



Out of reach

The housing bubble burst six years ago, but homeownership is even more elusive today for middle-class families in Massachusetts

BY PAUL McMORROW | ILLUSTRATION BY SHOUT

Jeffrey Goldstein lived the American Dream growing up. His father joined the postwar exodus from the city, and got his own piece of land out in the suburbs. Like many families in the postwar real estate boom, Goldstein's father was the first in his family to own a piece of the rock.

For Goldstein's father's generation, housing was a forced savings program—every month's mortgage check paid down a chunk of principal. Housing was also a dynamic long-term investment vehicle, and one that never lost its value. The investment in that house on Long Island cemented the place Goldstein's family had in the middle class, as it did for a generation of upwardly mobile families.

Today's housing market doesn't work the way it did in the 1950s and 1960s. Housing has morphed from a savings program into a money machine. Homeowners tapped soaring bubble-market values to make up for stagnant incomes and the fallout from the resulting crash has been catastrophic. Nearly 50,000 Massachusetts families have lost their homes to foreclosure, and sliding home values have left hundreds of thousands of more in homes worth less than the mortgages on them.

Goldstein sees the continued fallout from the six-year-old housing crash every day. He's the chief operating officer at Boston Capital, the nation's largest owner of rental housing, a business that has been booming since the housing bubble burst. "We think there is a paradigm shift happening," Goldstein says. "There's a fear of volatility that's rippling through the housing market. I think it really weighs on people's psy-

ches. Housing used to be liquid—you could sell in 60 days if you had to. Now people are stuck, and it makes you think twice about buying. When I was a kid, going to college and owning a home weren't decisions. You were doing those things. Now, there are people who don't see the upside."

Housing has always been a pillar of American middle-class attainment for the better part of a century, but a decade's worth of volatility has significantly complicated the traditional middle-class path of grabbing a piece of land and riding it into economic security. Housing's recent boom-bust cycle turned that upside-down. And, despite low post-bubble sticker prices, housing remains more fraught with economic danger than it ever has been.

Even at the bottom of a historic housing collapse, with median home values down 26 percent in real dollars from their 2005 peak, homeownership is more elusive in Massachusetts than it was a decade ago. Housing is more unaffordable than ever for those in the market, and less attainable for those standing on the outside. In real terms, Massachusetts residents are spending far more on housing than they were a decade ago. Housing has traditionally provided the foothold families use to solidify their place in the middle class; now, it's a source of uncertainty at best,

and a cause of growing inequality at worst.

“Owning a home has become more problematic,” says Michael Goodman, chair of the Department of Public Policy at the University of Massachusetts Dartmouth. “If housing isn’t a vehicle for creating wealth for the next decade, it even further problematizes homeownership as a form of entry into the middle class. Right now, homeownership is not quite a guarantee. It’s risky. Volume is down and prices are dropping. Families are voting with their pocketbooks.”

A GROWING AFFORDABILITY CRISIS

Housing prices in Massachusetts took off in the late 1990s, fueled by low unemployment rates and robust growth in the state’s technology sector. That’s to be expected: Market demand pushes prices up.

What happened next, after 2000, wasn’t expected. Home prices exploded, even as the tech bubble popped, unemployment climbed, and the state’s economy ground to a virtual standstill. Between 2001 and 2005, the state’s economy grew by just 4 percent and household income shrunk by 3 percent, but housing prices jumped by 40 percent. (Unless otherwise noted, all data throughout this article are in real dollars, and have been adjusted for inflation.)

The housing bubble unglued housing from the market forces that normally control prices. Low interest rates and a flood of easy credit caused housing prices to shoot up—ward, even as Massachusetts families plodded through a

than it is in the rest of country because we don’t produce an adequate supply of housing,” says Goodman. “You’d expect, in a normal market, where there’s demand for housing, we’d build housing, and when there wasn’t demand, we wouldn’t. That’s not the case here.”

