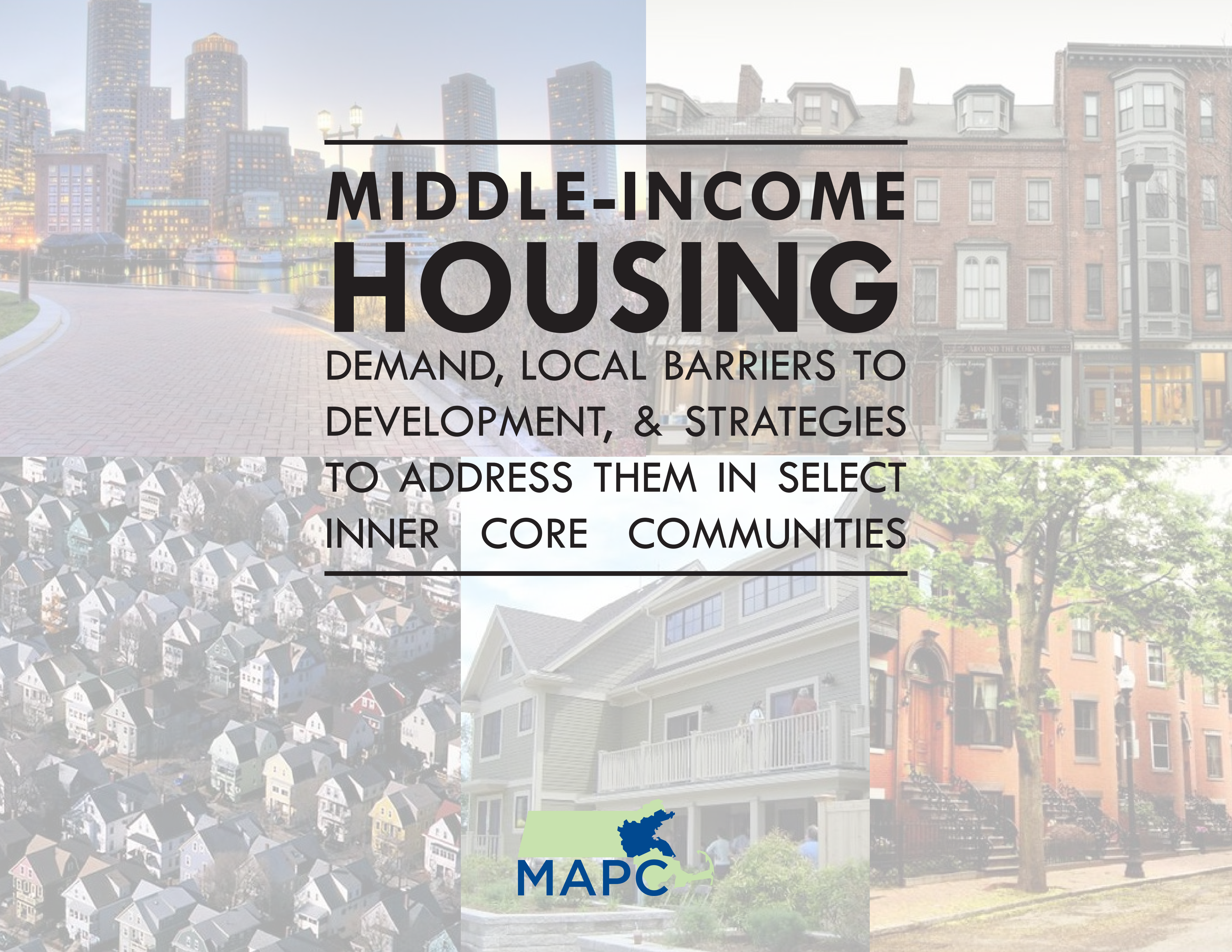

MIDDLE-INCOME HOUSING

DEMAND, LOCAL BARRIERS TO DEVELOPMENT, & STRATEGIES TO ADDRESS THEM IN SELECT INNER CORE COMMUNITIES

MAPC

Middle-Income Housing: Demand, Local Barriers to Development, & Strategies to Address Them in Select Inner Core Communities

Prepared for: Cities of Boston, Cambridge, Melrose, Newton, Somerville;Towns of Arlington, Watertown, Winthrop

Prepared by: Metropolitan Area Planning Council

Date: December 31, 2014

Credits

The Metropolitan Area Planning Council (MAPC) is the regional planning agency serving the people who live and work in the 101 cities and towns of Metro Boston. Our mission is to promote smart growth and regional collaboration. We work toward sound municipal management, sustainable land use, protection of natural resources, efficient and affordable transportation, a diverse housing stock, public safety, economic development, an informed public, and equity and opportunity among people of all backgrounds.

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METROPOLITAN AREA PLANNING COUNCIL OFFICERS

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Study Area Key Findings

- Middle-income households in each municipality comprise a third to a half of the population
- Five out of eight municipalities experienced a net loss of middle-income individuals between 2003-2008
- Households at all middle-income levels experience cost burden, with higher rates among owners than renters
- Median home sale prices and median rents are generally unaffordable to lower-middle-income households
- Condominiums and rentals are more affordable to middle-income households than single-family homes
- Recent development trends do not indicate a rate of housing production that will meet projected future demand for this housing type and tenure

Executive Summary

This report explores the housing demand of middle-income households in select Inner Core municipalities, performs a gap analysis, reviews national best practices, and makes recommendations for implementing strategies locally.

The study area comprises the Town of Arlington, City of Boston, City of Cambridge, City of Melrose, City of Newton, City of Somerville, Town of Watertown, and Town of Winthrop. All of these municipalities have a tight, high-cost housing market in common. Research included herein assesses to what extent this condition impacts middle-income households, rather than the low- and moderate-income households typically affected and for whom a greater variety of housing programs and funding are available. For the purposes of this document, middle-income households are defined as those earning 80-135% of AMI; this group is divided into lower-middle-income households earning 80-100% of area median income (AMI) and upper-middle-income households earning 100-135% of AMI.

Based on our research, MAPC draws three primary conclusions: (1) Housing options are most constrained for lower-middle-income households in the study area; (2) multi-family rental and homeownership housing is the most affordable option for this demographic; and (3) municipalities are not producing this type of housing at a rate that will accommodate housing demand from these or any households.

Taken together, it's clear that the current housing landscape does not allow this lower-middle-income population to grow. Indeed, out-migration patterns indicate that it is shrinking in many study area communities. Whether this is a direct result of limited housing choices is undetermined, but it is clear there is a shortfall of units affordable to lower-middle-income households throughout the study area. On average, single-family homes are unaffordable to these households in all study area communities, and condos are unaffordable in half of the study area. Even rental housing within the study area is generally unaffordable to lower-middle-income households. As we move up the middle-income ladder, however, the story changes. While single-family homes remain unaffordable to upper-middle-income households in Cambridge and Arlington, condos are affordable in all study area communities, as are rental rates.

A tale of two middles emerges that should help guide initiatives and resources towards a lower-middle-income band with more restricted options in the study area. Their demand cannot be met with single-family housing, both because it is too costly in these markets and because there is not enough space to adequately expand the supply. To address lower-middle-income housing demand, the supply of multi-family housing of both tenures must be increased in appropriate locations.

To find out why housing at a price point that's affordable to middle-income households is so limited within the study area, MAPC conducted a literature review of the drivers of high-cost housing. This research finds that in addition to land acquisition, construction, and labor costs, regulation is a significant factor in increasing development costs. In addition, we hosted two focus groups with developers, lenders, and policy makers. Discussion centered on barriers to the development of middle-income housing, including sky-high developments costs and lack of subsidy available for middle-income housing, which cause a developer funding gap so large these projects simply don't pencil. Participants also brainstormed strategies to help close the gap, which were augmented by a review of national best practices to meet middle-income housing demand.

MAPC does not support the diversion of scarce public subsidy away from lower-income households. Accordingly, the strategies recommended in this document primarily rely on developer incentives, non-public sources of funding, and other techniques to bring total development costs down that do not require direct capital subsidy from cities, the state, or federal government. They include land disposition, cutting edge construction techniques, regulatory and zoning tools, and creative financing.

This document concludes with four comments on the future of middle-income housing:

1. A comprehensive approach to housing development is mandatory, and should include (a) multiple strategies to expand the middle-income housing supply, (b) an overall increase in the housing supply at all price points and (c) an interdisciplinary dialogue between developers, municipalities, lenders, unions, and others.
2. Mission-based developers will play a key role in expanding the middle-income housing supply, even as they and for-profit developers must be adequately incented to share the responsibility.
3. Secondary markets within the study area and beyond where land and property are less costly should be monitored for middle-income housing opportunities.
4. A balance between affordability and marketability of units to middle-income households must be established to ensure efforts yield housing that meets demand.

Introduction

Introduction

Housing in the Boston metropolitan area has grown increasingly costly in recent history. Not only does it continue to be difficult for lower-income households to secure housing, but a lack of affordability is climbing the income ladder. Today, middle-income households are experiencing increasing cost burdens as they struggle to find housing that meets their demands in neighborhoods where they want to locate. Select Inner Core communities with particularly high-cost housing markets fear a loss of their middle-income residential base as a result.

Cities with a robust middle-income population benefit economically, socially, and politically. This demographic constitutes a vital tax base and provides the discretionary income that bolsters local businesses. Middle-income residents constitute a diverse workforce, attracting employers to locate in cities and growing the economy. A middle-income band prevents income polarization and class tension. And more to the point, cities should be inclusive of a broad range of residents, becoming more diverse across all populations, including those at various points along the economic spectrum.

The more housing that is affordable and desirable to middle-income households in neighborhoods that are also desirable to them, the easier it is to retain this group. However, excluding homeownership tax deductions, most state and federal housing programs are aimed at lower-income households. Local housing programs for middle-income households can help address the housing-specific concerns that play a role in where this group locates, even if they cannot address all of the variables that contribute to this choice.

In developing these housing programs, it is important to be aware of the broader context. When assessing housing and lower-income populations, it is standard to talk in terms of need. Typically, need refers to something requisite or necessary, and is tied to poverty and a lack of the means of subsistence. This is not the case with middle-income households.

Regarding middle-income households, housing supply typically does or does not meet demand, rather than need. Middle-income households have housing options, if not in one neighborhood, then in another; if not in one municipality, then in another. As a result, they make housing decisions that reflect their priorities and preferences. For example, some middle-income households may choose neighborhood over square footage or square footage over neighborhood; some may choose access to open space over density or a good public school system over public transit access, and so on. Because there is such a variety of housing markets within Metro Boston, middle-income households have choices even as prices in one place rise beyond their means. If they can only afford a small home in a neighborhood that doesn't suit them in one city, they may move to another one altogether. This does not necessarily mean that there is a lack of housing that is affordable to them in that city, but may imply there is a gap in that neighborhood.

This raises the question of whether public resources should only support households with very few or no alternatives—as is the thinking behind the crude conception of public housing as "housing of last resort." Or, instead, does government have an obligation to assist households with limited choices? This document takes the latter perspective, and attempts to determine how limited those choices must be in order to warrant public support by conducting a gap analysis within the study area and exploring how best to address the supply gap with as few public resources as possible.

Key Study Area Commonalities & Differences

Figure 1. Study Area municipalities.

The area studied for the purposes of this report includes the Town of Arlington, City of Boston, City of Cambridge, City of Melrose, City of Newton, City of Somerville, Town of Watertown, and Town of Winthrop. All of these municipalities are located

Introduction

within the Inner Core community type,[9] and are further classified as either Metropolitan Core Communities or Streetcar Suburbs. The former are high density inner cities that are built out so that new growth is redevelopment, infill, or conversion from one use to another. They are recovering from the urban disinvestment/suburban flight of the 1960s and 1970s. Today, they are characterized by large minority and immigrant populations and by a varied housing stock. The latter are historic, high-density suburbs near the urban core. They are largely built-out and see very little new growth, which is limited to redevelopment, infill, and expansion of existing structures. These are village-oriented residential neighborhoods dominated by multi-family homes and smaller apartment buildings. Population tends to be moderately diverse and stable or shrinking due to decreasing household size.

Municipalities within the study area also have high-cost housing markets in common. Contributing factors include barriers to entry for real estate developers like limited developable land, the associated high cost of land acquisition, and a regulatory framework that limits the high densities needed to offset this cost. Not only is the housing high cost, but earnings for middle-income households have been essentially stagnant for years.[10] The combination of these factors makes it difficult for middle-income households to keep up with the increasing costs of housing in the study area. Consequently, participating municipalities are concerned that their middle-income populations increasingly suffer cost burdens and/or out-migrate to nearby communities with a greater and sometimes more varied housing stock that is affordable to them. The first section of this document assesses housing demand and supply within the study area, and provides data that confirms some of these concerns.

Middle-Income Households of Interest

There is no agreed upon income range for “middle income” households. Considering a broad range around the median facilitates an assessment of what sub-group is most impacted by the study area’s high-cost housing. For the purpose of this study, middle-

[9] MAPC’s community types are based on the following criteria: land use and housing patterns, recent growth trends, and projected development patterns.

[10] Karen Weise, “Not a Single Home is For Sale in San Francisco That an Average Teacher Can Afford,” Bloomberg Businessweek, February 27, 2014, accessed May 12, 2014, http://www.businessweek.com/articles/2014-02-27/theres-not-a-single-home-for-sale-in-san-francisco-that-an-average-teacher-can-afford.

income households are defined as those earning 80-135% of area median income (AMI).[11] This range was selected for several primary reasons. First, the lower bound was identified because there are many established, publicly-funded housing programs targeting low-income households, defined by the U.S. Department of Housing and Urban Development (HUD) as those earning below 80% of AMI. Second, the upper bound was identified because there is uncertainty about what income level above which is more or less immune to the high cost of housing in the study area. If some housing markets are unaffordable to households earning more than 120% of AMI, the limit often considered the high end of middle income, it likely depends on household size and composition. For example, households with a dual-income, but no kids, would be less squeezed than households with a dual income and multiple children. Because the data does not always allow differentiation between these households, we identified 135% of AMI as the upper bound, a limit used by Fannie Mae to determine borrower income eligibility in high-cost areas including the Boston-Cambridge-Quincy, MA-NH MSA, as well as other middle-income housing programs. Depending on household size, 80-135% of AMI ranges from $47,450 to $167,700. Table 1 (below) translates this AMI range to 2014 dollars for a variety of household sizes.

