Massachusetts Housing: A Three-Pronged Crisis

Clark Ziegler

Issues of supply, affordability, and equity all contribute to an ongoing housing crisis in Massachusetts. Among U.S. metro areas with knowledge-based industries, metro Boston ranks near the bottom in housing production and near the top on development costs. Due to the latter, production of new affordable housing units has scarcely increased over the past decade. And largely decentralized authority over land use regulations, by 351 cities and towns, does little to foster uniform housing equity standards.

The articles in this issue are a great illustration that the "housing crisis" in Massachusetts comprises at least three crises: housing supply, housing affordability, and housing equity.

Inadequate housing supply is a threat to the economy—especially at a time when the state is at or near full employment—because it constrains growth in the labor force. Housing starts per capita in Massachusetts are less than half of their levels in the 1960s, 70s, 80s, and nearly 40 percent below the national average.

As a non-economist, it seems like a miracle to me that Massachusetts and Greater Boston have achieved such robust job growth since the Great Recession without adverse consequences from our high-cost, undersupplied housing market. Young people entering our job market must increasingly live with their parents, pay high rents for the privilege of living with roommates, or tolerate miserable daily commutes to get the housing that they can afford. Among the 20 top-competitor U.S. metro areas that we have identified with a similar concentration of knowledge-based industries, metro Boston ranks near the bottom on housing production, near the top on housing costs, and experiences net losses of population from domestic migration. It's crystal clear from the data that only foreign in-migration has kept our economy afloat and kept us from losing population.

The big question is: What it will take for public policy changes to break this pattern? Our last two major housing recessions were driven by credit practices that distorted housing supply (through reckless construction lending in the late 1980s) and distorted housing demand (through reckless subprime mortgage lending in the early 2000s). Just when we were at the top of those cycles, and political leaders felt we were reaching the breaking point on housing cost increases, the Commonwealth experienced a housing bust, obviating pressure to take action. The situation now feels very different. Credit standards are now very prudent, both for housing developers and home buyers, and vacancy rates are exceedingly low. We appear to have a structural gap between housing supply and demand, and while the next recession may temper growth in housing costs, it is hard to see how it will substantially bring them down.

The next major crisis that we face is affordability. There is a fundamental disconnect between household incomes at the lower end of the distribution and the cost and availability of housing. Federal policy has long identified households paying more than 30 percent of their monthly income as "cost burdened" and those paying more than 50 percent as "severely cost burdened." By that standard there are more than two hundred thousand low-income, severely burdened renter households in Massachusetts, including 185,000 with extremely low incomes (ELI), below 30 percent of median.

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The dilemma is that we are nowhere close to closing this gap with public subsidies. As a result of robust state housing programs dating back to the 1950s, we do a better job meeting ELI housing needs than most other places in the U.S. Massachusetts ranks 14th among states and metro Boston ranks 3rd among major metro areas, according to a recent analysis by the National Low Income Housing Coalition. Unfortunately, though, we are moving at a snail's pace in further closing this gap. As a result of budget cuts and rising rents, the number of households receiving state rental assistance is half of what it was in the late 1980s. Despite increased capital spending on affordable housing by governors Patrick and Baker, and despite legislative efforts to create and expand a state tax credit for low-income housing development, the number of new affordable units produced each year has barely grown over the last decade because increased resources have been absorbed by rising development costs. The state's annual production of new low-income housing, including units produced with support from the federal low-income tax credit, is equivalent to well under 1 percent of the number of severely cost-burdened households.

At its core, the housing affordability gap is really a symptom of income inequality and low-wage rates that are insufficient to support a decent quality of life. That is where the long-term solutions lie. It is a national problem with limitations on how much any one state—including an affluent state like Massachusetts—can do. We do control our local land use regulations, though, which is the greatest impediment to increased housing production. And there is a body of research showing that increased housing production at any price point helps reduce housing cost pressure on low-income households. In the meantime, I think Nick Chiumenti is right on target in suggesting that we critically examine where existing housing subsidies are targeted in order to maximize public benefits.

The third housing crisis is one of equity. Cities and towns in Massachusetts do not equally share the responsibility for allowing new housing production needed to meet demand, or for allowing the development of subsidized low-income housing that is needed to address the state's affordability needs. As a result, most new housing development in the entire Commonwealth is concentrated in a small number of cities and towns and increasing rents are fueling gentrification and displacement in a relatively small number of urban neighborhoods. That pattern is unsustainable.

One of the most common arguments against new rental housing in suburban communities is that the children living in the new housing will overburden local school budgets. Elise Rapoza and Mike Goodman have done an excellent job debunking that myth by collecting and analyzing student-level data and modeling state and local revenue collections related to the occupancy of new housing. Less than a third of the housing developments in their sample had negative local fiscal impacts and at an order of magnitude that was generally not significant. The combined state and local fiscal impacts of the new housing development were overwhelmingly positive and the additional state revenue generated by the new housing was five times the amount needed to compensate for any negative local impacts.

The Rapoza/Goodman research points the way to some adjustments in how state revenue is shared with the cities and towns in metro Boston that are most receptive to new housing. These adjustments would therefore contribute more than their peer communities to the health of the state economy. Yet even if the school cost issue is resolved, experience tells us that many other local objections to new housing will remain. The most benign explanation is that residents in most communities are naturally resistant to change and to new housing development of any kind. The more troubling explanation is that residents do not want new housing built which, in their minds, will attract residents of different races, ethnicity, or class. That bias is exposed when residents express little objection to senior housing or single family homes on large lots and vociferous objection to construction of apartments suitable to families with children.

This dilemma is one of the state's own making because—unlike most of the U.S.—our land use regulation is vested in relatively tiny units of local government. The 351 cities and towns in Massachusetts, with a median population of less than 11,000 residents, each have their own zoning codes, subdivision regulations, septic system regulations, and wetlands protection rules. There is no regional or state review to ensure that these local regulations advance legitimate planning or environmental objectives; that they are not simply crafted to slow housing growth and limit development to large single-family homes. It's an open question, then, whether we can sustain a healthy 21st century economy in Massachusetts while continuing to give cities and towns effective veto power over new housing development.

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Clark Ziegler is Executive Director of the Massachusetts Housing Partnership