HOUSEHOLD INCOMES AND HOUSING COSTS: A NEW SQUEEZE FOR AMERICAN FAMILIES

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HOUSEHOLD INCOMES AND HOUSING COSTS: A NEW SQUEEZE FOR AMERICAN FAMILIES

Wednesday, April 4, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in the Brookline, Massachusetts, Town Hall, 333 Washington Street, Brookline, Massachusetts, Hon. Barney Frank [chairman of the committee] presiding.

Present: Representatives Frank, Capuano, and Lynch.

The CHAIRMAN. Good morning. This is a hearing of the House Financial Services Committee, which is the committee in the U.S. House that has jurisdiction over all housing programs, all the programs of the Department of Housing and Development, and I'm joined by my colleague who is a member of the committee, Michael Capuano. We will be joined shortly by our other Massachusetts colleague who sits on the committee, Stephen Lynch.

The Republican side is represented by the staff director on the Republican side, who is the chief assistant to the ranking minority member, as we call them, and I'm pleased to say that this is a committee in which partisanship does not get in the way of cooperation. We have legitimate differences, which is why we have two parties, but we also have some common goals, and our differences have never gotten in the way of reasonable cooperation, so we're glad to have them here.

The purpose of this hearing is to focus on the full dimension of the housing crisis that faces the country and in particular those of us here in Massachusetts. The social dimensions of the housing crisis are, of course, well known—people unable to live the kind of lives they would like to be able to live because they cannot get decent housing at prices that they can afford. So you have some people paying so much for the housing that their ability to meet other needs is diminished, or you have people living in very inadequate housing, and so we are going to be discussing that national issue and its impact here in Massachusetts.

Before we do, I want to express my appreciation to the Town of Brookline for hosting us and I'd like to ask the chairman of the board of selectmen, Robert Allen, at this point to come forward and accept our thanks and say a few words.

Mr. ALLEN. Thank you, Congressman Frank. I'll stand this way so I don't have my back to everybody. Fortunately, my voice usually resonates and people don't have trouble hearing me speak, but I'm just thrilled that the Congressmen, all three Congressmen came here today. We really appreciate seeing the committee come here. This is a very important issue to Massachusetts and certainly to the Town of Brookline and we're very fortunate that they chose to come here today to speak about this issue.

Since I don't have the opportunity to have the ear of so many distinguished people that often, I would like to say a couple of words, if you don't mind, Mr. Chairman. Just very briefly, because I assume people didn't come here to hear me speak. But I want to talk a little bit about some of the changes I've seen, being on the board of selectmen for 7 years, the last 3 years as chairman.

I grew up in Brookline; I remember growing up in town. My father was a police officer, and I would say about 90 percent of our town employees lived in Brookline. Now, probably only about 30 percent of our town employees live in Brookline, and my guess is that most of that 30 percent are people who have been here for about 30 years and continue to have their homes.

I also remember firsthand on the board being involved in some interviews for some staff or for directors. We had a ton of resumes come in. Brookline is a wonderful municipality to work. I like to believe we take good care of our employees and we also saw a large response from applicants.

Lately, I've seen the number of interested resumes coming in for some very good jobs really reduced. I'm sure housing costs have a lot to do with it, but even more so than housing costs in the geographical circle around Brookline, commuting costs have increased so much that I believe it's actually affecting the ability of municipalities to get the quality employees that they need. It also could be affecting the public sector because people have to live further and further away from their municipalities.

Clearly, there's an interest in every municipal town or city to have its employees live in town or the city. That's unrealistic in the Town of Brookline, and that's a shame. We have one area in town; we used to call it Button Village. It was called Button Village because every fireman and police officer lived in that particular neighborhood. I was informed recently that it's now called Button Wood Village, and my guess is that a lot of lumberjacks didn't move in there, but rather that it's changed, and maybe there's a certain stigma, but it's really a shame.

I just want to give some statistics so you understand and the housing director, Fran Price, was kind enough. During the past 15 years, the median price of a condominium increased 242 percent, from $131,000 to $449,000. That's 3 to 4 times the increase in the median income for the Boston area which increased by only 68 percent. I say only 68 percent. In 1991, a typical buyer, a family of three in the Boston area with a median income, could afford a condominium at 78 percent of the median price of last year. In 2006, that typical family could have bought a condominium which cost 48 percent of the median sales price. The affordability gap for the typical family seeking to purchase a typical condo grew from $28,000 to $232,000 during this 18-year period. That's an incredible gap increase for this time period. We're not talking about luxury houses here. We're talking about median condo here in Brookline, so clearly this is a very important issue here for this community and Congressman Frank has been very great, as has the rest of the delegation, about working with us to try to find solutions, and to try to take the stigma away from creating new affordable housing. We appreciate all their help and Congressman, I really appreciate the time you allowed me to speak.

Welcome to the Town of Brookline.

The CHAIRMAN. Thank you, Mr. Chairman. Let me just note the presence of another very important official, Representative Kevin Honan, who is the chair of the—we have joint chairs for the committees in the legislature. He's the house chair for housing. So Representative Honan, we're delighted to have you join us and we look forward to working together with you.

The social component to this problem is well known, but Selectman Allen talked about another aspect that we want to discuss and that's the economic problem. We have a situation here in Massachusetts where the very high cost of housing is not just a problem for the quality of people's lives; it's a problem for our economy. One of the major sources of employment here are institutions—hospitals and universities. They have a problem because of high housing costs.

Private businesses have a problem. If you have high housing costs, when you go to attract the kind of employees you want, you have to raise salaries to make up for those housing costs or you don't get the employees you want. So when we talk about trying to alleviate the high cost of housing here in Massachusetts, we are talking about doing something that's economic as well as social.

And what we will be talking about today is: one, documenting that problem; and two, what we can do about it. Because the committee on which we serve is the committee that initiates housing law, we've already begun to address that. We just passed out of our committee the bill that would re-regulate Fannie Mae and Freddie Mac. Two pieces of that bill are directly relevant. One, we are trying to change the national policy which puts a dollar limit on the amount of a mortgage that can be bought in the secondary market by Fannie Mae or Freddie Mac or can be insured by the FHA. We now use a single dollar amount for the entire country.

Housing prices vary by geographical region; it makes no sense to set the same dollar price for Nebraska and for Mississippi and for Massachusetts. That freezes us out, and we have dealt with that.

We also have given Fannie Mae and Freddie Mac new goals for them to achieve when they buy secondary mortgages and we include in that rental housing. And one of the points that I keep stressing is that I believe part of the problem we have in this crisis of people having bought homes and not being able to keep them up is that we have denigrated rental housing and treated people as if only people who own their home were living decently or could live decently. And we have pushed people who are not economically able to do that in certain parts of the country, in particular, into homeownership. What we need to do is, yes, help people who are able to afford homeownership to do it, but to also have adequate rental housing.

As people here know, one very important source of rental housing in Massachusetts, certainly very relevant in the districts of both of my colleagues here, are the three deckers, and owner-occupied three deckers are an important source of rental housing. Congressman Lynch sponsored an amendment to the bill last week which made it explicit that Fannie Mae and Freddie Mac would have the goal of trying to do financing for owner-occupied three deckers so that we would have a further source of income into this very important source of rental housing.

Congressman Capuano, I know, has taken the lead on one of the issues that Selectman Allen talked about, namely trying to provide particular assistance for municipal employees so that they would be able to live in the towns in which they work. As a former Mayor, he's very aware of that. So all three of us have worked on things specific to Massachusetts in the context of the important and general issue and we do want to say this is one. Sometimes we're told well, you're pursuing a social goal, but that would come at the cost of economic competitiveness. Reducing the excessive cost of housing here and in much of the rest of the country is a case of pursuing social benefit and enhancing economic competitiveness. It's a situation where these goals reinforce each other. They do not conflict.

I'll now turn to my colleague, Mr. Capuano.

Mr. CAPUANO. I don't have much to add to what the chairman has already said. It's nice to be back in another—I know it's a town, but feels like a city to me, another town hall. I will also thank the people that I know in this room. Most of you, I think I already know, who have been working in this field for a long time.

I just want to reiterate what the chairman said earlier. Just last week we had a bill where there was an amendment to strike a provision that would address some of the pricing disparities and when the author of that provision has his discussion, he was invited by many of us who live in expensive housing areas to try to come and live here on the basis of his numbers. Of course, he didn't take us up on that and I actually wished he would. I hope he moves to Steve Lynch's District so maybe if he wants to run as a Republican—

[Laughter]

Nothing personal, Steve, of course.

Mr. LYNCH. I know.

Mr. CAPUANO. But I'll also say very clearly that when the vote on that amendment came, it was a bipartisan vote to defeat that amendment, so it is not a partisan issue. There are expensive housing markets in this country that don't fit the mold, at least according to some.

With that, I look forward to hearing the testimony by the people that I know who have been doing this for a long time and know more about the issue than I do.

The CHAIRMAN. And now I'll turn to the third Massachusetts member of the committee, a colleague from South Boston, Mr. Lynch. I should add, by the way, that we are here to draw up an agenda, one that will particularly focus on what we need in Massachusetts and we will be aided in this, not just by the fact that the three of us serve on this committee, but the chairman of the Appropriations Subcommittee that votes the funding for housing is our colleague from the west, John Oliver, so Massachusetts is very well represented in this area, not surprisingly given our needs.

Mr. Lynch?

Mr. LYNCH. Thank you, Mr. Chairman. I, too, want to thank the Town of Brookline, Representative Honan and Bob Allen for their kindness this morning.

I guess I've had an opportunity to witness the whole spectrum of housing problems that we have in this country. I grew up in a public housing projects in South Boston. When I was a new attorney, one of the first things that the firm I was with required me to do was to volunteer my time pro bono in some area of interest that I had and so what I chose was to go back to the housing projects that I grew up in to represent families who couldn't afford an attorney on issues from asbestos in the home, lead paint, people being underhoused, you know substandard housing, so did a lot of that. And now it's just breathtaking the scope and breadth of the problems that we're seeing in housing policy nationally.

As a former tenant of public housing, someone who cares deeply about it, it was a good day when Congressman Barney Frank became chairman of the Financial Services Committee and is now the chairman over housing policy in the House. It was a good day. And it was then an even better day when he appointed me to this committee.

[Laughter]

So my thanks to him as well and he gets it. He gets it. The issue around three deckers, while some people saw that as a housing issue, I was that as an election issue because so many of my votes and so many of my families are in those three deckers and if there weren't some type of recognition by national housing policy to help people in that situation to preserve the ever shrinking number of rental units in those three deckers, we would be hard pressed to preserve the quality of life for a lot of people, not only in Brookline, but across the country as well.

I would differ with the chairman on one point. He stressed the bipartisanship of this committee. And I think that's true. I think that's true. But this Administration and previous Administrations from the other party have not, in my estimation, treated housing as a valid and credible priority for our national government. I would say what we are doing now, and what the chairman is doing, is because of a lack of funding and resources that have been given to the area of housing, affordable housing, what we are doing now, what Congressman Capuano joins us in doing, is what I would describe as triage. We're trying to use our resources, marshall our resources to provide the best opportunities for as many families as we can help.

The Republican approach to housing has been euthanasia. They've been trying to put everybody out of business and really, I think effective disinvestment in affordable housing around this country. So we're struggling with that and it's a great opportunity to work with Congressman Frank and I appreciate the intelligence and energy he brings to this issue and I think there will be a good result in the end for people whose communities rely so desperately on availability of affordable housing and I yield back, Mr. Chairman. Thank you.

The CHAIRMAN. I thank my colleague. Let me just say, we do agree on this. In fact, one of the frustrations I had in previous Congresses, when we were the minority, was that we came to some semi-agreement with our Republican House colleagues on some issues and they were overruled by the Administration and the Republican congressional leadership. So that is true, there are ideological differences there.

I did want to note that one of the things we want to do, and obviously we support homeownership in many ways, but we also believe that there's been a serious lack of attention to the need for decent rental housing. I think it's not an accident that we talk about South Boston or Brookline or Cambridge or Somerville; you're talking about communities that have always had a significant rental housing population and I think that's why all three of us are especially sensitive to that and why we are determined to reverse the policy. It's really doing great harm, allowing great harm to be done to rental housing.

We will now begin. We have our panel of witnesses. We're going to be joined later by Charles Baker, the president of Harvard Pilgrim Health Care, who will obviously be talking from the standpoint of an employer who has encountered serious difficulties with housing costs. But we'll begin Amy Anthony, a former secretary of community development of the Commonwealth of Massachusetts, and now president of the Preservation of Affordable Housing, Incorporated.

STATEMENT OF AMY ANTHONY, PRESIDENT, PRESERVATION OF AFFORDABLE HOUSING, INCORPORATED

Ms. ANTHONY. Thank you, Mr. Chairman. Good morning to you and the members of the committee, and thank you very much for the opportunity to appear before you to discuss the housing squeeze in our country.

As you noted, I'm the president of Preservation of Affordable Housing, Inc., or POAH. Based in Boston, POAH is a national nonprofit which is focused exactly, as our name says, on the preservation of affordable housing. We have been in existence for just over 5 years, and currently own and manage nearly 4,000 affordable rental homes in eight States and the District of Columbia. The more than 10,000 residents who live in POAH-owned homes generally are low-wage workers and their children, or seniors on fixed incomes, or the disabled; in short, among the most vulnerable of our citizens.

My background includes more than 30 years in affordable housing. During my tenure as cabinet secretary, we produced more than 25,000 homes, so I come to this discussion with a wide ranging perspective on the problems, the challenges, and the opportunities.