Table 1: FY 2014 Income Limits Summary

	1-Person	2-Person	3-Person	4-Person	5-Person	6-Person	7-Person	8-Person
80% of AMI	$47,450	$54,200	$61,000	$67,750	$73,200	$78,600	$84,050	$89,450
100% of AMI	$65,850	$75,300	$84,700	$94,100	$101,650	$109,150	$116,650	$124,200
120% of AMI	$79,050	$90,350	$101,650	$112,900	$121,950	$131,000	$140,000	$149,050
135% of AMI	$88,900	$101,650	$114,350	$127,050	$137,200	$147,350	$157,500	$167,700

Source: HUD

[11] AMI is determined at the federal level by HUD, and calculated based on American Community Survey estimates of median family income for the Boston-Cambridge-Quincy, MA-NH Metro FMR Area. This is a broad area with an economically diverse population, and includes suburbs with very high median incomes and urban centers with lower ones. The same AMI is used to calculate income eligibility for housing throughout this area, despite the fact that the median income in seven out of the eight municipalities in this study, for example, is much lower. AMI for the Boston-Cambridge-Quincy, MA-NH Metro FMR Area is $94,100.

Housing Demand & Supply

Study Area Key Findings

- Municipal populations are projected to grow between now and 2030, with the exception of Winthrop
- The number of households is projected to significantly increase during this time period
- With little exception, rates of family and non-family households are comparable
- More than 80% of households in any municipality has three members or fewer
- Middle-income households in each municipality comprise a third to a half of the population
- Five out of eight municipalities experienced a net loss of middle-income individuals between 2003-2008
- Cambridge, Boston, and Somerville are predominantly rental housing markets while others are ownership
- Municipal housing stocks are older, with most units built prior to 1939
- The majority of units have two bedrooms
- Half of municipalities have low vacancy rates of 5% or less
- Recent development trends do not indicate a rate of housing production that will meet projected future demand

Housing Demand & Supply

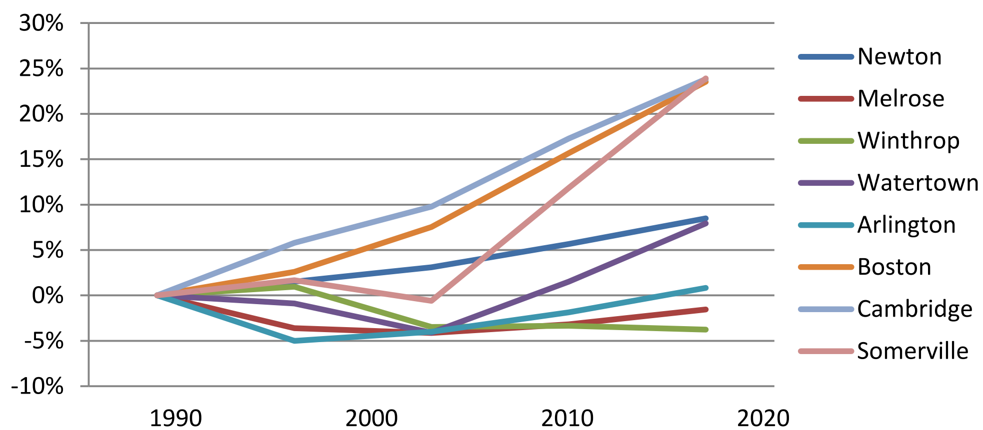
Housing Demand

GENERAL POPULATION

Study area cities and towns have much in common even as they differ in significant ways. For a more detailed analysis of these attributes than what follows, please see additional tables located in the appendix.

Study area municipalities vary in density. Newton and Melrose are least dense, with fewer than 10 people per acre. Boston, Cambridge, and Somerville have rates double and almost triple that, and are considered quite dense.

Figure 2: Population Change, 1990-2030



Source: U.S. Census Bureau, 2008-2012 American Community Survey, & MAPC Population & Housing Projections,

Some municipalities have experienced population growth since 1990, including Newton, Boston, and Cambridge, but most experienced slight declines. Projections indicate, however, that, with the exception of Winthrop, all will see population growth between 2010 and 2030.

Within the study area, the school-age (5-19) and senior (60-plus) populations comprise a smaller proportion of the overall population than those in between (age 20-59). The majority of the population is between the ages of 25 and 54. In Boston, Cambridge, and Somerville, those age 20-24 also make up a significant portion of the population.

The number of households has increased across municipalities since 1990, and is projected to increase further by 2030. This will correspond with greater housing demand. Between 1990 and 2010, increases in the number of households in each municipality ranged from 1% to 12%. By 2030, the number of households is expected to increase between 9% and 33% (from 1990).

Table 2: Distribution of Household Size

	1-Person	2-Person	3-Person	4-Person	5-Person	6-Person
Arlington	34%	32%	16%	13%	4%	1%
Boston	37%	31%	15%	10%	5%	2%
Cambridge	41%	35%	14%	7%	2%	1%
Melrose	31%	31%	16%	14%	5%	1%
Newton	26%	33%	17%	16%	6%	2%
Somerville	32%	34%	17%	10%	4%	1%
Watertown	36%	35%	15%	10%	3%	1%
Winthrop	34%	33%	16%	11%	4%	1%

Source: U.S. Census Bureau, 2010 Census

With the exceptions of Melrose and Newton, where family households far outnumber non-family households, the rates of both are comparable across the study area. Families with children comprise a significant number of households, ranging from 17% in Cambridge to 34% in Newton. Of non-family households, most are singles and generally 10% are 65 years of age or older.

Across the study area, average household size ranges from 2.03 in Cambridge to 2.51 in Newton. In general, owner households are larger than their renter counterparts. More than 80% of all households in each municipality consist of 1-to-3 members. The prevalence of larger households decreases with each additional member.

MIDDLE-INCOME POPULATION

Across the study area, annual median household incomes range from $53,136 in Boston to more than double that in Newton. With that one exception, the median incomes in all municipalities are significantly lower than the area median income of $94,100 used by the U.S. Department of Housing

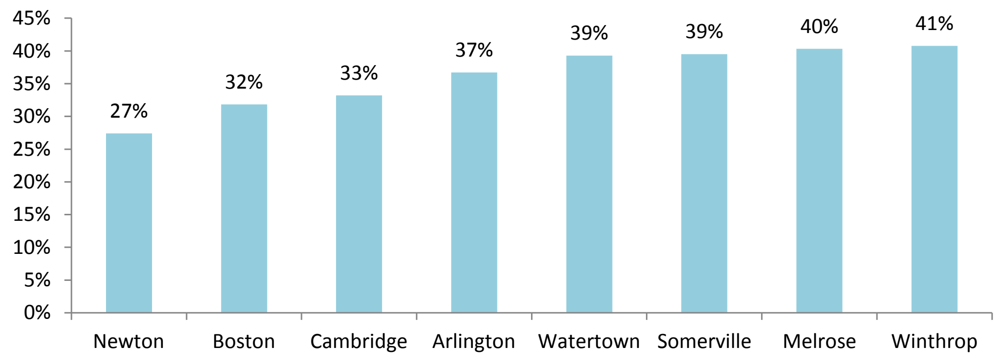
Table 3: Median Household Income by Type

	Median Income	Median Family Income	Median Non-Family Income
Arlington	$87,525	$111,086	$60,175
Boston	$53,136	$63,230	$43,081
Cambridge	$72,225	$97,743	$58,831
Melrose	$86,264	$111,311	$51,495
Newton	$113,416	$148,877	$59,546
Somerville	$64,603	$72,369	$57,176
Watertown	$85,053	$101,871	$67,419
Winthrop	$62,000	$84,729	$46,281

Source: U.S. Census Bureau, 2008-2012 American Community Survey

and Urban Development to calculate income eligibility for federally subsidized housing programs. These incomes represent the real middle in study area municipalities.

Figure 3: Middle-Income Households as Share of All Households*



*Defined as 1-3-person households earning 80-135% of AMI
Source: U.S. Census Bureau, 2008-2012 American Community Survey

Median income differs significantly based on household type and size. Median family income is consistently higher than non-family income, likely due to the presence of more than one earner. The general trend is an increase in median household income with additional household members.

Because households composed of more than 3 people are increasingly rare across the study area, MAPC has defined "middle income" as the income range for 1-3-person households at 80-135% of AMI ($47,450-$114,350) in order to quantify the portion of the middle-income population. Across the study area, middle-income households constitute a significant fraction of all households, ranging from just under a third (27%) in Newton to 41% in Winthrop. They make up an even larger portion when including households of more than three people.

The distribution of middle-income householders by age varies by community. Across the study area, the majority of middle-income householders are between the ages of 25 and 64. There are few middle-income householders aged 65 years and older and even fewer under 25 years old in any municipality within the study area.

Table 4: Percent Middle-Income Households by Householder Age

	Under 25 Years	25-44 Years	45-64 Years	65+ Years
Arlington	2%	37%	38%	22%
Boston	7%	49%	33%	11%
Cambridge	6%	56%	25%	13%
Melrose	1%	37%	43%	18%
Newton	2%	33%	38%	26%
Somerville	8%	59%	24%	9%
Watertown	3%	54%	23%	19%
Winthrop	1%	41%	35%	24%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

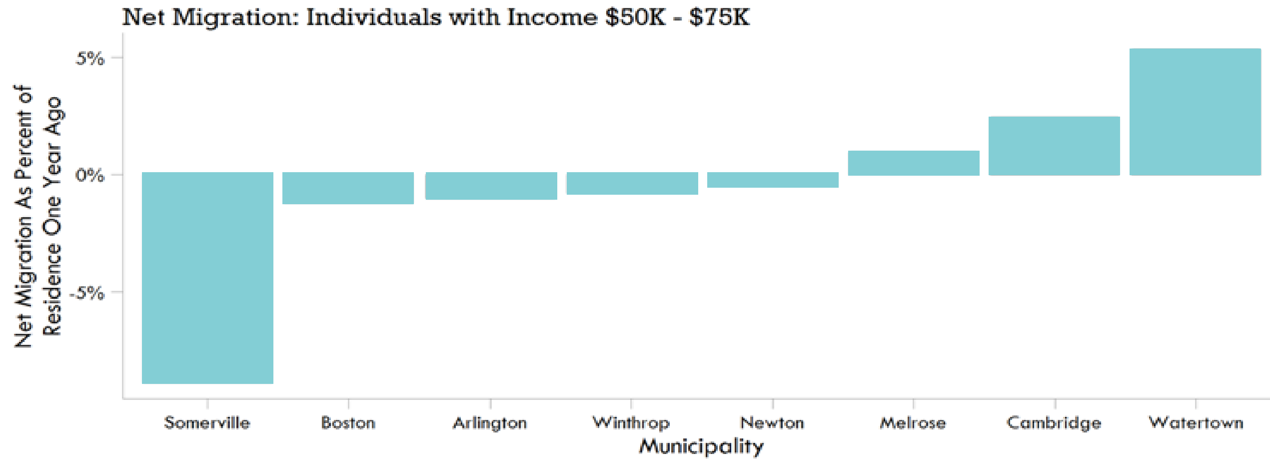


Figure 4. Bars show net migration as a percent of population one year ago. Source: ACS 2012 tables B07010 and B07410.

Over the last five years, five out of eight study area communities experienced a net middle-income population loss to either other municipalities within the county, different counties within Massachusetts, or a different state. Somerville experienced the biggest loss, with 8.9% of workers with incomes between $50,000 and $75,000 leaving the city.[9] Arlington, Boston, and Winthrop experienced the next highest outmigration rate of approximately 1%. In Newton, this population shrank by 0.4%. Meanwhile, Cambridge, Melrose, and Watertown were the only municipalities to experience a net gain of middle-income individuals equivalent to rates of 2.4%, 1.0%, and 5.3%, respectively. Overall, the study area experienced a net outmigration rate of 0.4%.[10]

Though five out of the eight study area municipalities experienced a net loss due to outmigration, they nevertheless also saw in-migration during this time period. In most cases the rates of in-migration and outmigration are very close, but in Somerville, the

[4] Migration data are not available by household income. The $50,000 to $75,000 individual income range is thus a proxy for middle-income households. According to MAPC analysis of Public Use Microdata Survey (PUMS) data, less than 15% of individuals with an income of $50,000 live in low-income households, so $50,000 is a reliable lower bound on middle income status. At the other end, individuals with incomes above $75,000 are likely to live in households with incomes above the middle-income range, so $75,000 provides a good upper bound on middle-income households.

[5] It should be noted that income figures represent earnings of out-migrants for the year after relocating.

latter far exceeds the former.

Based on this data, we cannot come to the conclusion that outmigration is due to housing affordability issues. Not only have Cambridge, Melrose, and Watertown experienced in-migration of middle-income individuals at a higher rate than they've lost members of this population, but mobility within the study area complicates whether housing costs are to blame for outmigration. Nevertheless, housing is a primary factor influencing where people locate and it is reasonable to assume the high cost within the study area plays a role in migration.

Housing Supply

Unsurprisingly, considering the range of density levels, the dominant housing type varies by municipality throughout the study area. This is. Arlington, Melrose, and Newton have particularly high rates of detached single-family housing, with this type comprising nearly half or more than half of the total. Conversely, Boston, Cambridge, and Somerville all have very low rates of this housing type and high rates of multi-family housing.

