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Housing is a major economic factor for any region. Over the last several years, dramatically increased housing prices in New England have cast doubt on the region's ability to sustain continued economic growth. Indeed, New England's lack of affordable housing has caused labor shortages and other problems for New England businesses. With the federal government slashing its housing assistance in the 1980s, New England states and localities have started to address the region's housing problems by developing a variety of housing programs. But their resources are relatively limited and they are not able to expand the supply of affordable housing to keep pace with the needs of a growing work force. More than any other region in the nation, New England needs the federal government to get back into the housing business to ensure the continued growth of the New England economy and a healthy business climate.

This article outlines the extent of the affordable housing problem in New England, describes state and local initiatives to ease the region's problem, and presents the kinds of federal housing policies that New England government, civic, and business leaders should be promoting to help address this deepening problem.

New England's Economic Recovery

Since the mid-1970s, New England's economy has emerged from an apparently inexorable decline to become the envy of other regions. Though for many years New England had strong financial services and a good supply of venture capital, had led other regions in developing highway transportation, and had benefited from the presence of many excellent institutions of higher education — all important elements of a strong economy — the emergence of high technology as a major employer and the relative decline in the region's energy costs in the 1980s enabled the New England economy to diversify and survive the recession of the early to mid-1970s.

Boston has been the key to the region's economic resurrection. The city has experienced a gain of 108,000 jobs since 1976. Sixty percent of Boston's work force now com-

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mutes from outside the city. The city's wages have more than doubled since 1976, spurring wage increases in the state and region. Boston's per capita income growth has exceeded that of the metropolitan area, state, region, and nation since 1982. Finally, the National Planning Association and the Bureau of Economic Analysis predict continued strong job growth and wage gains for Boston through the year 2000, increases that would raise Boston's rank among U.S. cities in both personal income and employment.

Although New England's growth has been uneven — pockets of high unemployment and low wages still exist in some areas — overall the statistics show a dramatic recovery. In 1975, New England had the highest unemployment rate of any of the nine census regions in the country. By the end of the 1970s, its unemployment rate had fallen below the national average. By 1987, the unemployment rate averaged 3.3 percent in New England and 6.2 percent in the nation as a whole.[1]

Wages followed a similar pattern: average annual pay in New England increased from 95 percent of the national average in 1979 to 105 percent in 1987.[2] Per capita income in the region has grown even more rapidly, from 104 percent of the national average in 1979 to 120 percent in 1987.[3]

In 1985, 1986, and 1987, New England enjoyed the distinction of having both the highest per capita income and the lowest unemployment rate of any census region in the nation, a distinction unmatched since unemployment data have been available.[4]

Migration patterns have turned around as well. In the 1970s, more people migrated out of New England than in; between 1980 and 1987, however, slightly more migrated in than out.[5]

Labor Shortages: The Downside of the Strong Housing Market

The current migration into New England has not been fast enough to keep pace with the rate of job creation. The major reason for this is the high cost of housing relative to wages. Even though New England's economy today is considered by most analysts to be the strongest in the nation, the economic future of the region is in jeopardy because of the high cost of housing. The gap between income and housing prices, though it has increased across the country in recent years, has become particularly wide in New England. The region's businesses are having a difficult time attracting employees at all income levels because housing costs in other regions are much lower.

Evidence that the shortage of affordable housing is a problem for New England businesses is widespread. A 1987 survey done for the New England Board of Higher Education asked 824 New England leaders — including executives, government officials, college presidents, and members of college and university boards — their opinions on a range of issues about the region's economy. Each group identified the high cost of housing as the most serious obstacle to future economic growth, ahead of the shortage of skilled labor, the overall cost of living, the cost of labor, and the tax structure.

The problem exists in every New England state. A number of human resource professionals involved in relocating employees to Boston, for instance, say that housing costs are the number one barrier to bringing workers into the area. "The cost of living — that means housing because basically a loaf of bread is the same everywhere — is the biggest factor in relocating workers into Boston," observes Joyce Friedgen, president of the Relocation Center of New England.[6]

"It's very hard for employers, especially at the entry level in the service industries, where the growth is taking place," says Irwin Schneider, publisher of *Jobfinder*, New England's largest employment weekly.[7]

Michelle Flaherty, president of the MetroWest Chamber of Commerce in Boston's western suburbs, asserts that affordable housing is the region's most serious problem: "It's a major issue because there are more jobs than there are people to fill them. Businesses can't attract new people into the area. Employers will soon begin to look elsewhere [to expand]."[8]

A recent survey conducted by the New Hampshire Office of State Planning found that 87 percent of manufacturers in that state think that their employees are having an increasingly difficult time finding affordable housing. Labor shortages and high housing costs were the top two potential barriers to business growth and profitability named by respondents.[9] "There's no question in our mind that [the shortage of affordable housing] is adversely affecting the business community," says Ian Wilson, program development manager for the New Hampshire Business and Industry Association. "We see a strong relationship between the cost of housing and keeping the economy going."[10]

An August 1987 *Biddeford* (Maine) *Telegram* article reported that Maine's York County employers blame high rents and house prices for the labor shortages they are experiencing. One Biddeford company, Shape, Inc., is housing workers in dormitories because many of them couldn't find affordable apartments when they were hired. Saco (Maine) Defense Systems, a machine gun manufacturer, has been unable to fill forty manufacturing openings since 1987, and openings for engineers and managers have increased to fifteen. A company spokesperson reports that both managers and blue-collar workers are unwilling to relocate from other states when they learn of southern Maine's housing prices. As a result, workers at both Shape and Saco Defense Systems are regularly asked to work overtime, and managers at Shape must work on the production line.

During 1986, at least six big companies announced plans to close or relocate their Fairfield County (Connecticut) operations, and many more are said to be considering partial or total relocations. Last year, twice as many manufacturers moved out of Fairfield County as moved in during the previous five years. "You don't want to move a company, but you reach a breaking point," says Ted Alexander, executive vice president of the James River Corporation, a major paper products company whose towel and tissue division, with 560 employees, is based in Norwalk, Connecticut. "People who are transferred here from Wisconsin or Alabama are overpowered by home prices."[11]

High housing prices have made it impossible for many municipal employees in New England to live in the towns in which they work. One Greenwich, Connecticut, housing expert recently stated that 50 percent of Greenwich teachers, 60 percent of the town's hospital workers, and 48 percent of its police force have to commute from out of town because they can't afford housing within Greenwich.[12] As housing prices increase in more communities, it will become more difficult for critical public employees to find housing even within commuting distance.

