UNDERSTANDING BOSTON

The Greater Boston Housing Report Card 2021

Pandemic Housing Policy:
From Progress to Permanence

The Boston Foundation tBf

MHP
CENTER for HOUSING DATA

UMASS DONAHUE INSTITUTE

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CHAPTER THREE

Housing Market

THE PANDEMIC AMPLIFIES THE NEED FOR ADEQUATE HOUSING SUPPLY IN SMART AND SUSTAINABLE LOCATIONS.

Inadequate housing construction and the absence of a regional housing plan led to insufficient housing supply and little diversity in our housing stock—a major problem for Greater Boston and Massachusetts since well before the pandemic. After a brief initial slowdown at the start of the pandemic, demand surged for homes over the last year, while housing supply remained drastically short. This is a recipe for further price increases in a region already struggling with high housing costs. The housing supply shortage disproportionately impacts low- and moderate-income residents and communities of color. The recent enactment of Housing Choice legislation and a state mandate for multifamily zoning in communities served by the MBTA are major steps forward, yet even stronger policies are needed to reverse decades of inadequate production in Greater Boston and to create more affordable housing options in the region.

This chapter will discuss the state, regional and local roles in creating a healthier housing delivery system, highlighting how uneven development patterns, an absence of coordinated state planning and production requirements, and local opposition to new housing have created a housing shortage and affordability crisis. The pandemic showed how our constrained housing delivery system and lack of regional coordination benefits those with means (soaring home sales prices), while limiting opportunities for low- and moderate-income residents (concentration of rental housing, high rents and increasing rents in lower-cost markets). The policy section will emphasize the role of comprehensive planning in balancing mobility, public health, equity and climate goals with housing needs.

In addition to a regional housing approach, Greater Boston needs its municipalities to practice inclusionary zoning that allows accessory dwelling units, multifamily by right and overall competent planning. Ultimately, the creation of more housing of diverse types at affordable prices in locations that provide residents with high levels of access to employment opportunities is essential to ensure everyone has a place to live in good times and bad.*

PRE-PANDEMIC PATTERNS

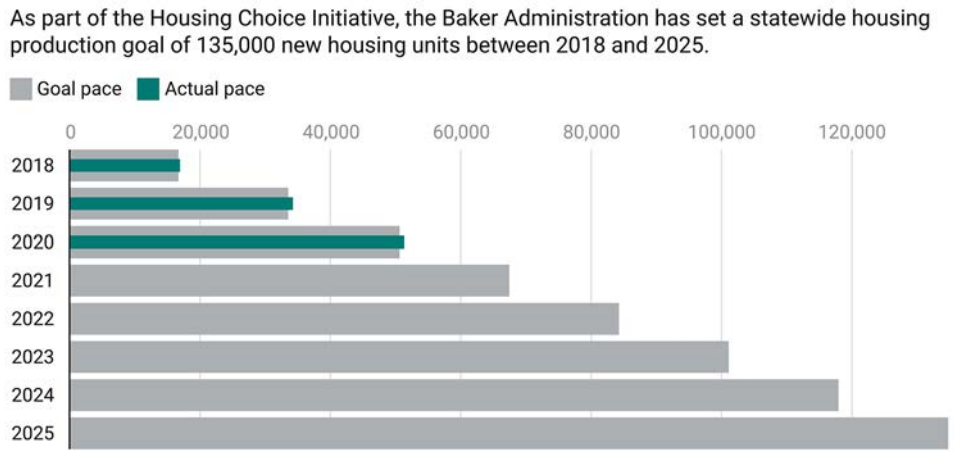
Greater Boston has not created enough new housing, especially near transit.

Before COVID, Greater Boston was not meeting its housing production needs.[27] In 2017, Governor Charlie Baker set a statewide target to produce 135,000 housing units between 2018 and 2025, a continuation of housing permit rates that prevailed from 2015 to 2017. So far, statewide permitting rates have remained on pace to meet the 2025 target (see **Figure 32**). Meanwhile, the Metropolitan Mayors Coalition, a partnership among 15 inner-core communities,[28] established a more ambitious goal of 185,000 units to be produced between 2016 and 2030 in those communities. While the coalition includes some of the biggest contributors to regional housing production, including Boston, the group is well behind the permitting pace needed to meet the 2030 goal (see **Figure 33**).

* This edition of the report does not feature scorecards by municipality because it seems sensible to pause in the wake of the pandemic, as municipalities deal with emergency supports. However, in addition to a regional housing plan, local best practices for housing production tracked in prior scorecards are even more important for housing recovery than before. Approaches to allow accessory dwelling units, multifamily by right and overall inclusionary zoning practices remain critical. Even without scoring, a collection of municipal-level data is offered and appears in tables in the Appendix.

FIGURE 32

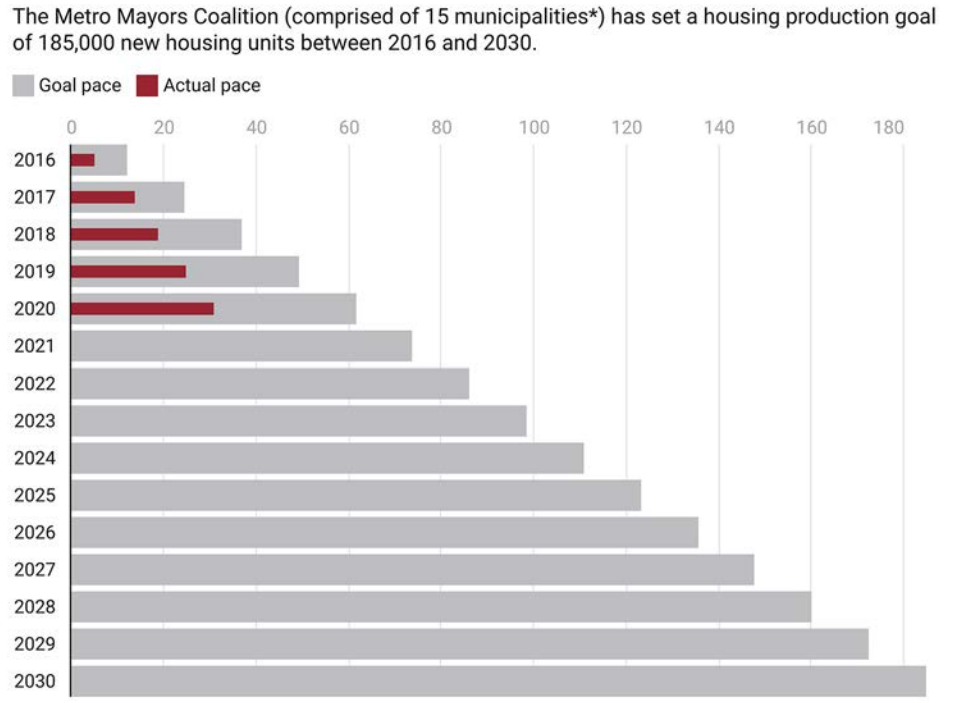
Statewide permitting is on track to meet relatively modest Housing Choice production goal.