A tight supply of housing drove up housing prices in Massachusetts far beyond what the rest of the country experienced. Between 1997 and 2005, housing prices in Massachusetts grew by 95 percent. Nationally, housing prices grew by 42 percent during that same time period; they peaked in 2006, 49 percent higher than they were in 1997.

Supply restrictions drove high housing prices higher in Massachusetts, and supply restrictions have cushioned the state’s post-bubble fall. Nationwide housing prices are now down 38 percent from their bubble-era peak, compared to a 26 percent drop in Massachusetts. States like Florida, Nevada, and California, which saw huge booms in new housing construction during the housing bubble, have been struggling with a large surplus of vacant homes. Massachusetts doesn’t have a glut of vacant houses depressing post-bubble prices. So Bay State home prices, which climbed far higher than the national average during the boom, have remained high, relative to the rest of the country.

“You have to pay at some point,” says Goodman. “The trade-off for not having a big drop in housing prices is there’s no relief from the affordability crisis. Affordability remains a major obstacle for hundreds of thousands of families.”

Home prices exploded even as the tech bubble popped.

middling economy. The result was a growing affordability crisis: By 2005, nearly 30 percent of middle-income Massachusetts homeowners were house-poor, spending more than 30 percent of their income on housing, according to the Federal Reserve Bank of Boston. In 2002, that figure had been 20 percent, up from 17 percent in 1990.

The US Department of Housing and Urban Development characterizes households as being burdened, meaning they are more likely to struggle to pay everyday bills, when they devote more than 30 percent of their income to paying for shelter. Massachusetts homeowners are far more likely to face housing burdens than the average American homeowner, according to the Boston Fed.

The same forces that fueled the nation’s housing bubble also drove up housing prices in Massachusetts. However, Massachusetts housing prices were affected by another factor unique to the Bay State: Tight restrictions on new housing construction. “The cost of housing is higher here

Across the US and in Massachusetts, prices have settled around their 2001-2002 levels. The median home in Massachusetts is now selling for \$279,000, a number that seems low but masks troubling trends.

“The prices look great on paper, but in terms of people’s ability to buy, there are still a lot of constraints,” says Robert Clifford, a policy analyst at the Federal Reserve Bank of Boston’s New England Public Policy Center. “The number of burdened households remains stubbornly high.”

Data from the Boston Fed shows that Massachusetts families are plowing greater portions of their stagnant incomes into housing costs, even as housing prices have fallen. In 2005, when housing prices hit their peak, 29 percent of middle-income households in Massachusetts were burdened by housing costs; that figure is now 32 percent.

The share of house-poor homeowners has risen since the housing bubble reached its frothiest heights. In 2000, just 15 percent of Massachusetts homeowners were facing

housing burdens; that figure grew to 20 percent by the housing bubble's peak, and is now closing in on 25 percent. The share of residents spending more than half their income on housing is also rising (it's at 14 percent now, up from 10 percent in 2000).

Pain has been spread broadly among middle- and lower-income families: According to the US Census Bureau, the share of Massachusetts families who make less than \$75,000 per year while devoting an excessive amount of their household income to housing has risen, from 53 percent in 2005, to 59 percent in 2010. In 2010, 46 percent of homeowners making between \$50,000 and \$75,000 spent an unaffordable share of their incomes on their homes.

The typical home in Massachusetts, which currently costs \$279,000, remains unaffordable to the typical homebuyer, who makes \$62,000 per year. According to Clifford at the Boston Fed, median housing prices would have to fall another 14 percent for a family earning the state's median income to afford a home selling at the statewide median. The pinch is even greater around metropolitan Boston. The bulk of the state's jobs are located inside Route 128, but a recent Urban Land Institute study found that families making 100 percent of the area median income were priced out of the vast majority of municipalities inside the Interstate 495 belt. Families making 80 percent of the area median couldn't afford to buy east of Worcester.