Small businesses in New England are also concerned about the region's shortage in affordable housing. A 1987 study by the Smaller Business Association of New England reported that 85 percent of the New England small business people surveyed planned to expand their businesses in the next three years; many, however, are concerned that the region's labor shortage may make it difficult for them to do so.[13]

It does not appear that the effects of the housing situation on the supply of labor in New

England will diminish. Frank Morris, the recently retired chairman of the Federal Reserve Bank of Boston, who in 1975 predicted the region's economic resurgence, in June 1988 predicted a decade of significantly slower employment growth in the region (a rate of about half the national rate). To maintain past levels of growth would require a large in-migration of workers to the region, which, Morris said, is precluded by the region's high housing costs.[14]

The Affordable Housing Shortage: A National Problem

The housing crisis is national in scope and affects both the poor and the middle class. Between 1981 and 1989, the federal government cut 75 percent of its housing assistance monies — from $30.2 billion to $7.5 billion. In the 1970s, the federal government was helping to build more than 200,000 subsidized housing units a year. In 1988, Congress authorized fewer than 15,000 new units.

In addition to the cutbacks in housing subsidies, federal tax reform in 1986 eliminated most incentives to create rental housing. The result has been a dramatic decline in apartment construction. Congress also put a cap on the amount of tax-exempt debt that can be issued by states, thereby curtailing the use of tax-exempt mortgage revenue bonds by states to write down mortgage interest rates for first-time homebuyers and write down construction loan interest rates for developers of multifamily housing. It was only because of legislation sponsored by Senator George Mitchell of Maine that any tax incentive to build affordable housing remained in the tax code after 1986. That legislation provides a low-income housing tax credit, direct income tax reductions for certain types of investors who provide equity capital to produce low-income rental housing.

The nation risks losing almost two million units of privately owned, publicly subsidized low-income housing (built under the federal 236 and 221(d)(3) programs) through expiring subsidies, default, or mortgage prepayment. State-by-state data are available only for units that are most vulnerable to loss over the next fifteen years — 645,000 units built with federal mortgage subsidy and insurance. A significant number — more than 75,000, or 12 percent — of these units are in New England, with a particularly high concentration in Massachusetts, Connecticut, and Rhode Island (see Table 1). If these units are converted to market-rate housing through prepayment or default, as many of them could be, residents who are unable to find other assisted housing will face the high rents that dominate the market in much of New England.

Table 1

221(d)(3) and 236 Units in New England, by State

State	Number of Units
Massachusetts	35,581
Connecticut	21,539
Rhode Island	11,313
Maine	3,121
New Hampshire	2,443
Vermont	1,045
Total New England	75,042

Source: Harvey A. Maibor, Management Analyst, U.S. Department of Housing and Urban Development (unpublished list).

For the first time since World War II, the nation has experienced a decline in the number of Americans who own their own homes. The number is particularly low for young families. In 1949, the average thirty-year-old homebuyer in the United States needed to spend 14 percent of his or her paycheck to afford the typical single-family home. In 1985, the figure reached 44 percent.[15] For all age groups under forty, homeownership rates declined significantly between 1980 and 1987. For heads of household age twenty-five to thirty-four, for instance, the homeownership rate declined from 52.3 percent to 45.1 percent over that period.[16]

The decline in homeownership has put more pressure on existing rental housing supply. The result is the highest level of real rents in two decades.[17] (Real rents are defined as rents relative to other goods and services, or adjusted for inflation.) The effects are severe for the poor, since fewer than one out of three low-income families lives in subsidized housing. The effects are also difficult for middle-class working families: competition is intense for the almost-static supply of rental housing. The business and economic consequences are becoming all too familiar to employers seeking workers at acceptable wages. Indeed, in Boston, one union local has negotiated a contract seeking funds for a housing program for its members. If such notions spread, in light of the housing price trends, many employers will face rapidly increasing labor costs.

Several organizations have recently sponsored studies to assess various aspects of the housing problem and its impact on different sectors of the American population. The Ford Foundation commissioned twenty background papers on housing by leading academic experts and practitioners. One paper by Professor William Apgar of the Harvard Joint Center of Housing Studies, "The Nation's Housing: A Review of Past Trends and Future Prospects for Housing in America," detailed the recent decline in homeownership rates and the sharp rise in real rents. The author warned that the United States is being divided into a nation of "housing haves and have-nots" and that the latter category is growing fast.[18]

Another recent report, by MIT Professor Phillip Clay, commissioned by the Neighborhood Reinvestment Corporation, looked at the long-term impact of existing trends — declining incomes, the potential loss of much subsidized housing, and the virtual halt of new affordable housing construction. Addressing the needs of the poor, Clay warned:

> By 2003, the gap between the total low-rent housing supply (subsidized and unsubsidized) and households needing such housing is projected to grow to 7.8 million units. . . . This gap represents the loss of affordable housing for over 18.7 million Americans.[19]

The Housing Shortage in New England

Housing problems are particularly acute in New England. During much of the 1970s, inflation in the price of houses was slower in the Northeast than across the nation. Between 1984 and 1987, however, prices of *all* single-family homes in New England increased at more than twice the rate of *new* homes in the United States (see Table 2).

According to a Federal Home Loan Bank Board study, housing prices in New England in 1984 were more affordable to New Englanders than national housing prices were to the nation. By 1986, however, housing in New England was less affordable than in the nation.[20]

Rents in the Northeast (including New Jersey, New York, and Pennsylvania) are higher than the national average and have, in recent years, increased markedly relative to other regions. Though real rents in the Northeast fell throughout much of the 1970s, they rose

Table 2

Wages and Home Prices for New England States and Selected Cities, 1984 and 1987

	Wages			Median Home Price*		
State/City	1984	1987†	Percent Change 1984–1987	1984	1987	Percent Change 1984–1987
Massachusetts	$18,414	$21,770	18.2	$ 82,100	$151,300	84.3
Boston	19,450	23,148	19.0	100,000	177,200	77.2
Rhode Island	16,150	18,449	14.2	60,300	111,200	84.4
Providence	16,017	18,283	14.1	59,600	121,400	103.7
Connecticut	20,010	23,425	17.1	92,700	155,200	67.4
Hartford	19,859	23,299	17.3	87,400	157,400	80.1
Maine	14,850	16,985	14.4	59,500	94,100	58.2
Vermont	15,264	17,537	14.9	66,300	85,700	29.3
New Hampshire	16,164	19,042	17.8	78,500	129,600	65.1
New England				81,100	141,300	74.2
United States						
Existing	18,353	20,559	12.0	72,400	85,600	18.2
New	18,353	20,559	12.0	79,900	104,000	30.2

* State prices are for existing and new homes; city prices are for existing homes only.

† 1987 wages are 1986 wages adjusted using the Bureau of Labor Statistics Employment Cost Index.

Sources: Federal Home Loan Bank Board, National Association of Realtors, and Bureau of Labor Statistics.

sharply between 1984 and 1987 — by 22.0 percent, significantly higher than the 16.9 percent increase in real rents for all the nation's metropolitan areas. In the Boston metropolitan area, real rents increased 24.3 percent during this three-year period (see Table 3). Median advertised rents (not adjusted for inflation) in Boston increased from $455 to $736 between 1983 and 1987 — a 62 percent increase.[21] Rent increases in the Northeast have encouraged investment in and upgrading of existing rental structures (including conversion to more expensive condominiums), a phenomenon that will continue to erode the supply of low-cost rental housing affordable to most people in coming years.