Source: Mass.gov; U.S. Census Bureau Building Permit Survey

FIGURE 33

Metro Mayors Coalition is well behind pace of ambitious 2030 production goal.



*The Metro Mayors Coalition housing production goal applies to 15 communities: Arlington, Boston, Braintree, Brookline, Cambridge, Chelsea, Everett, Malden, Medford, Melrose, Newton, Quincy, Revere, Somerville, and Winthrop

Source: MAPC; U.S. Census Bureau Building Permit Survey

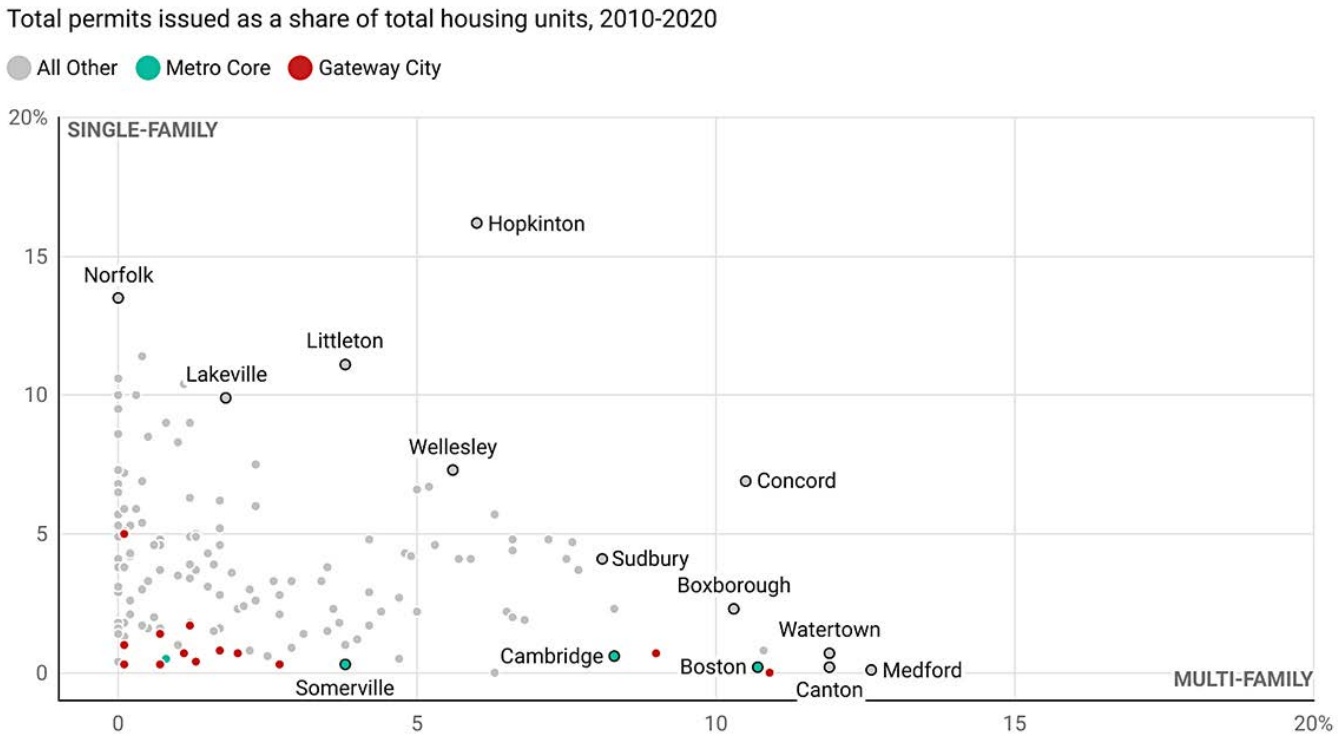
These goals are attempting to make up for decades of declining production. Inadequate housing construction has been an issue since the 1980s, with annual production in the 2010s at just 52 percent of production levels in the 1980s. This, despite the region's experiencing strong population growth (especially for the Northeast) over the last couple of decades. Among other metro regions across the country, Greater Boston consistently finds itself situated toward the bottom in terms of per capita housing production.

While some other high-demand metros in the South and West have added new housing at high rates in recent years, Greater Boston lags alongside former industrial centers with limited housing demand and the California metropolitan areas where rent prices are also extremely high and increasing. In 2019, the Boston Metro area produced less housing per person than the New York, Washington, D.C. and Seattle metropolitan areas (see Appendix Figure 16 for the number of permits issued by the 25 largest MSAs in 2019). This failure to provide enough housing has an impact on prices and makes it more difficult for the region to retain residents while welcoming newcomers. The pandemic has not helped; 2020 production totals are expected to be slightly lower due to a brief construction pause in spring 2020.

Not only has Greater Boston struggled to produce enough housing, but the housing it produces is increasingly concentrated in a few municipalities, most notably the city of Boston, in both absolute numbers of units as well as relative to the existing housing stock (see **Figure 34**). Exclusionary zoning and local opposition make it difficult to build housing outside of inner-core communities. State initiatives such as Chapter 40B and Chapter 40R have had a positive impact on housing production, but they are not

FIGURE 34

With important exceptions, housing production as a share of housing stock remains very low.



Note: Permit numbers for Boxborough included the same multi-family development in both 2015 and 2016, it has only been included once in this analysis
Source: Census Building Permit Survey

nearly enough. If the region is to meet its production goals, more municipalities will have to step up to the plate. A table of building permits—both as absolute numbers and as a share of existing housing stock—for single-family and multifamily units for each municipality in the region is available in Appendix Figure 17 of this report.