Across the study area, 1-, 2-, and 3-bedroom units are most common. There are very few studio or efficiency units and very few units with 5 or more bedrooms. Generally, 2-bedroom units are most common, though 3-bedroom units outnumber them in Melrose and Newton, where single-family detached housing predominates.

Housing in the study area tends to be old. The majority of housing units were built in 1939 or earlier. In some municipalities, housing stock has increased notably since 1980, by 20% in Cambridge and 15% in Boston. In other municipalities, relatively little housing stock has been added since then.

Municipalities within the study area vary in terms of dominant housing tenure. The housing stock of larger cities tends to be majority renter-occupied, while those of smaller cities and towns tend to be majority owner-occupied.

Half of municipalities within the study area have vacancy rates below 5%, the threshold below which is considered very low.

Table 5: Vacancy Rates	Total Housing Units	Occupied Housing Units	Vacant Housing Units	Vacancy Rate
Boston	272,587	248,704	23,883	8.8%
Winthrop	8,291	7,630	661	8.0%
Cambridge	48,278	45,087	3,191	6.6%
Watertown	14,839	14,010	829	5.6%
Newton	32,344	30,816	1,528	4.7%
Arlington	19,929	19,087	842	4.2%
Melrose	11,690	11,221	469	4.0%
Somerville	32,471	31,272	1,199	3.7%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

These are tight housing markets, reflecting high demand and resulting in limited opportunities for new residents.

HOUSING DEVELOPMENT TRENDS

Some experts contend that increasing the overall housing supply frees up lower-cost housing for lower-income households and moderate- and middle-priced housing for corresponding households, as higher-income households move into newer and more expensive housing. A housing supply shortage, conversely, increases costs of existing stock. In the study area, where new development is particularly costly and therefore production is slow and new market-rate housing tends towards luxury, there is little mobility for lower- and middle-income households along the housing ladder.

Indeed, recent development trends have not increased housing stock at a rate that meets existing demand. Further, they do not indicate that study area municipalities are generally on track to meet future demand. Table 6 (right) compares the annual increase in housing units between 2000 and 2010 to the projected annual increase in unit demand between 2010 and 2030. Only Winthrop is on track to meet demand. Other

Table 6: Historic Annual Change in Housing Stock vs. Projected Annual Demand for Units	Increase in Units	Demand for Units	Difference
Arlington	56	100	44
Boston	2,055	2,625	570
Cambridge	257	308	51
Melrose	50	62	11
Newton	54	181	127
Somerville	124	455	331
Watertown	58	106	49
Winthrop	25	25	-1

Source: U.S. Census 2000 & 2010 & MAPC Population & Housing, 2014 study area municipalities—particularly Boston, Newton, and Somerville—must increase production.

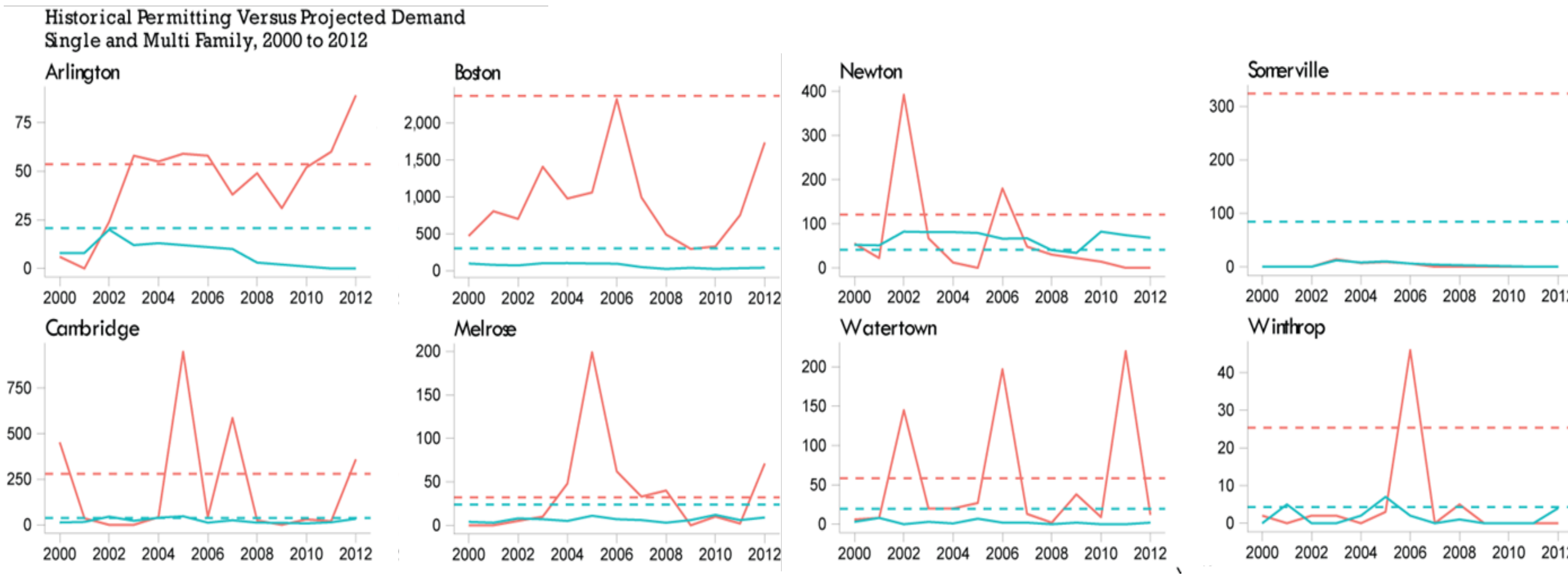


Figure 5. Comparison of projected average housing unit demand by type for 2010-2020 (in dashed lines) to recent housing units permitted between 2000-2012. Source: MAPC Projections and Census Building Permit Survey.

The above series of graphs compares projected average housing unit demand by type for the years 2010 to 2020 (in dashed lines) to recent housing units permitted for the years 2000 to 2012 for each municipality in the study area. Building permits issued are the best indication of a municipality's willingness to support new housing development, but they are an imperfect measure of housing growth. In some cases, they may underestimate new growth due to lack of reporting or because adaptive reuse is not captured in the data. In other cases, they overestimate the net increase in housing units if not all permitted projects are ultimately constructed or if preexisting units are demolished. In regards to the study area, there were more building permits issued than units added to the housing stock in six out of eight municipalities in the last decade (Boston and Somerville are the only municipalities that under-reported). Thus, building permits issued are an overestimate of housing growth, rather than an underestimate, in this case. It follows, then, that the disconnect between demand and increase in supply is even greater than the following graphs indicate.

Table 7: Change in Permitting Needed to Meet Housing Demand

	Multi Family		Single Family	
	%	Units	%	Units
Arlington	11%	5	148%	12
Boston	130%	1340	330%	232
Cambridge	32%	68	54%	13
Melrose	-20%	-8	230%	17
Newton	72%	50	-43%	-31
Somerville	*10703%*	*321*	*2103%*	*81*
Watertown	-2%	-1	682%	17
Winthrop	408%	20	146%	3

Source: MAPC Projections 2020 and Census Building Permit, 2000 to 2012

All study area municipalities must increase multi-family housing permitting to meet projected demand, with the exception of Melrose and Watertown. In Boston, Cambridge, and Melrose, the production of multi-family units is on the rise. No study area municipality is poised to meet single-family housing demand either, with the exception of Newton, which should decrease single-family permitting and increase multi-family permitting instead. Table 7 (right) shows the percent change in housing unit permitting needed to meet housing demand by 2020 for each study area municipality.

In general, housing production must increase across the study area in order to meet demand. Excluding Somerville, for which there is not accurate permitting data available, study area municipalities need to build a combined 1,475 multi-family units and 263 single-family units each year until 2020 in order to meet projected housing demand overall. Of the total housing production needed, 85% should be multi-family housing.

Housing Market Affordability to Middle-Income Households

Study Area Key Findings

- Housing affordability differs depending on where on the middle-income spectrum a household falls
- Median home sale prices are not affordable to lower-middle-income households
- Median rents are higher than what lower-middle-income households can afford
- Condominiums and rentals are the more affordable housing options for middle-income households
- Households at all middle-income levels experience cost burden, with higher rates among owners than renters

Housing Affordability

Table 8: Affordability of Rental Units Based on Median Income

	Median Rent	Affordable - AMI	Affordable - MMI	Affordable - MMFI
Arlington	$1,950	$2,353	$2,188	$2,777
Boston	$1,265	$2,353	$1,328	$1,581
Cambridge	$2,388	$2,353	$1,615	$1,809
Melrose	$1,097	$2,353	$2,157	$2,783
Newton	$1,632	$2,353	$2,835	$3,722
Somerville	$2,100	$2,353	$1,806	$2,444
Watertown	$1,420	$2,353	$2,076	$2,547
Winthrop	$1,272	$2,353	$1,550	$2,118

Source: PadMapper 2013

Table 9: Affordability of For-Sale Units Based on Median Income

	Median Home Value	Affordable - AMI*	Affordable - MMI*	Affordable - MMFI*
Arlington	$490,200	$394,600	$346,685	$471,883
Boston	$374,700	$394,600	$214,177	$261,416
Cambridge	$545,800	$394,600	$267,842	$304,186
Melrose	$419,700	$394,600	$358,948	$472,906
Newton	$687,300	$394,600	$482,484	$643,824
Somerville	$441,300	$394,600	$303,512	$297,962
Watertown	$426,000	$394,600	$354,186	$411,175
Winthrop	$356,600	$394,600	$255,660	$351,964

Source: 2008-2012 American Community Survey; *Affordable rates calculated using Zillow, based on $250 in monthly debts and a down payment of $20,000

Market Data

According to PadMapper data, with little exception, median rents in the study area are below what is affordable to households earning the area median income, the municipal median income (MMI), and the municipal median family income (MMFI). In Cambridge, however, the median rent exceeds what is affordable to households earning any median income. Similarly, in Somerville, the median rent exceeds what is affordable to households earning the local median income.

There is even greater variation among homeownership markets. Generally, median home values consistently exceed the price above which households earning the area median income, local median income, and local median family income can afford. However, in Melrose, households earning the median family income can afford homes at the median value. This is true in Boston and Winthrop for households earning the area median income.

These findings, however, do not hold when different data sets are analyzed. Census data on rents and home values are limited in several key ways. Most importantly, data reflect households that have occupied their units for unspecified periods of time, rather than aspiring renters and homeowners entering the market. Zillow rental rates, analyzed below, reflect current market conditions, rather than Census estimates that reflect rents at the time of lease signing. Assessor home sale price data, also analyzed below, is recorded by the municipality, as opposed to the Census home value estimates provided by homeowners. This data tells a very different story of significantly less housing affordability to middle-income households across the study area.

The Boston region is one of the most expensive housing markets in the country. Every year since 2000, the median home price in Boston has been more than 50% higher than the national median, as seen in Figure 6 (right). Among major metropolitan areas, only San Francisco, Los Angeles, New York, and Washington, D.C. have higher median sale prices.

As Figure 6 shows, the median sale price in the Boston region has been between the lower- and upper-middle-income bounds since 2000. This means that most home sales since then have been unaffordable to lower middle-income households, but affordable to upper middle-income households. Because of this finding, MAPC also noted the 120% of AMI income limit for a three-person household in order to assess above what income level housing becomes significantly more affordable to middle-income households. As seen in Figure 6, three-person households earning 120% of AMI have been able to afford most homes sold in the Boston region every year since 2000. It should be noted, however, that the Boston region includes several lower-cost

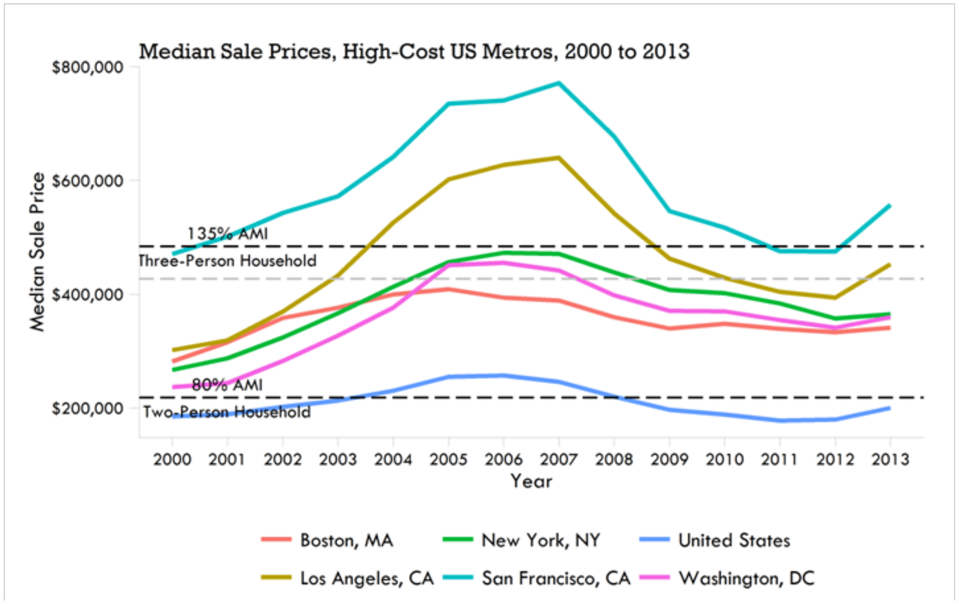


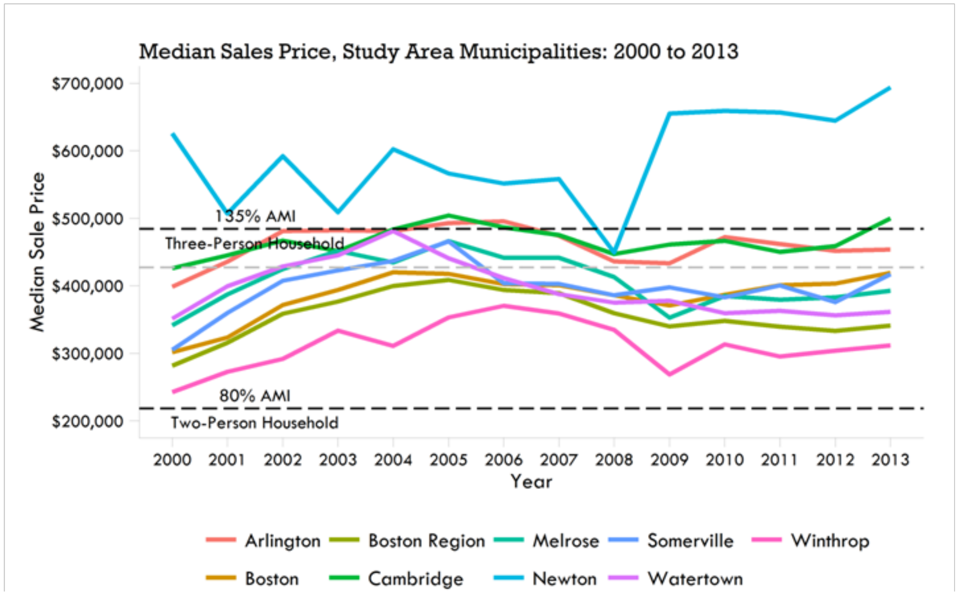
Figure 6. Black horizontal lines represent estimated affordable home price limits for a 2-person household with income totaling 80% of AMI and a 3-person household with income totaling 135% of AMI. The grey line represents the limit for a 3-person household at 120% of AMI. These rates were calculated with the Zillow affordability calculator, assuming a 360-month, fixed-rate loan, $20,000 in down payment, $250 in monthly household debts, an interest rate of 4.1%, property taxes of 1.2%, and annual home insurance of $800. Source: Zillow 2013 and HUD 2013.

housing markets, which bring down the median sale price.