These housing price increases have caused an unprecedented shortage in affordable housing across the region. Wages have increased, but not nearly enough to keep up with

Table 3

Real Residential Rent Increases, United States, Northeast, and Boston, 1984–1987

Region	Percent Increase in Real Rents
U.S. Metropolitan Areas	16.9
Northeast	22.0
Boston Metropolitan Area	24.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, residential rent component of Consumer Price Index (All Urban Consumers).

housing prices. In the fourth quarter of 1987, three out of the six U.S. metropolitan areas with the largest gaps between wages and home prices were in New England — Boston, Hartford, and Providence.[22] In every New England state, however, housing price increases have outpaced wage increases by a large margin, both within and outside of major metropolitan areas (see Table 2), and gaps between wages and home prices are large (see Table 4).

Comparing family income with the income needed to buy the median-priced home is another way to look at the affordability gap. According to the Federal Home Loan Bank Board, New England median family income in 1987 was only 78 percent of that necessary to purchase a median-priced home (with a fixed-rate mortgage); nationally, family income was 106 percent of what was necessary to purchase an existing home and 87 percent of that necessary to purchase a new home. Moreover, the gap between income needed to buy a home and income earned widened in New England between 1984 and 1987 (for both fixed- and adjustable-rate mortgages, despite declining interest rates), while the gap narrowed in the United States for both existing and new homes.[23]

The following sections give summaries of recent housing price and wage changes in the New England states. Unless otherwise indicated, data are from Table 2.

Massachusetts

Although Massachusetts had the strongest income growth among New England states between 1984 and 1987, its housing affordability ratio, which measures the gap between home prices and income, was the highest in the region in 1987 at 7.0. The ratios outside as well as inside the Boston metropolitan area were high: New Bedford, a city fifty-four

Table 4

Home Prices, Wages, and Affordability Gaps for New England States and Selected Cities, 1987

State/City	Median Home Price*	Average Annual Wage†	Housing Affordability Ratio‡	Income Needed to Afford§
Massachusetts	$151,300	$21,770	7.0	$50,760
Boston	177,200	23,148	7.7	59,449
Rhode Island	111,200	18,449	6.0	37,307
Providence	121,400	18,283	6.6	40,729
Connecticut	155,200	23,425	6.6	52,069
Hartford	157,400	23,299	6.8	52,807
Maine	94,100	16,985	5.5	31,570
Vermont	85,700	17,537	4.9	28,752
New Hampshire	129,600	19,042	6.8	43,480
New England	141,300			47,405
United States				
Existing	85,600	20,559	4.2	28,718
New	104,000		5.1	34,891

* State prices are for existing and new homes; city prices are for existing homes only.

† 1987 wages are 1986 wages adjusted using the Bureau of Labor Statistics Employment Cost Index.

‡ Affordability ratio is the ratio of home price to annual wage.

§ Assumptions: that the household is spending 30 percent of its income on a thirty-year mortgage for 90 percent of the value of the home (10 percent down payment) at a 9.39 percent interest rate (average for June 1987) and 1 percent property tax on the sale value of the home.

Sources: Federal Home Loan Bank Board, National Association of Realtors, and U. S. Department of Labor, Bureau of Labor Statistics.

miles south of Boston, and Worcester, in central Massachusetts, had affordability gaps of 6.3 and 6.2, respectively, in 1987 (see Table 5).

Rhode Island

Rhode Island had the sharpest housing price appreciation of all New England states between 1984 and 1987. The median price for a single-family home increased 84.4 percent during this period. Moreover, in Providence, the median price more than doubled over these three years: it increased by 103.7 percent. In 1987, Providence had the most rapidly increasing home prices of any metropolitan area in the nation.

Connecticut

In 1987, Connecticut had the highest median home price of any New England state. Hartford, the economic hub of the state, faced home price increases of 80.1 percent between 1984 and 1987. New Haven County, including the area surrounding New Haven, has experienced equally dramatic housing price increases — 78.4 percent for the average-priced home in the two years between 1985 and 1987. While the price increase in Fairfield County, just northeast of New York City, was 30.2 percent in that period, the price of an average single-family home rose to $244,053 in 1987 (see Table 6).

Maine

Maine had a housing affordability ratio of 5.5 in 1987. The median home price in the state increased 58.2 percent, from $59,500 to $94,200, in the three years between 1984 and 1987. Wages in the state, however, increased very little during these years — from $14,850 to $16,985 — remaining the lowest of all the New England states.

Vermont

Vermont's housing affordability gap was 4.9 in 1987. Though its home price appreciation of 29.3 percent between 1984 and 1987 was lower than that in other New England states, parts of Vermont have much higher prices and rents than the state as a whole.

New Hampshire

New Hampshire, with wages at only moderate levels, had a relatively high median family home price in 1987 — $129,600. Thus the housing affordability ratio in the state was also quite high — 6.8. Since New Hampshire has year-round communities as well as

Table 5

New Bedford and Worcester Affordability Ratios, 1987

City	Median Home Price*	Average Annual Wage	Affordability Ratio†
New Bedford	$108,330	$17,221	6.3
Worcester	120,000	19,399	6.2

* Existing and new homes.

† Affordability ratio is the ratio of home price to annual wage.

Sources: County Home Data, Statistical Report for the Year of 1987 for Bristol and Worcester Counties; U.S. Department of Labor, Bureau of Labor Statistics, Annual Pay Levels in Metropolitan Areas, 1987.

Table 6

Average Price Increases, Selected Connecticut Counties, 1985–1987 (Fourth Quarter)*

	1985	1987	Percent Increase
Fairfield County	$187,380	$244,053	30.2
New Haven County	90,869	162,150	78.4

* Existing homes.

Source: Connecticut Association of Realtors, "Housing Connecticut 1987" and update.

communities largely of second homes, the state experienced large housing price increases between 1984 and 1987 in areas as diverse as the Lakes region, Greater Manchester, and the Seacoast area. In Greater Manchester, contiguous Contoocook, and the Lakes region, average prices more than doubled over these three years (see Table 7).

State and Local Government Response

Most New England states and localities have, until recently, devoted very limited resources to housing. However, as the federal government has gradually eliminated most of its affordable housing programs since 1980 and a serious shortage of affordable housing in New England has surfaced, a business, civic, and political consensus has emerged that affordable housing is fundamental to a strong economy. This consensus has catalyzed a series of state and local initiatives aimed at the preservation and expansion of affordable housing in New England. Although many of these initiatives are small first steps, they represent a shift from noninvolvement to engagement with the affordable housing problem.

States that have experienced shortages of affordable housing only in the last several years or that did not have substantial housing programs (such as Vermont, New Hampshire, and Maine) have now taken the first steps to create housing programs and policies. Those that already had significant housing programs (Massachusetts, Rhode Island, and Connecticut) have added innovative programs to increase their capacity to produce affordable housing.