Having enough housing is one challenge and locating that housing in efficient locations that improve mobility and minimize climate impacts is another. The region has rapid transit and commuter rail infrastructure that allow for shorter, more environmentally friendly travel into urban and commercial centers. To best utilize these systems, municipalities should prioritize housing development within walking distance of a station, a concept known as transit-oriented development. As explored on the Transit Oriented Development Explorer (TODEX) website, access to transit is not evenly distributed across the region: Many commuter rail stations have very low surrounding densities.[29] Municipalities with commuter rail access have failed to produce enough new housing along their transit-rich corridors. As analyzed by Brookings and Boston Indicators, building moderate amounts of housing near transit can lower the barrier to entry into some of Greater Boston's most inaccessible communities.[30]

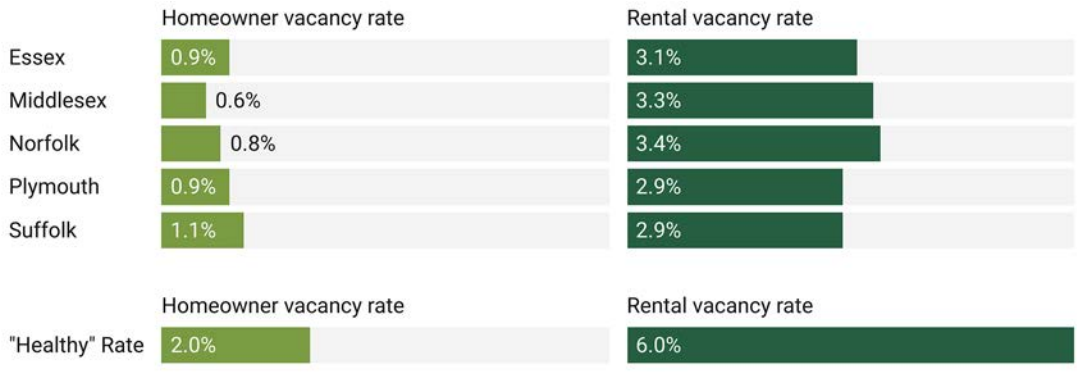
Low vacancy rates and a hot market show the downside of not developing housing.

A useful way to measure the impact of the production shortage is through vacancy rates. A "healthy" vacancy rate is when the market has enough inventory to account for the natural mobility of households. With adequate inventory on the market, a person selling a home or ending a rental lease can expect to find another property suitable to their needs. When vacancy rates are too low, it becomes challenging to find a suitable, affordable housing option. A "healthy" vacancy rate is often considered to be roughly two percent for home ownership and six percent for rentals, by industry standards.

In the years leading up to the pandemic, vacancy rates in Greater Boston remained incredibly low. By 2019, the homeownership vacancy rate was down to 0.6 percent in Middlesex County. The rental market experienced a similar pre-pandemic trend, declining to as low as 2.9 percent in Suffolk and Plymouth counties (see **Figure 35**). Across the region, vacancy rates remain well below the two and six percent benchmarks. With vacancy rates so low in the region, it is little wonder that housing prices and rents remain astronomical.

FIGURE 35

In the years leading up to the pandemic, vacancy rates in Greater Boston remained well below "healthy" benchmarks.



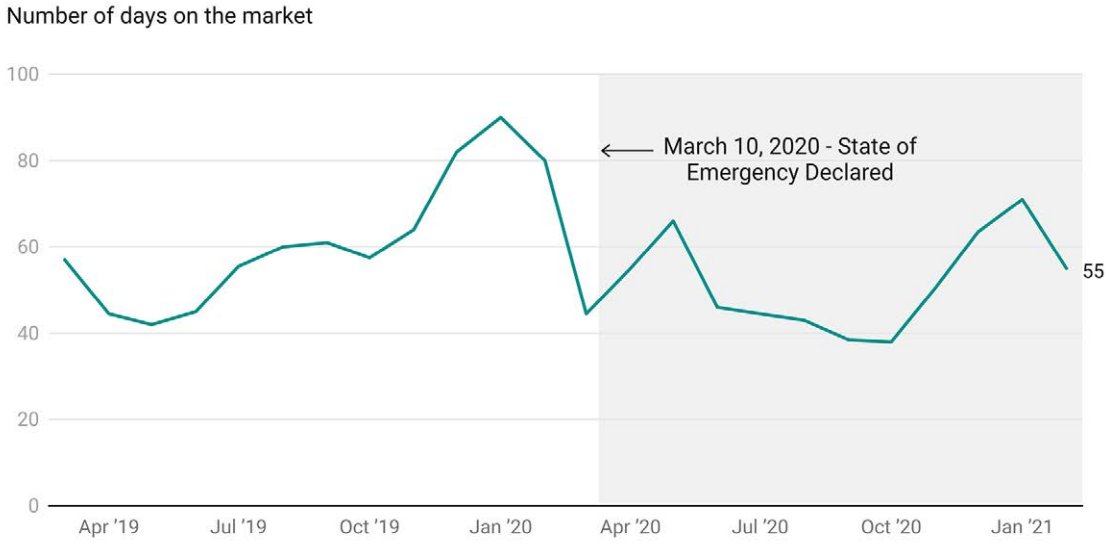
Source: U.S. Census Bureau ACS 5-Year Estimates

PANDEMIC IMPACTS

While reliable vacancy data are not yet available for 2020, market activity suggests vacancy rates will be even lower in the ownership market in 2020. As **Figure 36** illustrates, the surge in buyer demand during the pandemic, combined with a lack of inventory, caused a decline in average listing duration and upward pressure on prices. Following an initial stall at the beginning of the pandemic, the local housing market started heating back up in June 2020. From July onward, house sale listings were coming off the market 20 to 37 percent faster than in 2019, which was already a hot market to begin with. The pandemic ignited a surge in demand for new homes but did little to loosen up additional supply. Years of under-production meant that the region was not prepared for the rapid shift in demand.

FIGURE 36

A surge in demand, combined with a lack of inventory, caused decline in the median market listing duration during the pandemic.



