Massachusetts Housing Affordability Review:

The Skyrocketing Costs of Homeownership in Massachusetts

September 10, 2001

Background

Earlier in the year, CHAPA prepared a Housing Affordability Index for the Commonwealth's cities and towns, based on a community-by-community review of median single-family home prices for the year 2000.

The affordability matrix was developed to ascertain whether, and in which communities, a "typical" family (i.e., one earning that town's *estimated* median family income) could afford to purchase its typical (median priced) single-family home. The CHAPA study was based on sales data from Warren Information Services and estimated family income from CACI Marketing Systems.

The results were hardly surprising—especially to anyone who has been in the market for a home—but, presented by town-by-town, by region, they dramatically underscored the obvious: Massachusetts, with home prices more than double the national average, is facing a crisis in housing affordability of significant proportions.

In most parts of the state, the cost of homeownership is beyond the means of those who don't already own. This is especially true in the eastern part of the state. More than two thirds of Massachusetts' population lives in communities where a family earning the median income could not afford to buy the median priced home (that is, the price at which half the sales are above, half below). Even using the most liberal underwriting assumptions, over half would not be able to buy at today's prices. The situation was most acute in the Greater Boston-Lowell-Lawrence area and on the Cape and Islands; and less so in the western part of the state.

The analysis was based on the example of a borrower who obtained a 90% mortgage with no points. A borrower who pays points, of course, can obtain a lower interest rate, thereby reducing monthly mortgage costs and increasing affordability. Similarly, a borrower who can make a larger down payment can afford the monthly payments on a more expensive home, and also achieve greater affordability. However, the area's high home prices mean fewer homebuyers—especially first-time buyers—can come up with sufficient cash to qualify for those options.[1]

In the wake of recent reports that the market has begun to soften, CHAPA revised and updated its earlier study, using sales data from the first six months of this year. Interest rates have come down somewhat, and this was factored in as well.

[1] Financing assumptions-including underwriting, taxes, insurance, etc.-are detailed in the accompanying notes.

Key Findings

While the number of sales is down, the rate of price escalation has moderated, and the average length of time on the market has increased—all symptoms of a market slowdown—CHAPA's updated analysis brings little good news in terms of affordability.

Home prices continued to climb through the first six months of 2001, rising even in markets that previously had been relatively more affordable. Among communities with single-family home sales in both years, more than 80% registered an increase in the median price during the first six months of 2001.

Statewide, 27 communities that had been affordable to their existing residents based on 2000 home prices, would be unaffordable to those families based on the current year's prices. The "affordability squeeze" has radiated out from greater Boston and now affects communities in the southeastern and central parts of the state as well.

While a number of the state's older cities have housing that is bargain priced relative to their suburban neighbors, the combination of rising prices and lower incomes precludes the existing residents of such cities—New Bedford, Lawrence, Holyoke—from becoming homeowners.

Prices in many communities are now so far beyond the means of even middle-income families to afford that a market downturn will do little to help those with low- and moderate incomes become homeowners. On the other hand, a market downturn could create real hardship for those who just recently bought and/or overextended themselves to do so.

Findings by metro area are highlighted below.

Barnstable Metropolitan Area and non-metro parts of the Cape and Islands

In none of the 10 towns that comprise the Barnstable metropolitan area—or the Cape and Islands' 13 other communities—would an existing family, earning the median income, be able to purchase the median priced house in their hometown in 2001.

Boston Metropolitan Area

Only 17 of the 127 communities that comprise the Boston metropolitan area had median house prices that the typical area family could afford in 2000, and 8 of these towns have become *un-affordable* in 2001. Most of the 9 communities that remain affordable to their existing residents are at the outer fringes of the metro area (e.g. Bellingham, Berkley, Dighton, Wareham, Townsend). Even allowing for more liberal underwriting—33% of income for principal, interest, taxes, and insurance—which assumes a borrower has little or no additional debt, nearly two thirds of the communities would remain unaffordable to their current families.

Lawrence Metropolitan Area

None of the Lawrence metro area's 10 communities had median home prices that were affordable to its own residents, in either year.

Lowell Metropolitan Area

The situation is similar in the 10 cities and towns that make up the Lowell metro area. Only in Dracut and Lowell in 2000, and Dracut and Billerica in 2001, could residents at the median income afford a typical home.

Brockton Metropolitan Area

In the Brockton metro area, 11 of 14 communities had housing priced at a level the typical family could afford in 2000, but that number dropped to 7 during the first six months of this year.