Table 7

Average Price Increases, Selected New Hampshire Regions, 1984–1987 (Fourth Quarter)*

	1984	1987	Percent Increase
Greater Manchester	$80,339	$171,600	113.6
Contoocook	62,698	128,591	105.1
Seacoast	95,675	176,394	84.4
Lakes Region	57,448	135,493	135.9

* Existing homes.

Source: New Hampshire Association of Realtors.

New England states and localities have been creative in their attempted solutions: task forces have been formed, measures proposed, legislation passed, new programs and funding sources developed, and regulatory changes made. New England states are increasing both the appropriations they devote to housing, sometimes finding new revenue sources, and also their tax-exempt bond debt for housing. State housing finance agencies are expanding their roles.

Moreover, New England state agencies and legislatures have been meeting to share ideas for housing policy and programs, having recognized that the affordable housing crisis is regional in scope. The Caucus of New England State Legislatures convened a conference on affordable housing in January 1988. In June 1988, housing finance agencies from the New England states met with developers, nonprofit organizations, and lenders to develop new ways to finance affordable housing.

Listed in the following sections are some of the strategies that New England states and localities have recently used to increase the availability and affordability of housing in their areas. (Table 8 shows which states have adopted which strategies.)[24]

State Programs

Homeownership Subsidy: The traditional interest rate write-down made possible by tax-exempt mortgage revenue bonds has proved in New England to be insufficient for many potential moderate-income homebuyers. Some states have found ways to lower the interest

Table 8

Selected State Housing Programs in New England, 1988

Programs	Massachusetts	Rhode Island	Connecticut	Maine	Vermont	New Hampshire
Homeownership subsidy	Yes	Yes	Yes	Yes		Yes
Rent subsidy	Yes	Yes	Yes			
Assisted rental housing production	Yes	Yes	Yes	Yes		
Assisted homeownership production	Yes		Yes		Yes	
Housing assistance for the homeless	Yes	Yes	Yes	Yes		Yes
Anti-snob zoning	Yes	Proposed				
Housing partnerships	Yes	Yes	Yes			
Housing trust funds		Yes*		Yes	Yes	Yes
State public housing	Yes					
New Funding Sources						
Real estate transfer tax	Proposed			Yes		
Favorable tax treatment for private investment in affordable housing			Yes			
Partnership funds from businesses (project by project)	Yes	Yes	Yes			
Recent studies/task forces			Yes	Yes	Yes	

* For homeless assistance.

Sources: Council of State Community Affairs Agencies, Council of State Housing Finance Agencies, National Association of Housing and Redevelopment Officials, Urban Land Institute.

rate on mortgages even further through additional subsidies. Other states provide down payment assistance through second mortgage loans.

Rent Subsidy: Similar to the federal Section 8 program, the state programs subsidize rents directly. The subsidy is usually a voucher that a tenant uses as partial payment for housing in the private market; sometimes the subsidy is earmarked for a particular unit in a subsidized development. Rent subsidies have historically been a federal expense; since deep cuts have been made in federal rent subsidy programs in recent years, however, states have started to allocate funds for such subsidies.

Assisted Rental Housing Production: These programs lower the cost of rental units by lowering the cost of production, usually through low interest rate construction loans. New rental housing production is needed to reverse the effects of changes in federal tax laws that make private ownership of rental housing less appealing and of the withdrawal of the federal government from rental housing production.

Assisted Homeownership Production: These programs lower the cost of housing for new homeowners. Several New England housing finance agencies, finding that their traditional single-family mortgage subsidy programs are not being used because there is insufficient affordable housing available to buy, have found ways to finance the construction of affordable single-family housing.

Housing Assistance for the Homeless: The rising tide of homelessness, one of the most visible effects of the housing shortage in New England, has prompted many states to adopt programs specifically to relieve homelessness. Some of these programs provide assistance directly to homeless people, and some provide assistance for cities and towns to create homeless shelters.

Anti-Snob Zoning: Some states have enacted incentives and regulations to promote the development of affordable housing in cities and towns that have discouraged such development through zoning or other regulatory means. Some regulations that have recently been considered or enacted in some states are anti-snob zoning measures, which limit the extent to which communities can exclude low-income housing (usually through zoning that prescribes large lot sizes or low-density development). The anti-snob regulations usually make some state aid contingent on a community's willingness to accept low-income housing.

Housing Partnerships and Housing Trust Funds: Housing partnerships and housing trust funds are vehicles for assisted housing programs. Housing partnerships are broad-based collaborations of business, government, and nonprofit sector representatives who pool their resources to provide affordable housing. These partnerships create funds of money from public and private sources and target these funds to specific housing programs and neighborhood improvement projects. Housing trust funds are pools of public money set aside specifically for affordable housing. States with no or few housing programs have been the most likely to start housing trust funds, since such funds can be put to a variety of uses.

State Public Housing: Massachusetts is among the very few states that have major state-funded public housing programs. Through such programs, states provide grants to local housing authorities to develop rental housing for low-income families.

New State-Enacted Funding Sources

Most of the funding for state housing programs has come from general fund appropriations and proceeds from tax-exempt mortgage revenue bonds. Recently, however, states

have been searching for new sources of revenue dedicated specifically to housing. The following are examples of such revenue sources.

Real Estate Transfer Tax: A proportion of the sale price of real estate levied on either the buyer or the seller.

Favorable Tax Treatment for Private Investment in Affordable Housing: Connecticut is the only New England state that has used this mechanism for increasing investment in affordable housing. Connecticut grants businesses state tax credits for investing in affordable housing projects. This credit is similar to the federal low-income rental housing tax credit; Connecticut officials expect to use it to maximize state use of the federal credit.

Partnership Funds from Businesses: Businesses that participate in housing partnerships provide funds for the projects initiated by the partnerships.

Housing Finance Agency Recycled Funds: Recently, state housing finance agencies have started using every source of funding available to them for affordable housing. Two of these sources are unexpended bond proceeds and recovered loan principal (prepayments).

Housing Finance Agency Reserve Funds: These surplus funds kept in reserve by housing finance agencies have traditionally not been used for housing. Several agencies, however, have started to spend reserves on affordable housing.

State Studies and Task Forces

Studies and task forces are often preliminary steps for the initiation of new housing programs. At least three New England states have undertaken studies or appointed affordable housing task forces.

Local Programs and Funding Sources

Revolving Loan Fund: Many cities have created revolving loan funds for housing rehabilitation or construction, sometimes capitalized with federal Community Development Block Grant funds.

Land Trust: Through land trusts, cities acquire land and buildings. They sell only the buildings while leasing the land under the buildings, enabling them to limit the equity of the buildings to ensure their affordability over time.