Source: Realtor.com

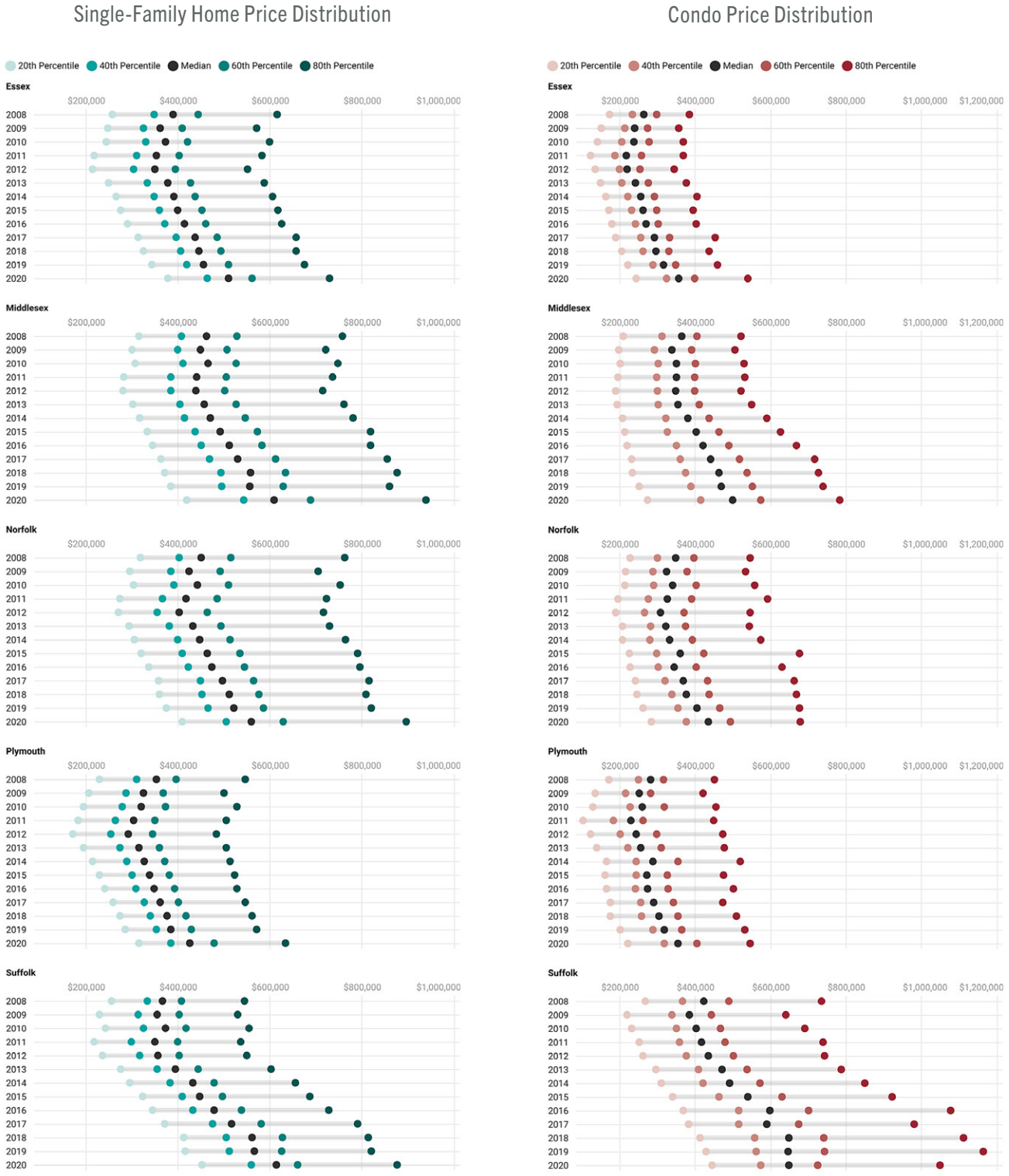
Houses: Too expensive to buy and too expensive to rent.

Region-wide, home sale prices have steadily trended upward since the Great Recession. Insufficient production of new housing in Greater Boston has kept that trend in motion. By 2019, home sale prices in Greater Boston were among the highest in the nation. Despite rising income levels pre-pandemic, home price increases were outpacing income growth and homeownership was becoming unattainable for a growing percentage of households. In the early phases of the pandemic, housing prices grew more gently than usual and then shot up in the summer of 2020, as constrained supply and pent-up demand combined to place upward pressure on prices. Likely spurred by stuck-at-home consumers' desire for more living space and low mortgage interest rates, with no parallel increase in supply, the region's housing sales market set records in 2020 (see **Figure 37**). In particular, single-family homes reflect outsized, likely unsustainable, price leaps across all counties in the region.

By February 2021, median sales prices approached $700,000, a full $100,000 increase over February 2020, the last month before the pandemic. This housing price surge was coupled with low listing durations, despite normal