You are hearing this morning from a number of highly skilled professionals in the housing industry. Each of them will reference both experience and research to confirm the premise of your hearing this morning, that American families at all income levels are being squeezed by the cost of housing.

I would like to use this platform to direct your attention to the very specific and urgent reality of one facet of the affordable housing dilemma, which is the imperative need to protect and preserve the stock of already built affordable housing. I am specifically referring to existing, privately-owned rental housing, apartments which have deep public subsidy to make them affordable, even to renter households earning as little as $16,000 a year or less. This category of housing is disappearing in every State in the country. It is lost in strong markets to upscale conversion and condominiums. It's lost in weak markets to neglect and deterioration. However we lose it, the pressures ripple across the housing spectrum and squeeze the entire system even tighter.

I would like to talk with you this morning about the preservation opportunity, its human face, the policy arguments that buttress our call for preservation and the action steps which are available to us today.

Between 1965 and 1990, $60 billion in Federal funding was invested across America to create affordable homes through the private sector. These homes were built in big cities, small towns, and rural areas. They were multi-story high-rises and single family bungalows. But all were built according to the same premise, that the government would provide funds to underwrite construction and operating costs and in return owners would promise that rents would be affordable to low-income families and seniors for the duration of the fixed financing period.

Now the financial notes which built this housing are reaching "paid in full" status. With the expiration of each financing agreement, the leverage for keeping rents affordable is lost. Our enormous national investment in affordable housing is maturing and, in many cases, vanishing.

Even in Massachusetts, with one of the strongest traditions of support for preservation, 5,000 units have been lost. At the same time, new Federal resources providing deep rental subsidies and other financial support to this population are a shadow of our prior investment. This committee knows full well the year over year assault on the HUD budget. You, Mr. Chairman, have consistently cautioned your colleagues and the Administration on the long-term effects these budget decisions are having on the supply of affordable housing, the broader economics of our communities, and the daily realities of our most defenseless citizens. The HUD budget for the current fiscal year is only 9 percent larger than the Agency's fiscal 2004 budget. During those same years, the rate of inflation was 9.3 percent. Obviously, HUD's financial capacity is eroding significantly.

When the discussion is workforce housing, it's not only young engineers or scientists or physicians for whom finding housing in markets like Massachusetts is daunting. We should be mindful that without maintenance staff, data entry clerks, and nursing aides, neither our laboratories nor our financial institutions nor our hospitals will function. The reality of the housing squeeze for low-wage workers faced Mayor Clare Higgins of Northampton several years ago when she launched a determined campaign to preserve Meadowbrook Apartments. Mayor Higgins fought for 3 years to pressure the owner of Meadowbrook to abandon his plans for condo conversion. She knew full well that the 222 low-income families at the development would have few options available if their homes were lost. The residents, in fact, were her great allies, creating the "Save Our Homes Tenants Association" and picketing, leafletting, and speaking out for their own cause. Our single transaction saved more than 20 times the number of new affordable homes built in the prior 10 years. POAH's purchase was only possible with State funds allocated especially for preservation, and the outcome is a good one. Those homes have been preserved and the families who reside there have a more secure future as a result.

Similarly in Salem, Massachusetts, POAH purchased the 235-unit Salem Heights development in 2003 after the mayor intervened in court to delay a market conversion. That one property constituted 10 percent of the affordable housing stock of the city where there had been no new affordable housing produced at all over the prior decade. During those same 10 years, 495 previous rental units were converted to condominiums.

Why preserve this housing? There's no question of the need. But the calculus is far broader. Preservation is responsible. It is good stewardship. It is environmentally friendly. It wastes less and conserves more. Billions of taxpayer dollars were invested to create and sustain these homes and there is a fiduciary responsibility to their care. Losing these homes diminishes supply, drives up demand, raises prices and further divides the housed from the unhoused. Losing these homes to a lack of will or foresight is the worst kind of waste.

Preservation is also realistic. In many communities here and around the country, housing that was built 20 or 30 years ago is unlikely to be duplicated. For both zoning and financial reasons, most new affordable housing production is on a significantly smaller scale and it's sited in communities with very little economic opportunity. That is the tide of resource allocation that preservation seeks to stem.

The other compelling reason is basic common sense: preservation costs less. POAH's experience in high-cost markets like Massachusetts is that new construction can be as much as 3 to 5 times the cost of preservation. In Northampton, for example, we spent about $30,000 of public subsidy to upgrade each unit while similar per-unit new construction was averaging $80,000 to $100,000.

At Salem Heights, $6,000 per unit of soft funding was required to preserve and rehabilitate the project compared to an average of $120,000 per unit of soft funding for new affordable housing construction in the area.

In the face of this urgent need, there are small pockets of exciting developments. More than 40 States have taken action in support of preservation, like the "donation tax credit" available in Missouri and Illinois. New York and other cities have negotiated agreements with HUD giving them right of first refusal before nonperforming properties are put up for sale at open auction. Other local governments like Northampton and Salem have also recognized the importance of saving housing which serves very low income families and the elderly. We have worked closely, for example, with town leaders in tiny Narragansett, Rhode Island, population 16,361, to preserve 160 homes all located on parcels near the ocean which would have been exceptionally attractive to private developers for luxury apartments or condominiums.

These are important, but modest, steps against a rapidly rising tide. There is so much more which all levels of government can do, but especially the Federal Government. And while all of us here today can identify where more Federal dollars would help, and certainly, Mr. Chairman, the GSE legislation is a very important bright spot, money is not the single solution. First, there must be the will and the determination to act and to act quickly. We need visionary public policy which recognizes the vulnerability of this asset, and commits to its protection. We need investment incentives and regulatory improvements and we need predictable resources, both dollars and policies, to engage all parties in the outcome.

Some specific examples for the committee's consideration might include: first, predictable policies, in effect nationwide, to encourage preservation. The apartments that need to be preserved were created by a partnership between HUD and private developers in which HUD set clear rules and provided clear incentives. For that same housing to be preserved, HUD will again need clarity of message and committed partners with effective incentives.

While there have been signs of a can do attitude from HUD, specifically from its Office of Assisted Housing Preservation, more often HUD is merely calling balls or strikes and even then from an unclear rule book. As a result, too many of our suggestions today seek to correct passive HUD behavior which fails to understand the urgency or to express the priority we feel preservation demands.

Second, financial incentives and tax policies to encourage owners to preserve long-term affordability. There are many regulatory and policy impediments to transferring ownership of subsidized housing to owners like POAH which pledge long-term affordability. Exit tax relief would be a good incentive for the right disposition by existing owners.

Third, recognition that the first priority is preserving affordable housing, not replenishment of the HUD treasury. HUD regulations should be lifted that restrict nonprofit owners from using proceeds of transactions or of operations for the improvement of the property or for the organization's mission. Where a State has committed resources to a development's preservation, HUD should not be standing at the table with its hand out, rather, it should be welcoming the States' participation, not only for its economic assistance, but for its implicit confirmation that housing is an asset for the community and for the State.

Fourth, a commitment to project-based rental subsidies. HUD and the current Administration have historically sought to phase out project-based subsidies in favor of vouchers for tenants. When rent vouchers are portable, tenants may have the opportunity to find alternative housing, although in tight markets voucher holders often simply cannot. Even where they do, however, the long-term affordability of their current home is lost. One generation of turnover in a building which converts from project-based subsidy to tenant voucher subsidy eliminates that entire building from the affordable stock, forever.

In terms of legislation, I also want to support specifically the enactment of the Mark-to-Market program amendments which failed to pass with its renewal earlier this year, with specific "refresher" language empowering nonprofit preservation purchasers; the proposal that project-based Section 8 contracts remain in force on foreclosed properties; perfecting amendments to make workable Congress' efforts to allow transfer of Section 8 project-based subsidies to other sides; re-establishing the right of owners to convert rent supplement and RAP subsidies to project-based Section 8 assistance; authorization to allow Section 8 moderate rehab properties to benefit from Low Income Housing Tax Credits; and allowing enhanced vouchers to be project-based when a refinancing is undertaken in order to preserve the property.

Preserving affordable housing is what we at POAH do. It's what we believe in. We believe in it because it's necessary, it's sensible, and it makes a difference in people's lives. We are joined in this work by national, regional and local colleague organizations, by State and local governments, by foundations, and by private lenders. We look forward to a day when we will again have the Federal Government as an active partner and a supporter. We are grateful to this committee for your work in bringing that day closer, and we look forward to many opportunities to work with you to that end in the months and weeks ahead.

Thank you for the opportunity, and Mr. Chairman, thank you for giving hope to many of us in this field.

[The prepared statement of Ms. Anthony can be found on page 32 of the appendix.]

The CHAIRMAN. Thank you. We will be discussing a lot of these points as we get to questions. Our next witness is Professor Barry Bluestone, who is dean of social science, urban affairs, and public policy, and director of the Center for Urban and Regional Policy at Northeastern University, and a long-time advocate for fairness, so Dr. Bluestone.

STATEMENT OF BARRY BLUESTONE, DEAN OF SOCIAL SCIENCE, URBAN AFFAIRS, AND PUBLIC POLICY, AND DIRECTOR, CENTER FOR URBAN AND REGIONAL POLICY, NORTHEASTERN UNIVERSITY

Dr. BLUESTONE. Thank you, Mr. Chairman, and committee members. I very much appreciate the opportunity to testify before your committee on the question not only of housing, but of household incomes. I'd like to briefly address trends in household income in the United States and Greater Boston and their relationship to trends in rents and housing prices in the local region. But I think the major point I want to leave you with is that because of the combination of spiraling housing costs and stagnating household income, the housing affordability gap has skyrocketed. Housing affordability has now become a serious concern in many parts of America, not only for low income families, but for a growing proportion of working families and an increasing share of the middle class. In regions like Greater Boston, assuring the availability of affordable housing must now be seen not only as a moral obligation, as the chairman has said, but an economic necessity if we are to remain competitive in the new global economy.

What we have found in Massachusetts we are also now finding in other parts of the country, particularly on the East and West Coast. So it is a national problem in many areas, not just here in Boston.

Let's begin our brief inquiry by looking at family incomes. If you look at the period between 1947 and 1973 when some of us were growing up, we experienced what my late colleague Bennett Harrison and I once described as "America's Glory Days." Inflation-adjusted median family income virtually doubled in a single generation, growing by 104 percent or 2.8 percent a year. As a result of this strong income growth, tens of millions of Americans were able to secure a home of their own. Between 1940 and 1970, the homeownership rate increased from 44 percent to 63 percent, much of this increase occurring between the end of World War II and 1960 as a result of the GI Bill.

The period after 1973 was nowhere near as prosperous. Between 1973 and 1979, family income increased at only 1 percent a year, a third of the rate of the previous generation. In the following decade, during the 1980's, income growth continued to slow to only six-tenths of one percent per year. And not until the second half of the 1990's, in the second Clinton Administration, did we experience anywhere near the family income growth of those Glory Days.

Yet since the year 2000, each year family income has stagnated or declined in America. Between 2000 and 2005, median family income actually declined at a half a percent a year. For younger and middle-aged families, the story was even worse. Median family income fell by 1.3 percent for families with householders under the age of 25; fell by 1.2 percent for families with a householders 25 to 34 year olds; fell by 9/10ths of a percent for 35 to 44 year olds; and fell by 1.1 percent for those who are headed by householders of 45 to 54. In fact, only older families with householders over the age of 55, the Baby Boom generation, experienced an increase in inflation-adjusted income since 2000.

What is most disconcerting, however, is that figures on median income fail to capture the income losses of those at the bottom of the income distribution. Real income for the poorest one-fifth of U.S. families fell by nearly 8 percent between 2000 and 2005, nearly double the rate of the second-lowest fifth and more than 8 times the rate of the top fifth. Today, the typical family in the top 5 percent of the income distribution makes nearly 21 times the income of the typical family in the lowest 20 percent. As late as 1979, that ratio was 11 to 1, not 21 to 1.

If we look at Massachusetts, we find that median family increased by 2.4 percent between 1979 and 1989. It actually outperformed the rest of the country. But since 2000, that has not been the case. Median household income has fallen by 2.8 percent in the Commonwealth and by 1.9 percent here in Greater Boston.

The story about rents and housing prices is somewhat different from these trends in income. Average rents in Greater Boston exploded between 1990 and 2000, rising from $825 per month to $1,500. This was in response to a substantial increase in population unmatched by an increase in new rental housing production.

Single family housing prices in Greater Boston actually declined during this time, making housing more affordable between 1986 and 1992, but then they began their enormous upward trend that continued all the way to 2005. In nominal terms, home prices more than doubled between 1998 and 2005 in Greater Boston. Only after this breathtaking run-up in home prices was there a minor correction of less than 5 percent since 2005.

There's another way to view this home price escalation and that is to ask the question, how many of the 161 communities in Greater Boston had a median single-family sales price under $300,000 in 2005 and compare it with 1998. Back in 1998, not that long ago, 85 percent of those 161 towns and cities had median selling prices below $300,000. In 2005, only 4.4 percent of them had median selling prices that low. The proportion with median selling prices of a $500,000 or more rose from 2.5 percent in 1998, to 27 percent, in more than one in four communities.

According to Freddie Mac data, its home price index in Greater Boston based on data from conventional mortgage loans increased by 128 percent between 1998 and March of 2006. That's more than a doubling. This far eclipsed the U.S. rate of 90 percent. The key point is that real median housing price in our region, after controlling for inflation, rose by 50 percent between 1989 and 2005 in the face of virtually no improvement in real household income. Real household income up zero percent, real housing prices up by 50 percent.

