recession precipitated a similar rapid increase in the number of foreclosures, and many of those did result in foreclosure sales. In Boston foreclosure sales represented nearly 44 percent of all homes sales in 1992 and had a detrimental impact on property values in the neighborhoods in which they were concentrated. The City's Department of Neighborhood Development (DND) has been closely monitoring the current situation, and its findings are disquieting. After falling to historic lows in 2004, foreclosure *sales* in the city have since risen sharply: 60 in 2005, 261 in 2006 and 247 through the first six months of 2007. Meanwhile foreclosure *filings*, which had totaled 591 in 2005, and 1,585 in 2006, were up to 1,154 through just the first six months of 2007. Seventy percent of the 2006 foreclosure petitions were clustered in Dorchester, Hyde Park, Mattapan, and Roxbury, low and moderate income neighborhoods with the largest share of subprime loans—the type of loan most likely to go into fore-

closure—and also the neighborhoods with the highest concentration of black and Latino homeowners. Elsewhere in the region, Chelsea, Everett, Randolph, Lynn, Revere, Lawrence, Brockton, and Lowell also have high concentrations of subprime loans.

DND[27] reported other troubling observations:

- The length of time between the initial purchase of the property and the filing of a foreclosure petition has been dropping. In 2004, only 13.8 percent of foreclosed properties had been owned less than two years, compared to 40.1 percent in 2006.
- In 2004, 33 percent of those in the foreclosure process were able to sell their property before the foreclosure sale. This dropped to 18 percent in 2005, and while the 2006 numbers are still inconclusive, it appears to have declined still further (to 11.5 percent).
- About one-third of the 2006 foreclosure sales involved owner occupants and two-thirds investor, or absentee, owners.
- Although the racial and income characteristics of the borrowers are not known, the foreclosure petitions are clustered in low and moderate income census tracts with high minority populations.
- All five of the top lenders responsible for originating mortgages that were foreclosed in 2006 specialize in subprime lending.

Even if the current foreclosure activity does not end up having the same negative impact on the market that the early 1990's wave of foreclosures had, each individual foreclosure represents a substantial loss for the homeowner involved. Moreover, it can be destabilizing to a street or neighborhood, and if the property was a two- or three-family home—and many of these are—the tenants may also lose their home.

5.
Affordable Housing Production

This section looks at how affordable housing in the region fared in 2006, given that overall housing production was down by more than 11 percent compared to 2005. It examines what was produced, for whose benefit, where, and with what tools. In evaluating the region's progress, the Report Card defines as affordable any housing that is eligible for inclusion on the State's Subsidized Housing Inventory (SHI) *and* restricted to occupancy by households earning 80 percent or less of the median family income as defined by the federal Department of Housing and Urban Development (HUD). The current HUD income limits for most of the cities and towns included in the Housing Report Card are $46,300 for a single person household; $52,950 for a 2-person household; $59,550 for a 3-person household; and $66,150 for a 4-person household.

The Report Card also looks at the region's existing supply of affordable housing and the challenges facing that inventory and the population it serves. **The Municipal Scorecard** (**Appendix B**) details the progress each community made, if any, to expand affordable housing opportunity in 2006 and what tools they used. For example, by looking up Acton, the reader would see that the town has a DHCD-approved planned production plan and has received certification of satisfactory progress under that plan, that it produced new affordable housing units in 2006, and has appropriated Community Preservation Act funds to support its affordable housing efforts.

Counting Affordable Housing

The reader should note that the Report Card definition of affordable housing is narrower than the one used by the Department of Housing and Community Development (DHCD) in its effort to determine whether a municipality has met the goal of having 10 percent of its year round housing qualify as subsidized. For that purpose, DHCD counts market rate units in mixed income rental properties[28] in the "affordable" count. It also includes group homes for populations with special needs, and existing homes that are repaired or upgraded using state or federal resources, as long as the occupant is income eligible.

Currently the subsidized housing inventory credits 31 Greater Boston municipalities with being at 10 percent affordable, or better, with 6 having achieved that milestone since last year's Report Card. Over a period of fifteen months, between March 2006 and July 2007, Amesbury, Bellingham, Danvers, Mansfield, Quincy, and Stoughton went over the 10 percent threshold. Two former 10 percent communities—Andover and Braintree—dropped below that threshold during the past year after previously qualified low income units were converted to market rate when their owners opted out of the programs that required them to rent to low-income households.

During that 15 month period, the Subsidized Housing Inventory reported a net increase of 3,485 units of housing that qualified toward their host communities 10 percent requirement in the 161 municipalities covered by the Report Card. In 65 of these (40 percent of all Greater Boston cities and towns) the gain was the result of new production.

Of those municipalities that went over 10 percent in the past year, Bellingham, Danvers, Mansfield, and Stoughton qualified as the result of having permitted, under Chapter 40B, large mixed income rental developments with 20-25 percent of the units reserved for low-income households. Quincy qualified as the result of adding a new 233 unit affordable housing development for low income seniors on the site of a former naval base, and Amesbury by approving a 240 unit 40B rental development that will be 20 percent affordable within a larger 40R district.

A number of Greater Boston communities have made headway in increasing the supply, or improving the quality, of housing for low income people in recent years. Twelve municipalities received DHCD approval of their Planned Production Plans in 2006-2007, bringing to 53 the number approved through June 2007. Just 7 of the communities with approved plans, however,

are currently certified as having made adequate progress under those plans. A municipality that has a DHCD-approved affordable housing plan *and certification* from the agency that it has complied with that plan by having produced qualified units equal to at least three-quarters of 1 percent of its year round housing stock in a calendar year can get a one year reprieve from comprehensive permit petitions that are inconsistent with their plan. The 7 communities that were so certified in Greater Boston are Acton, Berlin, Bolton, Lakeville, Natick, Sharon, and Stoughton.

2006 Performance Overview

The number of new affordable housing units produced in 2006 was down by 3.4 percent compared to 2005, the first year-over-year drop since the Housing Report Card began tracking in 1999. While slightly below its 2005 high, the 2006 affordable production was the second highest in at least a decade. It represents an increase of 70 percent over the 1,427 units created in 2002 and a more than tripling of the production levels achieved in 1999 and 2000. More than 40 percent of the region's communities permitted at least some affordable housing in 2006, the same as in 2005, and double the number that did so in 2000. The comprehensive permit (Chapter 40B) was used by nearly three-quarters (72%) of the communities adding affordable units.

Creating Affordable Housing in a Declining Market

While the number of new affordable units in 2006 dropped only slightly from 2005, there were important shifts in how these projects were being undertaken, associated with the overall softening of the real estate market. Massachusetts had become increasingly dependent on market interventions such as 40B and, to a lesser degree, inclusionary mandates to sustain its affordable housing production in recent years. This shift reflects both the scarcity of public subsidies to support the development of low-income housing and increasing local barriers to the production of new housing in general. Between 1972, when the state's first Subsidized Housing Inventory was published, and 1990, the Greater Boston region created more than 3,000 units of low-income housing *per year*. Nearly two-thirds of this housing was located in Boston and the region's other cities, and virtually all of it was funded, or deeply subsidized, by the federal or state government.[29] While 40B was an important tool for siting the new housing, especially in suburban locations, the production and operating subsidies that made it financially viable and enabled it to serve very low-income households came from the government.

By the beginning of this decade, however, deep subsidies for low-income housing production were a distant memory, and 40B had become the key to entry for new development of any type in many Boston area communities. Between 2002 and 2005, 40Bs accounted for 52 percent of all new affordable production in the Greater Boston region and 73 percent of the new affordable units built outside the City of Boston. In the region's towns, it represented more than 30 percent of *all* new housing produced and 80 percent of the new rental housing.

But 40B and inclusionary mandates are techniques that depend on a strong housing market for success unless they are accompanied by additional subsidies. Without such subsidies, the development's market rate units, combined with any density bonus, must carry the affordable units. And because the permitting process is so protracted in Massachusetts, even under the "expedited" approach provided by 40B, they require a *rising* market. In a *softening* market, these tools are less effective. Now fewer 40B developments are being proposed, and a growing number of approved projects have stalled. Requests for site approval letters from state agencies—the first step in the 40B process—have fallen every year since 2004. Through July 2007, just 13 such requests have been processed by DHCD, a 78 percent drop from the same period in 2004. The overall decline in new affordable production is attributable to the slowdown in 40B activity.[30]

Beyond concerns about the soft and uncertain real estate market, other factors are delaying construction starts on approved 40B projects. These include: delays in obtaining the "final approvals" necessary to proceed from the state project administrators due to policy differences between the state agencies and municipalities; increased litigation from abutters, which puts developments on hold; and extensive and time consuming approval and permitting processes at the local level, even with a comprehensive permit.[31]

Affordable Housing Leaders in 2006

Boston, the Commonwealth's perennial leader in affordable housing production, added 630 new units in 2006, an increase of more than 33 percent over 2005. This represented 26 percent of the region's affordable housing production and nearly one-third of its affordable rental housing. On average, Boston adds more than 500 new affordable units each year and maintains an aggressive preservation program. It does an especially good job of serving families and individuals at the lowest income levels. Nineteen percent of the city's new affordable housing will serve households earning below 30 percent of the area median income, 14 percent will serve households earning between 30 and 50 percent, 34 percent will serve those with incomes between 50 and 60 percent, and 32 percent will serve those earning between 60 and 80 percent of the area median income. In addition to creating these 630 affordable units, Boston gained another 159 units for middle income families—those earning between 80 and 120 percent of the area median income—through its inclusionary zoning program.

Boston, Cities Increase Market Share

Even though Boston maintains a constant and steady pipeline of affordable development, much of it serving the region's neediest residents, the city's *share* of the affordable production had been shrinking over the past several years as suburban communities gained units in mixed income developments approved under Chapter 40B. In 2002, Boston production represented 39 percent of the region's new affordable housing; by 2005, the city accounted for only 19 percent. Now, with a sluggish market, and continued hostility to 40Bs in many communities, new starts under what had been the Commonwealth's primary production tool (40B) have slowed. As a result, Boston's share of the pie is again increasing. In 2006, Boston was back to supplying over one-fourth (26%) of the affordable housing in the region. **Table 5.1** illustrates this trend.

At least some of Boston's success can be traced to its disciplined goal setting and transparent tracking and reporting of performance against goal. As the 2006-2007 Housing Report Card was going to press, the City was preparing to announce its third multi-year housing strategy. Under the recently completed *Leading the Way II*, Mayor Menino had established a goal of permitting 10,000 new units of housing (2,100 affordable), and preserving 3,000 units of at-risk rental housing between 2003 and 2007. A central goal of this initiative was the creation of new affordable housing that would address a broad range of needs, from the homeless to the priced-out middle class. The City appears to have met or exceeded its production and preservation goals.[32]

The City of Cambridge, another leader in affordable housing production, added 128 affordable units in 2006, all as the result of its inclusionary zoning ordinance. Cambridge targets all its inclusionary units to households earning less than 60 percent of area median income. Other 2006 affordable housing leaders include Quincy, Lexington, Dedham, Peabody, Haverhill, and Chelsea. (The full municipality-by-municipality accounting is included in Appendix B.)

Affordable Housing Production Tools

The mechanisms used to generate new affordable housing in 2006 include traditional publicly subsidized production carried out by a network of for-profit and nonprofit developers who specialize in affordable housing development; Chapter 40B production; privately produced affordable housing undertaken by nonprofit organizations like Habitat for Humanity that are able to raise the resources they need from non-government sources; and inclusionary mandates under which a set aside of affordable units, or a payment in lieu of such units, is required of developers of market rate housing. This latter category includes units required by formal inclusionary zoning bylaws or ordinances, as well as units created under incentive zoning, and those resulting from informal negotiation. The first new affordable units resulting from 40R Smart Growth development districts were permitted in 2006 in Chelsea, Haverhill, and Norwood; in 2007, building permits were issued for the largest 40R to date, in North Reading.

40B Continues to Play a Dominant Role

Fifty of the communities that permitted new affordable housing in 2006 did so under the comprehensive permit, 13 gained units through inclusionary or incentive zoning (or negotiation), and 9 employed traditional subsidies. As illustrated in Table 5.1, the comprehensive permit was utilized in the production of 36 percent of all new affordable units and 48 percent

TABLE 5.1

New Affordable Housing Production, 2003-2006

Year	Total Affordable Units	Affordable Homeownership Units	Affordable Rental Units
2006			
City of Boston	630	117	513
Elsewhere in Greater Boston Region	1,792	658	1,134
Elsewhere - 40B Comp Permit	894	466	428
Elsewhere - All Others	898	192	706
Total New Affordable Production	**2,422**	**775**	**1,647**
Boston share of total	26%	15%	31%
% of total using 40B Comprehensive Permit	37%	60%	26%
% using 40B Comp Permit excluding Boston	50%	71%	38%
All new units other than those using 40B	*1,528*	*309*	*1,219*
2005			
City of Boston	472	232	240
Elsewhere in Greater Boston Region	2,036	973	1,063
Elsewhere - 40B Comp Permit	1,449	757	692
Elsewhere - All Others	587	216	371
Total New Affordable Production	**2,508**	**1,205**	**1,303**
Boston share of total	19%	19%	18%
% of total using 40B Comprehensive Permit	58%	63%	53%
% using 40B Comp Permit excluding Boston	*71%*	*78%*	*65%*
2004			
City of Boston	511	58	453
Elsewhere in Greater Boston Region	1,486	580	906
Elsewhere - 40B Comp Permit	1,185	475	710
Elsewhere - All Others	301	105	196
Total New Affordable Production	**1,997**	**638**	**1,359**
Boston share of total	26%	9%	33%
% of total using 40B Comprehensive Permit	59%	74%	52%
% using 40B Comp Permit excluding Boston	80%	82%	78%
All new units other than those using 40B	*812*	*163*	*649*
2003			
City of Boston	703	153	550
Elsewhere in Greater Boston Region	1,186	357	829
Elsewhere - 40B Comp Permit	989	343	646
Elsewhere - All Others	197	14	183
Total New Affordable Production	**1,889**	**510**	**1,379**
Boston share of total	37%	30%	40%
% of total using 40B Comprehensive Permit	52%	67%	47%
% using 40B Comp Permit excluding Boston	83%	96%	78%
All new units other than those using 40B	*900*	*167*	*733*

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

of those created outside the City of Boston, down from 58 and 71 percent, respectively, in 2005. The 2006 growth in the number of affordable units gained through inclusionary zoning is largely attributable to Boston, Cambridge, and a single project in Lexington (the redevelopment of a former state hospital). The Boston and Cambridge inclusionary policies have been in effect for many years.