FIGURE 37

Single-Family Home and Condo Price Distribution, 2008-2020

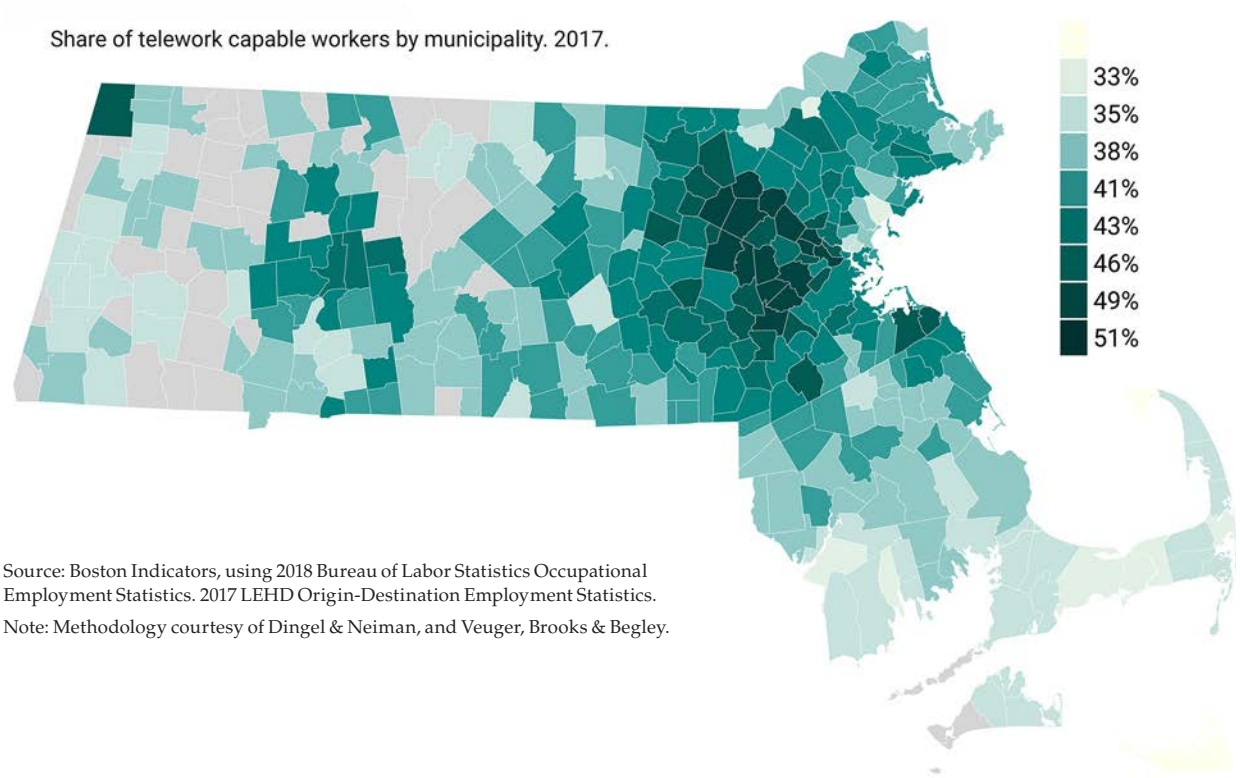


Source: The Warren Group

amounts of total home listings, indicating that it was demand wave that drove up prices. Along with the cost of borrowing for a home reaching new lows, new pandemic-related flexibility to move for white-collar workers may have also contributed to housing demand, as **Figure 38** suggests.. This sharp trajectory of the current trend may lessen as the public health crisis abates, allowing more flexibility for additional homes to come on the market as it becomes safer and more common for people to be together inside homes again. Further, time will tell which elements of post-pandemic life may influence the housing market. For example, remote work could become a permanent part of white-collar work life in the future.

FIGURE 38

Boston's suburbs have a high share of workers capable of working from home.



Source: Boston Indicators, using 2018 Bureau of Labor Statistics Occupational Employment Statistics. 2017 LEHD Origin-Destination Employment Statistics.

Note: Methodology courtesy of Dingel & Neiman, and Veuger, Brooks & Begley.

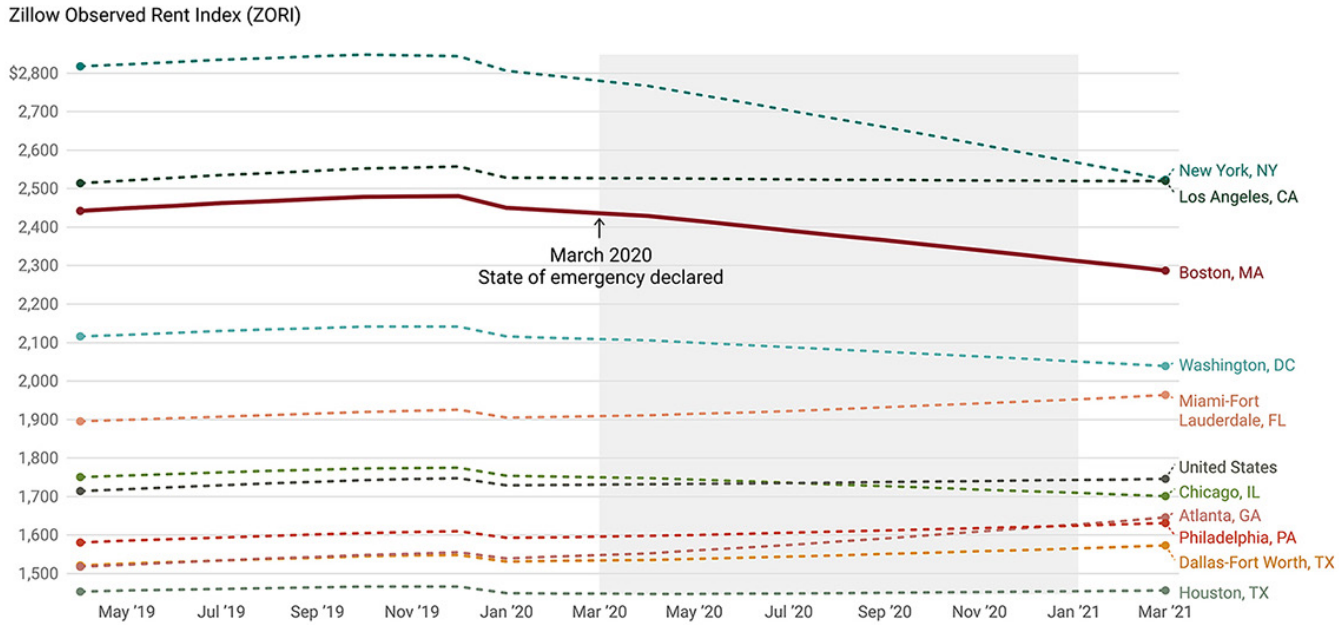
In a region already struggling to control its housing costs, the pandemic exacerbated the regional homeownership wealth gap. Those who owned property are experiencing record value growth while those who could not afford a home before the pandemic are now less likely than ever to bridge the gap.

The pre-pandemic rental market largely followed a similar trajectory to the sales market. After the 2008 recession, median rents quickly climbed across the region. At the same time as the homeownership market was becoming less accessible, households were forced to spend an ever-increasing share of their income on rent. Between 2000 and 2019 rental cost burden levels shot up across the region. This trend was especially hard felt in inner core and Gateway Cities, which saw a surge in demand that drove prices to record highs.

During the pandemic, however, the sales market and the rental market diverged onto two different trajectories. The rental market in the Boston Metropolitan Statistical Area (MSA) overall dropped, according to Zillow (see **Figure 39**). The Zillow Observed Rent Index measures change in rents over time and weights rental properties

FIGURE 39

Compared with the 10 largest MSAs, Greater Boston saw sharp rent decreases since the start of the pandemic, second only to New York.