If we look at the 161 Greater Boston communities, we could ask the question, how many of these 161 communities have median home prices that would be affordable by the median income homebuyer in that community? Back in 1998, the median household could afford the median home in 148 of our 161 communities, 92 percent of them. In 2005, this was true in only 19 communities, 12 percent of them. And what about first-time homebuyers? Back in 1998, a first-time homebuyer with an income of 80 percent of the community's median income could afford to purchase a home valued at 80 percent of that community's median home price in 116 towns and cities in the region. In 2004, such affordability remained in only one town, the little town of Millville, and even that last town disappeared as "affordable" to the first-time homebuyer last year.

What has made the affordability problem even harsher is that home prices have increased at a faster rate in lower income communities than in higher income communities. Those communities in Greater Boston with a median income under $50,000 experienced a 3-year price increase in excess of 30 percent. Those median communities with median household income of $75,000 saw their housing prices grow by 10 to 20 percent over 3 years. The most tony of our communities, those with median household incomes over $125,000, saw their prices rise by 10 percent. This was the natural outcome of households bidding for homes in communities that they thought they could afford. Unable to bid on homes in cities and towns where prices had reached the $400,000 range, homebuyers bid up prices in communities where the median home price had been between $150,000 and $250,000. Mr. Capuano knows this quite well, because Somerville is one of those.

The problem, again, is that we are now at a stage, because of our national economic policies, where housing prices are soaring while family incomes are stagnating or falling. This is a cataclysmic combination of bad news. What remedies we have before us are being considered by your committee and here in the Commonwealth, both by our new Governor and his administration and by our leaders in the legislature. Here in Massachusetts, we passed Chapter 40R and 40S to try and help encourage communities across the State to rezone land where more affordable housing that is transit-oriented could be built.

Soon we will be working with the legislature and the administration to try to develop an amendment to that law which will deal with starter homes for young families. But we also need help from the Federal Government. We need to make sure that on the labor side we are dealing with the question of raising the minimum wage. We need to deal with the question of trade. We need to deal with the question of increasing the ability of our workforce to compete internationally. And in housing, we need to make sure that we have a Federal Government that works closely with the State to help us deal with the housing affordability crisis that we now face.

Thank you very much for the opportunity to testify before this committee, and I look forward to the work of this committee in the coming year.

[The prepared statement of Dr. Bluestone can be found on page 52 of the appendix.]

The CHAIRMAN. Thank you very much, Professor Bluestone. And next, we are very pleased that the Governor, at our request, has sent Tina Brooks, the undersecretary for housing and community development for the Commonwealth, to represent his administration here.

Ms. Brooks.

STATEMENT OF TINA BROOKS, UNDERSECRETARY, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, COMMONWEALTH OF MASSACHUSETTS

Ms. BROOKS. Chairman Frank, Congressman Capuano, and Congressman Lynch, thank you so much for permitting testimony from the Commonwealth of Massachusetts on these important issues. Thank you also for holding your hearing in Massachusetts' Fourth Congressional District.

I'm Tina Brooks and I serve Governor Deval Patrick as undersecretary for housing and community development in the executive office of housing and economic development.

Years and years of an overheated housing market have taken their toll in Massachusetts, as we've just heard. While the rental and ownership markets have cooled in the past 12 months, the effects on rents and sales prices has been mainly at the high end. And the middle segment of the market and that is the segment that matters most to working families, sale prices have dropped, but the primary effect of the slow down is in the length of time that inventory stays on the market. Massachusetts homes are selling more slowly, but we have experienced no dramatic price reductions.

Massachusetts is the third most expensive market in the Nation for renters. The full-time hourly wage needed to pay rent on a relatively modest two-bedroom apartment in our State is over $22 per hour; only Hawaii and California have a higher wage-to-rent calculation, and the average for all States is $14 per hour.

Clearly, the disparity between income and rent places the greatest burden on very low-income households, who have far fewer housing choices than higher wage earners. The impact on very low-income people is well understood and has received attention. Homelessness, after all, is a highly visible phenomenon, and certainly one that we are addressing. But what is not so well known is that the high cost of homeownership is significantly affecting the Massachusetts middle class, the heart of the workforce. The current median sales price for single family homes statewide is $325,000; the median sales price for condos is $276,000. But the prices in certain communities, especially in metropolitan Boston, are much more daunting, over $900,000 for single family homes in some of the most desirable western suburbs.

The American dream is not renting a great apartment. The American dream is to own a home and the middle class believes that the American dream is its birthright. Some of you in the room today remember an old campaign slogan, "Making it in Massachusetts." And in 2007, thousands of middle-class workers are no longer making it in Massachusetts. The outstanding colleges and universities of this State produce thousands of promising young professionals each spring and thousands of these graduates eager to enter the workplace are forced to leave the State because they literally can't afford to live here. Older working families may manage to pay substantial monthly rents but, even with two incomes, can't save enough for a downpayment on a condo or a house. Many of these households literally pull up stakes and move to other locations, to States with more jobs and housing affordable to the workforce.

Two years ago, we were the only State that lost population. And last year, the population grew by a statistically insignificant amount, about 23,000 people.

Massachusetts is at risk of losing its workforce. When the workforce is endangered, we can't attract new businesses and new employers and the employers who are here won't undertake costly expansions. Unless we realize both population growth and workforce expansion, we will not be competitive in the 21st century. The cost of our housing could be our ruin.

The impact on employers and employment growth in Massachusetts cannot be overstated. Here's a particularly disturbing fact: During the past 4 years, the Commonwealth of Massachusetts lost 150,000 jobs. The job loss occurred despite Governor Romney's declared interest in attracting new employers to the State and in helping current employers expand. The job loss occurred in large part because of housing costs. As the Deval Patrick administration begins, one of the Governor's top priorities is replacing the 150,000 lost jobs, and the Governor recognizes that success is tied to fixing our housing problem.

We seek to produce thousands more units each year, both multifamily and homeownership at rents and prices affordable to Massachusetts wage earners. The goal is not easily in reach, but the Patrick Administration is hard at work. One step we must undertake immediately is deepening the public understanding of the issues and the potential long-term consequences to the State. It's very clear that the public currently does not understand the connection between an adequate supply of workforce housing and the State's long-term economic health. We need leadership in delivering the message.

The broad transition in local leadership has disrupted public understanding and many smaller cities and towns, the social compact between major employers and the community has lost strength over time. Even 20 or 30 years ago, the main streets of our smaller towns featured locally-owned drug stores, hardware stores, and banks. These key employers often lived in town and were civic leaders, deeply involved in municipal issues. But the corner drugstore is now CVS; the local hardware store closed when Home Depot opened out on the highway; and banks in town are corporate giants headquartered thousands of miles away. When leadership is needed on issues such as housing the workforce, it's much harder to find than in times gone by.

This administration intends to rebuild a social compact between employers and communities. When local employers speak with community residents, the need for housing becomes an issue of economic survival and is less likely to be perceived as discretionary social engineering. We need to spread the truth about our economic survival.

Excellent analysis in recent years demonstrates that the acceleration in housing costs in Massachusetts has far outpaced income growth, and thank you, Barry, for making that very clear to us. If we significantly increase the supply of housing, both multi-family rental and homeownership, the rapid acceleration of housing costs will slow down. As we take steps to increase production, we also recognize that even expedited production can be slow and costly which is why preservation of existing rental housing for low and moderate-income families is also of key strategic significance.

And Amy, you covered some of this, so I'll just very briefly state that in the Boston metropolitan area, the total cost of developing one new rental unit often exceeds $300,000. The total cost of preserving affordability in an existing unit, through acquisition, rehabilitation, and affordable use restrictions is typically in the $150,000 to $200,000 range, far less than the cost of producing a new unit. So while it is imperative that we produce new units, it's also imperative that we prevent the loss of existing affordable units.

Chairman Frank, we know you have deep familiarity with this issue and have championed the importance of housing preservation since the beginning of your career. Regrettably, not all public servants share your perspective. In Massachusetts, during the Romney administration, the importance of housing preservation was minimized. The Patrick administration brings a renewed commitment to housing preservation at the State level. In the first 90 days of their new administration, we have reversed the Romney administration's policies which discouraged the preservation of expiring use and other assisted projects. We are lifting restrictions that made it difficult for private and nonprofit owners to use tax-exempt bonds and related tax credits in preservation transactions. And in order for these State efforts to succeed, we need a parallel commitment from our Federal partners to address the threat to our existing assisted multi-family inventory.

We applaud the House Financial Services Committee for its recent approval of the bipartisan GSE reform bill that would create an affordable housing fund. This move is the latest indication that momentum is increasing for the creation of the fund. Both affordable housing preservation and production stand to benefit if Congress passes H.R. 1427, the "Federal Housing Finance Reform Act of 2007", which you, Mr. Chairman, have introduced. The bill directs the GSEs to contribute to a fund that will be used, among other purposes, "to increase and preserve the supply of renter and owner-occupied housing for extremely low- and very low-income families." And the fund is expected to generate at least $500 million each year.

Chairman Frank and members of the committee, it's clear that the Federal Government and State governments will face huge housing challenges in the next few years. We need to produce and preserve thousands of units to serve working families as well as low-income households. In Massachusetts, Governor Patrick and his team are ready for the challenge and we welcome the opportunity to work closely with the committee, with HUD, and with other Federal agencies to reach our mutual goals.

Thank you.

The CHAIRMAN. Thank you very much. I appreciate all the witnesses being so direct and helpful to us. And the last witness on this panel now is someone I've worked with very closely in our efforts to actually get some housing up because his area covers much of the district that I represent, and also Mr. Lynch's district—Steve Dubuque from South Shore Housing.

STATEMENT OF STEPHEN DUBUQUE, EXECUTIVE DIRECTOR, SOUTH SHORE HOUSING DEVELOPMENT CORPORATION

Mr. DUBUQUE. I'd like to thank the committee for the opportunity to testify. As executive director of South Shore Housing, a regional nonprofit agency working in southeastern Massachusetts, we administer over 2,600 units of rental assistance under contract to the Department of Housing and Community Development. We also manage 400 units that we have built and created in southeastern Massachusetts for a variety of people: the elderly, families, and special needs populations.

Currently, we're working on the development of a 52-unit subdivision in the Town of Dighton. Thirty percent of those units will be selling for $149,900 to qualified individuals. We're also working in the City of New Bedford to create a Veterans housing project for Vietnam Vets. This is the first time a project dedicated to Vietnam Era Vets who have been cycling in and out of hospitals will be done with social services onsite. We feel strongly that the support of the City of New Bedford and the Congressmen has resulted in our being able to require the funds to, in fact, build that housing. I should add though, that currently the process of seeking funds to build affordable rental housing is fractured, not by the intent of the State, but by the existence of the Federal and State rules that limit certain pockets of funding. You can go to one source to build 19 units of Veterans housing.

In this project, which will close soon and start construction on, we need no fewer than five separate sources which include the cost of doing the project and delay the same project. I'd also like to point out that we're doing in-fill housing in the City of Brockton in cooperation with the Brockton Interfaith Community. In that case, the City is selling us lots at a discounted price as most cities can do in order to reduce the cost of developing the housing for folks who are currently renters in their city. In the case of Brockton, we're going to produce eight condominiums that have been presold to people who are currently renters and people working in the City. Now the object is to continue that process with the cooperation of the city.

The last thing I'd like to address, though, has to do with the rent subsidy program. As a major administrator in southeastern Massachusetts, the rent subsidy program I would offer is one of the strongest and most important devices to help very low-income people secure housing. An element of that program is called self-sufficiency. In that instance, we're attempting to help folks become more economically independent. And we have seen people who have started out homeless become homeowners in as short as 5 years. I would argue that the rules that you're changing now with SEVRA II are an important part of improving the administration of self-sufficiency and that we should use that and continue to use it as an engine, a way in which we can move people forward and along.

I'd also say that the McKinney Program, which is now changing the way it focuses its efforts on the Housing First model, is moving in the right direction. Shelters are not the answer to homelessness. Permanent housing is. But if the Housing First model does not have with it some case management, those people who are placed will fail. Case management is essential as we've seen in something called Safe Step where we help domestic violence victims rebuild their lives, but we do it not only with housing, conventional apartments, but with case management. Ninety percent of the people we've worked with in that particular program have been successful.

In a similar program that merely devotes time to helping homeless people find permanent housing with no follow-up case management, only 30 percent of those families succeeded.

To give you an idea of the strength of case management and the strength of the self sufficiency program, I'll relate a short story. At the end of a self sufficiency graduation, my then-president, Ray Morrison, and I were standing over to the side of the room. We were approached by a young woman who was enthusiastically telling us how much we had done for her mother who had shown a great deal more confidence in herself by setting goals and achieving them. And then her story ran right on to explain that she had recently married, after graduating from college, and was about to buy her first house. The fact that she was able to do that, she said, was because she was able to graduate from the same high school she started in, because her parents did not have to move from house to house every year forcing the children to move from school to school. And in the final analysis, the self sufficiency program and what we're doing is about the children, setting an example that they can see and live by and further being able to live in a stable environment to allow them to become properly educated and move forward is critically important. We've seen dramatic changes in people by merely inviting them to imagine a future that's different for themselves.

I'd like to deal with a couple of specific items that the committee is now working on and begin by thanking the committee for its work on SEVRA II. It's important that the Federal voucher program be improved so that it can be more effectively used throughout the country, not only in combination with the Federal tax credit program, but by housing authorities who are beginning to experience the same successes we've seen with the self-sufficiency program. Changing the payment standards for more flexibility, offering an opportunity for the rent subsidy program to be used in conjunction with a tax credit project, allowing units to be project-based, which becomes an integral part of the financing of affordable housing going forward is critical for the success if we are to get to the point of making some impact on affordable housing.