For most municipalities, 40B is not the preferred mechanism for developing their affordable housing, and more than a few have advocated for greater local control; without it, though, their progress has been limited. The zoning in many of the region's 161 municipalities simply does not provide for compact, higher density, or multifamily development anywhere in the community, even where their historical settlement patterns allowed it. To accommodate alternative types of development that are not permitted under current zoning or via special permit, a town must either use 40B, or garner the two-thirds vote of Town Meeting required to rezone. The seven municipalities that are currently certified as having made adequate progress under their planned production plans all achieved that status as the result of 40B development, as did most of those that attained the 10 percent threshold in recent years.

While 40B remains the key creating affordable housing in many communities, its very existence has prompted others to seek alternative strategies to achieve the same goal. An increasing number have adopted inclusionary or incentive zoning, negotiated some level of affordability as part of their special permit process, or initiated affordable housing development on town-owned parcels. Many of the communities taking such steps, as well as those that have created—or are considering creating—"Smart Growth Zoning" districts under the Chapter 40R have been motivated to do so because of the existence of 40B.

But More Communities Are Exploring Other Mechanisms

Inclusionary zoning has begun to put up some impressive numbers, but the production is overwhelmingly in the cities, Boston and Cambridge, in particular. Among the suburban communities that have generated the most new units through inclusionary mechanisms are those like Lexington and Danvers that established affordability as a goal for the redevelopment of surplus state hospital properties. The pace and scale of development in most of the region's smaller communities is so limited that inclusionary incentives or mandates would seldom be triggered.

The Community Preservation Act (CPA), a local option tax, has been adopted by 66 Greater Boston municipalities, and 38 of these have allocated some funds for housing. But as with the inclusionary zoning, only a handful are aggressively using it for housing. Cambridge is the big exception here as well. The City commits most of its community preservation funds to its housing trust fund to support affordable housing development, preservation, and/or acquisition. Cambridge has committed nearly $38 million to date, or 63 percent of all the CPA funds that have been allocated to housing in Greater Boston since the law's enactment in 2000.[33]

TABLE 5.2

Affordable Housing Production by Type of Public Support, 2003-2006

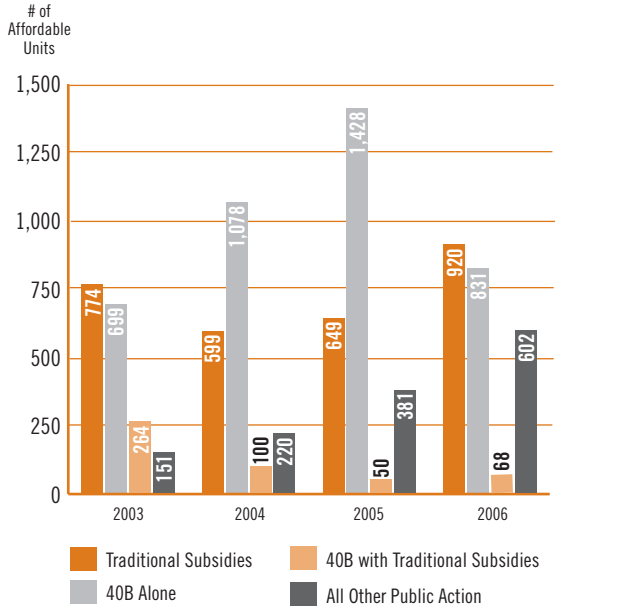
	2006
Traditional Subsidies	38%
40B Alone	34%
40B with Traditional Subsidies	3%
All Other Public Action	25%
	2005
Traditional Subsidies	26%
40B Alone	57%
40B with Traditional Subsidies	2%
All Other Public Action	15%
	2004
Traditional Subsidies	30%
40B Alone	54%
40B with Traditional Subsidies	5%
All Other Public Action	11%
	2003
Traditional Subsidies	41%
40B Alone	37%
40B with Traditional Subsidies	14%
All Other Public Action	8%

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

We noted last year that the share of new affordable housing produced by the state's traditional subsidized housing developers was shrinking, as new units increasingly were created as a by-product of market rate production carried out by a diverse group that included small local homebuilders and large national real estate investment trusts. That changed in 2006. The traditional low-income housing developers, using the traditional subsidy programs, once again represented the largest share of the region's affordable housing production. The number of units created using these programs rose from 699 in 2005 to 988 in 2006, an increase of more than 41 percent. **Table 5.2** and **Figure 5.1** document these shifts.

FIGURE 5.1

Affordable Housing Production by Type of Public Support, 2003-2006



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

Traditional Subsidies are the Mainstay for Assisting the Very Low Income

Unlike production under 40B and inclusionary zoning, which can fluctuate widely from year to year depending on market conditions, the funding for subsidized development is fairly predictable. The number of units may rise or fall depending on the location and mix of units funded (e.g. urban v. suburban, or new construction v. preservation) but the total dollars allocated to the major programs has not changed much in recent years. That Greater Boston fared so much better in 2006 than it had in the three previous years simply indicates that area projects, which had been in the planning stages for several years, finally secured the necessary resources and approvals to commence construction.

Despite the challenges of creating and managing housing for low-income families and individuals in an era of inadequate public resources and rising costs, competition for the subsidy programs that do exist is intense. DHCD, the agency responsible for allocating most of the public resources, attempts to strike a balance among competing demands in selecting which projects it funds. The agency tries to accommodate a range of household types and needs, achieve an equitable geographic distribution, and provide funds to preserve the existing affordable inventory as well as to expand it. As a result, worthy projects sometimes are not funded on their first application, and they must be reworked or resubmitted at a later date. Most of the subsidized projects that moved into construction in 2006 had been awarded grants, tax credits, or both, a year or two earlier.

Multiple Funding Sources Required

On average, about 30 Greater Boston projects a year receive funding from one or more of the following programs:

- The federal and state Low Income Housing Tax Credit programs and the state historic tax credit program;
- The federal 202 and 811 Programs and HOME Partnerships Program;
- The state Housing Innovations Fund, Housing Stabilization Fund, Facilities Consolidation Fund, Housing Development Support Program, Capital Improvement and Preservation Fund, Community Based Housing Fund, and the Affordable Housing Trust Fund.

Projects that receive funding awards under many of these programs may also receive financing from one of the state quasi-public agencies, such as MassHousing, MassDevelopment, the Massachusetts Housing Partnership, and the Community Economic Development Assistance Corporation, or the private Massachusetts Housing Investment Corporation.

In the past few years, the State Legislature and various agencies have established additional funding pools, most to support development in "smart growth" locations. These include the Priority Development Fund, the Transit Oriented Development Fund and the Commercial Area Transit Neighborhood Housing Program.[34]

Twenty-nine developments in 17 Greater Boston communities received funding commitments totaling $40.5 million from these traditional sources in 2006 to create affordable housing. Once constructed, these developments will provide 1,032 new units, 942 (91 percent) of which will be affordable. Most will be restricted to households earning below 60 percent of the area median income. Three other Boston area projects will receive more than $4.1 million to preserve existing affordable housing and replace a distressed public housing development totaling another 422 units (417 affordable). Also in 2006, funding awards of $27.8 million were made to 21 properties in other parts of the state to build or preserve another 913 units (816 affordable).

As is often the case, two-thirds of the Greater Boston developments received awards from more than one subsidy source: 10 received funds from two sources; five from three or four sources; and four from five or six sources. Twenty-one of the project sponsors were nonprofit developers, five were for-profit, and two were joint ventures between the two. The average subsidy awarded per unit was just over $39,000. Approximately $7 million of the funds awarded in 2006 will come from equity generated through the sale of federal and state low-income housing tax credits to individual and corporate investors.[35]

Threats to the Existing Affordable Housing Inventory

With the supply/demand equation so out of balance at the time the Housing Report Card was initiated, its focus has been on production. While that remains a priority, preservation has become an increasingly critical concern. The region's existing subsidized housing stock is threatened on several fronts. Rental developments built during the 1960s to the 1980s with federal or state subsidized mortgages and/or project-based rental assistance may be converted from low income to market rate housing once the restrictions that limited their occupancy to low-income residents expire. Some more recent projects are, or will be, affected as well. These units are often called "EURs," or properties with "expiring use restrictions."[36] Low-income units are also lost when older public housing developments are allowed to deteriorate, or become functionally obsolete. Some units are sacrificed when a property is rehabilitated to meet current needs, or is demolished, without a one-for-one unit replacement. Greater Boston's record on preservation was mixed in 2006-2007.

The Expiring Use/Expiring Subsidy Risk

Statewide, more than 10,500 subsidized units have had their mortgages prepaid and/or their subsidy contracts expire. This represents nearly 13 percent of the 85,000 low-income units built or substantially rehabilitated under federal or state subsidy programs in Massachusetts from the mid-1960s to the mid-1980s. The majority of these units have retained some degree of affordability because the projects were sold or refinanced under programs that required renewed affordability commitments, but according to CEDAC, the quasi-public agency that maintains a comprehensive data base of at-risk properties, more than 5,400 units have been permanently lost as affordable housing.

Most of these losses occurred 10-15 years ago but now there are some 27,000 units statewide that are at risk over the next three years, two-thirds of them in Greater Boston. The affordability restrictions on some 5,000 units created under more recent housing programs dating from the mid-1980s to 1990 are also beginning to expire. While industry analysts and housing advocates differ on how many units are truly at risk, the most common estimate is about 25 percent, or nearly 7,000 units.[37] Because of their scale and location, many of these developments could not be replicated today even if funds were available. Even those that are unlikely candidates for conversion to condominiums or higher income occupancy require substantial investment and upgrading after 30-40 years.

DHCD, MassHousing, and the state's other quasi-public agencies have programs to preserve expiring use properties. Between 2001 and 2005 they preserved more than 9,100 units including 7,600 affordable units in the 161 communities covered by the Report Card.[38] In 2006, another 300 affordable units were preserved, but Boston, Brookline, Somerville, Braintree, Lawrence, Cambridge, and Andover all lost units as developments were removed from the subsidized inventory when

owners opted out of the programs that had restricted occupancy to low-income tenants. Additional developments are at risk this year. The low-income tenants are rarely evicted when properties convert to market rate development. Typically, qualified residents are provided market rate rent subsidies called "enhanced vouchers" that enable them to remain in their homes, while providing the owner the full market rent for their unit. These vouchers, which are provided by HUD, protect the existing tenants as long as they remain in their units. Once they leave, those units are no longer protected. Over time, the development is likely to become more market rate as the subsidized tenants moved out.

Funding for one of the most frequently used preservation programs, the Capital Improvement and Preservation Fund, was eliminated in 2005 and the use of the Housing Stabilization Fund for preservation projects was also curtailed. As a result, "preservation owners"—those nonprofit or for profit developers who seek to restructure and preserve properties as subsidized housing—were thwarted in their efforts to move projects forward in 2006. By year end, however, the new administration had re-funded the Capital Improvement and Preservation Fund and revoked changes to the Housing Stabilization Fund and the tax credit program to ensure that these resources would be available in 2007 and beyond.

The State's Public Housing Authorities Challenge DHCD

State funded public housing represents 23 percent of the region's subsidized inventory, and it serves many of the region's lowest income families and seniors, including those with special needs. Such housing is found in 140 Greater Boston municipalities. Housing professionals have long contended that this stock has been inadequately funded, and that it is in need of substantial investment to preserve its functionality and extend its life. In 2006, three of the state's largest housing public housing authorities filed suit in Suffolk Superior Court to compel the Commonwealth to meet its contractual and statutory obligations to support the operation and maintenance of its public housing units. The plaintiffs in the case—the Boston, Brookline, and Cambridge Housing Authorities—testified that they were forced to take units offline because they had insufficient resources to make them safe and habitable. State law requires the Commonwealth to fund the difference between the actual costs of maintaining public housing units and the rent tenants pay, but the suit alleged that the state, through its Department of Housing and Community Development and Executive Office of Administration and Finance, had neglected to do so and instead arbitrarily capped the housing authorities' budgets far below the required amounts. Others had made the same argument, including the State Auditor (in an October 2006 report) and Massachusetts Association of Housing and Redevelopment Officials (Mass NAHRO). A 2005 study conducted by Abt Associates and the Harvard Graduate School of Design[39] recommended that the annual appropriation for operating support for state-funded public housing be increased by approximately $80 million to an annual level of about $115 million to enable local housing authorities to continue to do their work. The report noted that if this could not be accomplished in a single year, the increases should be phased in over a three-to-five-year period.

The plaintiff housing authorities sought to obtain funds that had been authorized but not paid, and also to secure sufficient and predictable funding in the future. Just four months after the lawsuit was filed, with a new Governor and new leadership team in place, millions of dollars owed to these three housing authorities and others, were paid, and the suit was dropped. The housing authorities and other stakeholders have begun meeting with the new administration to address these issues, and the fiscal year 2008 includes an increase of $15 million of operating funds to begin to make up for years of inadequate operating subsidy.

Together the state public housing and the "at risk" expiring use inventory represent more than 36 percent the affordable housing in the region. Preserving existing affordable stock is usually more cost effective than replacing it with new construction and it often provides spin-off benefits to the surrounding neighborhood. Furthermore, it avoids the challenge of locating new sites for affordable housing. Section 6, which describes recent trends in public spending and support for affordable housing, suggests the outlook is indeed improving for the state's older public and assisted inventory.