Rental prices have been inflation-adjusted to 2020 dollars.

Source: Zillow Research

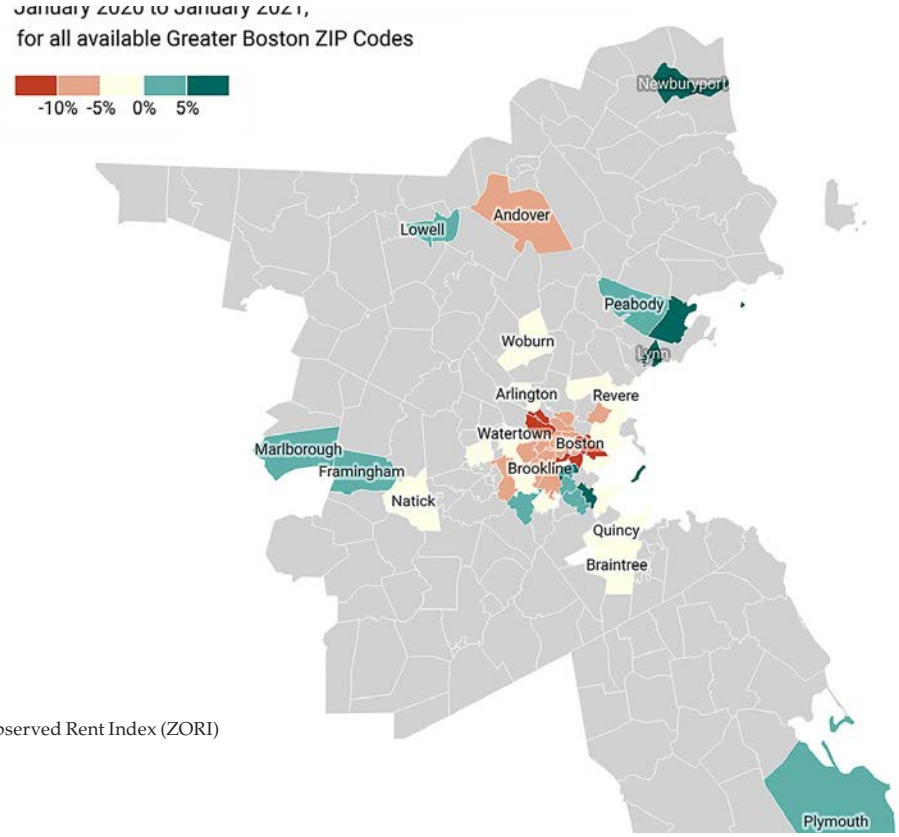
with U.S. Census data to represent the rental market as a whole, not just openings listed online. While the 10 largest MSAs mostly held their comparative position, the Index shows a dramatic decrease in Greater Boston rents by several hundred dollars compared to pre-pandemic levels.

Early data indicate the apparent overall decrease in rents was not at all uniform across the region. A drop in rental demand, and therefore prices in high-rent areas, was certainly depressed in part by restrictions on international in-migration, as well as on in-person class instruction at area colleges and universities. At the same time, increased mobility and desire for more in-home space for some workers may have brought rental markets in the region together: some municipalities saw rent increases while others, some of which rarely see decreases, showed large declines in prices (see **Figure 40**). It is unclear what will happen regionally as the health crisis eases, businesses reopen, white collar work presumably resumes some in-person activity (with potential for increased flexibility), and students return to more traditional in-person class instruction.

Listings in the Boston rental market experienced a rare decrease, falling markedly during the pandemic. As illustrated in **Figure 41**, in Boston, median two-bedroom rent dropped from $2,108 in December 2019 to $1,674 in December 2020. The most likely cause was a sudden drop in demand, as many students (especially international) did not attend in-person classes in 2020. Thus, while the resulting decline in median rents was good for potential renters in the region, the cause of the decline was not a desirable nor replicable condition. Students and others will be returning to the area this year, and we can expect the rental market to act accordingly. If the region intends to maintain lower rent prices, it will need to do so via an increase in supply.

FIGURE 40

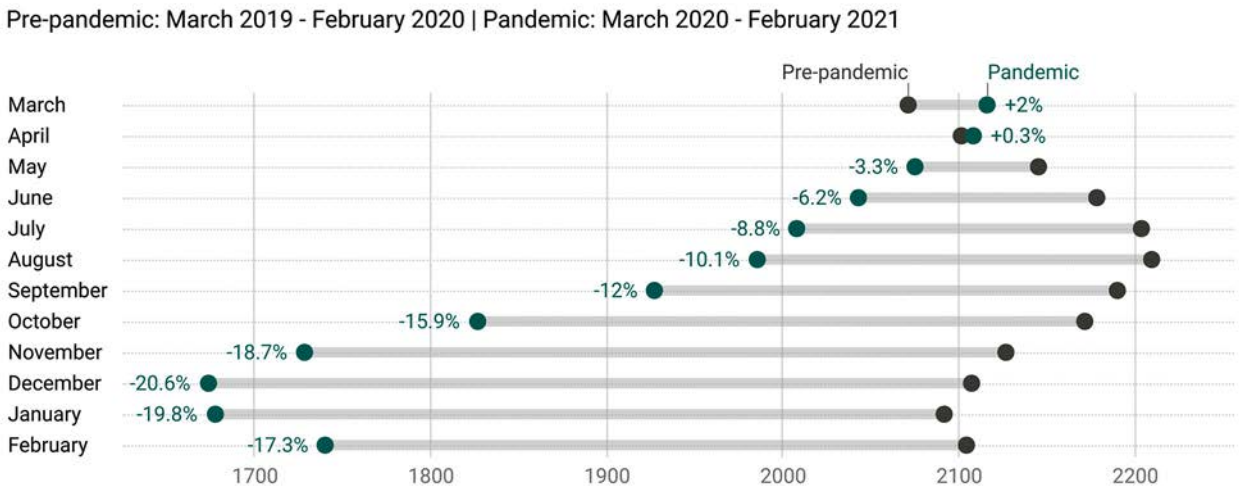
Uneven distribution of rent changes, highly variable across the region where early data is available.