I'd argue that creating a separate fee for the administration of the self-sufficiency program would allow us to expand that effort to greater and greater numbers of people. I'd also say to you that we're really a part of a network. I started 30 years ago, and 30 years ago the rents were $210 a month for a two-bedroom; now they're nearly $1,500 for the same unit. A house that sold for $35,000 then is now selling for $400,000. I don't know how, if I lost the house I am in now, that I'd find a way of getting back into one.

The nonprofit world is very different than what it was when I first started. We were four people, VISTA volunteers and good folks. Now, we're a mature organization delivering much more housing and services than we've ever delivered before. The producers and managers of housing providers are now part of an industry preserving and creating housing across the country. We're a collection of national, regional, and neighborhood-based organizations with volunteer, unpaid community boards. Our mission is to change people's lives to create sustainable communities. And with your help, I have confidence we're going to get that help. We'll deliver on that promise. Thank you.

The CHAIRMAN. Thank you. Let me begin the questioning and I do want to emphasize what my colleague, Mr. Lynch, made clear; there are differences. The biggest single difference you will see in the committee that we represent is in housing. Essentially, the policy for the last 12 years has been to provide some assistance in the form of vouchers, but virtually no family housing construction. The problem is that the vouchers have been offered, as you know, on a year-by-year basis, so that you literally could not make any commitment to build based on that. We used to have what we call, and you've referred to as, project-based vouchers, where a developer could be given a binding commitment for 20 years of vouchers, literally take it to the bank, borrow money, and build housing. When you reduce it to year by year, when you instead of preserving the units, give the individual tenants the voucher, you are adding to the demand for housing in a way that does not increase the supply. So that you get two things: you get some increased equity, but you have higher prices. And the fact is that Federal housing policy, as well-intentioned as it may be, is, in fact, driven up housing costs.

And you get to the ludicrous extremes where in Louisiana after the hurricane, there was some talk about doing just by vouchers. Well, substantial destruction of rental housing just drives up the price. So much of what we will be doing will be to try and get new housing constructed. One of the things that we did in the hurricane bill that came out of our committee was to grant 4,500 units of project-based housing for the first time in a long time. I think 3,000, at least, 1,500 for Mississippi, because it doesn't do any good to give people a voucher to rent an apartment that isn't there. So we do plan to get in this.

Now there are a couple of other things that we're working on. Several of you mentioned the frustration of trying to take various programs and put them together. One of the great advocates of affordable housing is Charlie Rangel, the chairman of the Ways and Means Committee. Our staffs are working together—the Ways and Means Committee and the Financial Services Committee—so that the tax supported forms of affordable housing and the HUD program will work seamlessly together. And that's one of the things that I've read and that's an example of where we can help without costing any money, without increasing the allocation. Saving transaction costs, we can guarantee you that will happen.

Let me say a couple of things to Professor Bluestone. We went through a debate last week where the three of us were defending our amendment, where we succeeded with some help from some California friends to raise the level of housing prices at Fannie Mae and Freddie Mae. We didn't do it. I noticed, according to Professor Bluestone's figures, the dollar figure is significantly below half a million dollars, you mentioned at 30 percent of our communities are above that already. And we were told oh, that's unnecessary because higher housing prices track higher wages. And your recitation will be very helpful to us because we will probably deal with that again on the Floor. So that was directly on point, that there is no automatic tracking of wages and prices.

I also want to invite everybody and we've heard from all of you, and to the undersecretary and we in Massachusetts took better advantage of the Federal subsidized housing programs I think per capita than any place in the country. We are more at risk if we don't do preservation. So we need from you everything that we should do and work with our friends on the Tax Committee and that includes some of the housing which is Federal, some done by Massacusetts Housing, formerly MA Cafe. Please give us a list of everything we need to do to maximize the preservation. Because—and let me make one other point that Selectman Allen alluded to. There are a lot of problems in the construction of housing and the government often falls short, but you know, sometimes the citizens are no bargain either.

[Laughter]

And one of the major obstacles to the building of housing is an excessive fear on the part of residents that if we build something called affordable housing near them, their lives will be over. In fact, I wish we could do tours of the affordable housing that has been built. I will tell you this, I want to say to people, we're here in Massachusetts. To this extent, affordable housing very much resembles same sex marriage. It scares a number of people before it happens and after the fact nobody notices it except the people directly involved.

[Laughter]

I invite people to go around your community and see if you can pick out the affordable housing; you often won't be able to do it. And part of the problem, in fact, is that it's been a cycle. It is true that we have sometimes inadequately funded affordable housing. Well, inadequately funded housing is not a good neighbor, but if we're able to get the funding up, we're okay. But you know, it's been a long time since we've built in this country a Columbia Point, or a Cabrini Green, or anything like that—Pruitt. We know how to do it better. So I really do urge you, and we will work with you, but that is one other reason why preservation is so important because when you were talking about preserving existing units, not only is it cheaper, not only are you avoiding displacement for people who are living there, but you don't have the zoning issues. You don't have these other issues. And as a matter of fact, maybe we should do a tour, and I mean this. Representative Honan, Ms. Brooks, how about a tour of that terrible affordable housing we're trying to—as a matter of fact, let me put it to you this way. Do you know what our problem with affordable housing is in many cases? Not that it is unattractive, but that it is so attractive, that if we don't take legal steps, the market will take it away from the poor people.

If affordable housing were so terrible, we wouldn't have a problem of preservation because we are talking about housing that was built for lower-income people. And what we're now told is is that when the time limit is up, 20 years or 40 years depending on what it is, that housing is now so attractive that wealthier people want to move in. Do people not realize how that doesn't compute, that it cannot be simultaneously neighborhood destroying and irresistibly attractive to wealthier people?

So we will do everything we can, but we will all have to work together. I just want to thank you all and we are working on—many of these specifically were very helpful.

Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. I came today for a lot of different reasons, not the least of which is to prepare for the Floor debate that's coming up on the bill we had. And I would ask each of you, I guess particularly you, Mr. Bluestone, one of the things I'm most interested in, and I know the numbers are there, but I'd like some statistical analysis of it. I've seen some of the things here today, I believe, from the undersecretary on how much it takes, how much money you have to earn on an hourly basis.

The problem is, of course, that everybody in the country thinks everybody who lives here is rich. And they think it because yes, our wages probably are higher than the national average, but they don't then make the connection between that and the higher cost of living. And I think it would be helpful and the debate, I believe will come, to have some statistics, some clear statistics comparing national, statewide, and actually I'm most interested in the Greater Boston because my guess is it probably is less expensive to live in Great Barrington than it is to live in Brookline.

But I'd like to see some statistics relative to percentage of median income that it takes to pay the average or median mortgage. Nothing extraordinary, nothing—I'm not talking about the new houses on Brattle Street, but just averages. And again, maybe I'm wrong. My gut tells me that's the direct link that gets rid of any arguments about income levels and housing costs and everything else. It's how much of your income, whatever that is, is required for your housing and I have no idea what the numbers are, but I have no doubt that they are significantly higher now than they once were, and I have no doubt that they are higher for the Greater Boston and Massachusetts region than they are in many of the other areas.

One of the tables that was here, I did happen to note that the person who made the amendment to get rid of this one provision relative to adjusting housing costs comes from Texas and the Texas numbers are not significantly lower, and there's no doubt, and that's why people move. The only State that I saw the people moving to that has a higher than average cost relationship to hourly wages is Nevada, and I don't know what the reasons are, but my guess is that if you took Nevada, and distinguished Las Vegas from the rest of the State, you would see a significant difference. So I would appreciate any of those numbers that might be helpful and again, understanding that for my purposes, I'm not doing academic research, I'm preparing for a Floor debate, so keep it simple and keep it short, only because we don't get as much time on the Floor as Barney is letting us have here.

The other thing that I'd like to talk about—Barney talked about preservation. There are a couple of the things that I always take the opportunity to remind my friends of. When it comes to housing, too many of my friends talk about nothing but affordable housing and that term gets lost amongst a lot of people. A lot of people when they hear the term affordable housing, think only of housing projects, the old-fashioned housing projects. They don't understand that affordable housing is also senior housing and now in today's world, I'm not sure that I have met any sane person who wants to build anything other than mixed use housing. I think, no one has come to me and actually suggested that we didn't learn our lessons from the old days and the mistakes made in the past that you can't just put all the poor people in one area and walk away. It doesn't work and I don't think anybody still believes that.

I think when you use the phrase, I really push people to understand that everybody who listens to it is not a friend. They're not always already on the same side. They hear affordable housing, and they think nothing but the worst like the Cabrini Greens, and I won't mention any of the ones in Massachusetts, because we know them all too well, and I don't want to create any difficulties for any of my constituents or any people whom I have the greatest respect for. But I would also strongly encourage people to understand that there's also a political component to this. And the political component that I hear all the time from people who are struggling particularly young people who have done all the things they were told to do: they went to college; they got an education; they're working hard; they're working 12 hours a day struggling to keep it together, but hey can't afford a house either. And they don't qualify for many of these programs that we have.

I think those of us who advocate for affordable housing are missing a huge, I think it's a social issue, but it's also a political issue. A huge component of it, if we don't talk to what most people would consider to be the middle class, many of them need help into the housing market as well. Not usually as much, well, actually not as much, but I need help with my down payment. I'm an attorney. My wife is a CPA and when I went to buy a house, we had the same loans, well, not the same, well, comparably the same and we needed help from the family to get a down payment. And to miss that issue you're walking away from a huge bunch of people who are the political people of this State and this country. We all know it; it's no secret. It's the middle class who votes; it's the middle class who contributes donations to people who get elected; and it's the middle class who creates, for the most part, the public dynamic that we deal with on a regular basis.

And if we allow them to say there's nothing in it for me, we lose the political capital we need to keep these programs going, and I think we do the wrong thing. We also create pressure on the economic and housing rungs of the ladder that are lower than that.

Here is a very simple example. We talk about three deckers. Somerville is full of them, Cambridge is full of them, and Dorchester is full of them. Many of those three deckers are no longer available for the people they were built for. They were built for— I live in a two-family home. I bought a two-family home for lots of different reasons, not the least of which is I needed the rent to pay the mortgage. That's who those homes are built for. I challenge you to find many of them in Cambridge, Somerville, most of my District, and Dorchester and Roxbury that are now available that way. They've all been "condo-ized." Good, bad, indifferent, leave that to other aspects. But the economic basis, the working middle class has lost one more entry into the housing market, the two and three family homes because they're not available. You have to buy two condos now and put them back together to have that two-family house. I can show you all over the neighborhood; you know this.

Please, as you look at these issues, as you help us look at these issues, don't forget that part of it, because otherwise I'm talking to an empty wall, a blank stare from people who don't know what this is all about or don't see it from that perspective. They see it only from their own perspective of, "What do you mean? What's the problem? I got mine." And many of them don't see it until their own children try to buy a home in their own community, when they realize that the house that I bought in 1908 for $75,000, which is way below any table I see, that same house today through no, well, no credit to myself, is now worth $700,000. I couldn't afford the house I live in today if I had to buy it today with a better income than I once had. And that story is told over and over and over and over and over in Greater Boston.

Unless people have children that they want to get into that housing market, they don't see it. And to me, to miss that is to not talk about it, that's why I do focus on police and fire fighters and teachers who are, no matter how you measure it, working middle class people in any community. They can't afford to live here and they have to move to the Dightons of the world which is fine if you want to, I have no problem with that. My concern is that they have to.

The CHAIRMAN. It's a wonderful town.

Mr. CAPUANO. It's a wonderful town.

[Laughter]

Mr. CAPUANO. I only mention it because he did. I have areas—

The CHAIRMAN. It's mine.

Mr. CAPUANO. I know. I know it is. I actually even know where it is.

[Laughter]

Mr. CAPUANO. I'm now going to get 14 calls.

The CHAIRMAN. My staff in Dighton just solved the double crisis of the Dighton mail boxes.

Mr. CAPUANO. But I say these things because to me I always have to remind particularly my friends from Massachusetts who have been—we're almost always on the same chapter of the book, trying to move the ball forward, for me now, at least my arguments and the arguments of the people up here are no longer with my friends in Massachusetts. It is now my arguments with my friends across the country who don't necessarily see the same problems we have. I need help doing it and I need to grow that political support for it, that helps us move this ball forward. I want to thank you for what you've done today and thanks for what you do on a regular basis.

Mr. Bluestone wants to—

Mr. CAPUANO. Yes, Barry?

Dr. BLUESTONE. Mr. Chairman and Congressman Capuano, first of all, I promise you I will get you that data. You will see what we found here in Massachusetts is actually true in many parts of the country. Family incomes are nowhere near keeping up with housing prices.

I hope that our delegation in Massachusetts will work hard, particularly with our colleagues in Connecticut, in New York, in New Jersey, and in California—all with very large congressional delegations, who have exactly the same problem we share with Stamford, Connecticut, and the metropolitan areas of Newark to New York City to San Jose to San Francisco. It's all across the country.

Second of all, we have been focusing particularly with our great new Governor and with our legislature on starter homes and putting together homes for working families and middle-income families because we need those and we hope we'll get some Federal support for that.

Third, I can't help but remember from growing up in Detroit, Michigan, when we were trying to get integrated housing and many people were very worried about African Americans moving into our neighborhoods and lowering property values. I remember bringing Dick Gregory, the great comedian, to Detroit and maybe his greatest line that night was, "Where else in America can an African-American family move in, pay $85,000 for a $35,000 home, and be accused of lowering property values?"