6.
Public Spending and Support for Housing

The Commonwealth is justifiably proud of its leadership in the subsidized housing arena. For more than 25 years, the state's Department of Housing and Community Development (DHCD), its quasi-public development agencies, local and regional housing authorities, and an array of private for profit and nonprofit housing developers and owners have continued to cobble together resources to preserve and expand the supply of affordable housing in one of the most challenging housing markets in the country. The federal Department of Housing and Urban Development (HUD) spends some $2 billion annually in Massachusetts, but only a small portion of this is funding that flows through DHCD.[40] In FY2007, the total spending over which DHCD had oversight included $391 million from federal sources and $258 million directly from the state. In addition, the state's quasi-public agencies—MassDevelopment, the Massachusetts Housing Partnership and MassHousing—provided more than $400 million in financing to support low and moderate income housing development and preservation in Massachusetts.[41]

This section examines the progress made over the past year and a half to preserve and expand the supply of housing for low-income households; foster strong, sustainable neighborhoods; and reduce local barriers to new market rate housing in Greater Boston and across the state. It also includes updates on two important new initiatives: Chapter 40R, the state's smart growth zoning law; and *Metro Futures*, the Metropolitan Area Planning Council's blue print for growth in the region between now and 2030.

Public Spending

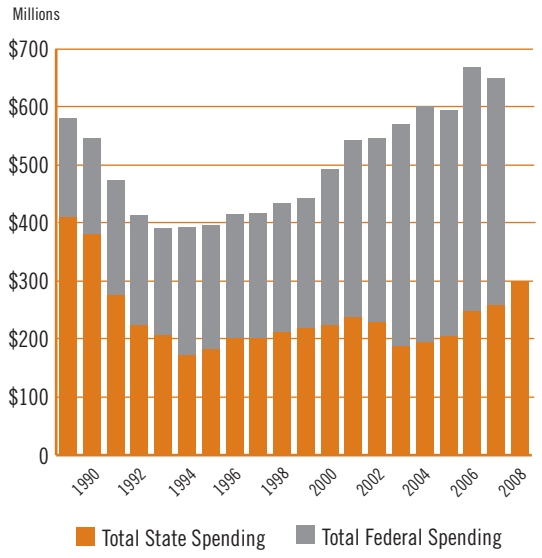
Federal Funding

For the past five years, approximately $400 million annually has flowed through DHCD from the federal Department of Housing and Urban Development (HUD). While the federal contribution has increased from $212 million in FY (fiscal year) 1994 to $391 million in FY2007, very little of this increase is available for new production, or even preservation. Most of the federal funding that DHCD receives takes the form of rent subsidies for low-income tenants in existing housing, and home heating assistance and weatherization programs for low-income homeowners. The dollars committed may increase one year and drop the next as the cost of honoring existing commitments rises or falls. For example, Massachusetts received $13 million more for low-income home energy assistance and weatherization assistance for low-income households in FY2006 than in FY2007.

Final federal fiscal year 2008 figures are not yet available, but 2007 federal funding was down by 7 percent from 2006, a drop of nearly $29 million. In addition to the decline in funding for home heating and weatherization, funding for the HOME Program and the Community Development Block Grant Small Cities Program dropped by $5 million and $13.6 million respectively. Funding for the federal Housing Choice Voucher Program (Section 8) administered by DHCD and 8 regional nonprofit organizations was increased by $3.7 million. **Figure 6.1** tracks total DHCD spending from both the state and federal governments.

FIGURE 6.1

Total DHCD Spending, 1989-2008



Source: DHCD Budget Office

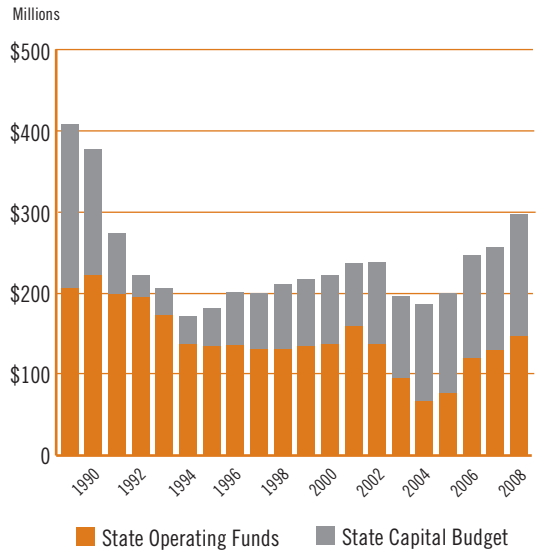
State Funding

The news is more positive on the state front. After having fallen to a nine-year low of $187 million in 2004, total state spending for all DHCD programs has risen in each succeeding year bringing the 2008 total to $299 million. This represents the highest level of support from the state since 1991. In inflation adjusted dollars, however, the current spending level is 23 percent less than it was in 1991, and only half the $410 million committed in 1989.

The Commonwealth's housing resources come from its operating and capital budgets and, as **Figure 6.2** illustrates, both have increased since 2005. After increasing $10 million in FY2007 over FY2006, funding from the state's operating budget rose another $17 million in FY2008.[42] On the capital side, the FY2008 increase of $23.5 million represents a 19 percent increase over 2007. This is significant because it is the state's bond-funded programs that support the production of new housing, the creation of housing for those with special needs, and the preservation of existing subsidized and public housing. Public housing was the big winner in FY2008, receiving a substantial boost of $15 million; most other bond programs were level funded.

FIGURE 6.2

Total State Funding for Housing, 1989-2008



Source: DHCD Budget Office

Other State Support for Housing

In its first six months in office, the Patrick administration achieved some important milestones on the housing front. These include reorganization of the state's housing related functions and, in partnership with the legislature, securing commitments of additional funds for housing programs. Significant accomplishments include:

Organization and management of the state's housing-related functions

- The Department of Housing and Community Development was elevated to cabinet status within a new Executive Office of Housing and Economic Development, and an Undersecretary for Housing was appointed to oversee the traditional DHCD functions.
- A Development Cabinet was created in the Governor's office. Chaired by the Governor, the Cabinet includes all of the major secretariats with responsibilities for housing, economic development, and labor, education, and transportation. The Cabinet is responsible for coordinating the economic development policy-making process; ensuring coordination between and among state agencies on priority economic development projects; providing advice on economic development policy to the Governor; ensuring that economic development policy decisions, projects, and programs are consistent with the stated goals of the Administration; and monitoring implementation of the Governor's economic development agenda.
- An ombudsman has been appointed to help spur economic growth by speeding permitting approval time from two to three years to just six months on development projects.
- Decision making over bond-funded programs was streamlined in DHCD, and discussions are underway to identify additional ways to streamline application, project review, and closing processes.
- DHCD has implemented a reorganization intended to provide better coordination and centralized technical assistance and training to municipalities across various program areas.

Capital planning and budgeting

- The administration developed a five-year capital investment plan that would raise the State's bond cap from $1.5 billion in 2008 to $2.0 billion in 2012.

The plan includes more than $170 million in funding for public housing and private affordable housing development in FY08, a 33 percent increase over the prior year. Public housing is scheduled to receive $90 million in FY08, including $5 million through the Affordable Housing Trust Fund, representing a $30 million increase over the amount budgeted in FY07. The bill also provides $80.5 million for private affordable housing development programs in FY08, including $20 million for the Housing Stabilization Fund and $25 million for the Affordable Housing Trust Fund (in addition to the $5 million dedicated to public housing). This represents an 18 percent increase over FY07 spending. And to support the Administration's Sustainable Development Principles, the FY08 plan includes $7.5 million for housing near public transit—$5 million for the "Housing at Transit Nodes" program, and at least $2.5 million for housing projects from the $4.5 million total allocation for the Transit-Oriented Development program.

- Under the Executive Office for Administration and Finance's 2007 federal tax exempt bond volume cap plan MassDevelopment received $200 million, equally divided between economic development projects and multifamily affordable housing projects; MassHousing received $175 million ($50 million for below market-rate mortgages to homebuyers and $125 million for multifamily affordable housing projects); and $22 million will be reserved for capital improvements to public housing. In addition to the funding levels, two important policy changes were implemented. The first lifted restrictions imposed by the prior Administration regarding the use of the volume cap for preservation projects, and the second requires that before MassHousing or MassDevelopment may allocate the volume cap to finance multifamily affordable housing projects, the borrower must receive an award of federal tax credits from the Department of Housing and Community Development.
- The Capital Improvement and Preservation Fund, an important tool for preserving existing affordable housing was reactivated, effective July 1, 2007. Funding for the program is included under the FY08 DHCD bond cap.

Combating Homelessness

- In July 2007, the Governor and the legislature created a new Commission to End Homelessness, co-chaired by Undersecretary for Housing and Community Development Tina Brooks and State Representative Byron Rushing. The commission represents a joint effort by the administration and the legislature to develop new strategies for assisting households earning below 30 percent of the area median income. The 30-member panel of state and local officials, private sector advocates, and service providers has been charged with formulating a comprehensive action plan to end homelessness in Massachusetts. The commission is to deliver recommendations to the Governor by December 2007, which are expected to include a blueprint for a broad based housing plan that recognizes service needs to end homelessness, and a five-year budget proposal to guide the executive and legislative branches of state government in implementing housing and support service strategies.

Other

- The lawsuit that had been brought by the Boston, Cambridge, and Brookline Housing Authorities against DHCD (discussed in Section 5) was settled out of court. As part of the settlement, DHCD will develop an action plan for state public housing revitalization. The administration has set aside $22 million in private activity bonds for public housing revitalization. Several important steps have already been implemented to streamline budget and capital improvement approvals, and funding for public housing operating subsidies was increased by $15 million (33 percent)
- In July 2007, the Governor and MassHousing announced a new $250 million mortgage loan program offering foreclosure prevention counseling and fixed-interest rate refinancing loans to help Massachusetts homeowners get out from underneath increasingly unaffordable subprime loans. The program is targeted to homeowners with modest incomes who were put into loans that were unaffordable and unsustainable, and where abusive practices may have been used by the lender. Household incomes may not exceed 135 percent of the area median in the Boston area and 125 percent of the area median income for the rest of the state. Qualified borrowers may be able to obtain up to a 40-year, fixed-interest rate loan for up to 105 percent of the value of the home, as determined by an appraisal. Interest rates are expected to be approximately 7-7/8 percent at the outset.

- Foreclosure protections for homeowners adversely affected by subprime lenders were announced by the Governor in July. As the 2006-2007 Housing Report Card was going to press, the state Senate had approved legislation to address subprime lending and foreclosures. The bill creates reporting requirements for mortgage lenders and requires the Division of Banks to review and rate lenders on their performance. It also establishes annual licensing requirements for mortgage brokers, requires that borrowers offered high cost loans receive in-person counseling from a qualified nonprofit, and requires fuller disclosure of terms in mortgage advertising. Lenders must give most borrowers a 90-day period in which they can pay the delinquency and reinstate the loan before imposing attorney fees and borrowers would have the right to cure a mortgage default up to the foreclosure auction.

Moving Toward Smart Growth

In recent years the Commonwealth has stepped up its efforts to encourage "smart growth" development with an array of financial and regulatory incentives, including financial assistance to communities that are hosting large scale new development in smart growth locations. Smart growth—the planning philosophy that advocates higher-density mixed-use development, emphasizing walkability and the use of mass transit and existing infrastructure—is starting to take hold in Massachusetts. The concept evolved as an antidote to sprawl, which is often characterized by low-density, single-use zoning districts dependent on automobiles, but it has the potential to help mitigate the region's chronically high housing costs.

While much of what is currently under construction, and even much of what is in the permitting stage, had been proposed without the benefit of these new programmatic initiatives, it was the passage of Chapter 40R, the state's new Smart Growth Zoning statute and its companion school funding insurance fund, Chapter 40S, that generated widespread interest in an alternative approach to encouraging local communities to play a greater role in encouraging the production of housing, including affordable units.

40R and 40S Become a Reality

Chapters 40R and 40S have established an impressive track record in a very short period of time. Chapter 40R was signed into law in June 2004, but the critical school funding legislation, 40S, was not enacted until 16 months later. Together, the two statutes are intended to spur housing production and economic development by providing four incentives to communities that zone for higher density housing, with 40R offering:

- An incentive payment to the community when the zoning is passed of approximately $1,000 per housing unit allowed (the amount varies according to a sliding scale from $10,000 to $600,000, depending on the number of units);
- A bonus payment equal to $3,000 per housing unit when a building permit is issued; and
- Increased priority for requests for state capital funds for communities that have passed 40R districts.

Under Chapter 40S communities receive insurance so that if the cost of educating children living in new housing in a Smart Growth District exceeds approximately 50 percent of the new property taxes from that District, the State will make annual payments to cover the difference.

The incentives are targeted to locations already served by infrastructure as one of the primary goals of the program was to have a surplus of zoned land, available with as-of-right approval processes in place, to meet the needs of the housing marketplace. This was intended to allow builders to move quickly in response to increased demand and to help bring real property prices down by providing a surplus of suitably zoned land. To create a smart growth zoning district, a city or town must vote to establish one or more overlay zoning districts that allow as-of-right densities of at least eight units per acre for single family homes, 12 units per acre for two and three family homes, and 20 units per acre for multifamily homes. A minimum of 20 percent of the housing units in the smart growth district must be affordable for, and restricted to occupancy by, households earning no more than 80 percent of the area median income.

As of July 2007, just three years after 40R's passage and only 18 months after 40S became law, 15 municipalities have approved 40R districts.[43] The Greater Boston communities are: Norwood, North Reading, Plymouth, Kingston, Lakeville, Natick, Chelsea, Haverhill, Lynnfield, North Andover, Brockton, and Amesbury. Elsewhere in the state Lunenburg, Dartmouth, and Grafton have adopted 40R districts. If completed as planned,

these districts will result in the construction of nearly 5,700 new units of housing (4,800 in Greater Boston).