"Where people are able to live, relative to where the jobs

are and where people care about living, that's where we're in a real tough spot," argues Clark Ziegler, executive director of the Massachusetts Housing Partnership. "The young, educated workers we're trying to attract don't want to be on 495."

Economist Edward Moscovitch agrees. "If you want to live in Worcester or Orange or Warren, you can get a hell of a bargain right now," he says. "But if you're a college-educated professional, the fact that housing is cheap past Worcester is really irrelevant to you."

Goodman of UMass also points that homes in towns within a reasonable commuting distance of work and with high-performing schools are very expensive. "By limiting people's options about where they can live, and where they send their kids to school, housing [affordability] forces people to make difficult choices."

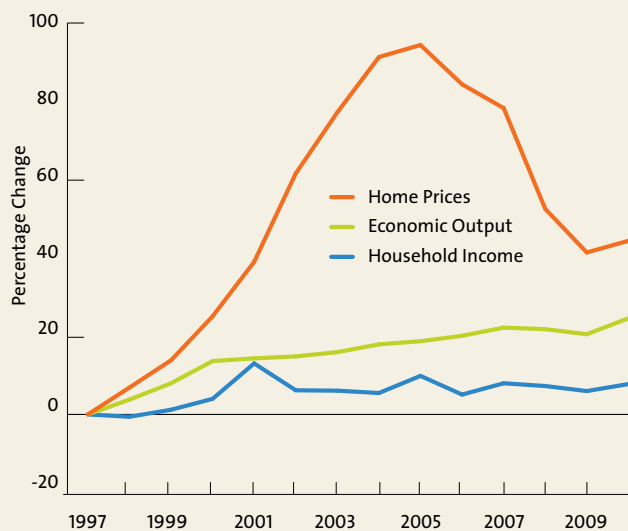
INCOMES NOT KEEPING PACE

Affordability woes have mounted, even as home prices have fallen, because incomes haven't kept pace with housing prices. Bay State residents earn more than workers nationwide, but those higher incomes aren't enough to overcome substantially higher housing prices. Between 1997 and 2010, real housing prices in Massachusetts grew by 45 percent, while real incomes only grew by 7.8 percent. Even after accounting for the recent reduction in home prices, home prices have grown 5.7 times more quickly than wages.

The housing affordability crunch is squeezing families in the middle. But it's also stretching families more thinly: As residents spend ever-greater portions of their income on housing, they're more vulnerable to a drop in income or a costly medical bill. This is especially true for homeowners who bought or refinanced their mortgages when the market was hot, and have been left with little to no equity in their homes. The deep recession that followed the housing bubble has thrown this phenomenon into sharp relief.

"Being house poor means you can't afford to do repairs, and that's more consequential with an old housing stock," says Ann Houston, executive director of Chelsea Neighborhood Developers, a nonprofit housing developer. Houston tells the story of one Chelsea homeowner who fell into foreclosure after his roof started leaking. Falling property values meant the homeowner didn't have the equity to take out a loan to fix the roof, so it kept leaking. The

INFLATION-ADJUSTED CHANGES IN MASSACHUSETTS HOME PRICES, STATE ECONOMIC OUTPUT, AND INCOME



Source: US Bureau of Economic Analysis; US Census Bureau; The Warren Group

leaky roof drove out the two-family home's tenant, exacerbating the homeowner's financial strain. He lost his home.

"We work with folks who have lost their jobs, who have health issues, who are working two or three jobs and can't get back to even keel. They're \$40,000 behind on their mortgage with no prayer of catching up," says Elyse Cherry, CEO of Boston Community Capital. Cherry's nonprofit runs a loan fund that buys urban properties out of foreclosure, and then extends new mortgages to foreclosed owners based on current market values. The fund has kept 130 families out of foreclosure and in their homes. Still, Cherry says, its reach is limited. "Our program works for the 20 percent of people that still have income. There are an awful lot of people for whom there isn't a lot of help. There is no endgame. They've lost a job. They have no income."