Surplus Property for Affordable Housing: Several cities give the property they own (or sell it at a reduced rate) to developers of affordable housing. Since the price of land is oneof the most rapidly increasing components of housing development costs, this is an effective strategy to reduce the costs of new housing development.

Housing Partnerships: Many cities are starting partnerships similar to state housing partnerships.

Linkage and Density Bonuses: These are ways in which the handful of cities undergoing commercial development booms can generate commitments for affordable housing from developers who are benefiting from those booms. Linkage fees are fees assessed on commercial developments; density bonuses are increases in the density of a development granted in exchange for fees or an equivalent development or service.

The following are reports on how each New England state is attempting to cope with its affordable housing crisis. The list does not necessarily include all housing programs introduced by New England states in the last several years. It does, however, provide some examples of the ways in which states and localities have been increasing the availability and affordability of housing.

Massachusetts

State Initiatives

Massachusetts is well known for its numerous housing programs. Several of the state's housing programs were put in place in the late 1960s; other programs were added in the 1980s. Among the state's programs are most of the types listed in Table 8 on page 16.

Rent Subsidy: Massachusetts has one of the oldest state rent subsidy programs in the nation, the Chapter 707 program, begun in the late 1960s.

Assisted Rental Housing Production: In 1983, the state legislature enacted the State Housing Assistance Program for Rental Production (SHARP) to encourage the development of privately owned rental housing. Through the program, the construction and mortgage loan interest rate for mixed-income developments is subsidized with state funds for fifteen years, at which time projects are expected to be self-sustaining. In the first four years of the program, an average of about $6 million per year in interest subsidies was awarded to SHARP developments containing just over nine thousand units, nearly three thousand of which are affordable to low-income families, nearly six hundred affordable to moderate-income families, and fifty-six hundred priced at market rates. Some cities use federal UDAG, HODAG, and CDBG funds to supplement SHARP to increase the number of low- or moderate-income units beyond the required 25 percent.

Assisted Homeownership Production: The state's newer programs include the Homeownership Opportunity Program (HOP), created in 1987, which provides moderate-income individuals and families low-interest mortgage loans to purchase newly developed first homes (including condominiums). The state also provides funds for infrastructure improvements to lower construction costs and, thus, the purchase prices of the homes or condominiums. Revenues have been made available to assist more than 14,500 moderate-income families. Mortgage revenue bond proceeds are used to finance the homebuyer loans. Affordability of HOP units will be preserved over the long term by deed restrictions.

Anti-Snob Zoning: In 1969, Massachusetts enacted the first legislation in the nation (Chapter 774) giving the state the authority to review and, if necessary, to override local zoning decisions on low-cost housing development.

Housing Partnerships: The Massachusetts Housing Partnership, created under the leadership of Amy Anthony, Massachusetts secretary of Communities and Development, and attorney John Bok, cochairs of the partnership, was started in 1985 using the successful Boston Housing Partnership as a model. It is an umbrella for a wide range of projects to produce and preserve affordable housing statewide. The thirty-member board initiates, oversees, and provides financial assistance to specific communities in the areas of urban abandonment, rental housing production, responsible growth management, homeownership, and preservation of existing affordable housing.

State Public Housing: Through Chapter 705, one of the only major state-funded public housing programs in the nation, Massachusetts provides grants to local housing authorities to develop public housing for low-income families. Almost three thousand state-financed public housing units have been built or are in development.

Other State Programs: Massachusetts has been at the forefront in the preservation of privately owned low- and moderate-income developments at risk of conversion to market-rate housing (through owner prepayment of federally assisted mortgages). State legislation has been proposed and Boston legislation enacted to protect such developments from condominium conversions and large rent increases. Some development owners have

signed a voluntary pledge not to prepay their mortgages unless they plan to preserve the affordability of a significant proportion of the units.

Local Initiatives

Surplus Property for Affordable Housing: Boston has identified all vacant, buildable, city-owned properties (consisting of surplus public buildings, urban renewal sites, and property acquired through foreclosure). Housing developments will be built on all of these parcels, and vacant buildings will be rehabbed for housing. It has given priority to nonprofit groups as the developers of these parcels and buildings, using state and local subsidies. The property is sold for nominal amounts to ensure the affordability of the housing that is developed.

Housing Partnership: During the 1980s, local government, the private sector, and community leaders created the Boston Housing Partnership (BHP). It was the first housing partnership in New England and served as a model for the Massachusetts partnership and those of two other New England states. Under the leadership of Bill Edgerly, chairman of the State Street Bank, and now Richard Driscoll, chairman of the Bank of New England, the BHP has undertaken two large, successful rounds of affordable housing development. The first round of BHP funding included a $4.5 million grant from the city of Boston; $500,000 in private (foundation/corporate) grants; a $22.3 million below-market interest rate mortgage from MHFA; and $10.7 million in private equity. Seven hundred housing units in sixty-nine scattered-site apartment buildings were rehabilitated using these first-round funds. In 1986, BHP began a second project, the rehabilitation of almost one thousand housing units in distressed structures in default to the U.S. Department of Housing and Urban Development. A citywide nonprofit organization affiliated with the partnership (the Greater Boston Community Development Corporation) provides technical assistance to participating neighborhood community development corporations (CDCs). The CDCs are responsible for the ownership, development, and management of the rehabilitated housing. The BHP has attracted equity capital from corporations, in part through the new federal low-income rental housing tax credit, the only significant incentive to investment in low-income rental housing to emerge from tax reform in 1986.

Linkage: In the mid-1980s, Boston instituted a housing linkage policy that requires developers of large commercial projects to build affordable housing or contribute money to build such housing. If the developer contributes money, the fee is $5 for every square foot of floor space over 100,000 square feet for a period of seven years.[25] For a typical twenty-story office building, this contribution is worth roughly $2 million. As of January 1988, thirty-one projects had committed approximately $45 million in housing linkage funds in Boston. Approximately $17 million of these funds has been allocated to eighteen housing developments containing about two thousand units of housing; 83 percent of these units will be affordable to low- and moderate-income residents. Over the next five years, linkage payments are expected to amount to more than double the present amount. The linkage program has had no negative effect on Boston's development climate.

Another linkage program in Boston, parcel-to-parcel linkage, ties the disposition of publicly owned parcels in downtown Boston to the development of publicly owned parcels in Boston's neighborhoods. Boston's parcel-to-parcel linkage program is the first of its type in the nation.

Other Local Programs: The administration of Boston Mayor Raymond Flynn has established strong safeguards against skyrocketing rent increases and arbitrary evictions,

particularly for condominium conversions. Brookline and Cambridge have enacted similar measures.

In addition, Boston has used rehabilitation to reduce its public housing vacancies from 3,750 in December 1979 to 1,463 in May 1988, a 61 percent reduction. Code compliance in Boston public housing units has increased from 53 percent in 1986 to 91 percent in 1988.