Source: Zillow Observed Rent Index (ZORI)

FIGURE 41

Median 2-bedroom rents in Boston fell markedly during the pandemic, during sudden drop in demand for student housing.



Source: Apartment List

Transit has been essential in ensuring mobility for the people who need it most during the pandemic.

Housing, mobility and employment are intertwined. A high-functioning transit system helps connect us from our homes to the rest of the region. Among MBTA services, low-income riders and communities of color are most dependent on bus service and rapid transit (see **Figure 42**).[31] Low-wage workers are also less likely to work remotely, a situation that has created a disproportionate reliance on public transit among low-income and frontline workers during the pandemic. While overall transit ridership declined sharply during the pandemic, train stations and bus lines serving communities with high proportions of low-income residents and frontline workers have retained a notable share of the riders.[32] Frontline workers have kept our economy and society functioning and our transit system is critical in helping these workers move around the region, further demonstrating that transit is not a commodity but an essential service and public good.

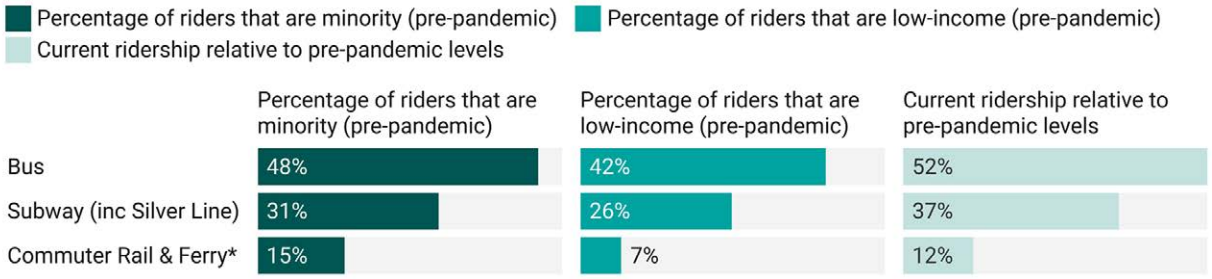
Because low-income households tend to be more dependent on public transit service, they are more impacted by service interruptions and cuts. While the MBTA's "Forging Ahead" plan for service cuts in light of the pandemic did seek to preserve or expand service on routes with high ridership or that serve transit-dependent populations,[33] any cuts to transit service reduce reliability and ridership in ways that are difficult to recoup once widespread demand returns. With federal assistance staving off some of the financial hardship borne by the MBTA[34] and signals of a renewed federal commitment to funding transit,[35] there is hope among many transit proponents that coming out of the pandemic Greater Boston may see fully restored service and even a movement toward a more connected, bi-directional, high service transit system.[36]

Investments in other non-car transportation will be essential, too. Prior to the pandemic, the Greater Boston region earned the lamentable distinction of having the worst traffic in the country.[37] While traffic initially declined sharply following the onset of the pandemic, it is returning to pre-pandemic levels across much of the state.[38] This is unsustainable from a climate, land use and quality of life perspective, and moving away from single-occupancy vehicles is the only path forward to improving traffic outcomes.

One direct way to connect housing policy with transit and climate outcomes is to develop more dense housing in areas well-served by transit. With recently enacted legislation that requires communities served by the

FIGURE 42

MTBA Ridership Shares by Mode, Income and Race/Ethnicity



Pre-pandemic ridership demographics come from the MBTA's 2015-2017 Rider Survey. Low-income riders were identified as those with a household income of less than 60 percent of Area Median Income. Minority riders were identified as riders identifying as non-White and non-Hispanic. Recent ridership for bus and subway were calculated based on the difference between average weekday ridership for the week ending 4/30/21 relative to the week ending 3/13/20. Commuter rail ridership retention was taken from the MBTA's Forging Ahead plan, which included data as of October 2020.

Source: MBTA Passenger Survey 2015-2017, MassDOT weekly data on station validations and bus ridership, MBTA Forging Ahead Presentation, Oct. 2020

MBTA to have at least one district that allows for dense multifamily housing by right,[39] we are poised to make great strides in improving the way we coordinate housing policy with other key objectives such as transportation improvements and greenhouse gas reduction. As will be discussed in the policy section, zoning alone will only go so far, and other strategies, such as shared streets, transit investments and reducing or eliminating parking and other car infrastructure can complement zoning in a way that encourages different mobility choices and patterns.

POLICY RECOMMENDATIONS

While the past year has highlighted the region's chronic supply problem, some significant state-level policy changes are now poised to increase the number of homes across the region. Most notably, the legislature enacted Housing Choice legislation, which lowers the threshold required for zoning changes that promote housing production from a supermajority to a simple majority. The legislature also enacted a mandate for multifamily zoning in all communities served by the MBTA. In combination these are two powerful tools that will facilitate housing production in transit-rich corridors. Additional legislative actions and policy priorities would use this momentum and complement these landmark zoning reforms.

Build on recent zoning reforms: Allow multifamily housing development by right, create more opportunities for adaptive use, empower regional planning, and embrace sustainable development.

- Allow small-scale multifamily housing development by right in all residential zoning districts. Oregon, for example, requires its larger cities and towns to allow up to four-unit properties in single-family zones.[40] A similar approach in Greater Boston could open low-density exclusionary single-family neighborhoods to infill development. These new zoning requirements should be phased in, in conjunction with the state's new multifamily zoning mandate for MBTA communities, and be accompanied by robust technical assistance to cities and towns.
- The legislature should expand the new multifamily zoning mandate for MBTA communities to require a minimum housing density be allowed by zoning within a half mile radius of each rail station, rather than just in a single multifamily zoning district. In developing and implementing guidelines for the existing law and this proposed expansion, the Massachusetts Department of Housing Community Development (DHCD) must ensure that the guidelines result in zoning that enables a level of production consistent with regional housing supply needs.
- To create more opportunities for adaptive use, facilitate the development of underutilized office space, college campuses and other facilities to provide new opportunities for large-scale housing development in desireable, accessible locations. It remains to be seen exactly how much the pandemic will alter the landscape of where we work, where we congregate and how we use space. What we do know is that housing demand remains high in Greater Boston, and we need more housing. This may be a rare moment to explore the use of vacant or underutilized office, commercial and institutional spaces for housing.[41]
- Restore the Commonwealth's Office of State Planning (which was disbanded 1979) to coordinate planning and technical assistance to cities and towns across state agencies and in collaboration with the state's regional planning agencies. The state should restore the capacity of DHCD to provide direct technical assistance to cities and towns through its community services division. This body would be able to plan and work toward regional and local housing production goals with a level of authority that does not currently exist.
- Establish new green building standards through the state building code (rather than through a patchwork of local regulations) that are carefully calibrated and regularly updated to achieve the greatest climate impact possible without impeding housing production.