CREDIT SQUEEZE STIFLES SALES

Current homeowners aren't the only ones struggling with the rising cost of housing. First-time home buyers are also finding it harder to jump from renting to owning. Tight credit, steep down payment requirements, and rising rents are all pushing homeownership further out of reach.

"Five years ago, if you could fog a mirror, you could get a mortgage, and now you have to give up your first-born," says Tom Gleason, executive director of MassHousing, a quasi-public state agency that writes low-down-payment mortgages for first-time homebuyers. "People who do have good credit are finding it very difficult to get a mortgage, unless they have a substantial down-payment and a pristine credit history."

MassHousing has historically served as a lender to buyers who don't qualify for traditional financing. Its business is also counter-cyclical: It gets busier when private lenders slow down.

During the market's go-go years, when mortgage companies were tripping over themselves to hand out cash, MassHousing did \$200 million in business in a good year. Two years ago, without altering its lending standards, MassHousing loaned \$550 million. "We grew as the market collapsed around us," Gleason says. "What it really says is there's less money in the market. We need to be very careful. The housing and mortgage markets are fragile right now, and if we're overly restrictive, we're not helping."

Just as loose credit helped fuel record home price increases, banks' post-crash credit tightening has put a damper on home sales. Buyers are having difficulty secur-

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ing mortgages, and without mortgage debt the housing market doesn't function. That's especially true for first-time homebuyers, who are facing steep new barriers to entering the market.

"Lack of regulation in finance enabled lending to people who shouldn't have a mortgage, and now we've gone off the deep end in the other direction," says Barry Bluestone, an economist at Northeastern University's Dukakis Center for Urban and Regional Policy.

Home sales data show a market under deep strain. Through August, sales volume in Massachusetts was at its lowest level in two decades. Fewer homes are selling now, when the economy is in a statistical recovery, than in 2009, at the recession's depths. Plus, more than one-third of this year's sales were cash deals—deals normally confined to wealthy buyers and investors. In 2009, only 20 percent of home sales were cash sales.

Federal policy is also moving toward restricting mortgage lending. The Treasury Department wants to eliminate Fannie Mae and Freddie Mac, the government-controlled companies that pump cash into the mortgage market. Treasury also wants to cut in half the size of the Federal Housing Administration, which guarantees low down payment mortgages to first-time and moderate-income homebuyers. Fannie, Freddie, and the FHA have backed nearly every mortgage written in the past two years. And federal regulators are also pushing for a return to 20-percent down payments—a standard banks are beginning to return to on their own without hard federal guidelines.

"I don't think you can accomplish everything [Washington] said they'd like to do, and keep the housing market in place," Gleason says. "We probably should shrink FHA, but where will moderate-income buyers and first-time buyers go? That discussion hasn't taken place. There has to be a place for moderate-income buyers. If we go to a world where you have to have 20 percent or 30 percent down, it would have a dramatically negative effect. And it's more difficult in high-cost states." Twenty percent of the current median home price in Massachusetts adds up to nearly \$56,000. "I don't know a lot of people sitting on that kind of cash," Gleason says.

And as down payment requirements are rising, it's getting more difficult for prospective buyers to stockpile savings. That's because rents across the state, and especially in metropolitan Boston, are rising. At the depths of the housing bust, rents have hit an all-time high, and Massachusetts residents are having to devote more of their income to covering rent than they ever have.

Census data show that 48 percent of Massachusetts renters are spending an excessive amount of their household income (more than 30 percent) on rent. More than 62 percent of families earning less than \$75,000 are paying

excessive rents. According to Bluestone, more than half of renters in greater Boston are paying excessive rent, with 25 percent of them spending more than half their income on rent. Those figures have all jumped over the past 10 years. Bluestone fears rising rental costs will mean more would-be homebuyers are getting "stuck in rental."

MINORITIES LAGGING

Rising rents, diminished access to mortgage debt, and higher barriers to entry are being felt especially acutely by the state's black and Hispanic residents, who have experienced greater levels of inequality in homeownership. Tightening access to housing affects nonwhites disproportionately, since nonwhites are disproportionately renters.