In recent years, record numbers of new housing permits have been issued by the city of Boston: 4,064 residential permits were issued in 1987, more than triple the annual rate of housing starts from 1980 to 1983. In all of its housing production, Boston has encouraged the participation of new developers, including a new generation of nonprofit and minority developers. One of the most noteworthy new nonprofit developers has been the Bricklayers and Laborers Non-Profit Housing Corporation. The city has particularly expanded development for first-time homeownership for Boston residents.

Rhode Island

State Initiatives

Homeownership Subsidy: The homeownership assistance programs of the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) include one recent program that provides, for the first time in the state, assistance in the form of second mortgages, which reduce the amount of down payment. The down payment is often the biggest obstacle to homeownership for low- and middle-income families. A 20 percent down payment for a median-priced home in Providence in the fourth quarter of 1987, for instance, was $25,480 — 72 percent more than the average annual wage. In addition, RIHMFC now provides assistance, also for the first time, to owner-occupant buyers of two- and three-family homes.

Rent Subsidy: In June 1988, the Rhode Island state legislature enacted a rent subsidy program, joining Massachusetts and Connecticut as the three New England states with rent subsidy programs similar to the federal Section 8 program.

Assisted Rental Housing Production: The RIHMFC, like its counterparts in Massachusetts, Maine, and Connecticut, has created a program to increase the production of multifamily rental housing, the most serious housing need left by the federal government's withdrawal. RIHMFC's Family Rental Housing Production Program, created in 1986, assists for-profit and nonprofit developers in financing the production of rental housing. Tax-exempt bond proceeds and $1 million in state funds were allocated for this program, which was estimated at the time of its creation to serve six hundred households. Developments built through the program are the first assisted multifamily housing produced in the state without federal dollars.

Housing Assistance for the Homeless: The RIHMFC recently initiated its first program to assist the homeless. The program will make $1 million in immediate physical improvements to existing emergency housing shelters and has established a $3 million Emergency Housing and Shelter Trust Fund. It is estimated to serve five hundred households.

Housing Partnership: In 1987, Governor Edward R. DiPrete announced the formation of the Rhode Island Housing Partnership, which will bring together state and local governments, nonprofit organizations, lenders, and private businesses to produce affordable housing. The goal of the partnership is to create 1,750 housing units.

Local Initiatives
Surplus Property for Affordable Housing: Providence has recently taken several new steps, among them selling vacant city-owned lots to nonprofit organizations for a nominal 25 cents per square foot for affordable housing development.

Other Providence Programs: The Providence Housing Authority, which recently revamped its management, is rehabbing six hundred vacant units in its inventory. The nonprofit Providence Company, which is supported by the city, is providing low-interest loans to downtown developers who adapt downtown office buildings to mixed commercial/residential use. This program is intended to relieve pressure on the housing supply in the surrounding neighborhoods, and some of the housing developed downtown will be set aside for low-income residents.

Revolving Loan Fund: Newport, a wealthy resort city, has never provided significant affordable housing until very recently. Prices of all homes there have appreciated dramatically in the last few years, however, and the city is experiencing a labor shortage, especially in its large hotel and restaurant sector. The city government has started a revolving loan program to enable nonprofit organizations to acquire existing housing at low interest rates for use as affordable rental housing. Newport is also renovating a downtown YWCA building, using city, state, and federal funds, that will contain 108 units of affordable housing.

Connecticut

State Initiatives
Homeownership Subsidy: Connecticut, like Rhode Island, has a program that provides down payment assistance to first-time low- and moderate-income homebuyers in the form of second mortgage loans tied to Connecticut Housing Finance Agency (CHFA) mortgages. The program was initiated in 1979 and is financed through general obligation bonds. It has been mentioned by housing experts as a potential model for a new national housing program.

Rent Subsidy: Connecticut's assistance program, begun in 1987, provides subsidies directly to renters. In 1988, the Connecticut Housing Department started using this program to encourage new construction of affordable rental housing by committing rent subsidies to projects proposed by developers.

Public/Nonprofit Rental Housing Production: One of the programs approved by the Connecticut General Assembly in 1986 was the Low Income Rental Housing Fund, capitalized by proceeds from the sale of $35 million worth of bonds. The fund provides grants to housing authorities and nonprofit corporations for the development of low-income rental housing.

Private Assisted Rental Housing Production: In 1988, the Connecticut General Assembly created the Private Rental Investment Mortgage Equity program (PRIME). Modeled after the SHARP program in Massachusetts, PRIME provides low-interest loans to private developers of rental housing who set aside a portion of their units for low- and moderate-income households. This is the first program in Connecticut to provide low-interest loans to private developers of rental housing rather than to housing authorities, municipalities, or nonprofit developers.

Assisted Homeownership Production: In 1985, the CHFA started using its reserve funds to provide subsidies of construction loan interest for single-family homes. This subsidy

lowers development costs to make home prices affordable to homebuyers with income below $20,000.

Housing Partnership: In 1988, the Connecticut General Assembly created the Connecticut Housing Partnership, a broad-based collaboration of business, public, and nonprofit representatives pooling their resources to produce affordable housing. It is similar to the housing partnerships in Massachusetts and Rhode Island.

Anti-Snob Zoning: Efforts are being made in Connecticut, as in Rhode Island and Massachusetts, to modify the exclusionary zoning practices of some of the state's cities and towns. Connecticut's Blue Ribbon Commission on Housing, a group of representatives from business and government created by the state in 1987, has proposed that the state be allowed to overrule local zoning decisions as a means of promoting affordable housing, as in Massachusetts. Fairfield 2000, a two-hundred-member private-public task force charged with addressing Fairfield County's long-range problems, has recommended changes in local zoning laws — currently among the most restrictive in the state — to allow higher-density housing.

Favorable Tax Treatment for Private Investment in Affordable Housing: In 1987, Connecticut initiated a state tax credit to businesses contributing funds to any housing program that is developed, sponsored, or managed by a nonprofit corporation and that benefits low- and moderate-income persons or families.

Housing Trust Funds: In 1986, the General Assembly gave municipalities the authority to set up housing trust funds — separate from the rest of the municipal budget and ongoing — to finance new construction or substantial rehabilitation of housing projects in which a substantial portion of residents will be low- and moderate-income families. It also created a program of grants-in-aid to municipalities that have established housing trust funds.

Other Incentives: Another law aimed at encouraging Connecticut localities to produce affordable housing, passed by the General Assembly in 1987, gives the boards of selectmen of the sixty-nine towns that do not have housing authorities the powers of a housing authority to produce low- and moderate-cost housing for town employees and other residents. The selectmen have the power, for example, to condemn land, receive grants, and manage rental property. The town of Wilton in Fairfield County is taking advantage of this law to develop affordable housing on surplus state land for town employees who now must live outside the town. Redding, Darien, and Greenwich, also in Fairfield County, are creating housing as well for low-income elderly and moderate-income families.