Fall River Metropolitan Area

Southeastern Massachusetts has historically been relatively more affordable. In the 8 communities that constitute the Fall River metro area, only Fall River was out of reach to its own residents in 2000. North Attleboro joined the out-of-reach category in 2001.

New Bedford Metropolitan Area

Families earning the median income could afford a typical home in 6 of the 8 greater New Bedford communities last year. Through the first six months of this year, that number dropped to 5.

The market in southeastern Massachusetts has heated up as demand for more affordable housing from homebuyers, priced out of the greater Boston area market, has spilled over into New Bedford, Fall River and even Providence, Rhode Island.

Fitchburg Metropolitan Area

Until recently, the 9 cities and towns in the Fitchburg metro area had also been relatively affordable, with each community affordable to its own residents in the year 2000. Through the first six months of this year, however, 4 communities moved into the out-of-reach category.

Worcester Metropolitan Area

The affordability picture in the 34 cities and towns that comprise the Worcester metro area was mixed last year, with 10 communities out of reach to their own residents. For the most part, towns in the eastern part of the metro area were less affordable, mirroring the trend throughout eastern Massachusetts. The more western communities—like the western part of the state—were relatively more affordable.

However—like Fitchburg, Brockton, New Bedford and Fall River—the Worcester area is becoming less affordable. In recent months, 5 additional communities, including Worcester, have become out-of-reach to their own residents.

Pittsfield and Springfield Metro Areas and non-metro parts of Western Massachusetts

The western portion of the state remains relatively more affordable, with 3 of Springfield's 29 communities out-of-reach to their residents, 2 of 10 in Pittsfield, and 11 of 69 towns in the non-metro areas. A few communities have fallen out of—or into—the affordable category this year, but most of these are based on just a very few sales. Among those where existing residents do face an affordability gap are very low-income communities, like Holyoke, and strong second home markets and college towns, such as Stockbridge and Amherst.

Notes

Warren Information Services (Banker and Tradesman) is the source of the median sales prices. CACI Marketing Systems is the source of estimated median family incomes. Where appropriate, income estimates were adjusted to account for military bases and base closures where these factors substantially skew the data.

A number of analyses were run using different financing options and underwriting standards to understand how various assumptions affect affordability. The option presented here is that of a borrower obtaining a 90% mortgage, with no points. Under this scenario, which includes private mortgage insurance, a borrower would need to come up with approximately $25,000 cash for down payment and closing costs. Underwriting assumptions were that 28% of gross income could be spent on principal, interest, taxes, and insurance; 36% could be devoted to these items plus all other debt (student, consumer, auto loans, etc.)

Many first time homebuyer programs allow 33% of income to go for PITI and up to 38% for all debt, but there a number of considerations that might disqualify an applicant from these more liberal ratios. Greater affordability can also be achieved if the homebuyer spends more up front, either by making a larger down payment or by paying "points," in effect to lower the monthly financing cost. However, given the high cost of housing in Massachusetts and the high "non-housing" debt levels carried by many homebuyers, these alternatives often are not viable options.

In the earlier version, an interest rate of 7.125%, fixed, for 30 years—the prevailing rate at the time—was used. Interest rates have come down since then, so the revised version has been calculated using a rate of 6.875. In both cases, the additional cost of private mortgage insurance was added. Taxes and insurance estimates were not adjusted.

Real estate taxes were estimated using each community's average single-family tax bill (from the Massachusetts Department of Revenue). Homeowner insurance premiums were estimated based on information provided by a sampling of the state's largest carriers for coverage required by most lenders. Both taxes and insurance are estimates only-informed estimates, but estimates nonetheless. Eleven cities and towns have residential exemptions and their tax data are not reported to DOR in sufficient detail to calculate an average single-family tax bill accurately. Local assessing offices and realtors assisted in estimating taxes in these cases.

Unless otherwise noted, the 2001 median sales prices cover the first six months of the year. Essex County sales include only January through May sales. The Barnstable town median single-family home price (for both years) is a median of the medians of each of Barnstable's separate villages. The Boston median price for 2001 includes one-, two- and three-family homes as well as condos and is based on the first quarters of the year only. Forty-seven small communities reported no sales during the first six months of 2001. Because of the decline in interest rates, the affordability index for these towns for 2001 is based on the 2000 median sales price, and therefore registers a modest improvement over last year. Nearly all of these towns, however, are ones that were already “affordable” in 2000. There were no sales in the town of Gosnold (Cuttyhunk) during 2000 or year-to-date 2001. Based on prior year's sales, it can reasonably be assumed that--like the rest of the Cape and Islands--residents of Gosnold would be unable to "buy in" at today's prices.