[Laughter]

Well, we have the same problem today. We have housing now that's affordable and people worry that it will lower their property values.

Last point, we obviously can appeal to families who already are homeowners to support greater development of housing for working families, preserving affordable housing, and rezoning their communities. We can say that we need this for their children so they don't have to leave the State. We can say it in terms of housing in our communities where our fire fighters and our teachers and our police officers can live. But what I found from my own research is that in fact there's a pure self interest issue that we can also raise. Those communities that do not increase their supply of housing for working families see their housing prices go through the roof. That benefits me as a homeowner in the short run. In the long run, those are the communities that are now losing population like Greater Boston and Massachusetts. Those are the communities that are losing jobs. So in the long run, Detroit would be a good example for reasons having to do with the auto industry. Housing prices actually can cause such an economic calamity that ultimately in the longer run housing prices and housing values will plummet. And what does that mean? It says we can now talk to our neighbors and say the reason why we should build this new housing that's affordable is that not only will it be good for your kids and for the public servants in our community, but it will be good for you and your economic self-interest, because the alternative is a plunge in housing values if we continue to lose jobs and we continue to lose population. Building that new housing inoculates you against such a calamity.

The CHAIRMAN. Thank you. Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. First of all, I want to thank the panel for your testimony. It's such a huge issue affecting a broad spectrum of our society. It was very helpful for you to focus the discussion. I do want to also note that in addition to the new chairman and the Democratic resurgence in Congress, we also now, in a refreshing change, have a Governor and an Administration who have made a 180 degree turn in terms of where we are on housing policy in this State. They have not only in the Governor's office, but also the legislature has finally had the ability to work with the Governor who is really pro-affordable housing. It is such a wide and—just the scope of this problem—I have folks in my community, in my District, that they describe affordable housing as well, there's affordable affordable housing and then there's unaffordable affordable housing because right now, we have such a wide group of people who need a little bit of help. Some people need a lot of help, that the programs necessarily have to address all that need. So you can see how criticisms are valid, that we have such an overlay of all these programs as Mr. Dubuque mentioned, having the need for five or six different programs to get a project done. It speaks to the complexity that is out there and we have a great partnership. We have a lot of people here today who are long-time advocates on behalf of affordable housing in the Commonwealth of Massachusetts and have been terrific. And I think with these recent changes, we have reason for some hope in addressing the problem.

I do appreciate the work that's being done on the veterans' issues for veterans' housing. I think there has to be a better way to get our arms around that, but I want to note that Professor Bluestone, you mentioned this growing affordability gap. I haven't heard it mentioned much today is that we have in recent 10 years seen the lowest interest rates in the history of this country and even that, even with interest rates at 5, 5.50, 5.75 percent, we didn't see that—now that by definition should make housing more affordable. The financing costs are drastically reduced. Even with that help, even with the subprime market out there pushing the envelope inadvisably so in some cases, we couldn't reduce that affordability gap. So there's need for, I think, a reassessment of how we're approaching this problem. We certainly welcome all of your input and we look forward to working with you on this problem.

Lastly, and it's probably beyond the scope of this committee, we have to figure out a way to facilitate a greater savings rate for all of the folks out there who are struggling to meet their basic housing costs, and there has to be some way. I've seen it happen at the Federal level with the Federal Thrift Savings Plan where there's a match by the employer. I think there has to be a widening of that availability for people because it's showing to be successful, encouraging savings, if we somehow plug all workers into that match program, with a match from government for low-income workers and perhaps a match as well from their employers and then give them an opportunity to draw from that 401(k) program for the purpose of buying a home. That may use what even the lowest paid Americans have. They have a little bit of money and they have time. And by using the miracle of compound interest over their working lives, we should raise that homeownership rate from 68 percent to 80 percent anyway, over the next 20 years. So thank you, Mr. Chairman, and I yield back.

The CHAIRMAN. I just want to make one point. Clearly, you have to get more housing for everybody, and one of the big changes you're going to see as we start to build housing is, after all, housing is a spectrum. You build more housing, right now, most of the programs we have to help low-income people compete with other people for a relatively fixed supply of housing. It is our intention to increase the supply. As you do that, as you give people more housing in general, then you are adding to that housing stock overall. Mr. Capuano was right and we think this is a part of it.

I thank the witnesses and I just want to assure you that these are some very specific suggestions. We are already working on some of them and you've given us some reassurance that the national agenda that Mr. Lynch, Mr. Capuano, and I have is also very much a Massachusetts agenda. And everything that you've talked about we hope, by the end of this year, to have enacted into law early next year in a way that will help alleviate a housing crisis and promote the economic development of the Commonwealth and we'll be working closely with the Governor in doing that. The hearing is adjourned.

The CHAIRMAN. If people want to leave, you leave, but—all right, let's have some quiet, please. If people want to leave, you're free to leave, but if you stay, you're not free to talk.

We are very grateful to Charles Baker who obviously has extensive experience in State government and is president of Harvard Pilgrim Health Care. He's very much attuned to the employment impact of housing costs in Massachusetts and I will tell you that it was on the Saturday before the election when I was listening to a talk show, because I was driving in, doing nothing useful, and Mr. Baker was being very nice and two hosts were talking to him and one asked him about the problems of the Commonwealth from an economic standpoint, and as I recall, he said that housing affordability costs were one of the major economic problems facing the Commonwealth and I was struck at that time with the importance of that and that's one of the reasons why we have taken the line of approach that we're taking. So Mr. Baker, thank you for joining us.

STATEMENT OF CHARLES D. BAKER, PRESIDENT AND CEO, HARVARD PILGRIM HEALTH CARE

Mr. BAKER. Thank you very much, Chairman Frank, Congressman Capuano, and Congressman Lynch. For the record, my name is Charles Baker, and I'm the President and CEO of Harvard Pilgrim Health Care, which is a Massachusetts-based nonprofit health insurance plan, licensed to offer and support health insurance solutions to employers and individuals in Massachusetts, Maine, and New Hampshire. Overall, we have approximately one million members and over 800,000 members in Massachusetts. We also employ approximately 1,000 people in Massachusetts and have two main offices here, one in Wellesley, and another in Quincy.

While the plan has been around for about 40 years, it's no stranger to Massachusetts. I thought it would be worth mentioning that Harvard Pilgrim was recently named by both U.S. News and World Report and J.D. Powers as the one number health plan in the country for customer satisfaction.

I appreciate the chance to speak before the committee today on the high cost of housing, as the CEO of a locally based employer and as a local official. I also happen to serve on the board of selectmen in my home town of Swanscott. I wonder about whether our high cost of housing is driven by local and State issues and not national ones. There's simply no doubt that it significantly and negatively affects the capacity of this State and this region to provide economic opportunity to its residents.

As a CEO of a health insurance carrier, I've participated in several cost of doing business meetings between State officials and CEOs for many important employers in Massachusetts and listened, almost dumbfounded, as the high cost of healthcare has been eclipsed and forgotten by the high cost of housing. There I was prepared to take the heat from my fellow employers for playing some small role in creating the highest healthcare costs in the Nation, and I was completely ignored as business leaders pondered on the high cost of housing as their single biggest recruitment and retention issue.

I came away from these sessions and others believing that while our high health care costs were a problem, our high housing costs are a catastrophe. In fact, Harvard Pilgrim's decision to support Mass. Inc.'s recent research on the Massachusetts work force was based, in part, on my own experience at these meetings. The research bore out what I had been experiencing and hearing which is that our working age population is shrinking. We aren't holding on to as many college and high school graduates as we used to and the high cost of housing has a lot to do with it.

To put it another way, I participated in a panel on housing costs about a year ago that was sponsored by a local business organization and I put this question to the audience. If any of you had to do it all over again, and go out now and buy your first house, how many of you, with the money you made in your late 20's and early 30's, could have forked over the $500,000 that represents the median price of a house inside Route 128? The answer, not surprisingly in a room full of 500 people or so, was nobody.

As a local elected official, I also see the difficulties created by the high cost of housing in this region affecting every sector of the population: young single people, all married couples, older couples, people on fixed incomes, you name it. It is and has been for the past several years the primary issue people discuss with me, with the cost of healthcare, believe it or not, running a distant second.

In fact, when I was asked last fall by a radio talk show host about what issue I thought would dominate the voters' decisions in State and local elections this past November, I said the cost of housing, in general, and in particular, the high property taxes that came with it. At the time, this was considered odd since there were very few statewide campaigns that were focusing on this issue. But after the election, several polls of focus groups indicated that the high cost of housing and the property taxes that came with it, had, in fact, been a dominant issue in the minds of the voters, even if it wasn't discussed much during the campaign.

In closing, I want to thank the committee and the chairman for the opportunity as both a local employer and local official to testify before you today on the high cost of housing and to reiterate my deep concerns about how this issue is affecting the ability of Massachusetts residents and businesses to stay here and prosper.

Thank you very much.

[The prepared statement of Mr. Baker can be found on page 48 of the appendix.]

The CHAIRMAN. I appreciate it. We did talk about some of the State and local issues, including an excessively nervous attitude on the part of many of our fellow citizens who have an exaggerated idea of what affordable housing is going to do. I suggest that we might want to do a kind of magical mystery tour, take some people on a tour of existing affordable housing, and I think many of them would be pleasantly surprised. I think they would have a hard time sometimes telling which housing is the affordable housing.

Mr. BAKER. The mythology is definitely not the reality.

The CHAIRMAN. I think it is helpful and that's why I appreciate your being here is that we do want to explain to people that there is a counter balance on the other side in terms of the economic factor. As far as the Federal Government is concerned and yes, obviously that's a problem that's hard for us to address. Actually, when Jack Kemp was sent to HUD he proposed that we deny community development block grants to communities that would not do affordable housing. This was back in the—during the first Bush Administration. He got exactly two votes on the committee for that, me and Steve Bartlett.

[Laughter]

Steve Bartlett had been the Mayor of Dallas; Steve and I were the only votes. We couldn't even hold Henry B. Gonzales on that one so I'm afraid we're not likely to be much help.

I do think, though, that there is some role in the Federal Government in helping to construct affordable housing, particularly mixed use housing. The tax-supported housing has been very helpful and you know from your days in the state finances that Massachusetts housing can be a very flexible issue. So one of the things we plan to do is to sort of increase the tools that would be available not just for the very low-end stuff, but across the board. It is, after all, a kind of a spectrum.

But let me just, because I think this is very important for people, and we have Democrats here, we have the senior staffer for the minority in attendance. How does it work? You try to get people to come here and they won't come? Does it increase your cost for pay? What's the actual mechanism by which the high housing costs hurt us economically?

Mr. BAKER. It's twofold. First of all, it's hard to get people to come here and there's actually—there are many employers now who started to consider a whole variety of sort of employer-assisted housing arrangements and programs, some of which involve leasing housing, some of which involve actually buying units and making them available to people, sort of the transition for people who come here from elsewhere. But there's no question that it affects people's ability to attract talent. And the other issue is that it makes it harder to hold onto people. In my own experience as an employer, I've lost a number of terrific people to other parts of the country who left primarily because they found a quote "better deal" somewhere else.

And I think the other issue that plays into this is that we are for all intents and purposes competing nationally in many of the knowledge-based industries that Massachusetts sort of builds its foundation on, life sciences, being as good an example as any, biotechnology, pharma, education. We are in many ways part of a very nationally-distributed sector of the economy and whether it's financial services, education, life sciences, academic medicine, the people that we're seeking to bring here, to keep here, are very much in demand because they have terrific skill sets and they add tremendous vitality, both economically, culturally—

The CHAIRMAN. I heard most of what you said. When you said leasing housing, buying housing, that's not something you ordinarily choose to do, if you're not in the housing business.

Mr. BAKER. Correct.

The CHAIRMAN. So to the extent that you do deal with that, is that part of the cost of doing business?

Mr. BAKER. Yes, definitely.

The CHAIRMAN. Let me say one of the things, we'll get your comment on this, there are three entities that help bring down the cost of homeownership at the upper middle level, not at the very top, or the median level. One is FHA which insures mortgages. The others are Fannie Mae and Freddie Mac which buy mortgages. Now our problem has been that all three of those operate under a national uniform dollar limit and if you go above the price which I think is now about $400,000 you're ineligible. The problem we have with that is that well, car prices are pretty much the same across the country. House prices, by the lack of mobility are not a uniform price. We don't have a uniform price for Section 8 rents. We don't give uniform costs of living allowances. So one of the things we're trying to do, the Massachusetts delegation, is to raise the limit for the FHA, Fannie Mae, and Freddie Mac to a median house price, rather than a dollar limit. Is that something that would make sense?

Mr. BAKER. Here that would be $500,000, as opposed to $400,000, which is the number that you mentioned.

The CHAIRMAN. But it would be helpful with the level of people we're talking about.

Mr. BAKER. Absolutely.

The CHAIRMAN. They said well, it's too high and our answer is yes, well, we don't want FHA and Fannie and Freddie financing luxury housing and we have a limit that keeps them from doing luxury housing in Nebraska and luxury housing in Mississippi and luxury housing in Massachusetts, but it also keeps us from doing median housing in Massachusetts.

One other point which you—and we had some conversation. One of the arguments we had to counter that was well, but you live in a high wage area as well as a high housing cost area and one argument we had was that the high housing costs are somewhat neutralized by our higher wages.