Local Initiatives

Revolving Loan Funds: Hartford recently increased efforts to improve the affordability of its housing by establishing two revolving loan funds — a housing development fund and a home improvement fund. Both funds are capitalized primarily with Community Development Block Grant money and augmented with state funds. The housing development fund has enabled nonprofit organizations to produce nearly two hundred units since 1983, when the fund was started.

Linkage: Hartford's linkage program, established in 1986, created a linkage trust fund for housing, job training, and economic development assistance. The program provides density bonuses — more floor space allowed in a building per square foot of land — to developers if they provide housing or special amenities (such as transient parking or day care facilities); meet resident, female, and minority construction employment

requirements; or contribute to the fund. In addition, the Hartford City Council passed an ordinance in 1985 requiring anyone wishing to demolish or convert residential housing units to construct an equal amount of square feet of housing or to contribute to a low-income housing fund an amount equal to one-quarter of the value of the property being taken off the market.

Housing Partnership: Through a partnership between the city of Hartford and the local Chamber of Commerce, major downtown developers have committed funds and expertise to develop affordable housing. A nonprofit development group created by the developers is planning to build on several vacant lots in the city. The housing will be made affordable through a construction cost subsidy.

Maine

State Initiatives

Homeownership Subsidy: The Maine State Housing Authority (MSHA) introduced some changes recently to its standard low-interest mortgage loans to make homeownership more affordable to low-income buyers. One change enables the agency to reduce or waive the previously required 5 percent down payment for MSHA-assisted single-family homes, allowing more low-income households to use the agency's lower interest rates to finance home purchases. Another measure created a state-funded mortgage insurance program to insure MSHA loans, which lowers the cost of mortgage insurance to homebuyers and further bridges the gap between income and home prices.

Housing Trust Fund/Real Estate Transfer Tax: The Housing Opportunities for Maine (HOME) fund created in 1982 to expand rental and owner-occupied affordable housing, is one of Maine's most significant recent housing initiatives. The interest from this fund is used to lower interest rates on bond-financed programs and to finance special housing programs. Administered by the MSHA, the fund was capitalized at first with appropriations from the state general fund of $2 to $3 million annually. In 1985, the legislature increased the size of the fund and provided it with its own dedicated source of revenue, an increase in the state's real estate title transfer tax, expected to provide $4 to $5 million to the fund annually. MSHA's surplus funds are also used to capitalize the HOME fund.

Private Assisted Rental Housing Production: To encourage the development of more affordable rental housing in small Maine communities, the MSHA recently introduced the Small Projects Initiative. Similar to the SHARP program in Massachusetts, the program gives 5 percent mortgage financing to developers who build small apartment complexes, a portion of which is set aside for low-income tenants.

Housing Assistance for the Homeless: The Homeless Shelter Financing Program, begun by the MSHA in 1983, provides financing for the purchase, rehabilitation, or refinancing of the existing debts on homeless shelters or transitional housing. At least $1 million has been spent on this program.

Surplus State Land for Housing: The MSHA has identified all developable surplus state property; new state legislation holds this land in trust and authorizes the agency to sell it or give it away for the development of affordable housing. The agency can thus reduce or eliminate land costs — the most rapidly increasing development costs in New England — in addition to providing low-cost financing for construction.

Incentives to Localities: Maine's cities and towns, like those in the other New England states, are being encouraged by the state to produce affordable housing. Town and city

plans, required for the first time in 1988 by the state legislature to qualify for some state discretionary funds, must provide for adequate affordable housing.

Task Force: Maine Governor John McKernan, Jr., created a task force in January 1988, composed of representatives from real estate as well as from the public and nonprofit sectors and charged with developing a comprehensive plan to encourage construction of affordable housing in the state.

Local Initiatives

In southern Maine, where the affordable housing shortage is particularly acute, solutions are being developed on regional, countywide, and municipal levels. In 1987, a private-public planning and problem-solving group called York County 2000 and the Southern Maine Regional Planning Commission jointly began a study to document the need for affordable housing in the region and to suggest ways to provide it.

Cumberland County is setting up a housing fund to buy land and reduce the resale cost or write down construction loan interest rates for the production of affordable housing. Portland has started to generate affordable housing through nonprofit development and is considering changing its zoning code to increase the affordability of new housing, through measures such as providing density bonuses (allowing more floor space per square foot of land developed) to residential developers who set aside a certain portion of their units for low- or moderate-income households. In addition, the city has a housing development fund and provides vacant properties to developers to produce low- and moderate-income housing in exchange for land write-downs or deferred payments for the properties.

In York County, the southeasternmost county in Maine, the Sanford Housing Authority is producing affordable rental housing by renovating older apartment buildings using low-cost labor from the York County Alcoholism Shelter and low-interest financing from the Maine State Housing Authority.

Vermont

State Initiatives

Assisted Homeownership Production: The Vermont Housing Finance Agency (VHFA) has created a program to provide low-interest construction financing for homeownership construction. The agency uses recycled funds — bond proceeds that were authorized but never used — or prepayments of VHFA loans. The affordability of homes built through this program is guaranteed over time.

Housing Assistance for the Homeless: The VHFA, like other housing finance agencies in New England, has recently expanded its role to include homelessness programs. The agency has provided deferred loans to five homeless shelters.

Housing Trust Fund/Real Estate Transfer Tax: In 1987, the Vermont state legislature allocated general funds for housing for the first time. The bill created the Vermont Housing and Conservation Trust Fund and allocated $3 million for the fund. The fund is used to develop affordable rental and owner-occupied housing by nonprofit developers and localities as well as to conserve land. In 1988 the legislature dedicated an increase in the state property transfer tax to the fund, providing an estimated additional $3.2 million a year.

Other State Initiatives: To coordinate state housing programs and focus state housing resources, Governor Kunin in 1986 created a Housing Roundtable consisting of the four

state agencies that provide housing assistance. In addition, the state Department of Housing and Community Affairs recently increased its housing staff.

In 1988, the legislature approved several measures proposed by the Joint Housing Study Committee, created in 1987 specifically to propose legislative solutions to the state's affordable housing shortage. Among them was a sevenfold increase in funding for the Vermont Housing and Conservation Trust Fund — $20 million of the state's $60 million budget surplus. In addition, a growth bill was passed by the legislature that contains many incentives to localities to develop affordable housing. Under the bill, communities must develop "acceptable" plans (including increasing the amount of affordable housing within their jurisdiction) to receive some state discretionary funds. The legislature also passed a measure that will create a three-year Joint House/Senate Standing Committee on Housing to create some housing expertise in the legislature.

The VHFA is considering the establishment of a well-capitalized nonprofit housing development corporation to preserve and build affordable housing throughout the state.

Local Initiatives

Burlington, the hub of economic growth in Vermont, is feeling the affordable housing crunch particularly acutely. The city has been able to make a small portion of its housing stock affordable through a land trust. In 1983, the city's Community and Economic Development Office created the Burlington Community Land Trust, which buys land and buildings, holds the land in trust, and sells the buildings to low-income families. Through restrictions in the leases of the land under the homes, the home prices remain affordable over time.