Zooming into the municipal level, median sale prices in all but one study area municipality (Winthrop) are higher than in the Boston region overall. Home prices have been highest in Newton, Arlington, and Cambridge over the last 10 years. Though they have not consistently been unaffordable to an upper-middle-income household, median sale prices in these communities have been higher than what even a middle-income three-person household earning 120% of AMI can afford in every year since 2001. If these communities formed a region unto themselves, only the San Francisco metro area would be more expensive.

Boston, Somerville, Melrose, and Watertown make up the next tier, with median prices affordable to an upper middle-income household and one earning 120% of AMI, but still 6-23% above the overall regional rate.

Median rents increased sharply in the Boston region from 2010 to 2013, as seen in Figure 7 (right). In 2010, Boston median rent was lower than in New York, Los Angeles, San Francisco, and Washington, D.C. Since then, however, median Boston rent has climbed 36%. Now, only New York is more expensive. Over that time period, median Boston rent has gone from 12% above what a lower middle-income household can afford to 53% above it.[9]



Figures 7-9. Source: Affordability limits are calculated as 30% of monthly household income. Source: Zillow 2013 and HUD 2013.

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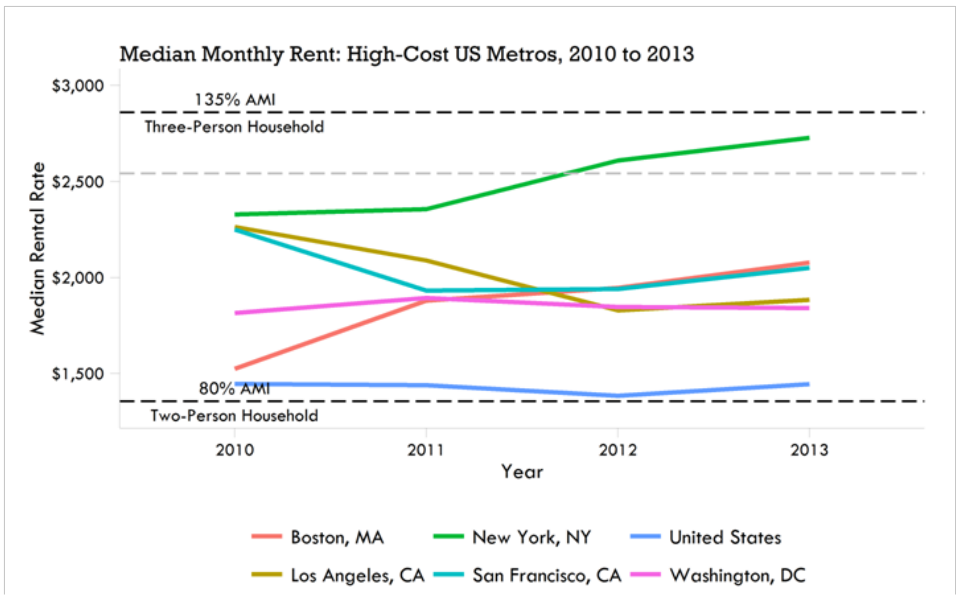
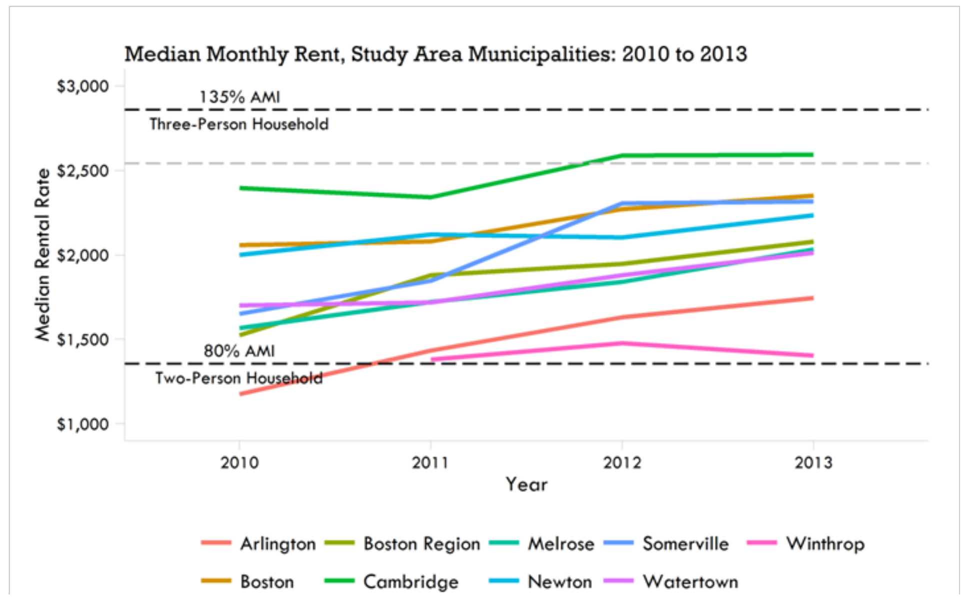
[6] "Zillow Real Estate Research," Zillow, accessed April 2, 2014, http://www.zillow.com/research/data/.

Zooming into the municipal level, median rent significantly increased in all study area communities since 2010. Cambridge saw the most modest increase, 8%, while Arlington saw the most severe, 49%, as seen in Figure 9 (below). By 2013, median rent in each study area municipality was above what a lower-middle-income household can afford. In Cambridge, median rent is above what even an upper middle-income household can afford.

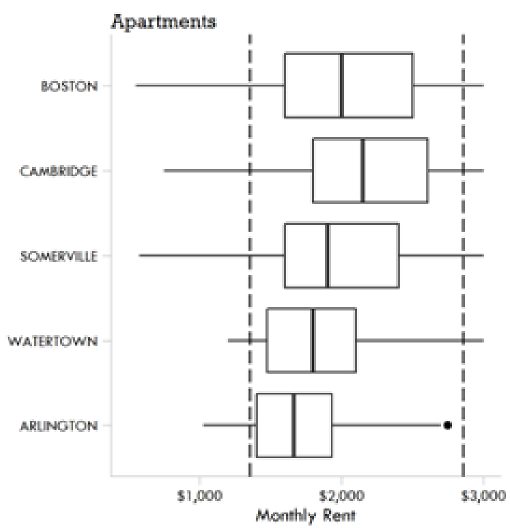




In Figure 10 (below), lower and upper middle-income affordability limits are overlaid with boxplots that show the 25th, 50th, and 75th percentiles of inflation-adjusted housing costs between 2000 and 2012 in study area communities.[10] The lower-middle-income limit is below the 25th percentile of single-family home sales in all study area communities, meaning at least 75% of all home sales are unaffordable to lower-middle-income households. The upper-middle-income limit is at or below the median sale

[7] Data were unavailable for Boston and Newton. For rental data, we excluded any municipality for which there was less than 25 records.

price in Cambridge, Arlington, and Watertown, meaning most single-family homes in these communities are unaffordable to even upper-middle-income households.



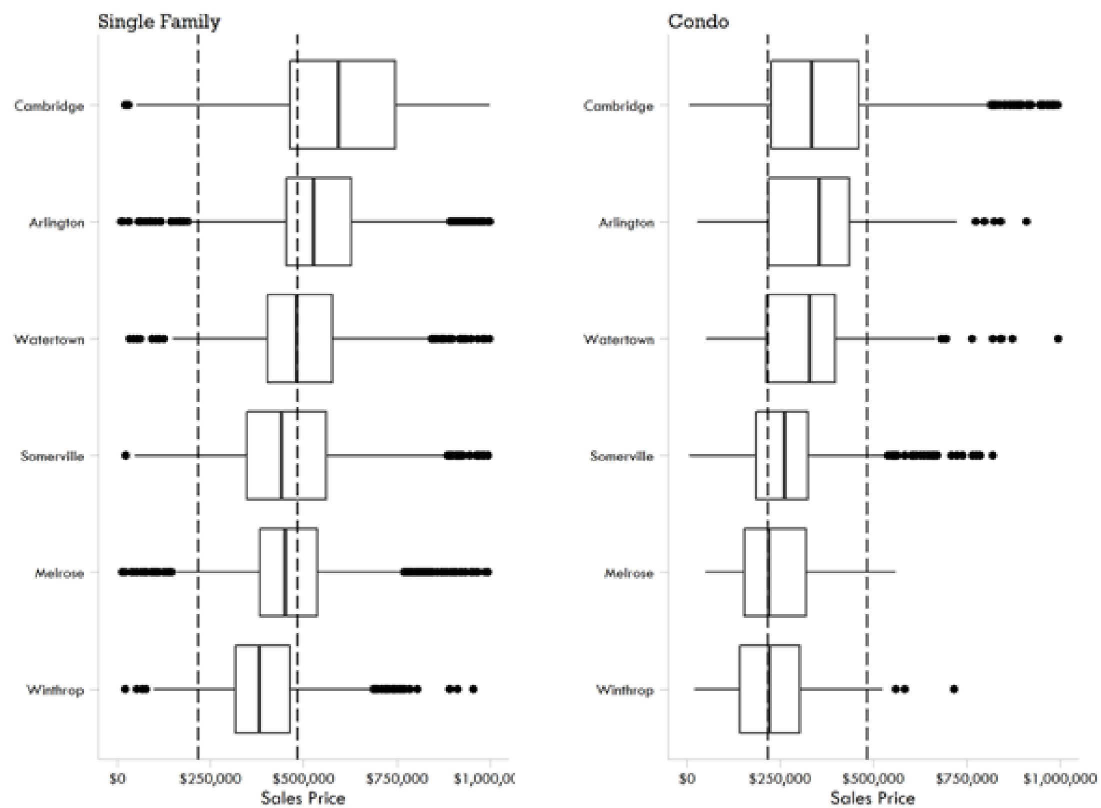


Figure 10. Box plots show the 25th (left), 50th (middle line), and 75th (right) percentiles of sale prices and rental rates between 2000 and 2012. Dashed lines represent affordability limits for 2-person households at 80% of AMI (left) and 3-person households at 135% of AMI (right). Source: MassGIS Level 3 parcel file, HUD 2013, Padmapper.

Condominiums are somewhat more affordable to middle-income households. In all study area communities, upper-middle-income households can afford most condos sold since 2000. For lower-middle-income households, however, the median condo price is only affordable in Melrose and Winthrop, and 75% of condos sold since 2000 are unaffordable to lower-middle-income households in half of all study area municipalities.

Renting is the most affordable housing option for middle-income households. Upper-middle-income households can afford more than 75% of rentals across the study area. Lower-middle-income households, however, can afford less than 25% of rentals.

There is consistent and compelling evidence that there is a shortfall of units affordable to lower-middle-income households in all study area communities. Single-family homes are unaffordable to these households in all study area municipalities, and condos are unaffordable in half. Even rental housing within the study area is generally unaffordable to lower-middle-income households. As we move up the middle-income ladder, however, the story changes. Single-family homes remain unaffordable to upper-middle-income households in Cambridge and Arlington, while condos and rental rates are affordable in all study area communities.

A tale of two middles is emerging that will help guide initiatives and resources towards a lower-middle-income band with more restricted options in the study area. Their demand cannot be met with traditional detached single-family housing alone, both because it is too costly to produce in these markets and because there is not enough space to adequately expand the supply. To address lower-middle-income housing demand, then, the supply of multi-family housing of both tenures must be increased in appropriate locations.

Cost Burden

Cost burden is another measurement of housing affordability. Households that spend more than 30% of their gross income on housing are considered to be housing cost burdened, and those that spend more than 50% are considered to be severely cost burdened. HUD considers a rate of 30% or higher cost-burdened households and 15% severely cost-burdened households to pose a significant issue for a community.