In addition to the approved districts, more than 30 communities statewide (25 in Greater Boston) are actively considering them and/or have identified specific developments, with the potential of creating 7,000 housing units, an encouraging response to a new initiative. Boston, Belmont, Gardner, Lawrence, and Northampton have all requested 40R letters of eligibility—the first step toward designation—from DHCD. Districts in these five municipalities represent the potential for nearly 2,300 additional housing units. Five other communities are seeking, or have received, grants from the state's Priority Development Fund to pursue 40R, with the potential to add another 1,000 units, and discussions are underway in another 17 communities.

The first generation of 40R districts obtained the necessary zoning approvals in relatively short order, cutting months off the time typically required for approval, and to date no community has turned down a district when it came to a town meeting (or city council) vote. Some of the largest developments will require state review under the Massachusetts Environmental Policy Act prior to construction start, but development is already underway in Chelsea, Haverhill, North Reading, and Norwood.[44] In April 2007 Chapter 40R's principal architect, the Commonwealth Housing Task Force, reported to the legislature's Joint Committee on Housing that participation in the program was ahead of initial projections, although it acknowledged that very few 40R Districts or proposals had provided for the intended small lot single family detached housing.

The most important cautionary note sounded by the Task Force, in an otherwise upbeat assessment of 40R's first full year of operation, was that many communities were not pursuing 40R because of concerns about the stability of state funding. This concern has also affected decision-making in communities where 40R consideration is currently underway. Certainly honoring the state's financial commitment to 40R and 40S will be necessary to ensure the continued success of the program. Cities and towns fear that given the annual state budget process, commitments of funds today may not be available in years to come. The interest by more than 44 rural, suburban and urban communities across the state bodes well for substantial new production if the funding uncertainties can be resolved.

MetroFutures

Smart growth planning received another public boost in May 2007, when the Metropolitan Area Planning Council (MAPC) issued *Metro Futures*, a blueprint to guide land use in the region between now and 2030. MAPC is the regional planning agency for 101 of the 161 communities covered by the Housing Report Card. Built on the principles of smart growth, the *Metro Futures* plan is consistent with the Commonwealth's sustainable development principles and the goals of 40R. New residential development would be concentrated in areas with the infrastructure to sustain it instead of being dispersed across the region.

MAPC expects the region to grow in population by 8.4 percent between 2000 and 2030.[45] This overall growth assumes a 5 percent population increase between 2000-2010, another 3.2 percent increase between 2010 and 2020, and a 2.2 percent increase between 2020 and 2030. The plan projects that 50 percent of the region's new residents will be accommodated in its cities, and it envisions that 60,000 urban starter homes (lofts, condominiums, duplexes) will help to attract and retain young professionals and their families in the urban inner core and in regional urban centers outside of Route 128. Suburban communities will steer two-thirds of their growth to town centers and villages so that half of the new suburban housing will be created through reuse of previously developed areas, allowing towns to grow while also protecting open spaces. The region's rural areas would retain their traditional New England character with farms, forests, and open spaces as new housing would be clustered to protect open space.

Metro Futures calls for new construction of housing in a variety of types and price range. Apartments, townhouses, and condominiums in town centers would create more choices for retiring baby boomers, enabling more of them to stay in their community. That, in turn would free up more existing single family homes for larger families. More than 41 percent of the region's 950,000 homeowners are over the age of 55; 11 percent are aged 75 or over. *Metro Futures* predicts some 27,000 single family homes on small (1/4 acre) lots will be built region-wide, double what would be expected under current trends. Since more than half of the region's new moderately priced housing would be in suburban towns, lower income families will have greater housing choice to live anywhere in the region.

7.
Conclusion

The past year has been one in which modestly declining home prices in Greater Boston have created anxiety among current homeowners while providing only minimal relief to those who would like to buy a home here and no relief to low-income renters. Following the 160 percent increase in home prices between 1995 and 2005, the median house price in the region is now $371,000, 6 percent below its 2005 peak. After a modest decline between 2001 and 2004, area rents have stabilized and, in many submarkets, have increased over the past two years.

Combined with stagnating household income, affordability continues to be a serious problem for many homeowners and renters despite the softening in the housing market. As of 2005, nearly 40 percent of homeowners with mortgages were paying more than 30 percent of their gross income for housing, up from just 27 percent in 2000. Half of all renters in 2005 were paying more than 30 percent of their income in rent, up from 39 percent in 2000. Indeed, one-quarter of renters and 14 percent of homeowners were paying 50 percent or more of their income to cover their housing costs.

With the softening housing market, the number of new permits for single family and multifamily units has plummeted in 2007 from the levels achieved in the previous two years. The decline has been particularly sharp in single family production where we estimate only about 4,000 units will be permitted in all of 2007, down from nearly 7,300 only two years ago.

Not all the news is bad, however. The new administration of Governor Patrick has focused increased attention on meeting the Commonwealth's housing needs, the legislature has committed additional state funding to this end, and the number of municipalities attempting to expand housing opportunities in a "smart" and sustainable way—including taking advantage of the Chapter 40R and 40S housing legislation—is growing. While housing prices are likely to continue to weaken over the next year, generating anxiety among homeowners who need to sell their homes, the decline—in most communities—will not be precipitous. There are a couple of factors that could negatively influence this outcome, however. One would be a deep national recession. Another would be an acceleration in the number of foreclosures associated with subprime lending, which are highly concentrated in the region's low-income communities of color, or the spread of foreclosures to other areas, including developments currently under construction.

Performance Against the New Paradigm Production Targets

After achieving in 2005, 90 percent of the target established five years earlier in the *New Paradigm* report, performance against the goal fell in 2006 to just 81 percent. At current permitting levels in 2007, it is possible that only about 55 percent of the target will be reached by the end of 2007.

The original target, it should be remembered, represented an estimate of how much housing was needed in Greater Boston to bring supply and demand into alignment given reasonable estimates of population and job growth. With slower growth in both than originally projected, housing demand has been weaker than expected so housing prices have not risen appreciably faster than general inflation and have actually declined over the past two years. Added housing supply helped to keep housing price appreciation in check as 2005 production levels represented the strongest performance-against-target up until that point. In 2002, only 56 percent of the target was achieved; in 2003, 70 percent; and in 2004, 77 percent (see **Table 7.1**) After posting year-over-year gains of 26, 26, and 13 percent, market rate production in 2006 retreated to below its 2004 level. New subsidized housing, while still well above its 2002-2004 performance was down by 4 percent from 2005. Only student housing, among the three tracked sectors, gained ground in 2006.

TABLE 7.1

Performance Against *New Paradigm* Targets

Category	Target Production	2002	2003	2004	2005	2006	Change 2005-2006
Market Rate	14,000	8,093	10,232	11,559	13,053	11,337	-1,716
% of Need		57.8%	73.1%	82.6%	93.2%	81.0%	-13.1%
Subsidized New Construction	3,000	1,427	1,889	1,997	2,523	2,422	-101
% of Need		47.6%	63.0%	66.6%	84.1%	80.7%	-4.0%
Student Housing	1,000	429	516	357	581	880	299
% of Need		42.9%	51.6%	35.7%	58.1%	88.0%	51.5%
Total 3 Categories	18,000	9,949	12,637	13,913	16,157	14,639	-1,518
% of Need		55.3%	70.2%	77.3%	89.8%	81.3%	-9.4%

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

The Challenge Moving Forward

The housing shortage that prompted civic leaders to call for an ambitious social compact to increase housing starts in the 2000 *New Paradigm* report was the legacy of lagging production from 1993-2000 when housing construction did not keep pace with demand and rents and house prices skyrocketed. Housing starts continued to drop through 2002, even as home prices continued to climb. Between 2002 and 2005, however, they increased by 68 percent. And because the population and number of households began to decline just as the inventory started to grow, vacancy rates returned to normal levels by 2006 indicating that supply and demand were more in balance. Now rents are relatively stable and house prices are dropping.

Even though home prices are likely to continue to decline in the near term, it would be a mistake to conclude that the region no longer faces an affordable housing challenge. The current market weakness will do little to ease the burden for the lowest income households, and the region remains one of the highest cost housing markets in the nation. Recent production levels—especially of single family homes, now at their lowest level in nearly 30 years—are unlikely to be adequate to meet demand if the economy is to thrive.

Little new detached single family housing, other than that which is age restricted, is being built for sale at prices below $400,000, without the benefit of Chapter 40B. There is somewhat more condominium development, including suburban townhouses in a handful of communities and loft conversions in urban settings. The pipeline remains impressive, but current market and regulatory conditions are not favorable for getting new units from the planning stage to actual production in a timely manner.

Over the longer term, there is some relief coming from the turnover of the existing housing stock. Much of the region's housing is in the hands of an aging population: 41 percent of homeowners are over the age of 55, including 22 percent over 65 and 11 percent over 75. A generational turnover of tsunami proportions is inevitable, even allowing for those who wish to age in place to do so. Much of the stock that may become available is located in communities that boast the strongest public school systems in the state. This generational turnover is already becoming evident, and explains why communities with stable or declining populations and little new housing production are experiencing significant increases in their school enrollments.

Still, complacency—especially regarding the prognosis for lower income households –cannot be justified, even if it turns out that the region is experiencing more of a short term housing squeeze than a long term shortfall. The rising foreclosure problem is devastating families who bought their first home using subprime credit, and the use restrictions and/or subsidy contracts on nearly 15,000 units of privately-owned, subsidized

housing in the Greater Boston region are at-risk of expiring by 2010. These trends threaten both affordability and neighborhood stability and warrant close monitoring.

How Much New Housing is Required?

To check whether 18,000 new units annually was still an appropriate target, given that the region has made up much of the production shortfall of the 1990s—mostly as the result of population loss, coupled with new multifamily production—the Housing Report Card's authors posed the following question: How much new housing *might* be required if the New England Economic Partnership estimates of job growth for the state are realized, and if the Greater Boston region mirrors those estimates:

- 107,000 new jobs over 5 years = 20,400 new jobs/year in an employment area that comprises about 90 percent of the 5-county area. Assuming 1.3 workers per household, all moving into the 5 Greater Boston counties, the 5-county area would need to be producing 17,435 new units per year.

While this new geography is somewhat smaller than the original Greater Boston footprint, it is reasonable to suggest that 18,000 new units per year remains an appropriate target, if the region is to adequately house a growing workforce. Of course, if population and job growth continue to be anemic, we may have seen the end of rapid home price appreciation for some time to come. But that would also mean the region will face an even greater challenge: remaining competitive in the global economy. The continued loss of young working families would not bode well for the future prosperity of the region.

Despite the current weakness in the housing market, it is essential that state and local governments work together to assure that new production—however much is required—can be brought on line at more reasonable prices, and in a timely, predictable, and equitable manner. Without such a commitment, it is likely that high housing prices and rents will continue to discourage young workers and their families from remaining in the region or moving here.

Endnotes

[1] MGL Chapter 40B (Sections 20-23), enacted in 1969, allows developers of subsidized housing where at least 20-25 percent of the units are affordable to apply for all necessary local approvals in the form of a single "comprehensive permit" and to request overrides of local zoning and other restrictions if necessary to make the housing economically feasible. In communities where less than 10 percent of the year-round housing is subsidized and little progress has been made in recent years, developers can ask the State Housing Appeals Committee to overturn local denials of a comprehensive permit or the imposition of conditions they believe make a project infeasible absent a finding that the project presents serious health or safety hazards.

[2] Foreclosure data has been provided to the Housing Report Card by ForeclosuresMass Corp., copyright August 2007.

[3] Robert Shiller and Karl Case have written extensively on this subject. Dr. Case recently addressed the factors that are influencing the nation's housing markets in a December 2006 policy brief (#06-4) prepared for the New England Public Policy Center at the Federal Reserve Bank of Boston Policy entitled *The Changing Housing Market: A Bang or a Whimper?*

[4] Employment statistics are reported for the Boston-Cambridge-Quincy Metropolitan New England City and Town Area (NECTA), a designation that includes 155 of the 161 municipalities covered by the Housing Report Card. The only towns not included are Lancaster, Wareham, Blackstone, Millville, Bellingham, and Plainville. See note to reader in the preface about changes in data reporting geographies.

[5] As prices spiraled up between 2003 and 2005, more buyers *were* priced out of the market. If traditional underwriting standards had remained in place during this period, demand would likely have dropped and prices might have moderated sooner. Instead, lenders responded by introducing new "exotic" mortgage products that qualified more "high risk" borrowers for a mortgage. The result has been the dramatic rise in delinquencies and foreclosures (discussed in Section 4).

[6] In 2005 the *American Community Survey*, and many other data reporters, began using the newly configured 2003 metropolitan area definitions. The Boston-Quincy-Cambridge MA-NH metro area now includes these five counties in their entirety, along with Rockingham and Strafford Counties in New Hampshire. In order to track demographic and economic changes over time, the Report Card analyzed data for these five counties going back to 2000. The 155 Massachusetts municipalities included in these five counties approximate the definition of Greater Boston that the Housing Report Card had been using. The difference is that 11 Worcester County municipalities, and 7 in Bristol County, that have been included in the Housing Report Card are not included in this table. Three Plymouth County towns, and one in Middlesex County, that have not been covered by the Report Card are included here.

[7] Since most homeowners without a mortgage are seniors, many with lower incomes, the incidence of cost burden among this category of homeowner has increased at an even greater rate than their younger counterparts who have hefty mortgage payments, but higher incomes.

[8] Among its limitations, the survey does not distinguish between single family attached and single family detached structures, or between units constructed for homeownership and those built as rentals. It does not capture units that are newly created as the result of adaptive reuse of non-residential properties. The survey covers most, but not all jurisdictions, and participation is voluntary. Where data are missing or incomplete, the Census Bureau imputes activity from prior years.

[9] Often these involve "teardowns"—the replacement of older, smaller dwellings.

[10] Examples cited in this report are illustrative of the types of housing being produced under the various types of zoning. They do not represent an exhaustive list of new development.

[11] Systems over that size (generally serving more than 90 bedrooms) must obtain a groundwater discharge permit.