Homeownership rates for racial and ethnic minorities in Massachusetts trail minority homeownership rates for the country as a whole. The overall homeownership rate in Massachusetts stands at 66 percent. That statewide rate masks vast gaps between white and non-white residents, though. While 69 percent of whites in Massachusetts own their homes, just 35 percent of blacks are homeowners. The homeownership rate is 25 percent for Hispanics, and 50 percent for Asians.

Although blacks, Hispanics, and Asians trail whites in homeownership nationwide, racial and ethnic minorities in Massachusetts have achieved lower levels of homeownership than minorities nationally. The gap between minorities and whites is also wider in Massachusetts than it is in the country as a whole. These gaps are especially severe among Hispanics. Nationally, Hispanic homeownership trails the white homeownership rate by 23 percentage points; Massachusetts Hispanics trail whites by 44 percentage points. The gap between homeownership rates is only slightly less pronounced for blacks.

The housing downturn, and the spike in foreclosures that followed, also muted broad gains in minority homeownership across Massachusetts.

According to the US Census Bureau, black homeownership in the state grew by two percentage points from 2000 to 2010, despite peaking in 2003 at 8 percentage points above its 2000 level. Hispanic homeownership peaked later, in 2007, 7 points above its 2000 level. It then fell, to end the decade 3 points higher than it was in 2000. White homeownership showed less volatility, spiking by 4 percent and settling in 2010 at 2 points higher than in 2000.

"The very rapid rise in homeownership that took place between 1940 and 1970 was overwhelmingly white," Bluestone says. "Now, just as homeownership rates were rising for people of color, we're cutting back. It would be a shame if we pulled the rug out on minority homeownership."

HOUSING SPURS INEQUALITY

Homeownership rates matter because the housing market relates directly to social uplift. In the past, homeownership wasn't just the marker between the working class and the middle class; home equity was the vehicle for transitioning from one to the other.

It's no surprise, Bluestone says, that the great broadening of the middle class that began in the 1940s dovetailed with a sustained real estate boom. "Paper wealth is highly concentrated," he says. "Housing is the one true asset people can have. A home is most people's major asset."

And in an economy where wages are stagnant and most families aren't getting a cut of the stock market's gains, home prices become intertwined with personal wealth creation.

Communities across the state experienced a rapid run-up in housing prices, but the housing downturn hasn't been uniform. Wealthy communities have largely escaped the wealth destruction that the housing downturn brought on, while low-income communities have seen huge amounts of equity erased. Between 2000 and the market's peak, nominal housing prices in Chelsea doubled, while nominal prices in Newton shot up by 45 percent; through August, prices in Chelsea have fallen by 39 percent, while Newton homes are only off their peak by 2 percent.

The housing downturn hit two- and three-family homes far harder than single-family and condo units; double- and triple-decker homes are concentrated in the state's poorest communities. Statewide, roughly 20 percent of homeowners are carrying mortgages worth more than their home's value; in communities such as Springfield, Worcester, Brockton, and Fitchburg, however, half of homeowners with mortgages have no equity left in their homes.

"Low-income workers have seen their wages fall, and their cost of housing went up, while the wealthy had their income fall less, and their cost of housing go down," Bluestone says. "The gap between the rich and poor grew because of wages, but it's been exacerbated because of trends in housing. Housing is leading to even greater inequality."

A recent forecast from the economist Robert Shiller predicted that housing prices might not rebound to their previous peak levels until 2015. Northeastern's Bluestone thinks it could take twice that long. But a sputtering economy, sluggish wages, and tight credit, combined with three years' worth of anemic sales data, have some questioning whether we're in more than just a cyclical downturn.

"As a country, the single-most important way to build net worth has been through housing," says Cherry of Boston Community Capital. "One way or another, we have to level the playing field. Either housing is the way to build net worth, or it isn't." **CW**



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