There is limited data on cost burden rates among middle-income households. The best information comes from the HUD

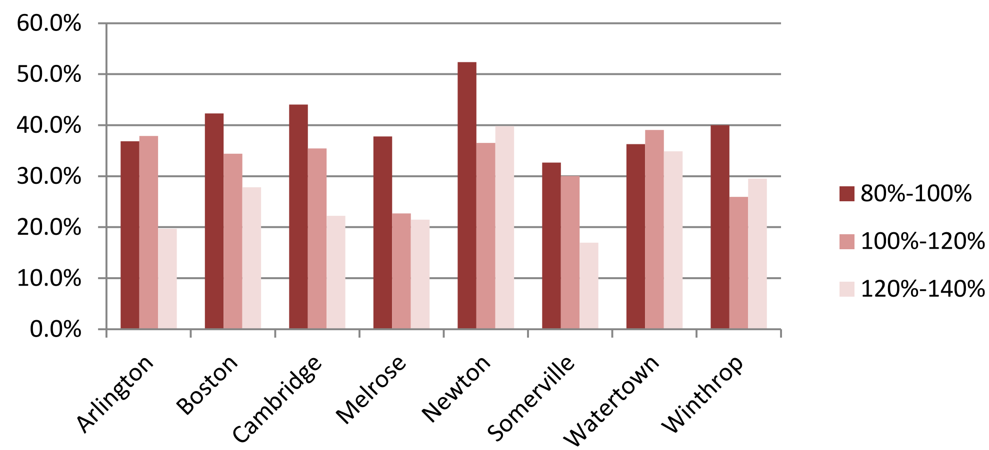
Housing Affordability

Comprehensive Housing Affordability Strategy (CHAS), which measures the extent of housing problems—of which cost burden is one—experienced by middle-income households earning between 80-140% of AMI. A household is said to have a housing problem if it has one or more of the following troubles:

1. housing unit lacks complete kitchen facilities;
2. housing unit lacks complete plumbing facilities;
3. households is overcrowded; and/or
4. household is cost burdened.

2006-2010 ACS data estimates indicate that the first three problems are rare within the study area. In each municipality, less than 1% of all occupied housing units lack either a complete kitchen or plumbing facility. Rates of overcrowding are slightly higher for select municipalities. The highest rates are in Boston and Cambridge, where 2.7% and 2.1% of occupied housing units have more than 1 occupant to a room. In Somerville, Winthrop, and Watertown, 1-1.5% of occupied housing units have more than 1 occupant to a room. This is a problem for less than 1% of housing units in Arlington, Melrose, and Newton. Therefore, we can conclude that the primary housing problem affecting households in these cities is cost burden.

Figure 11: Housing Problems by % of AMI



Source: CHAS Table 11

Across the study area, a significant percentage of lower-middle-income households are cost-burdened. Rates decrease as percentage of AMI increases, though not always dramatically. In Arlington, Somerville, and Watertown, rates of cost burden are comparable among households earning both 80-100% of AMI and 100-120% of AMI. In Watertown, rates of cost burden are comparable among all middle-income levels, including 120-140% of AMI.

The reason why we do not always see a significant decrease in cost burden as percent of AMI increases, despite greater affordable housing availability to upper-middle-income households, may be due to the fact that this condition among middle-income households is not necessarily limited to a lack of affordable housing. Instead, their high rate of cost burden may be due to the housing choices they've made, such as opting to buy a home that is more expensive than they can afford or in a particularly high-cost neighborhood.

Cost burden is more common among middle-income homeowners than renters in every study area municipality, as seen in Figure 12 (right). The difference in rates of cost burden by tenure is increasingly dramatic as income rises. In all study area communities, more than 40% of owner-occupied households with incomes between 80% and 100% of AMI are cost-burdened. In all study area communities but Melrose, more than 40% of owner households with incomes between 100% and 120% of AMI are cost-burdened. The instance of housing problems declines among households with incomes between 120% and 140% of AMI. Only in Boston, Newton, and Watertown do more than 40% of these owner households face housing problems.

An analysis of cost burden by income and household type confirms the "tale of two middles" referenced earlier in this document. Due to CHAS data bundling, it is unfortunately impossible to compare lower-

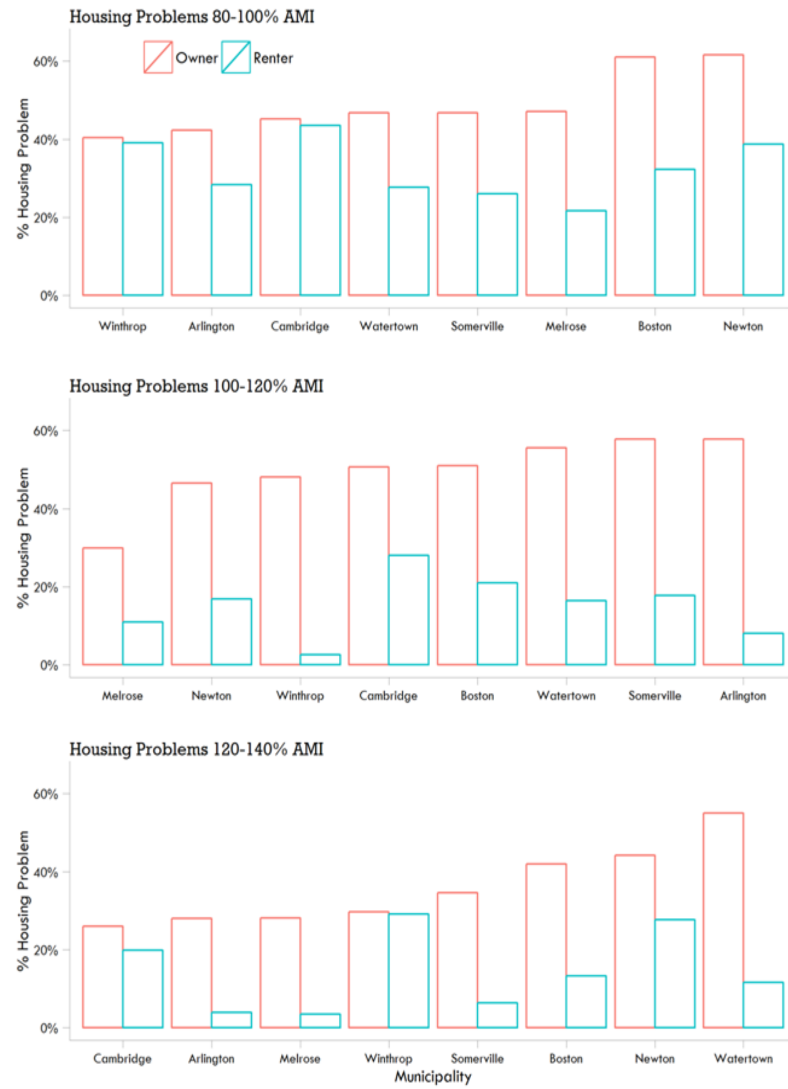


Figure 12. Source: CHAS 2011 Table 11.

middle to upper-middle-income households; instead, this analysis compares lower-middle-income households to upper-middle- and upper-income households, combined. It is unsurprising, then, that, at the regional level, lower-middle-income households are significantly more cost burdened than the comparison group. What is notable, however, is what types of lower-middle-income households are especially cost burdened. Regionally, large family households experience the highest rate of cost burden, followed by non-elderly non-family households, and then small family households. Perhaps surprising, the rates of cost burden are lowest among lower-middle-income elderly family and elderly non-family households.

Table 10: Cost Burden of Lower-Middle-Income Households by Household Type

	Elderly Family	Small Family	Large Family	Elderly Non-Family	Non-Elderly Non-Family
Arlington	22%	33%	28%	29%	43%
Boston	28%	39%	32%	40%	53%
Cambridge	63%	46%	37%	42%	62%
Melrose	38%	43%	84%	33%	29%
Newton	54%	67%	52%	35%	56%
Somerville	24%	36%	18%	32%	51%
Watertown	22%	47%	52%	17%	54%
Winthrop	23%	53%	30%	43%	56%
MAPC Region	29%	48%	50%	35%	49%

Source: CHAS 2007 - 2011

At the local level, there are some exceptions to this general trend. In Cambridge, the highest rate of cost burden among lower-middle-income households is among elderly families. In Newton, both elderly and small families have very high rates of cost burden.

Barriers to Middle-Income Housing Development

Key Barriers

- Land costs
- Construction costs
- Regulatory framework
- Lack of public resources and support
- Minimal developer incentive compared to strong return on market-rate housing
- Marketability of affordable units to middle-income households given available options in lower-cost markets

Barriers to Middle-Income Housing Development

Having established that a significant portion of study area housing is unaffordable to a specific middle-income demographic, it is important to understand why. This section explores barriers to the development of housing at a price point affordable to middle-income households. It includes a literature review of the drivers of housing production costs in hot markets, which indicates that land use regulation is a primary factor, and a summary of discussions between MAPC and professionals in policy, housing development, and lending.

Literature Review

Edward L. Glaeser, Jenny Schuetz, and Bryce Ward, "Regulation and the Rise of Housing Prices in Greater Boston," Rappaport Institute for Greater Boston, Pioneer Institute Policy Briefs (February 2006).

This study finds that the greater Boston area[9] housing market is "dysfunctional" as is evident by the fact that supply is not increasing in response to rising prices to the point that prices plateau or even fall. The authors attribute this to limited land availability and/or restrictive land use regulations. The latter includes growth caps and phasing schedules, the prohibition of irregularly shaped lots, wetland regulations, septic system regulations, and subdivision rules. Such regulations, the authors argue, reduce new construction permits, limiting supply and increasing housing prices. They also note that housing markets in the Boston metropolitan area are regional rather than local, so that more restrictions in one municipality not only raise prices there but also in neighboring cities and towns, regardless of their own land-use restrictions.

Edward L. Glaeser and Joseph Gyourko, "The Impact of Zoning on Housing Affordability," Harvard Institute of Economic Research Discussion Paper Number 1948 (March 2002).

If the housing supply in a given market does not increase to meet demand, prices rise. Glaeser and Gyourko argue that more so than limited land availability, housing supply restrictions (e.g. impact fees or a lengthy approval process) resulting from actions taken by zoning authorities artificially increase the cost of construction. The authors find that the price of housing is significantly

[8] Of the study area municipalities, this includes Boston, Cambridge, and Newton.

higher than construction costs in some areas, including Boston. They contend that in fact there is developable land in the city and other high-cost areas, and therefore new construction would theoretically push the cost of housing down to physical construction costs were it not for regulatory barriers to building. The authors conclude, then, that the affordable housing debate should move beyond subsidy to zoning reform.

Joseph Gyourko and Albert Saiz, "Construction Costs and the Supply of Housing Structure," Journal of Regional Science, Vol. 46, No. 4 (2006), p. 661-680.

Gyourko and Saiz find that the national rise in housing prices over the past several decades can be attributed to the cost impacts of union labor, local topography, and the local regulatory environment. The former two variables proved most statistically significant in their study: The share of unionized construction workers is a strong predictor of higher construction costs ("either directly via wage premia or through impacts on productivity via restrictive work rules or other channels," 673) and construction costs are approximately 10% higher in mountainous or hilly metropolitan areas (potentially due to the higher costs of bringing products to these markets or the increased costs of construction activities, such as laying the foundation).

Joseph Gyourko, Albert Saiz, and Anita A. Summers, "A New Measure of the Local Regulatory Environment for Housing Markets: The Wharton Residential Land Use Regulatory Index," Urban Studies (March 29, 2007).

The authors consider several larger U.S. coastal housing markets, and conclude that land use regulation contributes to the inelastic nature of the housing supply. They note that local regulation can impact building in myriad ways, from prohibiting a project altogether to increasing costs by delaying the development process, restricting design, or making it easier to challenge development rights through litigation. The authors find that Massachusetts is one of the most highly regulated states in the country, more than 1.5 standard deviations above the national mean. At the metropolitan area-level, Boston scored equally highly.

Interestingly, the authors find that community wealth is strongly positively correlated with the degree of local land use regulation: The higher the median family income, median house value, or the share of adults with college degrees in the population, the greater the community's score on the residential land use regulation index. Median house value in highly regulated places is nearly double that in lightly regulated places.

Edward L. Glaeser, Joseph Gyourko, and Raven Saks, "Why is Manhattan So Expensive? Regulation and the Rise in House Prices," National Bureau of Economic Research (November 2013).

The authors find that housing prices in certain high-cost markets significantly exceed their supply costs, and attribute this gap to land use restrictions that constrain the housing supply so that increased demand leads to higher prices, rather than an increase in units. They note that in a free market, competition should push prices down to marginal costs. Instead, they conclude, supply-side restrictions in the form of government regulations have led to soaring housing prices. In the Boston metropolitan area specifically, they find the gap between constructions costs and home prices is significantly higher than average.

Focus Group Findings

To expand on this literature review, MAPC held two focus groups and conducted multiple interviews with local developers, lenders, and policymakers. Citizens' Housing and Planning Association, Eastern Bank, Forest City Boston, Homeowners Rehab, Inc., Housing Partners, Inc., Just A Start Corporation, Massachusetts Community & Banking Council, Massachusetts Housing Investment Corporation, Massachusetts Housing Partnership, MIT, Trinity Financial, and other organizations were engaged. Preliminary discussion centered on barriers to development of housing that is affordable to middle-income households, including the high costs of land acquisition, labor, and construction; lengthy and unpredictable permitting processes; parking minimums; and other factors that impact the developer's return on investment; as well as the ability to secure financing. Everyone agreed that there is no one variable responsible for the high cost of housing in the study area. What follows is a summary of main themes that emerged during this consultation process

In primary housing markets, developers face high barriers to entry. These include land acquisition; construction costs; labor; infrastructural costs like sewage and waste water and storm water treatment; and building codes like LEED and Stretch Energy. Though these barriers indicate an attractive market that lenders are eager to operate in, they also increase the cost of a project directly and indirectly, because they increase the length of time it takes to complete it and therefore the level of risk involved in doing so. This means the debt financing is more difficult and expensive to procure; lenders charge a higher interest rate to account for the increased risk. As a result, a developer expecting a certain return on investment has little choice but to demand a higher rent or sale price. Not only do these costs get passed on to the unit renter or buyer, they can also constrain supply because the difficulty of doing deals here means fewer deals get done.