[12] Title 5 regulations are found at 310 CMR 15.000.

[13] Generally these I/A technologies are better than conventional septic systems at removing solids and other pollutants from wastewater before it goes to the soil absorption system. They can also provide advanced treatment to reduce the wastewater's nitrogen content.

[14] The Pioneer Institute also surveyed a number of municipalitie within the MWRA service area as well as several cities that are not part of the MWRA. Since most of these communities are fully, or substantially sewered, they are not included in Table 3.3.

[15] The U.S. Census Bureau conducts the AHS for the Department of Housing and Urban Development (HUD) to obtain a wide range of housing statistics. National data are collected every other year, from a fixed sample of about 50,000 homes, plus new construction each year. The survey started in 1973, and has had the same sample since 1985, enabling researchers and practitioners to letting you monitor housing and household change over time. In some metropolitan areas, additional samples are conducted every 4-6 years, to measure local conditions.

[16] Consistent with the methodology used by the Boston Redevelopment Authority and the Department of Neighborhood Development, the Housing Report Card treats the production of four student beds as the equivalent of one apartment unit.

[17] The 5,014 total new units referenced here includes all units in *mixed income developments* that qualify for inclusion on the SHI. It does not include market rate units in *market rate developments* that may have generated affordable units under inclusionary programs. In such cases only the affordable units are included, consistent with SHI reporting guidelines. The goal here is to identify the total amount of housing created that *would not have been created* but for affordable programs, typically 40B.

[18] Comparable figures aggregated at the metro level are not available, but a metro area ranking would show a similar pattern, with Boston ranking in the top 5-10 percent of metro areas by most cost indicators, for renters as well as homeowners.

[19] This will probably be the last year the Report Card uses this data source. The Internet has radically altered the way rental properties are marketed. As a result, fewer landlords are advertising in the print media, resulting in a much smaller and less reliable sample size.

[20] Boston-Cambridge-Quincy MA-NH HMFA

[21] As Table 4.1 illustrated, Massachusetts renters—and homeowners—rank ninth in terms of "rent burden" among the 50 states, the higher incomes enjoyed by many Bay State residents partially offsetting the higher housing costs.

[22] Suffolk, Plymouth, Middlesex, Norfolk, and Essex Counties

[23] The national delinquency survey is conducted quarterly by the Mortgage Bankers Association. It is voluntary and has about 150 participating responders. It is estimated that the survey covers approximately 80 percent of all outstanding mortgages and is the industry standard for tracking loan delinquencies.

[24] Dr. Campen's most recent reports include *Changing Patterns XIII: Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston 1990-2005 and High Cost Mortgage Lending in Boston, Greater Boston and Massachusetts, 2005*.

[25] Dr. Campen has noted that many borrowers who receive subprime loans in fact have credit histories and other risk characteristics that qualify them for prime loans; he cites estimates by Fannie Mae and Freddie Mac that one-third, or more, of all subprime loans are made to such borrowers. See www.masscommunityandbanking.org/PDFs/BorrowingTrouble7.pdf for a more detailed description of subprime loans and lenders.

[26] Data were available for communities within the Metropolitan Area Planning Council region.

[27] Statistics on foreclosures in Boston are from the Department of Neighborhood Development's *Foreclosure Trends 2006*.

[28] In homeownership developments, only the affordable units count.

[29] Includes units created through the substantial renovation of existing, substandard properties as well as units gained through new construction and the adaptive reuse of previously non-residential structures.

[30] The 2005-2006 Report Card detailed the increasing role 40B has played in recent years in stimulating both affordable and market rate housing production, and that history will not be repeated here. Additional information on 40B can be found in *Update on 40B*, a March 2007 report by Bonnie Heudorfer, available at http://www.chapa.org/pdf/40BUpdate2007.pdf.

[31] All development, including 40Bs, must comply with the state Wetlands Protection Act and Title 5 septic system regulations, which are administered locally by the Conservation Commission and Board of Health. If there are septic and wetlands concerns, as is often the case in suburban and rural communities, separate approvals may be required from these boards. For larger developments with private sewage treatment facilities, the state Department of Environmental Protection is the permitting entity.

[32] *The Leading the Way II Pre-Completion Report* is available at http://www.ci.boston.ma.us/dnd/pdfs/LTW_II_Pre-Completion_Report.pdf. The report documents that over the full four year period covered by the initiative 307 units were created for households earning less than 30 percent of area median income (AMI); 728 were created for those earning between 30-60 percent; 602 for those between 60-80 percent; and 475 for those earning between 80-120 percent. The 475 middle income units (80-120 percent AMI) and another 234 units serving households below 80 percent of AMI—a total of 709 units—were created as the result of the City's Inclusionary Zoning policy.

[33] *The Community Preservation Act and Affordable Housing in Massachusetts: Learning from the First Five Years*, Ann Dillemuth for the Massachusetts Housing Partnership, August 2006. Includes allocations through June 2006 (includes 2006 Annual Town Meetings for most towns).

[34] Descriptions of these and other programs can be found at www.mass.gov/dhcd/main/factsheet/default.htm

[35] These 10-year tax credits are sold for approximately $.90 on the dollar to private investors. The value of the tax credit is calculated by multiplying the tax credit award by ten years and multiplied again by the market rate of $.90.

[36] The term EUR is used here to refer to projects where the owners may prepay their mortgage or pay it off at maturity as well as those whose owners may opt out of their Section 8 rent subsidy contracts when they expire. The end result is the same: the property's continued use as low-income housing may be at risk.

[37] Information on expiring use properties was obtained from the June 2005 CHAPA publication *Smart Preservation: Preserving At-Risk Subsidized Housing with State Bond Funds* and the June 2007 *Report of the Expiring Use Working Group*, prepared for the Joint Committee on Housing of the Massachusetts Legislature.

[38] Includes Section 202 Elderly Developments that were refinanced by MassHousing

[39] A S*tudy of Appropriate Operating Costs for State-Funded Public Housing in Massachusetts*, September 2005

[40] Over 80 percent of HUD spending in Massachusetts goes directly to 130 local housing authorities for their Housing Choice Voucher (Section 8) programs, or to landlords participating in those programs; to the 35 Entitlement Communities that receive Community Development Block grants and HOME funds directly from HUD; to housing authorities with federally funded public housing units for their operation and modernization; and to localities, nonprofits, and private owners for homeless assistance, interest subsidies, and other programs.

[41] Excludes MassHousing's single family mortgage programs.

[42] Included in the 2008 funding is a $20 million commitment by MassHousing to the Affordable Housing Trust Fund (the first half of a 2-year $40 million commitment, and a $1.5 million commitment by the Massachusetts Housing Partnership to the Soft Second Mortgage Program. MassHousing's total commitment was $40 million over two years.

[43] The 40R districts in Brockton, Grafton, Lawrence, North Andover, Plymouth, Kingston, Lynnfield, and Natick are awaiting final approval from DHCD.

[44] Those projects that have moved into construction—in Chelsea, Norwood, Haverhill, and North Reading—had received approvals under as-of-right zoning, special permit, or 40B prior to gaining approval as 40R. Similarly, many of the pipeline projects had been reviewed, and in some cases approved, as 40Bs when the municipality and developer both determined that substantial benefits could be derived by going the 40R route.

[45] The MAPC population projections encompass 164 municipalities, including all of the original 161Housing Report Card communities except Berkley and Townsend. Also included in the MAPC area are Attleboro, North Attleborough, Northborough, Northbridge, Uxbridge, which were not among the 161 Greater Boston municipalities.

Appendix A: Affordability Gap Analysis

Municipality	Estimated Median Household Income 2006	Estimated Median Household Income 2007	Median Single Family Home Price 2005	Median Single Family Home Price 2006	Median Single Family Home Price Jan-May 2007	% Change in Median SF Sales Price 2005-2006	% Change in Median SF Sales Price 2006-2007*	Affordability Index 2005	Affordability Index 2007	Affordable in 2006?	Affordable in 2006?	Affordable to FTHB in 2006?	Affordable to FTHB in 2007?
Abington	$68,181	$69,545	$339,900	$309,500	$309,550	-8.9%	0.0%	0.90	0.98	N	N	N	N
Acton	$109,405	$111,593	$525,000	$515,000	$512,950	-1.9%	-0.4%	0.94	0.95	N	N	N	N
Amesbury	$61,979	$63,219	$335,000	$320,000	$320,500	-4.5%	0.2%	0.83	0.86	N	N	N	N
Andover	$104,699	$106,793	$576,000	$519,900	$559,000	-9.7%	7.5%	0.82	0.83	N	N	N	N
Arlington	$76,831	$78,367	$493,000	$475,000	$450,000	-3.7%	-5.3%	0.70	0.76	N	N	N	N
Ashland	$81,664	$83,298	$403,900	$402,750	$398,500	-0.3%	-1.1%	0.91	0.91	N	N	N	N
Avon	$60,067	$61,269	$319,000	$293,750	$285,000	-7.9%	-3.0%	0.85	0.94	N	N	N	N
Ayer	$55,666	$56,779	$317,750	$287,000	$256,250	-9.7%	-10.7%	0.79	0.97	N	N	N	N
Bedford	$105,032	$107,133	$503,250	$490,000	$449,500	-2.6%	-8.3%	0.94	1.04	N	Y	N	N
Bellingham	$77,012	$78,553	$306,250	$300,000	$271,000	-2.0%	-9.7%	1.13	1.26	Y	Y	N	Y
Belmont	$95,877	$97,795	$699,500	$749,000	$710,000	7.1%	-5.2%	0.62	0.60	N	N	N	N
Berkley	$79,160	$80,744	$340,000	$348,900	$320,000	2.6%	-8.3%	1.05	1.10	N	Y	N	N
Berlin	$78,411	$79,979	$395,000	$460,000	$390,000	16.5%	-15.2%	0.89	0.89	N	N	N	N
Beverly	$64,460	$65,750	$381,950	$376,000	$368,000	-1.6%	-2.1%	0.76	0.78	N	N	N	N
Billerica	$80,956	$82,575	$369,900	$337,187	$325,000	-8.8%	-3.6%	0.99	1.11	Y	Y	N	N
Blackstone	$65,868	$67,185	$288,500	$248,500	$239,500	-13.9%	-3.6%	1.03	1.22	Y	Y	N	Y
Bolton	$122,747	$125,202	$557,000	$455,000	$390,800	-18.3%	-14.1%	0.99	1.40	Y	Y	N	Y
Boston	$47,320	$48,266	$427,936	$413,979	$400,892	-3.3%	-3.2%	0.50	0.49	N	N	N	N
Boxboro	$104,621	$106,714	$567,500	$562,500	$615,000	-0.9%	9.3%	0.83	0.76	N	N	N	N
Boxford	$135,182	$137,886	$650,000	$575,000	$560,000	-11.5%	-2.6%	0.94	1.07	Y	Y	N	N
Braintree	$73,781	$75,257	$375,000	$370,000	$358,750	-1.3%	-3.0%	0.89	0.91	N	N	N	N
Bridgewater	$77,994	$79,554	$375,000	$372,500	$350,250	-0.7%	-6.0%	0.94	0.99	N	N	N	N
Brockton	$47,174	$48,117	$274,450	$269,900	$245,000	-1.7%	-9.2%	0.77	0.86	N	N	N	N
Brookline	$79,657	$81,250	$1,090,000	$977,500	$950,000	-10.3%	-2.8%	0.33	0.37	N	N	N	N
Burlington	$89,841	$91,638	$410,000	$392,000	$390,250	-4.4%	-0.4%	0.99	1.02	Y	Y	N	N
Cambridge	$57,290	$58,436	$717,500	$758,000	$662,500	5.6%	-12.6%	0.36	0.38	N	N	N	N
Canton	$82,701	$84,355	$490,000	$467,000	$397,500	-4.7%	-14.9%	0.76	0.93	N	N	N	N
Carlisle	$155,003	$158,103	$828,444	$830,500	$727,500	0.2%	-12.4%	0.84	0.95	N	N	N	N
Carver	$63,890	$65,167	$319,000	$310,000	$292,000	-2.8%	-5.8%	0.90	0.97	N	N	N	N
Chelmsford	$83,832	$85,508	$370,000	$368,750	$334,900	-0.3%	-9.2%	1.02	1.11	N	Y	N	N