Mr. BAKER. I guess what I would say about that is that is sort of true, but as an employer who has watched what happens to the sort of the average income of the people who work for Harvard Pilgrim over the course of the past decade or so, and I look at what has happened to the cost of the housing that people have to live in and acquire, there's no question the housing prices have gone up. Pick a number, two, three, four times faster than—maybe more. Actually, probably higher given the actual cash wages that people get paid than the cost of, than the increase in their income. There's no question about that.

The CHAIRMAN. Mr. Lynch?

Mr. LYNCH. First of all, thank you for coming today. One thing I wanted to sort of hammer away at is that we've watched this—the situation is quite different compared to Nebraska or Texas. We are asked to compete for the same talent and I've witnessed from afar the Governor's struggle trying to attract good development people to his team, to deal with the housing issues and the development issues in Massachusetts and one of the people he was trying to attract also had a competing offer from Daytona Beach, Florida, and I watched as they were putting offers on the table to lure this person away from Governor Patrick onto their team and it's astounding what they could give him for the same price and the same salary in comparison to what we could offer for the salaries that we're offering.

It was just a—I think it was a perfect example of what we're dealing with, especially in industries that are so central to the economic health of our State, the high tech, bio tech, medical education institutions, financial services, all of that, we're being disadvantaged by the current outlay in terms of what we can get to help the people who find themselves in a position where they can't afford decent housing here to remain in Massachusetts. So I appreciate your weighing in with the credibility that you have as someone who attracts employees and keep them here in Massachusetts and I look forward to working with you on this issue as we move forward.

Mr. BAKER. As I said, as a guy in the healthcare sector, I expect to take it on the chin pretty much every day of the week over the high cost of doing business with regard to that and I've been astonished by how much more people on the employer's side talk about the high cost of housing.

The CHAIRMAN. Well, it's our goal to return you to your rightful place as the number one problem in America, and the hearing is adjourned. Thank you.

[Laughter]

[Whereupon, at 11:44 a.m., the hearing was adjourned.]

A P P E N D I X

April 4, 2007

Preservation of Affordable Housing, Inc.

HOUSEHOLD INCOMES AND HOUSING COSTS: A NEW SQUEEZE FOR AMERICAN FAMILIES

Testimony before the U.S. House of Representatives Committee on Financial Services
By Amy S. Anthony, President
Preservation of Affordable Housing, Inc.
April 4, 2007

Good morning, Mr. Chairman and members of the committee, and thank you very much for this opportunity to appear before you to discuss the housing squeeze in our country.

My name is Amy Anthony, and I am President of Preservation of Affordable Housing, Inc., or POAH. My organization, which is based in Boston, is a national non-profit which is focused exactly as our name says, on the preservation of affordable housing. We have been in existence for just over five years, and currently own and manage 3,825 affordable rental homes in eight states and the District of Columbia. The more than 10,000 residents who live in POAH-owned homes generally are low-wage workers and their children, or seniors on fixed incomes, or are disabled—in short, among the most vulnerable of our citizens.

My background includes more than 30 years in the affordable housing industry. I served as Secretary of the Massachusetts Executive Office of Communities and Development, a $600 million Cabinet-level state agency devoted to producing affordable housing and promoting municipal, community, and economic development, from 1983 to 1990. During those years, this state created and implemented innovative, award-winning programs that produced more than 25,000 homes and have served for decades as models for other states. I was part of the 1987 National Housing Task Force, the

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recommendations of which evolved into landmark housing legislation, including the HOME Program. I served on Fannie Mae's Housing Impact Advisory Council, the Freddie Mac Affordable Housing Advisory Committee and the Boards of the National Equity Fund, the Metropolitan Boston Housing Partnership, and the Women's Institute for Housing and Economic Development. So I come to this discussion with a wide-ranging perspective on the problem, the challenges and the opportunities.

You are hearing this morning from a number of highly skilled professionals in the housing industry. Professor Bluestone's research on work force housing is highly regarded. Undersecretary Brooks brings the perspective of this issue as it cuts across all of Massachusetts, but her previous position with one of the largest national financial intermediaries in the community development arena adds another dimension to her knowledge and her understanding. Mr. Dubuque has been operating an important regional housing provider in southeastern Massachusetts for several decades, and Mr. Baker, once a Cabinet official in Massachusetts, now represents one of the Commonwealth's largest employers. Each of them will reference both experience and research to confirm the premise of your hearing this morning: that American families at all income levels are being squeezed by the cost of housing. There is no need for me to reiterate what my colleagues will tell you about the breadth and depth of this issue, and its implications for our state and our country.

Instead, I would like to use this platform to direct your attention to the very specific and urgent reality of one facet of the affordable housing dilemma, which is the imperative need to protect and preserve the stock of already built affordable housing. I am

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specifically referring to existing, privately-held rental housing, apartments which have deep public subsidy to make them affordable to renter households earning $16,000 or less. This category of housing is disappearing with alarming speed every day in every state in the country. It is lost in strong markets to upscale conversion, high end rentals and condominiums. It is lost in weak markets to neglect, deterioration and eventually demolition. However we lose this precious resource, the pressures ripple across the housing spectrum and squeeze the entire system even tighter.

Our colleagues at the National Housing Trust say that safeguarding existing affordable housing is the essential first step in solving the nations' housing dilemma. But not everyone who is thinking about the affordable housing challenge is thinking about the need to preserve what already exists. Recently, a group of policy advisors from across the industry, gathered together as part of the MacArthur Foundation's *Window of Opportunity* challenge to preserve affordable housing, agreed that, "there is almost no general perception of the systematic nature and magnitude of the ongoing loss of affordable rental housing." I would like to talk with you this morning about the preservation opportunity, its human face, the policy arguments that buttress our call for preservation, and the action steps which are available to us today.

Background

In his State of the Union address in 1944, President Franklin Roosevelt asserted the right of every American family to a decent home. The federal government had begun building housing for low income Americans in the 1930's, as part of Roosevelt's New Deal. Over time that model, of "public housing", became discredited, however, and by the late 1950's, the government resolved to use the 'power of the purse' to attract the private

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sector to build, own and manage rental housing for low income persons. In 1959, Congress created the Section 202 elderly housing program, the first effort to meet that goal. Many other programs have followed, programs so broad and deep that between 1965 and 1990, $60 billion in federal funding was invested to create affordable homes for families, the disabled and the elderly.

These homes were built in big cities, small towns and rural areas across the country. They were multi-story high-rises and single family bungalows. But all were built according to the same premise: that the government would provide funds to underwrite construction and operating costs, and in return, owners would promise that rents would be affordable to low income families and seniors on fixed incomes for the duration of the fixed financing period.

Now more than four decades have passed, and the financial notes which built this housing are reaching "paid in full" status. With the expiration of each financing agreement, the leverage for keeping rents affordable is lost. Our enormous national investment in affordable housing is maturing and, in many cases, vanishing.

At the same time, new federal resources providing deep rental subsidies and other financial support to this population are a shadow of our prior investment. This committee knows full well the year-over-year assault on the HUD budget. You, Mr. Chairman, have consistently cautioned your colleagues and the Administration on the long-term effects these budget decisions are having on the supply of affordable housing, the broader economics of our communities, and the daily realities of our most defenseless citizens. The HUD budget for the current fiscal year is only 9% larger than the agency's fiscal '04

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budget. During those same years, the rate of inflation was 9.3%. Obviously, HUD's financial capacity is eroding significantly.

According to the Harvard University Joint Center for Housing Studies, in the decade from 1993 to 2003, 1.2 million affordable rental homes were lost from inventory. For every two affordable units lost, on average only one new unit is built, and as a result, the same Joint Center study asserts, there are now 5.4 million more low income households than there are affordable apartments available.

Quoting another source, The Center for Housing Policy at the National Housing Conference says that in 2003, five million American families spent half or more of their total available income on housing. We describe that in the affordable housing business as a housing burden, but those families no doubt find it more like a nightmare.

The New England Public Policy Center of the Federal Reserve Bank of Boston has been engaged in a comprehensive analysis of the lack of affordable housing, asking how big a problem is it, why is it growing, and what are we doing? Its *Policy Brief 07-2*, just issued, asserts that in 2006 there were 2.2 very low income households for every one affordable rental unit in New England. For many of our poor and even our moderate income families and elders, truly affordable housing has become a cruel lottery serving only the lucky few whose names pop up on waiting lists which are routinely four and more years in length.

While we expect the scale of any social challenge to be significantly larger in New York, two specific recent sales there are startling nonetheless. When the Metropolitan Life

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Insurance Company sold Stuyvesant Town and Peter Cooper Village last September, 11,200 affordable units were lost. Just last month, the owners of Starrett City Homes endeavored to sell another 5,800 units, a sale which is currently on hold pending further HUD action. But if that second transaction moves forward, these two sales alone will have removed 17,000 affordable homes—apartments which are home to nearly 40,000 Americans—from inventory.

In short, we are rapidly losing the apartments that house our most vulnerable seniors, low wage workers and disabled citizens. Incomes have not kept pace with the cost of housing, and the market cannot correct for the imbalance. There is virtually no public subsidy available to entice the private market to build enough affordable housing to address the scale of need, and there are few communities interested in accepting new, large-scale affordable developments.

The Human Face

When the discussion is of work force housing, the focus may be on young engineers or scientists or physicians who find housing in markets like Massachusetts to be daunting. But this concern is really far broader: we should be mindful that without maintenance staff, data entry clerks and nursing aides, neither our laboratories nor our financial institutions nor our hospitals will function.

The housing squeeze for those low wage workers is dramatic. *Out of Reach 2006*, the National Low Income Housing Coalition's respected annual report on the cost of housing across the country, paints this stark picture:

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> "Today there is not a county in the country where a full-time minimum wage worker can afford even a one bedroom apartment at the fair market rent. On average, nationwide, even a household of three workers earning the federal minimum wage and working 40 hours per week, 52 weeks per year, could not afford a two bedroom unit at the national fair market rent."

POAH's experience with the residents of Crestview Village in Kankakee, Illinois, underscores this reality. Crestview was built in 1968 under the federal Section 236 program, and converted to a federal Section 8 property in 1986. Two decades later, it was one of the most troubled developments in Illinois, known as a haven for crime and drugs. It was kindly called "troubled" housing. More accurately, it was like a tanker headed for the rocks. It was unkempt. It wasn't very secure. Doors were missing. The potholes in the parking lot were bigger than most of the cars.

HUD determined that Crestview should be foreclosed, and in preparation provided rental vouchers to the residents so that they could relocate to a better place. But after 18 months, fewer than one-third of the Crestview families had been able to find alternative homes that they could afford, voucher or not. The compelling dynamic that made preserving Crestview so important is that most of the families living there really had nowhere else to go.

I am delighted to be able to report to you that the story at Crestview is now an entirely different one. The apartments are fully renovated, and fully rented. The residents have created an association to work together, with us and with local officials, including the police, to protect the homes of which they are now so proud. And the city has rallied in

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quite a remarkable way. The Mayor's office and the daily newspaper in Kankakee were well into a plan to provide wireless internet access throughout the city, but the original footprint of their plan specifically excluded Crestview, a development located quite far west and on the other side of Interstate 57. As a result of the new enthusiasm about Crestview Village, however, the wireless access plan was redrawn to include the development, bringing the benefits of 21st century technology to those families, as well.

Bringing the story back locally, I would tell you about Meadowbrook Apartments in Northampton, a development which Mayor Clare Higgins was determined to preserve for its very low income residents. Mayor Higgins fought for three years to pressure the owner of Meadowbrook to abandon his plans for condo conversion. She knew well that the 222 low income families at the development would have few options available if their homes were lost. The residents, in fact, were her great allies, creating the "Save Our Homes Tenants Association" and picketing, leafleting and speaking out for their own cause. POAH's successful purchase of Meadowbrook was only possible with state funds allocated especially for preservation, and again the story that we can tell you is a good one. Those homes have been preserved, the families who reside there are working hard to build a safe and supportive community, tapping resources from the city, from the schools and from Smith College.

A similar story took place in Salem, Massachusetts, where POAH purchased the 235-unit Salem Heights development in 2003. That one property constituted 10% of the affordable housing stock of the city, where there had been no new affordable housing produced at all over the prior decade. During those same ten years, 495 previously rental units were converted to condominiums. The contrast between preservation and new construction at Salem Heights is dramatic: $6,100 per unit of soft funding was required to preserve and rehabilitate the project, compared to an average of $120,000 per unit of soft funding for new affordable housing construction in the Boston area.

Crestview, Meadowbrook and Salem Heights are homes to families. The other group facing this dramatic need is the elderly, many of whom are widows on fixed incomes, mostly Social Security or small pensions. For them, and for our society, the picture is also dreadful. Boston's respected Pine Street Inn reports that across Massachusetts, elders represent the fastest growing population in the shelter system. From 1999 to 2002, elderly homelessness in Massachusetts increased over 60%. As many as 2,000 seniors seek emergency shelter nightly, and Pine Street's own intake workers have seen a dramatic rise in the demand from elders seeking shelter. One out of every five people in Massachusetts lives beneath the poverty line, and an estimated 50% of those are homeless.

POAH was recently offered the opportunity to buy a portfolio of properties here in Massachusetts which house 541 elderly residents. In every case, as our staff has held information meetings with the residents, their only real concern is whether they will be able to keep and afford their homes. Their reaction, universally, has been one of relief as they learn that the answers to both questions is yes.

Why preserve this housing?

There is no question of the need for this housing. Nor is there any doubt about the declining supply. But what are the broader implications of this loss? What does it mean for our communities? What does it mean for our country?