LAND COSTS

In addition to constructions costs, which are primarily based on materials and labor and largely out of the developer's control, land acquisition is a significant investment that the developer chooses to make. Theoretically, this cost is negotiable. However, a typical private landowner will calculate price based on highest and best use. In residential development, that often equates to number of market-rate units developable on a site, regardless of whether the developer is willing to take a lower return on the investment by reducing rent or sale prices. "You can't tell the private land owner to take a discount on their land because there's an affordability crisis," Doug Arsham of Forest City Boston says. "Land will always be priced at the highest possible level; no one prices their land at a discount."

The potential for a density bonus often inflates land prices further. Because land tends to be under-zoned in cities in the region, floor area ratio (FAR) relief is routinely built into projects. When the landowner calculates a sale price, then, he typically does so based on the maximum density a developer can expect. So the economic benefit of density bonuses are passed on to the land seller, rather than going to the developer to fill the financing gap.

CONSTRUCTION COSTS

Building housing at scale means higher construction costs for a number of reasons, including the need for steel frame construction and structured parking. Lower density housing is less expensive to develop because of the stick-frame construction technique and the reduced parking requirement. However, reducing parking minimums for high density housing may be a problematic solution. Middle-income households, especially those with kids, may demand two parking spaces for one unit; a failure to deliver that may reduce marketability. There is need to study car ownership by income level in order to determine whether amending parking minimums or establishing maximums instead is a legitimate approach to reducing construction costs.

PERMITTING PROCESS

Process is another factor that increases housing production costs. As Mark Curtiss of Massachusetts Housing Partnership says, "The reality is, almost anything that you would build of any scale is going to require a special permit or variance." This extends the permitting process, often leading to a lengthy appeals process and community engagement process, even litigation.

DISINCENTIVES

Another barrier is the lack of middle-income housing programs and incentives to develop housing at this price point. Christopher Scoville, who works in Community Development Lending at Eastern Bank, notes that the majority of the loans he closes are for 100% affordable housing because of the competitive nature of the Low-Income Housing Tax Credit (LIHTC). DHCD awards points based on, among other factors, the amount of affordable housing a project includes. Consequently, developers are incented to do 100% affordable projects at 60% of AMI, even if the market could support mixed-income housing with units restricted for middle-income households.

Kenan Bigby of Trinity Financial notes that deed restriction is another potential disincentive to developers. "The middle-income product looks a lot more like high-end market-rate development than affordable housing," he says. "A lot of the programs are set up to treat it more like affordable, and it makes it tough for developers to want to jump into the pool." He notes that for-sale deed-restricted condos won't provide the return many developers need to justify the project. Moreover, it requires "a lot more regulation, hoops to jump through, and problems to solve with limited resources. It becomes a question of why go through this when I can pick another location, another price point, and have an easier time of it," Bigby says. Kathy McGilvray of Massachusetts Housing Investment Corporation agrees. Speaking of the compliance issues with deed restriction, she says, "If you're asking a developer to take lower returns, how much bureaucracy can you layer on before it becomes not worth it to him?" Bigby suggests there's a need to recognize "that the product should look a little more like market-rate and be based on leverage and return on investments, versus deed restriction and subsidy."

The high return on market-rate housing is another potential disincentive to developers. High development costs in the study area and the lack of public subsidy available for middle-income housing development is a powerful combination that renders it nearly impossible to get a middle-income housing project to yield a return on investment. The larger developers who do projects at scale are often unwilling to sacrifice their bottom line. Kathy McGilvray of the Massachusetts Housing Investment Corporation notes, “Interest rates have been so low; you’d think the price of capital being lower would encourage more middle-income housing. Instead, it just encourages developers to make more money on their projects.”

Even if certain developers—such as mission-oriented developers—were willing to take a lower return on a project, lenders won’t necessarily finance them. Projects with an insufficient developer fee are riskier. If unforeseen issues arise and the construction contingency does not cover the associated expenses, the developer must repay the loan out of his fee. However, if it is too low to provide that sort of cushion, repayment is jeopardized.

Strategies to Increase the Middle-Income Housing Supply

Key Strategies

- Land disposition
- Construction techniques
- Local housing programs
- Taxation strategies
- Regulation and zoning amendments
- Financing

Strategies to Increase the Middle-Income Housing Supply

National Best Practices

The following is a review of national best practices implemented in high-cost housing markets, including but not limited to New York City, San Francisco, and Montgomery County, Maryland. These practices comprise policy and program ideas, regulatory or zoning changes, taxation strategies, and funding resources. Perhaps unsurprisingly, research suggests that there are a limited number of practices in place to address the housing demands of middle-income households in high-cost markets.

PROGRAMS

New York City, NY

The New York City Housing Development Corporation's (HDC) award-winning mixed-income (50/30/20) program requires that 20% of units in multi-family rental developments be restricted for low-income tenants (earning at or below 50% of AMI), 30% for middle-income tenants (earning at or below 130% of AMI), and the remaining 50% be rented at market rates. The program combines a first mortgage, funded through proceeds from the sale of variable or fixed-rate tax-exempt bonds, with a second mortgage, provided through HDC corporate reserves, to developers of eligible projects of 100 units or more, including new construction, substantial rehabilitation, and conversion of non-residential buildings. Under Mayor de Blasio, this plan may be expanded to target 20% of units to low-income households (earning 50-80% of AMI), 30% to moderate-income households (earning 81-120% of AMI), and 50% to middle-income households (earning 121-165% of AMI), rather than leased at unrestricted market-rate rents. In some areas, the middle-income rents may be at or close to market rate, but by restricting them, they will remain affordable to middle-income households even as neighborhood rents rise. The aim is that these rents will cross-subsidize the more deeply affordable units.

Under another proposed plan, middle-income housing developed on City-owned land can be financed through the issuance of tax-exempt 501(c)(3) governmental purpose bonds issued by HDC to provide tax-exempt financing to non-profit owners.

Under the New Infill Homeownership Opportunities Program (NIHOP), which promotes workforce homeownership opportunities, sponsors purchase City-owned land and construct one-to-four-family homes, cooperatives, or condominiums. While at least one third of units in each development must be affordable to households earning up to 80% of AMI, projects that include additional tiers of affordability for households earning 80-100% and 100-130% of AMI receive greater consideration.

San Francisco, CA

San Francisco draws on its housing trust fund to support a loan program of $2 million annually. Interest-free loans of up to $200,000 are available to first-time homebuyers for down payments on market-rate homes that have a current sale price median of more than $800,000. Qualifying applicants must make no more than 120% of AMI. Loan recipients are not required to pay back the loan until 40 years after it is issued or when the home is sold or refinanced.

The City Second Loan Program and the Downpayment Assistance Loan Program (DALP) offers down payment and closing cost assistance with no interest and deferred payment to first-time homebuyers of single-family homes earning up to 120% of AMI. The DALP requires no payments for 40 years; after that period or upon re-sale, the principal amount plus an equitable share of the appreciation is due. The Police in the Community Program (PIC) and Teacher Next Door Program (TND) function similarly.

Montgomery County, Maryland

Montgomery County’s Workforce Housing (WFH) program promotes the construction of ownership housing that is affordable to households with incomes between 71% and 120% of AMI. New and re-sale homes have a 20-year control period, during which owners must occupy the home as their primary residence, the owner must not refinance the home based on market value, and the home can be resold for no more than the re-sale price established by the Department of Housing & Community Affairs (DHCA) to an approved WFH program participant. After the control period, should the owner sell the property, he must pay half of the excess profit to the County.

Strategies to Increase the Middle-Income Housing Supply

Seattle, WA

Seattle is currently developing an inclusionary housing policy that will target households earning 60-100% of AMI. In 2013, the City adopted a resolution to conduct "a thorough review and update of Seattle's incentive zoning and other affordable housing programs and policies focused on creating affordable Workforce Housing by establishing an Expert Advisory Team that will advise and make recommendations to the City Council." Recommendations from Cornerstone Partnership circa July 2014 include setting aside 1/3rd of fee revenue from incentive zoning to fund new programs designed to serve households earning 60-100% of AMI, a group that faces housing challenges in many parts of the city but benefits from few existing programs. In addition to serving this slightly higher income group, the consultant recommends that programs prioritize production of larger units with three or more bedrooms.

Fairfax, VA

In 2010, Fairfax County adopted a 20-year comprehensive plan to guide high-density development in the commercial center known as Tysons Corner. The plan requires developers to include 20% lower- and moderate-income housing units in exchange for high floor area ratios (FAR) ranging from unlimited to three at TOD sites. Specifically, developers are required to price 2% of units for households earning 60% of AMI, 3% at 70% of AMI, 5% at 80% of AMI, 5% at 100% of AMI, and 5% at 120% of AMI. Office, retail, and hotel developments that take advantage of higher densities must make contributions to the county's affordable housing trust fund. Developers can make contributions at $3 per square foot or annual payments of $0.25 per square foot for 16 years.

TAXATION STRATEGIES

Philadelphia, PA

The Homestead Exemption offers real estate tax savings to homeowners by reducing the taxable portion of their property assessment by $30,000. The Longtime Owner Occupants Program (LOOP) offers qualifying homeowners who have seen their property value triple between 2013 and 2014 a discount on their real estate taxes for a period of 10 years. Under LOOP, sometimes referred to as Gentrification Relief, eligible homeowners who have lived in their single-family or multi-unit properties as a primary residence for at least 10 years and do not exceed the income limit will see their 2014 assessment capped at no more than 300% of their 2013 assessment for tax purposes. Both programs are designed to retain long-time residents of gentrifying neighborhoods where property values have soared. (Boston has already introduced legislation to establish a similar program wherein residents who have owned homes for more than 10 years and whose property taxes have increased by 10% or more can defer property tax payments until they sell their home.)

REGULATION & ZONING AMENDMENTS

Los Angeles, CA

Under LA's Small Lot Subdivision (Townhome) Ordinance, passed in 2005, the City subdivides lots located within existing multifamily and commercial zones to develop fee-simple, detached townhomes that are not required to be part of a homeowner's association. These small lot or townhome units allow buyers to own both the land and the structure, rather than just a percentage of shared space (as in a condominium project), making them more attractive to first-time buyers.

The ordinance also allows one parcel to be subdivided into a single home, a duplex, or a triplex, as long as the subdivision does not exceed the dwelling unit requirement established by the underlying zone. The ordinance also reduces minimum lot size and side yard requirements to allow for creative townhome developments. Parking requirements were also amended; small-lot developments are not required to provide parking spaces on the same lot, but do require two garaged parking spaces per unit.

Kirkland, WA

In 2002, the City began evaluating cottage housing under its Innovative Housing Demonstration Project Ordinance, and then passed a final ordinance in 2007. The ordinance mandates that a certain number of units within a project must be economically accessible to households earning anywhere from 80% to 100% of the county's median income. The City requires that cottage housing developments of up to 19 units must set aside 1 affordable unit, and developments with 20-24 total units (the maximum allowed under the code) must set aside 2 affordable units.

Portland, OR

The City's Living Smart Program, launched in 2004, allows permit-ready skinny-lot housing on small, infill lots. Through a design competition, the City identified two models that it designated pre-approved housing plans. Neither design met zoning requirements, so the City Council approved necessary amendments to the zoning code in 2006, including an exemption from off-street parking requirements. The permit-ready plans can only be used for lots measuring less than 36 feet wide and located outside of historic and conservation districts. Developers can purchase building permits and receive plan sets free of charge with the assurance that the plan will be approved, but if the developer changes the exterior, the design would be subject to normal review processes. Developers can make changes to the interior floor plan, but the architect must first approve the modifications. Completed site plans for Living Smart homes are eligible for review under the City's Fast Track program, by which developers with eligible projects can receive housing permits within 10 working days, saving them both time and money.

San Francisco, CA

In 2007, SPUR, a San Francisco nonprofit organization, convened a task force of architects, developers, and policymakers charged with exploring strategies to reduce the hard costs of new housing construction with the goal of facilitating development of housing that can be brought to market at prices affordable to households earning 120-150% of the San Francisco median income. The resultant recommendations encourage the development of market-rate units that are affordable by design because they are small and often have fewer amenities, like off-street parking. Recommended changes to the City's planning and building codes in order to encourage housing that is affordable by design include: regulate building density by height, bulk, and setback requirements, not by limits on the number of units; remove parking requirements in new buildings; cease to regulate bedroom counts; allow housing on the ground floor, currently required to be parking and/or retail, of wood-frame developments and permit a fifth story of wood-frame construction; allow developers to fulfill their inclusionary housing requirements by providing a higher percentage of affordable units at middle-income price points, rather than fewer units at moderate-income price points;

and modify requirements for courtyard widths and rear-yard setbacks to allow for greater design flexibility for common open space.

FINANCING

New York City, NY

Tax-Exempt Bond Recycling permits loan prepayments received from bond-financed multifamily housing projects (paydowns that occur with LIHTC equity) to be reissued as tax-exempt bonds to fund affordable housing development with no additional allocation of new volume cap. Unlike the original bonds, recycled bonds do not come with as-of-right tax credits, and therefore are often used for middle-income projects for which tax credits are less instrumental.

Study Area Strategies

CURRENT STRATEGIES

Several municipalities within the study area already have some strategies to expand the supply of housing affordable to middle-income households earning up to 120% of AMI currently in place. What follows are short descriptions of select financing strategies by municipality.

Arlington

Through the disposition of Town-owned land and inclusionary zoning, Arlington was able to require Arlington360, a 176-unit mixed-income rental apartment complex, to include 9 units leased via lottery to households earning 80-120% of AMI. The town was able to require affordability because the project was built on Town-owned land and inclusionary zoning stipulates that all developments over 6 units must include 15% of units affordable to low- and moderate-income households. The middle-income units have been difficult to lease because rents of $2,100-$2,300 are perceived as relatively high, differing only slightly from market-rate older units in town. The project was originally conceived as ownership housing, but was developed as rental due to changes in the market and financing requirements. It is the Town's opinion that the middle-income requirements would likely have been more desirable as ownership units.