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Municipality	Estimated Median Household Income 2006	Estimated Median Household Income 2007	Median Single Family Home Price 2005	Median Single Family Home Price 2006	Median Single Family Home Price Jan-May 2007	% Change in Median SF Sales Price 2005-2006	% Change in Median SF Sales Price 2006-2007*	Affordability Index 2005	Affordability Index 2007	Affordable in 2006?	Affordable in 2006?	Affordable to FTHB in 2006?	Affordable to FTHB in 2007?
Chelsea	$36,014	$36,734	$317,000	$329,000	$303,500	3.8%	-7.8%	0.51	0.53	N	N	N	N
Cohasset	$100,488	$102,497	$751,250	$815,000	$759,500	8.5%	-6.8%	0.60	0.59	N	N	N	N
Concord	$114,507	$116,797	$712,000	$810,000	$762,000	13.8%	-5.9%	0.72	0.67	N	N	N	N
Danvers	$70,186	$71,590	$390,500	$375,500	$370,000	-3.8%	-1.5%	0.81	0.84	N	N	N	N
Dedham	$73,673	$75,146	$392,250	$376,500	$349,950	-4.0%	-7.1%	0.85	0.94	N	N	N	N
Dighton	$69,972	$71,372	$312,500	$318,950	$336,250	2.1%	5.4%	1.01	0.93	N	N	N	N
Dover	$169,340	$172,726	$1,057,500	$887,500	$950,000	-16.1%	7.0%	0.72	0.79	N	N	N	N
Dracut	$68,869	$70,246	$307,600	$300,000	$267,750	-2.5%	-10.8%	1.01	1.14	Y	Y	N	N
Dunstable	$103,445	$105,514	$565,325	$425,000	$406,450	-24.8%	-4.4%	0.82	1.13	Y	Y	N	N
Duxbury	$115,972	$118,292	$610,000	$580,000	$590,000	-4.9%	1.7%	0.86	0.87	N	N	N	N
East Bridgewater	$72,015	$73,455	$343,500	$329,000	$303,000	-4.2%	-7.9%	0.94	1.06	N	Y	N	N
Easton	$82,562	$84,214	$415,125	$393,000	$385,000	-5.3%	-2.0%	0.90	0.95	N	N	N	N
Essex	$71,111	$72,533	$425,000	$515,000	$384,275	21.2%	-25.4%	0.75	0.82	N	N	N	N
Everett	$48,552	$49,523	$349,900	$340,000	$300,000	-2.8%	-11.8%	0.62	0.72	N	N	N	N
Foxboro	$76,806	$78,342	$395,000	$376,000	$377,950	-4.8%	0.5%	0.88	0.90	N	N	N	N
Framingham	$64,823	$66,120	$380,000	$365,000	$360,000	-3.9%	-1.4%	0.77	0.80	N	N	N	N
Franklin	$84,986	$86,686	$422,500	$409,000	$390,500	-3.2%	-4.5%	0.91	0.97	N	N	N	N
Georgetown	$91,059	$92,880	$400,000	$396,225	$398,650	-0.9%	0.6%	1.03	1.02	Y	Y	N	N
Gloucester	$56,983	$58,123	$380,000	$350,750	$412,500	-7.7%	17.6%	0.68	0.61	N	N	N	N
Groton	$98,951	$100,930	$470,000	$414,000	$375,000	-11.9%	-9.4%	0.95	1.17	Y	Y	N	N
Groveland	$82,590	$84,242	$375,000	$359,500	$375,000	-4.1%	4.3%	0.99	0.98	Y	N	N	N
Halifax	$68,080	$69,441	$314,000	$301,000	$275,000	-4.1%	-8.6%	0.98	1.10	N	Y	N	N
Hamilton	$85,973	$87,692	$510,000	$495,000	$390,000	-2.9%	-21.2%	0.76	0.98	N	N	N	N
Hanover	$88,167	$89,931	$429,450	$417,500	$406,000	-2.8%	-2.8%	0.92	0.97	N	N	N	N
Hanson	$74,852	$76,349	$356,250	$306,000	$296,500	-14.1%	-3.1%	0.95	1.12	Y	Y	N	N
Harvard	$128,880	$131,458	$596,000	$587,500	$500,000	-1.4%	-14.9%	0.97	1.15	N	Y	N	N
Haverhill	$59,504	$60,694	$314,000	$289,500	$286,500	-7.8%	-1.0%	0.85	0.92	N	N	N	N
Hingham	$99,129	$101,111	$655,000	$590,000	$557,500	-9.9%	-5.5%	0.68	0.79	N	N	N	N
Holbrook	$64,980	$66,279	$317,750	$302,000	$375,000	-5.0%	24.2%	0.92	0.77	N	N	N	N
Holliston	$93,247	$95,112	$435,000	$384,250	$385,000	-11.7%	0.2%	0.97	1.08	Y	Y	N	N

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Hopedale	$71,854	$73,291	$340,000	$308,000	$370,000	-9.4%	20.1%	0.95	0.86	Y	N	N	N
Hopkinton	$106,607	$108,739	$549,000	$604,000	$521,750	10.0%	-13.6%	0.87	0.91	N	N	N	N
Hudson	$69,911	$71,309	$355,000	$331,000	$319,900	-6.8%	-3.4%	0.89	0.97	N	N	N	N
Hull	$62,541	$63,792	$351,000	$375,000	$331,675	6.8%	-11.6%	0.80	0.84	N	N	N	N
Ipswich	$68,401	$69,769	$477,000	$437,000	$475,000	-8.4%	8.7%	0.65	0.64	N	N	N	N
Kingston	$64,217	$65,501	$370,000	$365,000	$340,000	-1.4%	-6.8%	0.78	0.84	N	N	N	N
Lakeville	$84,175	$85,859	$351,000	$305,900	$323,000	-12.8%	5.6%	1.08	1.16	Y	Y	N	N
Lancaster	$72,542	$73,993	$325,000	$275,000	$380,000	-15.4%	38.2%	1.01	0.85	Y	N	N	N
Lawrence	$33,413	$34,082	$243,950	$242,500	$209,000	-0.6%	-13.8%	0.62	0.71	N	N	N	N
Lexington	$115,615	$117,927	$691,500	$682,250	$641,101	-1.3%	-6.0%	0.75	0.80	N	N	N	N
Lincoln	$94,335	$96,221	$1,141,500	$865,000	$1,167,500	-24.2%	35.0%	0.37	0.36	N	N	N	N
Littleton	$85,237	$86,942	$446,025	$365,500	$332,500	-18.1%	-9.0%	0.86	1.14	Y	Y	N	N
Lowell	$46,798	$47,734	$265,500	$255,000	$230,000	-4.0%	-9.8%	0.79	0.91	N	N	N	N
Lynn	$44,615	$45,507	$286,000	$270,000	$241,695	-5.6%	-10.5%	0.70	0.82	N	N	N	N
Lynnfield	$96,273	$98,198	$557,000	$507,500	$520,000	-8.9%	2.5%	0.78	0.82	N	N	N	N
Malden	$54,514	$55,604	$355,000	$336,000	$316,000	-5.4%	-6.0%	0.69	0.77	N	N	N	N
Manchester	$87,724	$89,479	$670,000	$700,000	$571,750	4.5%	-18.3%	0.59	0.68	N	N	N	N
Mansfield	$79,913	$81,511	$415,000	$410,000	$358,500	-1.2%	-12.6%	0.87	0.99	N	N	N	N
Marblehead	$88,322	$90,089	$570,000	$570,000	$513,000	0.0%	-10.0%	0.70	0.77	N	N	N	N
Marlborough	$67,917	$69,275	$351,250	$334,500	$329,950	-4.8%	-1.4%	0.87	0.92	N	N	N	N
Marshfield	$79,415	$81,003	$409,100	$390,000	$375,000	-4.7%	-3.8%	0.87	0.94	N	N	N	N
Maynard	$72,613	$74,066	$344,250	$350,000	$327,500	1.7%	-6.4%	0.95	0.99	N	N	N	N
Medfield	$116,717	$119,052	$601,500	$570,000	$564,000	-5.2%	-1.1%	0.87	0.92	N	N	N	N
Medford	$62,660	$63,913	$390,000	$387,500	$380,000	-0.6%	-1.9%	0.72	0.73	N	N	N	N
Medway	$89,716	$91,510	$430,000	$385,000	$375,000	-10.5%	-2.6%	0.94	1.06	Y	Y	N	N
Melrose	$75,000	$76,500	$423,000	$420,000	$405,000	-0.7%	-3.6%	0.80	0.82	N	N	N	N
Mendon	$84,974	$86,674	$459,000	$422,500	$474,500	-8.0%	12.3%	0.83	0.80	N	N	N	N
Merrimac	$70,082	$71,484	$362,500	$333,250	$330,000	-8.1%	-1.0%	0.87	0.94	N	N	N	N
Methuen	$59,258	$60,443	$320,000	$307,000	$282,500	-4.1%	-8.0%	0.83	0.93	N	N	N	N
Middleboro	$62,993	$64,253	$321,000	$307,500	$305,000	-4.2%	-0.8%	0.88	0.92	N	N	N	N

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Appendix A: Affordability Gap Analysis

Municipality	Estimated Median Household Income 2006	Estimated Median Household Income 2007	Median Single Family Home Price 2005	Median Single Family Home Price 2006	Median Single Family Home Price Jan-May 2007	% Change in Median SF Sales Price 2005-2006	% Change in Median SF Sales Price 2006-2007*	Affordability Index 2005	Affordability Index 2007	Affordable in 2006?	Affordable in 2006?	Affordable to FTHB in 2006?	Affordable to FTHB in 2007?
Middleton	$97,191	$99,135	$530,000	$480,000	$425,000	-9.4%	-11.5%	0.83	1.02	N	Y	N	N
Milford	$60,725	$61,940	$350,000	$317,000	$309,000	-9.4%	-2.5%	0.78	0.87	N	N	N	N
Millis	$74,994	$76,494	$380,000	$367,800	$356,750	-3.2%	-3.0%	0.89	0.94	N	N	N	N
Millville	$68,062	$69,423	$301,000	$269,500	$315,000	-10.5%	16.9%	1.02	0.96	Y	N	N	N
Milton	$94,313	$96,199	$469,900	$455,000	$445,000	-3.2%	-2.2%	0.90	0.94	N	N	N	N
Nahant	$76,482	$78,012	$544,750	$472,500	$420,000	-13.3%	-11.1%	0.63	0.81	N	N	N	N
Natick	$83,292	$84,958	$449,400	$420,000	$393,000	-6.5%	-6.4%	0.83	0.94	N	N	N	N
Needham	$105,172	$107,275	$649,000	$644,000	$572,000	-0.8%	-11.2%	0.73	0.82	N	N	N	N
Newbury	$89,359	$91,146	$444,000	$475,000	$372,500	7.0%	-21.6%	0.91	1.07	N	Y	N	N
Newburyport	$69,921	$71,319	$450,000	$432,500	$388,250	-3.9%	-10.2%	0.70	0.80	N	N	N	N
Newton	$102,752	$104,807	$736,400	$730,000	$741,700	-0.9%	1.6%	0.63	0.62	N	N	N	N
Norfolk	$102,872	$104,930	$475,000	$454,000	$385,000	-4.4%	-15.2%	0.98	1.19	N	Y	N	N
North Andover	$86,842	$88,579	$550,000	$503,460	$428,250	-8.5%	-14.9%	0.71	0.90	N	N	N	N
North Reading	$91,898	$93,735	$440,000	$409,900	$345,950	-6.8%	-15.6%	0.94	1.18	N	Y	N	N
Norton	$77,397	$78,945	$339,000	$325,500	$315,000	-4.0%	-3.2%	1.03	1.09	Y	Y	N	N
Norwell	$104,358	$106,445	$543,750	$597,000	$540,000	9.8%	-9.5%	0.86	0.86	N	N	N	N
Norwood	$69,758	$71,154	$400,000	$378,600	$365,000	-5.4%	-3.6%	0.79	0.85	N	N	N	N
Peabody	$65,469	$66,779	$372,000	$349,000	$342,000	-6.2%	-2.0%	0.79	0.85	N	N	N	N
Pembroke	$77,674	$79,227	$346,500	$344,000	$325,000	-0.7%	-5.5%	1.01	1.06	N	Y	N	N
Pepperell	$77,808	$79,364	$359,450	$293,000	$317,000	-18.5%	8.2%	0.97	1.09	Y	Y	N	N
Plainville	$68,247	$69,612	$361,500	$359,500	$324,000	-0.6%	-9.9%	0.85	0.94	N	N	N	N
Plymouth	$65,288	$66,594	$339,900	$325,000	$313,945	-4.4%	-3.4%	0.87	0.93	N	N	N	N
Plympton	$83,638	$85,311	$380,000	$389,500	$343,250	2.5%	-11.9%	0.99	1.08	N	Y	N	N
Quincy	$56,265	$57,391	$372,250	$356,000	$344,000	-4.4%	-3.4%	0.68	0.73	N	N	N	N
Randolph	$65,978	$67,298	$344,500	$320,000	$289,622	-7.1%	-9.5%	0.86	1.01	N	Y	N	N
Raynham	$72,180	$73,624	$337,575	$358,800	$318,000	6.3%	-11.4%	0.96	1.01	N	Y	N	N
Reading	$92,013	$93,854	$435,000	$415,000	$391,000	-4.6%	-5.8%	0.95	1.05	N	Y	N	N
Revere	$44,260	$45,146	$335,000	$324,450	$279,000	-3.1%	-14.0%	0.60	0.71	N	N	N	N
Rockland	$60,435	$61,644	$317,750	$300,000	$278,500	-5.6%	-7.2%	0.86	0.97	N	N	N	N
Rockport	$60,492	$61,702	$416,450	$425,000	$400,000	2.1%	-5.9%	0.65	0.67	N	N	N	N