Improve the quality and frequency of transit service.

Frequency of daytime service and weekend and late-night service are critical equity and public benefit considerations as well as for anyone seeking to buy, rent or develop new housing near transit. The MBTA proposed deep service cuts across the entire system late last year, though it did increase service along some lines and routes based upon an equity analysis of rider retention data. While some proposed service cuts were walked back by the MBTA, from a housing perspective there should not be any cuts to service at all, particularly since federal funding has made service cuts completely unnecessary.

Given the important connections between housing and transit, particularly for low-income households, policies that increase service and improve the quality of our transit infrastructure should be a focal point for housing policy. Rather than defending against service cuts and coping with a decaying system, attention should be turned toward a broader and more comprehensive vision of the region's transit system. The following measures would improve transit and facilitate higher levels of mobility and access from homes across the region.

- Service cuts should not be made solely on fare revenue. As demonstrated earlier in this chapter, public transit is an essential service that keeps our region functional. Furthermore, if we wish to reduce car use, traffic congestion and the associated climate impacts, we must create a transit system that is fast, reliable, convenient and affordable, and that people see as a better choice than jumping in their cars. Service cuts send a signal that riders should not expect the service they need or want to be there in the future.
- Adopt the plan set forth by the Regional Rail vision, championed by the advocacy group Transit Matters. The MBTA's Fiscal Management Control Board (FMCB) voted on and adopted some of the recommended actions steps and these steps must continue to move forward. This includes:[42]
  - Implement frequent, bi-directional service on the commuter rail (which should be renamed to indicate service to a broader set of needs than just commuting). Some of this has already occurred, with more frequent and weekend service instituted on several lines experiencing high ridership gains and/or serve "transit-critical" communities.[43] Creating this level of service across the region would allow for better transit access throughout the region, including suburban communities, at a time when a multifamily zoning requirement is poised to create more housing opportunities in these same locations.
  - Introduce system-wide electrification. This would reduce travel times, reduce emissions and increase reliability and performance—changes that would in turn incentivize transit usage and create a more favorable alternative to car use.
  - Integrate fares to allow for free transfers between bus, subway and regional train service.
  - Better coordinate transportation and housing planning. While the MBTA and MassDOT are participating in the creation of guidelines for the new statewide multifamily zoning requirement in MBTA communities, this level of coordination between transportation and land use policy is uncommon. Having transportation planning and housing planning that are responsive to one another would create better connections between housing and mobility.

Advance housing equity.

Increasing equity through policy is crucial to the wellbeing of the housing market in the region, not just the most vulnerable places in the region. Greater Boston, like the nation, has a troubling legacy of racial discrimination in access to housing, epitomized by explicit redlining that was sanctioned by the federal government well into the 1960s. Those practices have put some people at a severe multigenerational disadvantage in building wealth, as evidenced by the Federal Reserve Bank of Boston's *The Color of Wealth* published in 2015. Low-income renters are displaced when people with higher incomes bid up prices on artificially constrained supply of housing and when new housing is unduly concentrated in just a few neighborhoods.

The City of Boston and the Commonwealth have actively addressing this problem since the early 1990s by expanding access to mortgage credit for previously underserved people and neighborhoods, but progress is slow. Recent interagency efforts by DHCD, MassHousing and the Massachusetts Housing Partnership (MHP) along with outside partners established an important goal of reducing the gap between White and non-White homeownership rates by five percent or approximately 52,000 households by 2030.

The greatest way to achieve housing equity in the long run is to allow sufficient housing supply to meet demand, actively confront housing discrimination, eliminate exclusionary zoning, ensure that every city, town and neighborhood is permitting a fair share of new housing, and target affordable housing resources to those with the greatest need.

- Cities and towns with strong market demand should require that a reasonable percentage of affordable units be incorporated in all new developments. That is particularly important in historically low- or moderate-cost neighborhoods undergoing rapid change and in areas served by public transportation. Technical assistance should be provided with state and federal resources to help communities utilize best practices and to ensure that sufficient density is allowed to make the affordable housing requirement economically achievable without impeding new housing production.
- State policymakers should advance carefully considered policies to temper unreasonable rent increases that lead to displacement. Any state-level approach should be evidence-based and not create disincentives for housing investment or construction. Market-wide rent increase limitations recently adopted in Oregon and California (which impose a simple annual percentage cap on rent increases in excess of inflation) may be worthy of further consideration in Greater Boston.
- Provide tenants with a right to first refusal to purchase their properties (recently approved by the legislature and vetoed by the governor). The economics do not generally support tenant acquisitions without public subsidy (such as federal and state low-income housing tax credits). Since these subsidy resources are limited and already vastly oversubscribed in the Greater Boston region, affordable housing resources should be increased in the operating and capital budgets to support tenant purchases and other affordable housing strategies.
- Establish equitable access to housing as a state priority (e.g., in the state's Qualified Allocation Plan for federal tax credits) with new developments having a clearly articulated strategy to advance housing equity prioritized for city and state funding.

Experiment with building techniques and strategies that could reduce housing production costs.

Current levels of affordable housing production meet just a fraction of the need for low-cost housing across the region. Affordable housing production remained relatively flat in recent years with resources consumed by higher development costs, including construction costs per square foot that are 20 percent above the national average.

- State government should evaluate the cost-saving potential of modular housing construction and the feasibility of a Massachusetts-based factory supported by state investment.
- State and city housing funders should continue to pilot the use of LEAN construction techniques for housing (as is commonly used to reduce the cost of commercial/industrial construction) and prioritize funding of projects that meet design guidelines at lower costs per square foot.
- State and city funders should support continued market-testing of micro units and other alternative product types with more potential to serve more households at lower cost.