Boston

In Boston, Homebuyer Financial Assistance provides graduates of Homebuying 101 and Homeowner 201 who earn up to 120% of AMI and are purchasing a 1-3-family home or condominium in the city with up to 3% of the purchase price for down payment and closing costs, up to $20,000 in down payment and closing costs under the 3D Advantage program, and up to $20,000 toward the purchase and repairs of a foreclosed property in certain neighborhoods.

3D HELP offers triple-decker homeowners who earn up to 120% of AMI the opportunity to receive up to $30,000 in home repair or energy retrofit funding. Households earning greater than 100% of AMI must match the funding on a 1-for-1 basis.

Boston's Inclusionary Development Program requires that any residential development project of 10 or more units undertaken or financed by any City of Boston agency or to be developed on City-owned property is required to include at least 15% of units affordable to middle-income households defined as those earning 130-160% of the Boston Median Household Income (BMI) according to the U.S. Census Bureau's American Community Survey for ownership housing and as those earning 100-125% of BMI for rental housing. Developers can fulfill this obligation through direct construction of affordable units on or off site, or by making a financial contribution to an affordable housing fund that amounts to 15% of the total number of dwelling units in the proposed project multiplied by the Affordable Housing Cost Factor. For ownership housing, the Affordable Housing Cost Factor is no less than one-half the difference between the price of the average market-rate unit and the price of an on-site affordable unit as determined by the Boston Redevelopment Authority (BRA), or $200,000, whichever is greater; for rental housing, it is $20,000 paid in seven annual installments.

The New Neighborhood Homes Initiative, formerly the the Middle Income Housing Initiative, makes up to one million square feet of vacant City-owned land available to small builders at below market prices in exchange for development of ownership housing affordable to middle-income households. The unit mix is required to be at a minimum 1/3rd affordable to households earning annual incomes of $50,000, 1/3rd affordable to households earning annual incomes of $60,000, and 1/3rd priced at market rates. The City plans to make 200-300 sites available over the next three years.

Cambridge

Cambridge Affordable Housing Trust and/or City funds are used to finance the construction of new units or acquisition and then conversion of existing market-rate units for middle-income households earning up to 100% of AMI. These units are generally included as an additional affordability tier in developments including low-to-moderate-income housing.

City funds are offered as deferred loans with long-term affordability required to first-time homebuyers earning up to 100% of AMI. Another program, now discontinued due to lack of demand, offered low-interest financing to buyers earning 100-120% of AMI.

City land is made available for the development of mixed-income affordable housing for households earning up to 100% of AMI.

On a project-by-project basis, units for middle-income households earning up to 120% of AMI (and often for lower-income households earning less than 80% of AMI) are required when developers request zoning relief for phased or master-planned housing developments. Similarly, units are sometimes required as part of special permitting or other approvals.

The Inclusionary Zoning Ordinance currently creates units for households earning less than the actual 80% of AMI for the Boston-Cambridge-Quincy MSA, which is higher than that adjusted by HUD and therefore captures some middle-income households.

The City's Homeownership Resale Program manages resale of City-assisted affordable homeownership units. Of 500, approximately 90 are affordable to middle-income households earning up to 120% of the actual AMI.

Strategies to Increase the Middle-Income Housing Supply

Somerville

Somerville's Inclusionary Housing Program requires that a minimum of 12.5% of a project's units be affordable. At least half of those must be affordable to households earning less than 80% of AMI for homeownership and less than 50% of AMI for rental, while the other half must be affordable to households earning up to 110% of AMI for homeownership and 80% of AMI for rental.

The City's Affordable Housing Trust Fund assists households earning up to 110% of AMI, mainly through closing cost assistance loans.

In 2012, voters passed the Community Preservation Act (CPA), which offers assistance to households earning up to 100% of AMI in the form of affordable housing creation and preservation.

STRATEGIES UNDER CONSIDERATION

In addition, several study area municipalities are considering other strategies to expand the housing supply for middle-income households, described below.

Cambridge

The City is considering zoning changes in Kendall and Central Squares that would incent the development of housing for middle-income households through access to additional development potential (height and density) in certain districts.

Citywide zoning changes to encourage development of affordable housing across Cambridge, likely including units for middle-income households, by addressing barriers like land costs, density limits, and by-right approval are being considered.

A linkage study is underway that would lead to recommended changes to the Incentive Zoning Ordinance and result in an adjusted contribution rate based on the increased need for affordable housing, including middle-income units, due to the impacts of new non-residential development.

A study has been commissioned to recommend changes to the City's Inclusionary Housing Ordinance that may result in recommended strategies to address the demand for middle-income housing.

The City is currently considering making City land and funds available for the development of mixed-income housing, including units for middle-income households.

Newton

Newton is considering a zoning bylaw to promote "naturally affordable housing," or housing that is affordable by design without public subsidies or deed restrictions. Specifically, this would take the form of scattered small housing developments in the City's Multi-Family 1 District, where existing housing is of a density similar to that necessary to achieve natural affordability.

Somerville

Somerville is considering modification to its Inclusionary Housing Program to reach households earning up to 120% of AMI, as opposed to the current income limit of 80% of AMI for rental housing and 110% of AMI for homeownership. The City would also like to explore the feasibility of increasing the percent of affordable units required in new developments, perhaps adding an additional 5% targeted to a higher income bracket. This could potentially be paired with incentives such as parking reduction, higher density, or financial assistance.

The City is considering modification to its Affordable Housing Trust Fund to permit assistance to households earning up to 120% or 130% of AMI, rather than the current income limit of 110% of AMI.

Somerville is also considering implementing a program wherein City-owned land is offered at a discount to developers of middle-income housing.

Additionally, the City is currently revising its zoning ordinance. Among other things, compact housing or other naturally affordable typologies may be permitted. The City is interested in requiring such development to be deed-restricted in order to prevent market forces from increasing rental rates or sale prices.

Lastly, Somerville is exploring how the State Housing Development Incentive Program (HDIP) might be modified to reach a middle-income band in high-cost markets. This would include expanding HDIP beyond Gateway Cities to municipalities that, rather than aiming to stimulate development of market-rate housing for middle-income households, aim to stimulate development of affordable housing for this group. Somerville would like to see this paired with developer-friendly deed restriction.

Recommended Strategies to Pursue

The following menu of strategies to expand the middle-income housing supply in the study area are informed by the review of local and national practices included in this report and discussion with focus group participants and other consultants. They include a combination of developer incentives, subsidy programs, and construction techniques.

LAND DISPOSITION

The cost of land acquisition is a primary driver of high housing production costs. As Kenan Bigby notes, “Working with municipalities on land that’s made available through RFPs helps fill the gap.” Municipalities should incent developers to build middle-income housing through the disposition of land at no or nominal cost.

CONSTRUCTION TECHNIQUES

There are new construction techniques that can be applied to multifamily housing development in order to decrease costs. These include prefabricated construction and lean construction. The former entails the construction of structure sections in a factory prior to on-site assembly, while the latter requires the architect and contractor to work together from the start of the design process in order to cut out inefficiencies.

REGULATION & ZONING AMENDMENTS

Streamlined Permitting Process

A streamlined permitting process helps makes development more predictable and therefore more cost effective. If a developer knows he will be granted a permit within a set period of time—we heard a maximum of three months—then the risk significantly decreases. One approach to simplification is as-of-right zoning. This allows developers to avoid the extended special permit process or that for a variance. Municipalities should consider allowing multifamily housing development that meets certain design and affordability standards as of right.

Moreover, regulatory reform across municipal departments would streamline the permitting process further. Departments like water and sewer, public works, inspectional services, rights of way, etc. all have their own review process, each of which is different, challenging, time consuming, and poses a risk to development. Projects meeting certain requirements, such as inclusion of middle-income units, could undergo a developer-friendly, streamlined approval process in order to bring costs down.

Modified Demolition Delay

Some study area municipalities are losing housing stock that is currently affordable to middle-income households due to demolition and replacement with bigger, more expensive homes. Typically, demolition delays are applied to historical properties, but this type of ordinance could also help preserve affordability by offering a period wherein alternatives to demolition are investigated and considered.

Reducing Minimium Parcel Size

Municipalities should consider a reduction in minimum parcel size requirements. Across the state, this has increased in recent history. Not only are larger sites more difficult and costly to acquire, but they require bigger, more expensive units to justify the investment. Conversely, allowing skinny-lot housing or compact housing can produce a more affordable product.

Strategies to Increase the Middle-Income Housing Supply

Inclusionary Zoning

Inclusionary zoning can increase the affordable housing supply by leveraging new market-rate development. Municipalities should consider adopting or expanding inclusionary housing policies to require middle-income housing units or payments in lieu.

Expanding Chapter 40R

Municipalities might consider adopting a city- or town-wide overlay district that requires a minimum amount of affordable housing for middle-income households in exchange for density bonuses and as-of-right development in compliance with design standards. Eleanor White of Housing Partners, Inc., describes this an expansion of the existing state Chapter 40R program, which requires that a minimum of 20% of housing built within the district be affordable to households earning less than 80% of AMI. This would require working with DHCD to place restrictions on the remaining 80% of housing, currently allowed to lease or sell at market rates. Additional developer incentives may be necessary in exchange for this demand, such as a period of tax rebate.

FINANCING

Affordable Housing Trust Funds

Municipalities with Affordable Housings Trusts should consider amending their charter if necessary to permit expenditure on housing restricted at above 80% of AMI. This would allow inclusionary, CPA,[9] and other funds that can legally support housing development at a middle-income price point to be used to do so.

Working with Unions

In NYC, some middle-income housing projects are funded with municipal employee pension funds. This was common practice

[9] Community Preservation Act funds can be used on “moderate-income housing” for households whose annual income is less than 100% of AMI.

decades ago, and continues today, albeit more rarely. Municipalities might work with labor leaders to assess opportunities to develop workforce housing that suits the demands of union members within the study area.

Real Estate Tax Exemption

Municipalities might consider reinvesting tax revenue from future middle-income housing in order to subsidize its development. Doug Arsam of Forest City Boston says, “There’s something to be said about creating a system that isn’t considered a subsidy from a resource perspective like LIHTC, but is an investment in this type of housing.” The District Improvement Financing (DIF) and Tax Increment Financing (TIF) models would help developers fill the financing gap that is currently too wide to making middle-income housing development feasible in the study area. Municipalities can offer this in lieu of capital subsidies. Rather than negotiate such deals on a per project basis, municipalities might develop a program that offers full or partial real estate tax exemption for a finite period, such as 30 years, if a percentage of units are deed restricted for households earning up to 100% of AMI.

Principles of Responsible Investment

The Massachusetts Housing Investment Corporation’s (MHIC) Healthy Neighborhoods Equity Fund (HNEF), which is likely to fund the 80-120% income band in study area markets according to Director of Investments Kathy McGilvray, provides a good model for financing middle-income housing development. HNEF is a combination of MHIC’s own resources, public grants, foundation-supported funds, and those from socially motivated individuals. Projects financed with HNEF funds require a much lower return on investment than is typical on the open market: 8-10% versus 20%. With a lower return, cross subsidy is more feasible within the study area, with high market rates filling the gap between HNEF-like funds and what can be charged on the deed-restricted middle-income units. Working under the Principles for Responsible Investment (PRIs), a fund with a similar investor makeup but dedicated specifically to middle-income housing development in high-cost markets could be established to help finance projects that include a certain percentage of units affordable to this income band in exchange for a lower-than-market return.

Conclusions

Conclusions

Developing housing at a middle-income price point was not always so challenging. Post-World War 2, vehicular-driven suburbanization was a low-cost way to meet housing demand. Greenfield development resulted in starter home subdivisions like Levittown in New York and so many indistinguishable others. Land was less expensive and public investment in the national highway system was substantial. At the same time, many cities were experiencing disinvestment, and housing for households earning incomes ranging from low to middle could be developed there inexpensively.

But what Alan Ehrenhalt calls “the great inversion” has resulted in new, high demand for urban living at a time when many desirable coastal cities are already largely built out. Many are tired of the vehicular-centric lifestyle sold to them in the post-WW2 period; its real costs in terms of quality of life and environmental impacts have now been revealed. People with resources want to live in cities, near their places of employment and amenities. Now, however, land and construction costs are higher than ever, investment in public transit is limited, and the cost of developing new infrastructure is exorbitant.

Meeting this increased demand amid such strong barriers to development (land costs, construction and labor costs, and regulatory costs) is a challenge. Strategies to do so fall into two categories: (1) bring development costs down and/or (2) offer incentives to shrink the funding gap that exists due to the lack of public subsidies for middle-income housing development. These incentives should be distinguished from direct capital subsidies so as not to divert scarce resources away from lower-income households. Instead, indirect subsidies such as land, real estate tax exemption, density bonuses, a streamlined permitting process, and the like should be considered.

Moving forward, practitioners endeavoring to incrase the middle-income housing supply should keep in mind the following three primary conclusions drawn from this research:

1. A comprehensive approach to housing development is mandatory, and should include (a) multiple strategies to expand the middle-income housing supply, (b) an overall increase in the housing supply at all price points and (c) an interdisciplinary dialogue between developers, municipalities, lenders, unions, and others.

First, this research has revealed that there is no one single strategy that will effectively expand the middle-income housing supply on its own. To date, what we've seen implemented locally and nationally has less often worked at scale, and more often resulted in unique developments that are difficult to replicate. Strategies and potential strategies include: (1) offering significant public subsidy and/or deep real estate tax exemption; (2) reducing total development cost through land disposition, streamlined permitting, or other strategies; and (3) making acceptable a lower rate of return on investment. A combination of these strategies is needed to make a meaningful impact.