Appendix A: Affordability Gap Analysis

Municipality	Estimated Median Household Income 2006	Estimated Median Household Income 2007	Median Single Family Home Price 2005	Median Single Family Home Price 2006	Median Single Family Home Price Jan-May 2007	% Change in Median SF Sales Price 2005-2006	% Change in Median SF Sales Price 2006-2007*	Affordability Index 2005	Affordability Index 2007	Affordable in 2006?	Affordable in 2006?	Affordable to FTHB in 2006?	Affordable to FTHB in 2007?
Rowley	$74,187	$75,671	$432,500	$481,895	$461,500	11.4%	-4.2%	0.77	0.72	N	N	N	N
Salem	$52,578	$53,630	$345,000	$319,500	$312,000	-7.4%	-2.3%	0.69	0.75	N	N	N	N
Salisbury	$58,879	$60,057	$322,500	$305,000	$251,000	-5.4%	-17.7%	0.82	1.04	N	Y	N	N
Saugus	$66,033	$67,354	$366,000	$342,000	$316,000	-6.6%	-7.6%	0.81	0.93	N	N	N	N
Scituate	$84,621	$86,313	$510,000	$475,000	$490,000	-6.9%	3.2%	0.75	0.77	N	N	N	N
Sharon	$106,577	$108,709	$445,000	$425,000	$432,000	-4.5%	1.6%	1.08	1.10	Y	Y	N	N
Sherborn	$145,309	$148,215	$740,000	$830,000	$632,500	12.2%	-23.8%	0.88	1.02	N	Y	N	N
Shirley	$63,696	$64,970	$323,250	$339,000	$307,450	4.9%	-9.3%	0.89	0.92	N	N	N	N
Somerville	$55,303	$56,409	$415,000	$410,000	$409,000	-1.2%	-0.2%	0.60	0.60	N	N	N	N
Southborough	$122,972	$125,431	$545,000	$570,000	$425,000	4.6%	-25.4%	1.02	1.29	N	Y	N	Y
Stoneham	$67,590	$68,942	$420,000	$400,000	$352,000	-4.8%	-12.0%	0.72	0.85	N	N	N	N
Stoughton	$69,062	$70,443	$349,900	$339,000	$325,000	-3.1%	-4.1%	0.89	0.95	N	N	N	N
Stow	$114,976	$117,276	$455,000	$490,000	$352,000	7.7%	-28.2%	1.14	1.45	Y	Y	N	Y
Sudbury	$141,591	$144,423	$681,000	$630,000	$657,500	-7.5%	4.4%	0.94	0.96	N	N	N	N
Swampscott	$84,885	$86,582	$500,000	$424,250	$447,500	-15.2%	5.5%	0.76	0.84	N	N	N	N
Taunton	$51,264	$52,289	$300,000	$282,000	$260,245	-6.0%	-7.7%	0.77	0.88	N	N	N	N
Tewksbury	$82,152	$83,795	$376,000	$350,000	$342,500	-6.9%	-2.1%	0.98	1.07	Y	Y	N	N
Topsfield	$115,144	$117,446	$530,000	$552,500	$519,823	4.2%	-5.9%	0.98	0.99	N	N	N	N
Townsend	$73,727	$75,202	$282,950	$271,500	$270,000	-4.0%	-0.6%	1.17	1.21	Y	Y	N	Y
Tyngsboro	$83,367	$85,034	$360,000	$357,500	$345,000	-0.7%	-3.5%	1.04	1.07	Y	Y	N	N
Upton	$93,847	$95,724	$415,000	$390,500	$370,000	-5.9%	-5.2%	1.02	1.13	Y	Y	N	N
Wakefield	$78,948	$80,527	$425,000	$395,000	$375,000	-7.1%	-5.1%	0.84	0.94	N	N	N	N
Walpole	$89,265	$91,050	$438,750	$395,000	$401,000	-10.0%	1.5%	0.92	0.99	N	N	N	N
Waltham	$64,491	$65,781	$424,750	$410,000	$404,000	-3.5%	-1.5%	0.68	0.71	N	N	N	N
Wareham	$48,266	$49,232	$259,500	$251,000	$238,900	-3.3%	-4.8%	0.84	0.90	N	N	N	N
Watertown	$71,362	$72,789	$461,500	$420,000	$460,000	-9.0%	9.5%	0.70	0.69	N	N	N	N
Wayland	$120,643	$123,056	$590,000	$550,000	$500,000	-6.8%	-9.1%	0.92	1.07	N	Y	N	N
Wellesley	$135,748	$138,463	$950,000	$950,000	$970,000	0.0%	2.1%	0.64	0.62	N	N	N	N
Wenham	$108,091	$110,253	$473,900	$675,000	$548,000	42.4%	-18.8%	1.03	0.88	N	N	N	N
West Bridgewater	$66,817	$68,154	$349,900	$321,250	$340,000	-8.2%	5.8%	0.86	0.87	N	N	N	N

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Appendix A: Affordability Gap Analysis

Municipality	Estimated Median Household Income 2006	Estimated Median Household Income 2007	Median Single Family Home Price 2005	Median Single Family Home Price 2006	Median Single Family Home Price Jan-May 2007	% Change in Median SF Sales Price 2005-2006	% Change in Median SF Sales Price 2006-2007*	Affordability Index 2005	Affordability Index 2007	Affordable in 2006?	Affordable in 2006?	Affordable to FTHB in 2006?	Affordable to FTHB in 2007?
West Newbury	$110,843	$113,059	$482,500	$562,900	$448,500	16.7%	-20.3%	1.03	1.10	N	Y	N	N
Westford	$117,343	$119,690	$500,000	$425,000	$437,500	-15.0%	2.9%	1.06	1.19	Y	Y	Y	N
Weston	$183,788	$187,464	$1,200,000	$1,200,000	$1,105,500	0.0%	-7.9%	0.69	0.74	N	N	N	N
Westwood	$104,354	$106,441	$595,000	$540,000	$519,000	-9.2%	-3.9%	0.79	0.89	N	N	N	N
Weymouth	$61,691	$62,925	$340,000	$330,000	$311,550	-2.9%	-5.6%	0.82	0.88	N	N	N	N
Whitman	$66,035	$67,356	$315,000	$315,000	$301,250	0.0%	-4.4%	0.94	0.98	N	N	N	N
Wilmington	$84,363	$86,050	$374,750	$368,450	$361,750	-1.7%	-1.8%	1.01	1.04	Y	Y	N	N
Winchester	$112,300	$114,546	$726,675	$700,000	$619,000	-3.7%	-11.6%	0.70	0.81	N	N	N	N
Winthrop	$63,431	$64,700	$375,000	$350,000	$340,000	-6.7%	-2.9%	0.76	0.83	N	N	N	N
Woburn	$65,550	$66,862	$385,000	$360,000	$322,500	-6.5%	-10.4%	0.77	0.90	N	N	N	N
Wrentham	$93,188	$95,052	$395,000	$385,000	$432,500	-2.5%	12.3%	1.06	0.96	Y	N	N	N

* Change is based on January-May 2007 price compared to year-end price for 2005 and 2006.

Affordability Gap Analysis and Housing Affordability Index Methodology

The affordability gap analysis shows whether a city or town's median priced home would be affordable to a homebuyer earning that community's median household income. The calculation assumes a down payment of 20 percent and a qualifying ratio of 33 percent for principal, interest, taxes, and insurance. Taxes and insurance are calculated at 1.5% of the purchase price. 2006 income is estimated to be 2% higher than the 2005 income reported for the 5 principal Greater Boston counties in the 2005 *American Community Survey*. The 2007 income is estimated at 2% above the 2006 estimate. Interest rates are the average for the year (or year to date) according to the FreddieMac Primary Mortgage Market Survey for conventional conforming 30-year fixed rate loans: 2005—6.0%, 2006 - 6.1%, and 2007— 6.5%. The first time homebuyer (FTHB) analysis is similar but both the homebuyer's income and the purchase price of the home are estimated to be just 80 percent of the median for the community. The down payment is assumed to be 10 percent with private mortgage insurance.

An index value of 100 means that a homebuyer with the median income has exactly enough income to qualify for an 80 percent mortgage on a median-priced home. An index above 100 signifies that a family earning the median income has more than enough income to qualify; the higher the index, the more affordable the housing. By the same token, when the index falls below 100, housing prices are considered unaffordable.

The median purchase price is provided by The Warren Group Publications.

Appendix B: Municipal Scorecard

	Production			First Time Homebuyers		Planned Production		Community Preservation		At Risk		
Municipality	Units Permitted 2006	Estimated Affordable Units 2006?	% Affordable 7/9/07 SHI	# Soft Second Loans	# Mass Housing Loans	Approved Plan	Certified?	Passed CPA?	CPA Funds to Housing ($000)*	EUR Units Lost 2006	EUR Units at Risk	Foreclosures 2006
Abington	95	7	8.6%		1	A						66
Acton	71	7	6.6%	2	3	A	Y	Y	$410.0			19
Amesbury	29	13	11.1%	3	8	2006						67
Andover	63	10	8.9%	6	8					55		38
Arlington	69	4	5.4%	2	4						145	45
Ashland	52		4.3%	1	1			Y	$172.5		162	39
Avon	5		4.3%									21
Ayer	30	25	8.3%	1	1			Y	$411.7			22
Bedford	114	95	14.3%	3	1	A		Y	$1,738.1			17
Bellingham	53		10.1%		1							65
Belmont	42	1	3.2%									12
Berkley	35	21	0.8%									25
Berlin	6		5.7%			2006	Y				40	4
Beverly	38	1	11.5%	2	10						332	66
Billerica	246	30	4.9%	6	15	A						122
Blackstone	19		3.7%	1	1						48	37
Bolton	24	15	3.3%			A	Y					11
Boston	2,419	630	19.9%	260	80					540	6,102	1772
Boxborough	10		1.2%			2006						4
Boxford	10		0.7%			A		Y	$160.0			12
Braintree	214		8.8%	20	15			Y	$251.1	98	194	72
Bridgewater	60	4	3.2%		5	A		Y				106
Brockton	147	8	12.8%	6	20						974	803
Brookline	22	13	7.8%	9	2					84	244	35
Burlington	60	43	11.6%									32
Cambridge	54	128	15.8%	47	10			Y	$37,680.0	3	314	50
Canton	131	40	11.5%		5						56	54
Carlisle	12		1.2%		1	A		Y	$662.2		18	1
Carver	64	4	2.9%	1	3			2006				62
Chelmsford	182	37	6.8%	5	6	A		Y**	$187.7			12

Source for Foreclosures 2006: ForeclosuresMass.com

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Appendix B: Municipal Scorecard

	Production			First Time Homebuyers		Planned Production		Community Preservation		At Risk		
Municipality	Units Permitted 2006	Estimated Affordable Units 2006?	% Affordable 7/9/07 SHI	# Soft Second Loans	# Mass Housing Loans	Approved Plan	Certified?	Passed CPA?	CPA Funds to Housing ($000)*	EUR Units Lost 2006	EUR Units at Risk	Foreclosures 2006
Chelsea	6	69	17.2%	13	5						115	70
Cohasset	8		3.2%					Y	$800.0			13
Concord	28		5.4%			A		Y				18
Danvers	500	40	10.4%	1	8							56
Dedham	297	71	12.3%		3							63
Dighton	39		4.9%		1							27
Dover	11		0.9%		1							2
Dracut	51		5.8%	4	10	A		Y				117
Dunstable	24		0.0%			A		2006				4
Duxbury	26	3	3.4%					Y	$573.3			30
E. Bridgewater	56		3.5%		1							32
Easton	56		3.0%	1	5	A		Y	$65.0			64
Essex	19		2.9%		1							11
Everett	142		8.2%	5	3							122
Foxborough	63	5	4.3%		5						64	29
Framingham	39		10.2%	4	6						941	127
Franklin	128	65	10.3%	1	2	A					58	61
Georgetown	46		13.9%					Y				19
Gloucester	45		7.9%	6	9						80	64
Groton	19	9	5.7%			A		Y				17
Groveland	83		3.5%	2		A		Y	$32.0			22
Halifax	16		1.0%		3							45
Hamilton	2		3.1%		2			Y				7
Hanover	24		8.4%					Y				27
Hanson	43		4.5%		1							43
Harvard	8		2.8%			A		Y	$65.0			1
Haverhill	163	80	9.1%	7	11						149	277
Hingham	374		5.9%		4			Y	$16.5		60	30
Holbrook	9		10.9%		3							61
Holliston	21	3	3.5%			A		Y	$262.2			32

Source for Foreclosures 2006: ForeclosuresMass.com

Appendix B: Municipal Scorecard

	Production			First Time Homebuyers		Planned Production		Community Preservation		At Risk		
Municipality	Units Permitted 2006	Estimated Affordable Units 2006?	% Affordable 7/9/07 SHI	# Soft Second Loans	# Mass Housing Loans	Approved Plan	Certified?	Passed CPA?	CPA Funds to Housing ($000)*	EUR Units Lost 2006	EUR Units at Risk	Foreclosures 2006 (ForeclosresMass.com)
Hopedale	8		4.8%									12
Hopkinton	51		3.1%	3		A		Y	$100.0			28
Hudson	64		10.2%	2	13							41
Hull	10		4.4%		1							49
Ipswich	45	13	8.2%			A						21
Kingston	24		3.9%	1		2006		Y			20	54
Lakeville	32		8.5%	1	1	A	Y					32
Lancaster	63		4.9%	2	1							32
Lawrence	75	66	14.5%	15	12					168	463	425
Lexington	55	97	11.2%	1	3			2006				24
Lincoln	20		9.1%	2	1	A		Y	$938.5			5
Littleton	30		8.9%			2006						17
Lowell	168		13.3%	19	23						417	515
Lynn	56	38	13.0%	21	37						333	452
Lynnfield	25		2.8%			2006						17
Malden	87	6	11.4%	20	17						202	170
Manchester	17		4.7%					Y				13
Mansfield	43	2	11.7%		1	A						48
Marblehead	19	22	3.8%	4	7							27
Marlborough	17	2	10.5%	4	8							133
Marshfield	53		4.6%	2	3	A		Y	$252.4			80
Maynard	4		8.1%	1	2			2006				22
Medfield	22		4.8%									17
Medford	16	9	7.2%	7	10						93	105
Medway	11	7	5.3%					Y				16
Melrose	69		7.3%	4	4							53
Mendon	27		2.6%	2	2			Y				12
Merrimac	42		6.5%			A					24	19
Methuen	81	4	9.3%	3	13							178
Middleborough	105		5.0%	1	10	A					16	91

Source for Foreclosures 2006: ForeclosuresMass.com

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Appendix B: Municipal Scorecard

	Production			First Time Homebuyers		Planned Production		Community Preservation		At Risk		
Municipality	Units Permitted 2006	Estimated Affordable Units 2006?	% Affordable 7/9/07 SHI	# Soft Second Loans	# Mass Housing Loans	Approved Plan	Certified?	Passed CPA?	CPA Funds to Housing ($000)*	EUR Units Lost 2006	EUR Units at Risk	Foreclosures 2006
Middleton	43		4.2%					Y			48	10
Milford	41		7.0%	1	2						61	74
Millis	7		3.5%					2006				22
Millville	0		2.1%									0
Milton	4		4.7%								139	11
Nahant	3		2.9%					Y	$10.0			6
Natick	56		6.8%	2	8	2006	Y					39
Needham	53		4.6%		1			Y	$324.5		61	19
Newbury	21		3.6%									12
Newburyport	17	9	8.4%	4	3			Y	$376.4			38
Newton	246	40	7.7%	2	3			Y	$4,927.6		41	69
Norfolk	40	11	3.9%					Y	$200.0			17
North Andover	294	3	5.9%	6	17			Y	$265.0			54
North Reading	31	4	2.8%	1	1							33
Norton	57	11	6.8%	1	3						24	65
Norwell	22		4.1%		1	2006		Y	$187.0			24
Norwood	17		6.0%	1	9							34
Peabody	119	64	10.4%	4	12	A		Y	$40.0		411	117
Pembroke	52	2	10.8%	1	5			2006				74
Pepperell	7		3.1%		3	2006					40	40
Plainville	37	12	6.0%		1							24
Plymouth	225	1	4.4%	8	15	2006		Y	$525.0		158	253
Plympton	17	4	5.0%									11
Quincy	641	233	10.2%	12	35	A					349	194
Randolph	32		7.5%	7	10			Y				157
Raynham	43		11.4%	1	4							46
Reading	28	2	8.4%	4	3						113	36
Revere	299		10.5%	11	10							199
Rockland	69	21	6.4%	1	5						204	55
Rockport	19		3.7%		2			Y	$615.0			14