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Decent, safe, affordable housing is part of our self-definition as Americans. We believe that no one should be homeless, and we understand fundamentally that a stable home contributes to healthy children, healthy families and healthy communities. Nevertheless, we simply don't have enough housing affordable to those at the lowest rungs of the economic ladder.

Preservation is responsible. It is good stewardship. It is environmentally friendly. It wastes less, and conserves more. Preservation recognizes that these properties—the buildings, the land, the homes—represent an essential resource that should not be thrown away thoughtlessly. Billions of taxpayer dollars were invested in to create and sustain these homes, and there is a fiduciary responsibility to their care. Losing these homes diminishes supply, drives up demand, raises prices and further divides the housed from the unhoused. Losing these homes to a lack of will or foresight is the worst kind of waste.

Preservation is also realistic. In many communities here and around the country, housing that was built 20 or 30 years ago is unlikely to be duplicated. Most new affordable housing production is—for both zoning and financial reasons—on a significantly smaller scale than what was built previously. So it is not only that we are losing 150-unit, deeply affordable housing developments and replacing them with 40-unit tax credit developments—although that is the case. It is also emphatically that we are losing 150-unit development in communities with economic opportunities—like Northampton or Salem—and replacing them with 40-unit developments in communities with very little economic opportunity, where tax credit developments are most economically feasible and more easily sited. That is the tide of resource allocation that preservation seeks to stem.

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The other compelling reason to preserve and improve existing affordable homes is basic common sense: preservation costs less. In 2003, the MacArthur Foundation launched a $75 million national initiative called *Window of Opportunity.* Through this program, the Foundation has provided low-cost loans and grants to preservation owners across the country, including my own organization, POAH. Already, MacArthur's program has helped preserve and improve 36,000 affordable rental homes throughout the country. The average cost has been $73,000 each, or about half the amount to build a new rental unit anywhere in the U.S. today.

POAH's experience in high cost markets like Massachusetts is that new construction can be as much as three to five times the cost of preservation. In Northampton, for example, we purchased the Meadowbrook property in 2004. In the ten years prior, there had been exactly 10 affordable homes built in Northampton, so our single transaction saved more than twenty times that number. Moreover, we spent about $30,000 of public subsidy to upgrade each unit, while similar per unit new construction was averaging $80,000 to $100,000. I'm sure you will agree that's quite a bargain.

Housing makes a difference: a growing body of research confirms that persons in stable homes are more successful in their work, their schooling, their life choices. Stable, healthy communities are broad and diverse. They have room for families at all income levels. They honor their elders who seek to 'age in place'. At the heart of stable communities are stable homes and stable families. Low wage workers, families of modest means, elders and the disabled on fixed incomes must live somewhere. If this housing is lost, where will they go? What will be the added cost to our hospitals, our emergency care system, our prisons?

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There Are Remedies

In the face of this urgent need, there are small pockets of exciting developments. I mentioned earlier the preservation funding from the MacArthur Foundation, which is poised, based on its success to date, to expand its *Window of Opportunity* program this year. More than 40 states have also taken action in support of preservation. The Kankakee property I mentioned earlier was saved in part through a "donation tax credit" which the Illinois legislature created from a model pioneered by the state of Missouri. New York and other cities have negotiated agreements with HUD giving them right of first refusal before non-performing properties are put up for sale at open auction. Other local governments—not just big cities—have also recognized the importance of saving housing which serves very low income families and elders. We have worked closely, for example, with town leaders in tiny Narragansett, Rhode Island, population 16,361, to preserve 160 homes, all located on parcels near the ocean which would have been exceptionally attractive to private developers for luxury apartments or condominiums.

These are important, but modest, steps against a rapidly rising tide. There is so much more which all levels of government can do, but especially the federal government. And while all of us here today can identify where more federal dollars would help, money is not the single solution. First, there must be the will and the determination to act, and to act quickly. We need visionary public policy which recognizes the vulnerability of this asset, and commits to its protection. We need investment incentives and regulatory improvements. And we need predictable resources, both dollars and policies, to engage all parties in the outcome.

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Some specific examples for the Committee's consideration might include:

Predictable policies, in effect nationwide, to encourage preservation. By program design, 1.7 million of the apartments that need to be preserved are privately owned. They were created by a partnership between HUD and private developers, for-profit and non-profit alike, a partnership in which HUD set clear rules and provided clear incentives. For that same housing to be preserved for future generations, HUD will again need clarity of message and committed partners with effective incentives.

Current programs and regulations are fragmented, cumbersome and inconsistent. They vary among local, state and federal agencies, sometimes even within the same agency. Varying interpretations of rules and policy among various HUD offices around the country are discouraging to potential preservation owners, and work against any collective sense of resolve or accomplishment. In our own experience, a simple matter like the "non-profit transfer rule", certainly intended by Congress to encourage preservation purchases, has required long negotiation with HUD on a deal-by-deal basis. During the months of each such discussion, an anxious buyer and a seller eager to convert the housing to high-rent apartments or condominiums can meet in the open market, seal their transaction and remove rent protection.

POAH and other strong, sustainable national nonprofits, with support from the MacArthur Foundation and others, four years ago formed Stewards of Affordable Housing for the Future (SAHF), a consortium focused on enabling the member to make a bigger difference in the preservation field. Other groups have taken a similar approach to gathering the expertise and the will of capable regional and local non-profits. The extraordinary investment we and our colleagues have made must be matched by a commitment from HUD in the form of clear and supportive policies.

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While there have been signs of a 'can-do' attitude from HUD, specifically from its Office of Assisted Housing Preservation, more often HUD is merely calling balls and strikes, and even then from an unclear rule book. As a result, too many of our suggestions today seek to correct passive HUD behavior, which fails to understand the urgency or to express the priority we feel preservation demands.

Financial incentives and tax policies to encourage owners to preserve long-term affordability. There are many regulatory and policy impediments to transferring ownership of subsidized affordable housing to owners like POAH which pledge long-term affordability. Exit tax relief would be a good incentive for the right disposition by existing owners. Streamlining TPA and 2530 processes would remove delay and uncertainty from a preservation sale, allowing us to better compete with the efficiencies of market transactions.

Recognition that the first priority is preserving affordable housing, not replenishment of the HUD treasury. HUD regulations restricting a non-profit owner from using certain proceeds of transactions or operations for the improvement of the property or of the organization's mission should be withdrawn. Cumulatively, these represent enormous resources that non-profits can make available to be reinvested in affordable housing. The current economic pressures on HUD are extraordinary—all the less reason that they should be overlooking the low-hanging fruit of potential funds that can be used to further HUD's mission, at no cost to HUD.

Similarly, HUD policies requiring non-profit buyers to repay subordinate debt—often using state subsidy dollars—should be rescinded. The nation needs strong non-profit

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owners which are committed and able to sustain both the housing that they operate and their own organizations, as well. Access to resources is key to their strength and long-term health. While HUD certainly retains a duty to shepherd federal resources wisely, where a state has committed resources to a developments preservation, HUD should not be standing at the table with its hand out; rather, it should be welcoming the state's participation, not only for its economic assistance, but for its implicit confirmation that housing is an asset for the community and for the state.

A commitment to project-based rent subsidies. HUD and the Administration have historically sought to phase out project-based subsidies in favor of vouchers for tenants. When rent vouchers are portable, tenants may have the opportunity to find alternative housing, although in tight markets voucher holders often simply cannot. Even where they do, however, the long-term affordability of their current home is lost. One generation of turnover in a building which converts from project-based subsidy to tenant voucher subsidy eliminates that entire building from the affordable stock. Forever.

In terms of legislation, I also want to support specifically:

--the enactment of the Mark-to-Market program amendments, which failed to pass with its renewal earlier this year, with specific 'refresher' language empowering non-profit preservation purchasers;

--the proposal that project-based Section 8 contracts remain in force on foreclosed properties;

--perfecting amendments to make workable Congress's efforts to allow transfer of Section 8 project-based subsidies to other sites;

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--re-establishing the right of owners to convert Rent Supplement and RAP subsidies to project-based Section 8 assistance, so that the affordability of those properties can be preserved beyond mortgage maturity;

--authorization to allow Section 8 moderate rehabilitation properties to benefit from Low Income Housing Tax Credits, and

--allowing enhanced vouchers to be project-based when a refinancing is undertaken in order to preserve the property.

Preserving affordable housing is what we at POAH do. It's what we believe in. We believe in it because it's necessary, it's sensible, and it makes a difference in people's lives. We are joined in this work by national, regional and local colleague organizations, by state and local government, by foundations and private lenders. We look forward to a day when we will again have the federal government as an active partner and a supporter. We are grateful to this Committee for your work in bringing that day closer, and we look forward to many opportunities to work with you to that end in the weeks and months ahead.

Thank you again for the opportunity to be heard this morning on this very important matter.

Testimony of Charles D. Baker
President & CEO, Harvard Pilgrim Health Care
U.S. House Committee on Financial Services
April 4, 2007 – Brookline, Massachusetts

For the record, my name is Charles Baker, and I'm the president and CEO of Harvard Pilgrim Health Care, a Massachusetts-based, non-profit health insurance plan licensed to offer and support health insurance solutions to employers and individuals in Massachusetts, Maine and New Hampshire. Overall, Harvard Pilgrim has approximately 1 million members, and over 800,000 members in Massachusetts. We also employ approximately 1,000 people in Massachusetts, and have two main offices here – one in Wellesley, and another in Quincy.

While the plan has been around for almost 40 years, and is no stranger to Massachusetts, I thought it would be worth mentioning that Harvard Pilgrim was recently named by both U.S. News and World Report and JD Power as the #1 health plan in the country for customer satisfaction.

I appreciate the chance to speak before the committee today on the high cost of housing as the CEO of a locally based employer and as a local official. I serve on the Board of Selectmen in the town of Swampscott. And while I wonder about whether our high cost of housing is driven by local and state issues – and not national ones – there is simply no doubt that it significantly and negatively affects the capacity of this state and this region to provide economic opportunity to its residents.

As a CEO of a health insurance carrier, I have participated in several "cost of doing business" meetings between state officials and CEOs from many important employers in Massachusetts and listened – almost dumb-founded – as the high cost of health care has been eclipsed and forgotten by the high cost of housing. There I was, prepared to take the heat from my fellow employers for playing some small role in creating the highest health care costs in the nation – and I was completely ignored as business leaders pounded on the high cost of housing as their single biggest recruitment and retention issue.

I came away from these sessions and others believing that while our high health care costs are a problem, our high housing costs are a catastrophe. In fact, Harvard Pilgrim's decision to support MassInc's recent research on the Massachusetts workforce was based, in part, on my own experience at these meetings. And the research bore out what I'd been hearing – our working age population is shrinking, we aren't holding onto as many college and high school graduates as we used to, and the high cost of housing has a lot to do with it.

Put another way, I participated in a panel on housing costs about a year ago that was sponsored by a local business organization, and I put this question to the audience, "If any of you had to do it all over again and go out now and buy your first house, how many of you, with the money you made in your late twenties or early thirties, could have forked over the $500,000 that represents the median price of a house inside Route 128? The answer, not surprisingly, in a room of 500 people or so, was "nobody."

As a local elected official, I also see the difficulties created by the high cost of housing in this region affecting every sector of the population – young single people, all married couples, older couples, people on fixed incomes – you name it. It is, and has been, for the past several years, the primary issue people discuss with me – with the cost of health care, believe it or not – running a distant second. In fact, when I was asked last fall by a radio talk show host about what issue I thought would dominate the voter's decisions in the state and local elections this past November, I said the high cost of housing in general, and, in particular, the high property taxes that came with them.

At the time, this was considered odd, since there were very few statewide campaigns that were focusing on this issue. But after the election, several polls and focus groups indicated that the high cost of housing – and the property taxes that came with it – had, in fact, been a dominant issue in the minds of the voters, even if it wasn't discussed much during the campaign.

In closing, I want to thank Chairman Frank and his Committee for the opportunity – as a local employer and as a local official – to testify before you today on the high cost of housing, and to reiterate my deep concerns about how this issue is affecting the ability of Massachusetts residents and businesses to stay here and prosper.

Thanks very much.

Testimony of Barry Bluestone Before the U.S. House of Representatives Committee on Financial Services

"Household Incomes and Housing Costs: A New Squeeze for American Families"

Brookline Town Hall
Brookline, Massachusetts

April 4, 2007

Barry Bluestone is the Russell B. and Andrèe B. Stearns Trustee Professor of Political Economy, Dean of the School of Social Science, Urban Affairs, and Public Policy, and Director of the Center for Urban and Regional Policy at Northeastern University in Boston, Massachusetts. Research assistance for this testimony was provided by Chase Billingham, Research Associate, Center for Urban and Regional Policy, Northeastern University.

Testimony of Barry Bluestone
before the U.S. House of Representatives
Committee on Financial Services

Brookline Town Hall
Brookline, Massachusetts
April 4, 2007

My name is Barry Bluestone and I am the Russell B. and Andrèe B. Stearns Trustee Professor of Political Economy at Northeastern University where I also serve as the Dean of the university's new School of Social Science, Urban Affairs, and Public Policy and Director of its Center for Urban and Regional Policy. Since 2000, I have been involved with our Center in the preparation of numerous studies of housing production and affordability including the annual *Greater Boston Housing Report Card.* I also served as a co-author of the policy report that led to the passage of Massachusetts' Chapter 40R and 40S "Smart Growth Zoning and Housing Production" legislation. I appreciate the opportunity to testify before this distinguished committee on the question of household incomes and housing costs.