Second, housing needs and demand among different income groups are interconnected and therefore an inclusive menu of housing strategies is required. The lack of housing within the study area that meets middle-income demand also has an adverse affect on lower-income households there and elsewhere. The pattern of middle-income migration from high-cost markets to lower-cost markets is cyclical; housing costs in the latter inflate due to the presence of middle-income households, increasing the risk of displacement to lower-income households and ultimately driving middle-income households on to other lower-cost housing markets.

A middle-income housing strategy—or low-income, or moderate-income, or senior, etc.—is not sufficient to adequately address the region's housing needs. We must take an inclusive approach to the affordability crisis that takes into account different populations and their varying housing needs and demand. While study area markets seem to have an inelastic response to supply, increasing the overall housing stock at a regional scale will expand housing opportunities in the study area and beyond.

And third, just as the housing strategy must be inclusive, so too must the process of developing it. As Kenan Bigby of Trinity Financial says, "The bottom line is this is not a problem that any one group can solve. It requires folks working together and creative thinking. Getting people to the table who are willing to have those tough conversations and take a bit of a risk to see them [strategies] implemented is the only way to make this happen." Developers, the state, cities and towns, unions, lenders, and others should all be involved. Each must play a role, each must invest or sacrifice a little bit. All will share the responsibility and the rewards of addressing the region's housing needs.

2. Mission-based developers will play a key role in expanding the middle-income housing supply, even as they and for-profit developers must be adequately incented to share the responsibility.

Conclusions

Even multiple middle-income housing strategies will likely not return a profit margin as strong as market-rate housing development in the study area today. Kathy McGilvray of the Massachusetts Housing Investment Corporation says, “Developers are in it to make money. Our fund, we share the return with the developer; we’re willing to take a lower return, but is he?” In fact, the average developer may not be.

If it is largely unavoidable that developers of middle-income housing must accept a lower return on investment compared to market-rate housing, then it is likely that mission-based developers will become more active in this arena. Kenan Bigby of Trinity Financial explains, “There needs to be some kind of investor that may not be focused on just maximizing their return: Double or triple bottom line investors that say, ‘I can take a 9-10% return, which is better than I’d do in the stock market and lets housing be built that meets a social need.’ Finding folks with money and a social conscious is a missing piece. That’s starting to happen, but not on a level that’s going to significantly address the polarization that we’re seeing in the housing market here in Boston.”

Addressing the development funding gap through a combination of strategies discussed above will provide willing investors and developers with an entry path to the middle-income housing market. As Peter Daly of Homeowners Rehab, Inc. says, “The non-profit world is willing to take this on, if there’s a way to do it.”

3. Secondary markets within the study area and beyond should be monitored for middle-income housing opportunities.

Development costs in primary housing markets like those characteristic of the study area are always going to be significantly higher than in secondary markets. It makes more financial sense to develop below-market-rate housing in lower-cost markets, but raises the “right to the city” question and, in the case of middle-income housing, increases the risk of displacement of lower-income households due to unregulated gentrification. “If we leave it up to market forces, the future of [middle-income] housing is going to be in less costly markets,” says Peter Daly of Homeowners Rehab Inc. “That brings up all other kinds of issues—transportation access, job availability—which will trigger a lot more angst.”

Despite these concerns, it is important not to discount secondary housing markets within study area municipalities that include a diversity of neighborhoods and elsewhere in the Inner Core even as we work to implement strategies to make middle-income housing development more feasible in primary markets. Municipalities should seek out opportunities to acquire land inexpensively for future housing development in lower-cost markets. At the same time, they should be aware of the potential risks posed by future gentrification as secondary markets become primary markets, and work to implement anti-displacement strategies in advance.

4. A balance between affordability and marketability of units to middle-income households must be established.

As strategies to make middle-income housing development more feasible are identified and implemented, it is important to keep in mind that affordability may not be enough to retain these households when they have other options within the broader region. The disconnect between affordability and location means we must consider: (1) What housing features are middle-income households willing to compromise in order to rent or buy more affordably where they want to live? And (2) will they compromise on the specific neighborhood in order to remain close to the urban center, or must this housing be developed in the Cambridgeports and South Ends of the study area?

Any viable strategy to develop housing at a price point that is affordable to middle-income households will yield a product that will differ from housing affordable to them in other, more affordable markets. This means that as the supply expands within the study area, middle-income households will have more opportunities to stay here, but it does not necessarily mean they will make the decision to do so. As Dana LeWinter of the Massachusetts Community & Banking Council notes, “These are families who do have options and they can choose: ‘Do I want to stay in one of these Inner Core cities with a smaller house and a higher cost or do I want to go elsewhere?’ So it’s not just the cost of the housing, it’s the quality, the type. You certainly wouldn’t want to build housing for this income bracket and miss the mark.”

If middle-income households are expected to pay 30% of income on housing costs, the same metric applied to lower-income households eligible for deed-restricted housing, then that amounts to a fairly substantial amount of money. Peter Daly of Homeowners Rehab, Inc., says, “What are people willing to pay and for what product? We typically charge 30% of income for an affordable rental unit. For our middle-income units, we’re more successful with people in the 80-100% of AMI range than at 100-120% of AMI. That 30% of income at 120% is a pretty big number. It gets to be whether people are willing to pay that and have a lot of intrusion in their life on income certification when they could find a unit elsewhere where they don't have to do that."

This leads to a related issue: deed restriction. If these households are faced with a choice between building equity and assets or living in these markets, it's not clear how many would choose the latter. Peter Daly notes "The challenge is anything we do in these high markets where there's subsidy, we restrict the sale price. At 60% or 80% of AMI, they're very willing to sign a deed restriction. The higher income you go, it seems like people are looking for appreciation. At some point, they'll want to move and use that appreciation to get into [a different] market. When you restrict appreciation, it makes it very difficult to buy outside of the affordable market. So we need to see if folks are willing to restrict themselves." Further research is needed to assess to what degree deed restriction and other measures to increase affordability impact the marketability of middle-income housing units.

Next Steps

This document offers a thorough understanding of middle-income housing demand within the study area, barriers to expanding this housing supply, and a menu of strategies that have been implemented across the country and are potentially relevant locally. What it does not provide is an explanation of how to adapt these strategies to study area communities or how to implement them at the municipal or state level.

There is need for a second phase of this project that would develop model language for inclusionary zoning, by-right zoning bylaws, and a streamlined permitting process; identify legal and contractual alternatives to Master Deed Restriction and deed covenants to protect housing created for middle-income households; and pursue state program and policy changes or amendments, including the state real estate tax framework and incentives and M.G.L. Chapter 40R.

Appendices

Additional Information

- A note on data limitations
- Additional data on study area housing demand and supply
- Share of middle-income households methodology
- Study participants

Appendices

Data Limitations

Most data sets are not designed to facilitate study of the middle-income population. Whether or not a household qualifies as middle income is dependent on size, but data is often not cross tabulated by that variable. In addition, breaks by income level are typically too broad to capture the middle as MAPC has defined it. For example, ACS geographic mobility data bins all individuals with annual incomes of $75,000 and above together. Because of limitations like this, MAPC has had to make certain compromises to explore middle-income housing demand, which are described at relevant junctures in this document.

Study Area Housing Demand & Supply: Additional Tables

Current Population & Density

	Population	People/Acre
Newton	85,177	7.33
Melrose	27,043	8.86
Winthrop	17,584	12.07
Watertown	32,073	12.15
Arlington	42,952	12.24
Boston	619,662	19.51
Cambridge	105,026	23.10
Somerville	75,974	28.74

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Households, 1990-2030	1990	2000	2010	2020	2030
Arlington	18,819	19,011	18,969	19,718	20,844
Boston	228,464	239,528	252,699	279,515	301,774
Cambridge	39,405	42,615	44,032	47,221	49,640
Melrose	10,941	10,982	11,213	11,777	12,377
Newton	29,455	31,201	31,168	32,799	34,410
Somerville	30,319	31,555	32,105	36,195	40,197
Watertown	14,190	14,629	14,709	15,495	16,678
Winthrop	7,606	7,843	7,783	8,085	8,270

Source: U.S. Census Bureau, 2008-2012 American Community Survey, & MAPC Population & Housing Projections, 2014

Average Household Size by Tenure	Owner-Occupied	Renter-Occupied	All Households
Arlington	2.47	1.88	2.24
Boston	2.48	2.23	2.31
Cambridge	2.17	1.95	2.03
Melrose	2.72	1.75	2.38
Newton	2.65	2.20	2.51
Somerville	2.42	2.28	2.32
Watertown	2.28	2.15	2.22
Winthrop	2.55	1.95	2.29

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Appendices

Households by Type, Percent of Total

	Arlington	Boston	Cambridge	Melrose	Newton	Somerville	Watertown
Family Households	57%	47%	41%	64%	69%	46%	54%
With children under 18 years	27%	21%	17%	27%	34%	18%	20%
Married	21%	10%	12%	25%	29%	12%	16%
With children under 18 years	21%	10%	12%	25%	29%	12%	16%
Male householder, no spouse	2%	4%	2%	3%	2%	4%	3%
With children under 18 years	1%	2%	1%	1%	1%	1%	0%
Female householder, no spouse	9%	16%	8%	6%	7%	11%	9%
With children under 18 years	5%	9%	4%	1%	5%	5%	3%
Non-Famiy Households	43%	53%	59%	36%	31%	54%	46%
Householder living alone	35%	38%	41%	31%	24%	31%	33%
65 years and over	12%	10%	10%	12%	12%	8%	10%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Current Age Distribution

	5-19	20-24	25-34	35-44	45-54	55-59	60+
Arlington	16%	3%	14%	16%	16%	8%	21%
Boston	17%	14%	21%	13%	11%	5%	14%
Cambridge	13%	13%	27%	12%	10%	5%	16%
Melrose	17%	4%	13%	17%	16%	7%	21%
Newton	21%	8%	9%	13%	14%	7%	21%
Somerville	12%	13%	31%	13%	10%	4%	12%
Watertown	11%	7%	20%	14%	15%	6%	21%
Winthrop	14%	4%	15%	13%	18%	7%	24%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Housing Units by Type

	1-unit, detached	1-unit, attached	2 units	3-4 units	5-9 units	10-19 units	20+ units
Arlington	43%	5%	26%	6%	3%	5%	13%
Boston	12%	6%	13%	25%	12%	9%	23%
Cambridge	9%	7%	14%	19%	12%	7%	31%
Melrose	55%	2%	11%	5%	5%	3%	18%
Newton	54%	7%	17%	5%	3%	3%	11%
Somerville	11%	4%	31%	29%	9%	4%	12%
Watertown	23%	8%	34%	13%	3%	3%	14%
Winthrop	34%	3%	26%	18%	6%	3%	12%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Housing Units by Age

	Built 2000+	Built 1990-1999	Built 1980-1989	Built 1970-1979	Built 1960-1969	Built 1950-1959	Built 1940-1949	Built 1939 or earlier
Arlington	4%	2%	3%	7%	11%	13%	10%	52%
Boston	7%	4%	5%	7%	8%	7%	6%	56%
Cambridge	8%	5%	7%	9%	6%	5%	5%	55%
Melrose	6%	1%	5%	10%	6%	11%	6%	54%
Newton	6%	3%	6%	6%	5%	13%	7%	54%
Somerville	4%	2%	4%	6%	5%	6%	6%	66%
Watertown	4%	2%	7%	9%	6%	11%	8%	54%
Winthrop	2%	2%	5%	10%	5%	8%	7%	60%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Appendices

Housing Units by Number of Bedrooms

	0 Bedrooms	1 Bedroom	2 Bedroom	3 Bedrooms	4 Bedrooms
Arlington	2%	17%	33%	31%	14%
Boston	7%	25%	35%	22%	8%
Cambridge	5%	30%	37%	16%	7%
Melrose	2%	20%	23%	32%	17%
Newton	1%	11%	23%	32%	21%
Somerville	3%	22%	42%	20%	8%
Watertown	2%	16%	42%	28%	8%
Winthrop	2%	15%	36%	28%	12%

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Housing Units by Tenure

	Owner-Occupied	Renter-Occupied	Total
Newton	70%	30%	30,816
Melrose	65%	35%	11,221
Arlington	60%	40%	19,087
Winthrop	56%	44%	7,630
Watertown	52%	48%	14,010
Cambridge	36%	64%	45,087
Boston	34%	66%	248,704
Somerville	33%	67%	31,272

Source: U.S. Census Bureau, 2008-2012 American Community Survey

Share of Middle-Income Households Methodology

Because households composed of more than 3 people are increasingly rare across the study area, MAPC defined the middle-income band as 1-person households earning 80% of AMI to 3-person households earning 135% of AMI ($47,450- $114,350). The percentage of middle-income households in each study area municipality, then, is calculated by dividing the total number of households earning between these lower and upper bounds by the total number of households within each municipality. However, available ACS data on households by income are expressed in dollar amounts at regular intervals that do not match MAPC's definition. For example, the ACS provides a count of households earning between $35,000 and $49,999, which captures a number of households earning below MAPC's lower bound for middle income.

In an effort to best approximate the true percentage of middle-income households, MAPC used ACS income intervals that fall entirely between the middle-income definition ($50,000-$74,999 and $75,000-$99,999). But because the $35,000-$49,999 lower bound and the $100,000-$149,999 upper bound provided by the ACS includes households that do not meet the middle-income definition, these counts were interpolated. Interpolation is a method of constructing new data points within the range of a discrete set of known data points. For example, to interpolate the number of households in Arlington earning between $100,000 and $149,999, using $114,350 (135% of AMI for a 3-person household) as the upper bound instead, one would multiply the count of households by the difference between $114,350 and $100,000 divided by the difference between $149,999 and $100,000. While this provides a better approximation of the count of middle-income households, it assumes that the count of households within these intervals are evenly distributed, introducing some error in the final percentages.

Appendices

Study Participants

The following is a complete list of municipal partners, focus group attendees, and others who provided input on the contents of this document:

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