Source for Foreclosures 2006: ForeclosuresMass.com

Appendix B: Municipal Scorecard

	Production			First Time Homebuyers		Planned Production		Community Preservation		At Risk		
Municipality	Units Permitted 2006	Estimated Affordable Units 2006?	% Affordable 7/9/07 SHI	# Soft Second Loans	# Mass Housing Loans	Approved Plan	Certified?	Passed CPA?	CPA Funds to Housing ($000)*	EUR Units Lost 2006	EUR Units at Risk	Foreclosures 2006
Rowley	10		4.4%					Y	$9.0			13
Salem	21	37	13.2%	5	17						571	112
Salisbury	100	30	8.3%	3	1	2006						41
Saugus	159	10	7.3%	7	8							100
Scituate	38		4.5%		6			Y	$40.0			45
Sharon	9		6.3%			A	Y	Y				41
Sherborn	3		2.3%									7
Shirley	31		2.9%		1							15
Somerville	12	6	9.4%	19	18					14	30	84
Southborough	19	8	3.4%		1	A		Y				18
Stoneham	27	2	5.5%	3	4							51
Stoughton	108	43	11.7%	1	9	A	Y				207	99
Stow	43		5.8%			A		Y	$702.5			5
Sudbury	50	2	4.6%		1			Y	$820.0			15
Swampscott	3		3.6%		1							35
Taunton	119	6	8.0%	9	22						247	243
Tewksbury	79		5.1%	1	3	2006		2006				91
Topsfield	1		5.4%									6
Townsend	19	14	2.7%		1	A						36
Tyngsborough	116	22	7.7%	3	5	A		Y				33
Upton	48		8.5%					Y				13
W. Bridgewater	8	8	2.5%		4							17
W. Newbury	10		1.8%			A		2006				2
Wakefield	66		5.9%	13	3	A					104	49
Walpole	38		5.8%	1	2							36
Waltham	219		7.4%	3	4			Y				61
Wareham	97	22	6.3%	2	14	A		Y	$105.0			139
Watertown	199	26	6.5%		2							41
Wayland	23	12	3.2%		1	A		Y	$682.5			23
Wellesley	81	1	5.5%					Y	$795.0		125	17

Source for Foreclosures 2006: ForeclosuresMass.com

continued on next page

Appendix B: Municipal Scorecard

	Production			First Time Homebuyers		Planned Production		Community Preservation		At Risk		
Municipality	Units Permitted 2006	Estimated Affordable Units 2006?	% Affordable 7/9/07 SHI	# Soft Second Loans	# Mass Housing Loans	Approved Plan	Certified?	Passed CPA?	CPA Funds to Housing ($000)*	EUR Units Lost 2006	EUR Units at Risk	Foreclosures 2006
Wenham	15		8.9%					Y				7
Westford	105	6	2.7%	1	2	A		Y	$674.0			25
Weston	24		3.5%	2	1			Y	$4,410.0			7
Westwood	114		9.4%		1						32	15
Weymouth	48		8.1%	3	13			Y			289	140
Whitman	61	4	4.8%	2	3							62
Wilmington	60		8.2%	1	1	A						55
Winchester	32		1.8%		1							23
Winthrop	48		8.0%	1	4							32
Woburn	28		7.4%	2	5							75

Source for Foreclosures 2006: ForeclosuresMass.com

* Includes 2006 appropriations as of June 2006 (Source: MHP)

** Chelmsford first passed the CPA in 2001; it increased the surcharge in 2007

Data Sources and Notes:

Units permitted refers to units authorized by building permits as reported to the U.S. Census Bureau Building Permit Survey.

MassHousing loans refers to first mortgage (purchase) loans only.

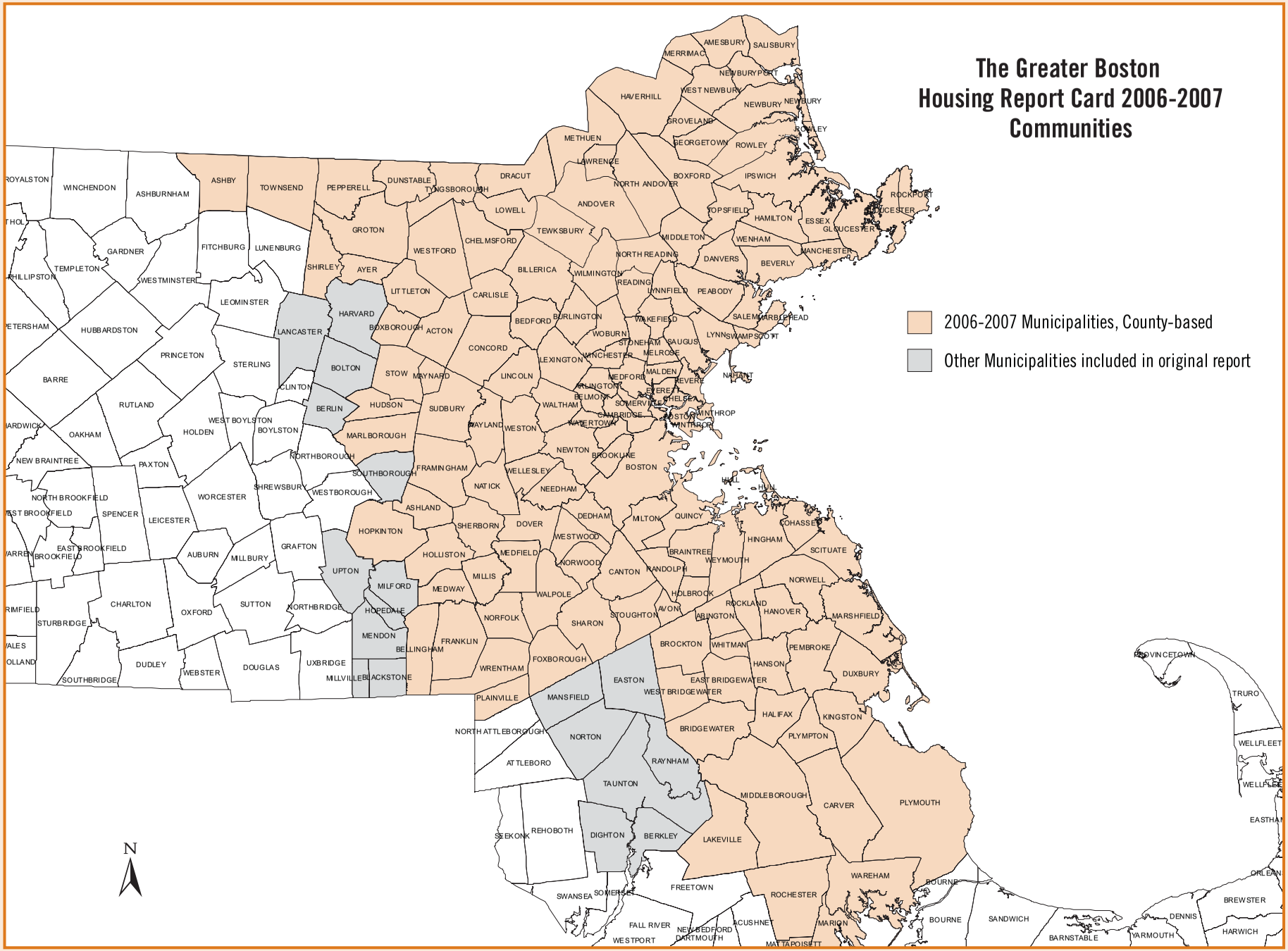
2006 under Planned Production and CPA columns indicates municipal action taken during the time period covered by the Report Card (January 2006-July 2007)

Source of community preservation allocations to housing is Massachusetts Housing Partnership report *The Community Preservation Act and Affordable Housing in Massachusetts: Learning from the First Five Years*, by Ann Dillemuth, August 2006."

Source of expiring use units lost is DHCD's most recent SHI. Source of units at risk is the Community Economic Development Assistance Corp. (CEDAC) Expiring Use Database. It should be noted that low income tenants are rarely evicted when properties convert to market rate development. Typically, qualified residents are provided "enhanced vouchers" that enable them to remain in their homes, while providing the owner the full market rent for their unit; once the tenant leaves, however, the unit is no longer protected.

Foreclosures refer to the filing of petitions to foreclose. This data is provided by ForeclosuresMass Corp., copyrighted August 2007.

Unless otherwise noted, data are provided by state agencies, municipalities, and public records. CURP makes every effort to ensure the completeness and accuracy of the data presented here but municipalities may have added affordable units that are not captured here for a number of reasons (e.g., the municipality may not have reported activity, or projects may get delayed or modified. If affordable units were counted as 2005 starts in last year's Report Card, but commenced construction in 2006, they are not included in this table.


The Greater Boston
Housing Report Card 2006-2007
Communities
2006-2007 Municipalities, County-based
Other Municipalities included in original report
N
AMESBURY
SALISBURY
MERRIMAC
NEWBURYPORT
WEST NEWBURY
HAVERHILL
NEWBURY
GROVELAND
ROWLEY
METHUEN
GEORGETOWN
ROWLEY
LAWRENCE
BOXFORD
IPSWICH
NORTH ANDOVER
ROCKPORT
GLOUCESTER
ANDOVER
TOPSFIELD
HAMILTON
ESSEX
GLOUCESTER
DRACUT
DUNSTABLE
TYNGSBOROUGH
PEPPERELL
TOWNSEND
ASHBY
LOWELL
TEWKSBURY
MIDDLETON
WENHAM
MANCHESTER
CHELMSFORD
WESTFORD
GROTON
NORTH READING
DANVERS
BEVERLY
SHIRLEY
AYER
BILLERICA
WILMINGTON
READING
LYNNFIELD
PEABODY
LITTLETON
CARLISLE
LEOMINSTER
FITCHBURG
LUNENBURG
GARDNER
TEMPLETON
WESTMINSTER
HARVARD
BEDFORD
BURLINGTON
WAKEFIELD
SALEM
MARBLEHEAD
LANCASTER
BOXBOROUGH
ACTON
WOBURN
STONEHAM
SAUGUS
LYNN
SWAMPSCOTT
CONCORD
WINCHESTER
MELROSE
NAHANT
BOLTON
STOW
MAYNARD
LEXINGTON
LINCOLN
MEDFORD
MALDEN
REVERE
PRINCETON
STERLING
CLINTON
ARLINGTON
EVERETT
CHELSEA
BELMONT
SOMERVILLE
BERLIN
HUDSON
SUDBURY
WALTHAM
CAMBRIDGE
BOSTON
WINTHROP
WATERTOWN
WINTHROP
RUTLAND
WEST BOYLSTON
BOYLSTON
HOLDEN
OAKHAM
BARRE
MARLBOROUGH
WAYLAND
WESTON
NEWTON
BROOKLINE
BOSTON
NORTHBOROUGH
SOUTHBOROUGH
FRAMINGHAM
WELLESLEY
NEEDHAM
HULL
NEW BRAINTREE
PAXTON
SHREWSBURY
WESTBOROUGH
NATICK
NORTH BROOKFIELD
WORCESTER
ASHLAND
DEDHAM
MILTON
QUINCY
COHASSET
WEST BROOKFIELD
SPENCER
LEICESTER
SHERBORN
DOVER
HOPKINTON
WESTWOOD
HINGHAM
EAST BROOKFIELD
BROOKFIELD
AUBURN
MILLBURY
GRAFTON
HOLLISTON
MEDFIELD
NORWOOD
BRAINTREE
WEYMOUTH
SCITUATE
CANTON
RANDOLPH
UPTON
MILLIS
MILFORD
MEDWAY
WALPOLE
HOLBROOK
NORWELL
CHARLTON
OXFORD
SUTTON
NORTHBRIDGE
HOPEDALE
AVON
ROCKLAND
HANOVER
MARSHFIELD
STURBRIDGE
NORFOLK
SHARON
STOUGHTON
ABINGTON
MENDON
FRANKLIN
BELLINGHAM
BROCKTON
WHITMAN
PEMBROKE
DUDLEY
WEBSTER
DOUGLAS
UXBRIDGE
MILLVILLE
BLACKSTONE
WRENTHAM
FOXBOROUGH
HANSON
DUXBURY
SOUTHBRIDGE
EASTON
WEST BRIDGEWATER
EAST BRIDGEWATER
PLAINVILLE
MANSFIELD
HALIFAX
KINGSTON
BRIDGEWATER
PLYMPTON
NORTH ATTLEBOROUGH
NORTON
RAYNHAM
ATTLEBORO
TAUNTON
MIDDLEBOROUGH
CARVER
PLYMOUTH
SEEKONK
REHOBOTH
DIGHTON
BERKLEY
LAKEVILLE
FREETOWN
WAREHAM
SWANSEA
SOMERSET
ROCHESTER
BOURNE
FALL RIVER
NEW BEDFORD
DARTMOUTH
ACUSHNET
MARION
MATTAPOISETT
WESTPORT
SANDWICH
BARNSTABLE
DENNIS
YARMOUTH
HARWICH
BREWSTER
ORLEAN
EASTHAM
WELLFLEET
TRURO
PROVINCETOWN