Today, I would like to briefly address trends in household income in the U.S. and Greater Boston and their relationship to trends in rents and housing prices in the local region. The major point I hope to make is that because of spiraling housing costs and stagnating household income, the housing affordability gap has skyrocketed. Housing affordability has now become a serious concern in many parts of America not only for low income families, but for a growing proportion of working families and an increasing share of the middle class. In regions like Greater Boston, assuring the availability of affordable housing must now be seen not only as a moral obligation, but an economic necessity if we are to remain competitive in the new global economy.

U.S. Trends in Family Income

We can begin our inquiry by looking at family income in the U.S. **Table 1.1** provides the basic data for the U.S. as a whole. Note that between 1947 and 1973, we experienced what my late colleague Bennett Harrison and I once described as "America's Glory Days."[1] Inflation-adjusted median family income virtually doubled in a single generation, growing from $22,499 in 1947 to $45,865 in 1973 (in 2005 dollars) -- an increase of 104 percent or 2.8 percent per year.[2] As a result of this strong income growth, tens of million of Americans were able to secure a home of their own. Between 1940 and 1970, according to the Decennial Census, the homeownership rate increased from 43.6 to 62.9 percent -- much of this increase occurring between the end of World War II and 1960 as a result of the GI Bill and related federal programs that helped American families purchase their first homes.

The period after 1973 was not anywhere near as prosperous. Between 1973 and 1979, family income increased at 1.0% a year, only a little bit more than one-third the rate for the previous 1947-1973 era. In the following decade (1979-1989), income growth continued to slow to only 0.6% a year – less than a fourth of the rate during the post-World War II Glory Days. Not until the second half of the 1990s did we experience anywhere near the family income growth of those Glory Days. Between 1995 and 2000, during the second Clinton Administration, family income grew by 2.2 percent.

Since 2000, each year family income has stagnated or declined. Between 2000 and 2005, median family income actually declined at a half a percent (-0.5%) a year. For younger and middle-aged families, the story was even worse. During the same period, median family income fell by 1.3% per year for families with a householder under 25 years of age; by 1.2% per year for 25-34 year old families; by 0.9% for 35-44 year olds, and by 1.1% for those 45-54. On average, only older families with householders over the age of 55 experienced an increase in inflation-adjusted income.

What is most disconcerting, however, is that figures on median income fail to fully capture the income losses of those at the bottom of the income distribution. Real income for the poorest one-fifth of U.S. families fell by nearly 8 percent (7.8%) between 2000 and 2005, nearly double the rate of the second-lowest fifth (4.0%) and more than eight times the rate of the top fifth. What growth there has been in family income has gone almost exclusively to the richest among those who are part of the single generation of post-World War II "baby boomers." Today, the typical family in the top 5 percent of the income distribution makes nearly 21 times the income of the typical family in the lowest 20 percent of the income distribution. As late as 1979, the richest made "only" 11 times as much.[3]

Family and Household Income Trends in Massachusetts

Until 2000, median family income in Massachusetts followed a different trend than in the U.S. The Commonwealth's "Glory Days" were the 1980s when the high tech revolution, financial services, and the "Eds and the Meds" -- the universities and the health care sector – came into their own. Between 1979 and 1989, median family income increased by 2.4 percent per year, four times the U.S. rate. During the 1990s, however, the U.S. outperformed Massachusetts by half, with median family income rising by only 0.6% per year in the Commonwealth versus 0.9 percent nationwide. Since 1999, family income has been essentially flat in Massachusetts, rising by an anemic 0.04 percent per year. The best estimate of the U.S. Census is that the median family in the Commonwealth enjoyed no more than a $115 increase in its real inflation-adjusted income over the past six years (1999-2005). That is equivalent to a $19 increase in income per year, an amount just about equal to a single lunch for a four-person family at a local fast food restaurant.

Median "household" income has fared even worse in the Commonwealth since 1999. Households differ from families in that they include single-person housing units. Using this measure, the Federal Reserve Bank of Boston estimates that between 1999 and 2004, real median household income did not rise at all. In fact, it declined by 2.8 percent in the Commonwealth and by 1.9 percent in Greater Boston (Boston MA-NH PMSA).[4]

Rents and Housing Prices in Greater Boston

Rents and housing prices in Greater Boston have followed distinctly different trends since 1990. Average rents exploded between 1990 and 2000, rising from a nominal level of $825 per month to $1,500.[5] This was in response to a substantial increase in population unmatched by an increase in new rental housing production. As rental vacancy rates fell from a normal level of 5 percent to little more than 0.5 percent during the decade, the rental market became a sellers' market. Tenants were subject to sharp increases in rents nearly every year. Since 1999, however, rents have stabilized largely as the result of increased multiunit housing supply and some reduced demand as households have moved into the homeownership market taking advantage of low mortgage rates -- and too often the aggressive marketing of subprime loans.

Single family home prices in Greater Boston actually declined between 1986 and 1992, but then began an enormous upward trend that continued all the way through to 2005 (see **Figure 1**). In nominal terms, home prices more than doubled in the brief period between 1998 and 2005. Only after this breathtaking run-up in prices was there a minor correction in 2006 with nominal prices falling by about 5 percent.

Another way to view this home price escalation is to ask the question how many of the 161 communities in Greater Boston had a median single-family sales price under $300,000 in 2005 compared with 1998.[6] Back in 1998, 85 percent of these towns and cities had median selling prices below this level. By 2005, only 4.4 percent of them! The proportion with a median selling price of $500,000 and above increased from 2.5 to 26.9 percent.

According to Freddie Mac data, its home price index in Greater Boston based on data from conventional mortgage loans increased by 128 percent between March 1998 and March 2006.[7] This far eclipsed the U.S. increase of 89 percent, but given the sluggish growth in household incomes nationwide, the national home price increase suggests that housing affordability has become a significant problem in many areas of the country, not just Boston.

Housing Price Appreciation vs. Household Income Growth

Combining the data on household income growth and home prices (adjusted for inflation) shows just how much housing affordability has been compromised by a combination of stagnating incomes and skyrocketing prices. **Figure 2** provides this comparison. The dashed line reveals that real household income in Greater Boston has generally been flat over the past fifteen years while the real price of homes has risen sharply. *Essentially, the real median housing price in the region rose by 50 percent between 1989 and 2005 in the face of virtually no improvement in real household income.*

There is an even more graphic way to describe this situation by asking the following question. Across the 161 Greater Boston communities, how many have median home prices that would be affordable by the median income homebuyer in that community? Back in 1998, the median household could afford the median home in 148 of these communities (92%). In 2005, this was true in only 19 communities (12%). What about affordability for first-time homebuyers? Back in 1998, a first-time homebuyer with an income of 80 percent of the community's median income could afford to purchase a home valued at 80 percent of the community's median home price in 116 towns and cities in the region. In 2004, such affordability remained in only one town (Millville) … and even that last town disappeared as "affordable" to the first-time homebuyer a year later.

What has made the affordability problem even tougher is that home prices have increased at a faster rate in lower income communities than in more wealthy municipalities. Using data on Greater Boston's 161 communities, there appears a clear inverse relationship between median household income in 2000 and the rate of change in median home price between 2001 and 2003.[8] Those communities with median incomes under $50,000 experienced three-year price increases all in excess of 30 percent. Those municipalities with median incomes in excess of $75,000 generally saw home prices appreciating by 10-20% while the wealthiest communities (MHI>$125,000) rarely saw prices rising by as much as 10 percent. This was the natural outcome of households bidding for homes in communities they thought they could afford. Unable to bid on homes in cities and towns where prices had reached the $400,000 range or above, homebuyers bid up prices in communities where the median home price had been between $150,000 and $250,000. Enough joined the bidding war for these homes that prices accelerated in what became hot sellers' markets. This explains why there are no longer any affordable communities for first-time homebuyers in Greater Boston.

The Problem: Inadequate Supply of Housing; Global Oversupply of Labor

The housing problem in Greater Boston -- and in a good number of other metro regions especially on the east and west coasts -- is a classic case of demand outstripping supply in the housing market while an increasing supply of workers in the global labor market is outstripping demand. The former is pushing up home prices and rents while the latter is helping to push down wages and income. The result is a huge and growing affordability gap in the housing market.

While remedies for this gap require a much longer discourse on the causes of the housing shortage and the causes of stagnating wages and incomes, a few points can be made here. As for housing, the problem in Greater Boston has been identified by many scholars and policy experts as a lack of appropriately zoned land in local communities where denser, more affordable housing can be built.[9] The new Chapter 40R and 40S housing legislation is aimed squarely at providing state incentives to local municipalities to rezone land to meet our housing needs. But even with sufficient zoned land, producing homes that are affordable by an increasingly income-constrained workforce will require additional production subsidies in the form of federal low income tax credits, passage of the bill to establish a national affordable housing trust fund, and/or other programs that provide low cost construction aid.

Dealing with the on-going stagnation in incomes will require an even more imaginative set of programs. Essentially, the once strong link between labor productivity growth and median family income has been broken by a combination of free trade agreements without labor standards or labor rights, the increased technical ability to outsource production of both goods and services, the declining value of the federal minimum wage, the weakening of the trade unions, and a host of other factors. During the Glory Days between 1947 and 1973, labor productivity increased by 103.7 percent. Real median family income tracked this boom in economic efficiency perfectly – growing by 103.9 percent. Between 2000 and 2005, productivity continued to grow by a respectable 16.6 percent.[10] But for the most part, America's workers and their families did not share in any of this increased economic bounty. Their real income fell by 2.3 percent.

Now is the time to begin to think seriously about solving both the under-supply of housing and reigning in the global over-supply of labor in order to bring real housing prices into line with real family incomes.

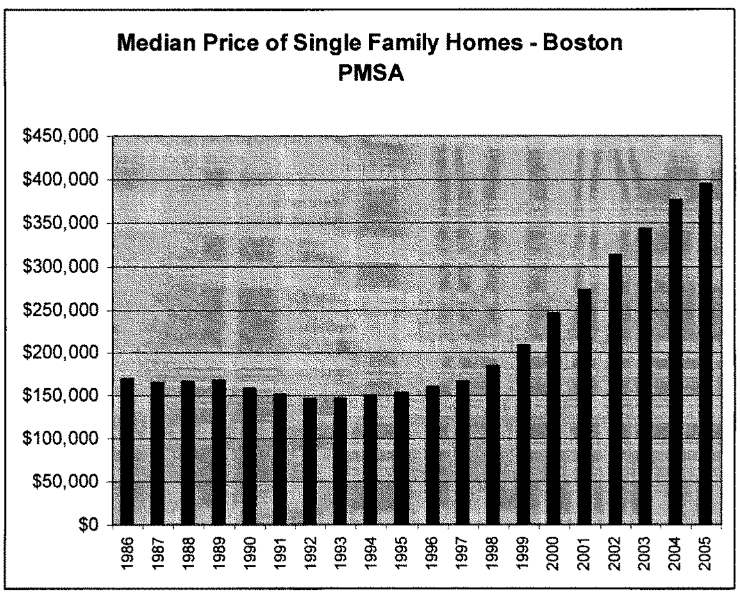
Thank you for the opportunity to share with you these thoughts.

Table 1 **Median Family Income, 1947-2005 (2005 Dollars)**

Year	Median Family Income	Era	Annual Growth Rate
1947	$22,499		
1973	45,865	1947-73	**2.8%**
1979	48,804	1973-79	**1.0%**
1989	52,015	1979-89	**0.6%**
1995	51,659	1989-2000	**0.9%**
2000	57,508	1995-2000	**2.2%**
2005	56,194	2000-2005	**-0.5%**

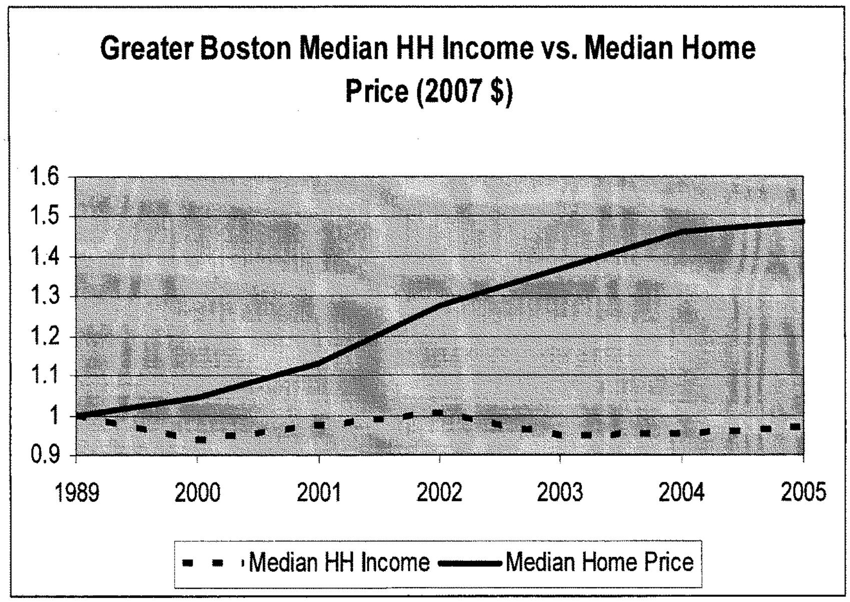
Source: *The State of Working America 2006/2007*, Table 1.3, p. 47

Figure 1



Source: National Association of Realtors as reported in *Greater Boston Housing Report Card 2005-2006*, Figure 2.11, p. 23.

Figure 2



Source: U.S. Census Bureau, 1990 Decennial Census; American Community Survey, 2000-2006

ENDNOTES

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[10] Mishel, et.al. *The State of Working America 2006/2007*, Table 1.4, p. 48.