New Hampshire

State Initiatives

Homeownership Subsidy: The New Hampshire Housing Finance Agency (NHFA) has recently created programs to provide mortgages at interest rates lower than the agency has traditionally provided, financed by recovered principal from previous bond issues.

Housing Assistance for the Homeless and Housing Trust Fund: In 1988, the state passed its first legislation to spend general funds directly on housing. The legislation provides temporary emergency shelters for the homeless and establishes an affordable housing fund to be administered by the NHFA. Other legislation requires all state agencies to give their surplus land to the NHFA, which in turn provides the land to households to construct their own homes with financing from the housing fund. The legislature also required municipalities to conduct studies of regional housing needs every five years. New Hampshire business leaders supported these initiatives, partly as a means of combating labor shortages resulting from the high price of housing in the state.

The Insufficiency of State and Local Resources

In every New England state, the housing shortage is far greater than the states and cities, with their comparatively limited resources, can solve on their own. The forces that underlie and perpetuate the affordable housing shortage in New England — cutbacks in federal housing programs, an explosive rate of job creation, an increase in the ranks of the poor, a decrease in household size, and a growth in the number of middle-aged and older people

(spurring an increase in homeownership demand) — overwhelm any actions the states and cities can take.

The resources available to states and localities for housing are not nearly as great as those available to the federal government. As a result, state and local housing programs are generally small, even compared with the sharply reduced federal housing programs.

In fiscal year 1986, nationwide, 64.0 percent of public expenditures (for all purposes) were federal expenditures; only 20.3 percent of all public expenditures were state expenditures, and 15.7 percent were local expenditures. Moreover, "tax revolts" in recent years have made it difficult for local governments to find revenues even to keep current spending programs in place. Massachusetts' Proposition 2½ and California's Proposition 13, for example, sharply curtailed the revenues available to local governments in those states, and in Massachusetts the legislation has forced an increase in state aid flowing to cities and towns. Some states with significant housing programs — most notably Massachusetts, New York, and California — experienced revenue shortfalls in 1988 after several years of unusually strong revenue growth.

In most areas, deep subsidies are needed to produce affordable housing. In much of the United States, and in New England in particular, the private market on its own cannot produce a house or an apartment at a price that low-income, and often moderate-income, households can afford. In Boston, the development cost of a typical rental or condominium unit (assuming no land costs) is about $100,000. The condominium price affordable to a *moderate*-income buyer in Boston ($32,400 income, family of four) is $88,900;[26] thus, the per unit subsidy needed to make this unit affordable to such a family is $11,100. To make 100 such units affordable to moderate-income families would cost more than $1 million. The price affordable to a *low*-income buyer in Boston ($22,150 income, family of four) is $62,500; the per unit subsidy for that family is $37,500. To make only 100 such units affordable to low-income families would cost more than $3.7 million.

The demand for affordable housing is growing. For example, 6,200 families applied for the rental units in the new Tent City development in Boston; most of these families were hoping to get into the 195 low- and moderate-income units in the development. For the Bricklayer's project in the Charlestown Navy Yard in Boston, 687 households applied for 50 affordable condominium units in the project in 1988. There are almost 14,000 people on the waiting list for public housing in Boston.

Conclusion: Restore the Federal Role in Housing

New England's affordable housing shortage and the lack of state and local housing resources in the region is a national problem. If the nation's housing crisis is going to be adequately addressed, the federal government must become a partner, once again, in the housing business. It must promote the production and preservation of affordable housing for America's work force.[27] Without a renewed federal commitment to housing, businesses will pay the price through increased wages.

States and localities cannot provide the subsidies needed to significantly ease the affordable housing shortage. Without a substantial federal presence, according to a recent Urban Land Institute survey of nonfederal housing programs, "urgent needs will continue to outstrip available resources by a wide margin."[28]

With a marked increase nationwide, and especially in New England, in the capacity of states and localities to deliver affordable housing, it is time for the federal government to

enter into a partnership with them to do what the private sector cannot do alone and state and local governments cannot do without national support: ensure a decent, affordable home for every American.

State and local housing programs provide examples of how federal resources can provide relief for the affordable housing shortage. According to the Council of State Community Affairs Agencies (COSCAA), state governments created 112 housing programs between 1980 and 1987 after creating only 44 in all previous years.[29] Much has been learned from the states' efforts that can be used to help shape the next generation of federal programs. But without federal resources, state and local efforts will simply be viewed by future historians as successful "demonstration projects" that never evolved into full-scale programs.

As the housing situation has become worse, Washington decision makers have begun to focus attention on the problem. The consensus is growing among business, civic, and government leaders that the federal government must again take the lead in promoting affordable housing. The U.S. Conference of Mayors, the National League of Cities, and the National Governors Association have helped put the nation's affordable housing shortage on Washington's agenda. Over the past two years, a number of national blue-ribbon task forces have been created and have made recommendations about how the federal government should reinstate its role in housing. For the first time in several decades, the "housing question" is once again being actively debated by a wide circle of concerned individuals and organizations.

One sign of this new mood is that in 1987 Congress passed the Housing and Community Development Act of 1987, the first freestanding housing bill of the Reagan administration. The legislation — providing $30 billion over two years — is far short of what the nation was spending in the 1970s and much less than what all experts acknowledge is needed to solve the problem. It was viewed as both a first step and a holding action of existing programs until a more comprehensive approach can be worked out.

In 1987, Senators Alan Cranston and Alfonse d'Amato, cochairs of the Senate Housing Subcommittee, asked developer James Rouse and David Maxwell, chairman of the Federal National Mortgage Association (Fannie Mae), to head a task force to make specific recommendations for comprehensive federal legislation. Rouse and Maxwell assembled a group of twenty-six housing industry professionals, academic experts, government officials, and others, who met regularly for six months. The task force report, *A Decent Place to Live,* released in March 1988, is the first major overall evaluation of national housing policy in more than twenty years. The sixty-eight-page report offers a ten-point program of recommendations on tax policy, the preservation of existing subsidized housing, the housing finance system, ways to reduce housing construction costs, policies to assist first-time homebuyers, and the problems of housing rural Americans.

Two of the recommendations stand in sharp relief to the status quo. First, the task force, while acknowledging that many Americans are well housed, noted that the housing problem is getting worse and that the federal government must take the lead in guaranteeing "decent, affordable housing" for all Americans by the year 2000. This will take, the report suggests, a substantial increase in the resources devoted to housing. Second, the task force recommended that while the federal government must dedicate more funds for housing production and preservation (through what it called a Housing Opportunity Program), these funds should flow through state and local governments, who best know local needs and how to address them. The report recognized the dramatic increase in the capacity of localities to administer housing programs and to work with the business community,

private developers, and nonprofit housing groups. If new federal housing programs are designed with this kind of flexibility, local business leaders will be able to play an important role — working with government and community leaders — in designing solutions to the problems that face major employers trying to attract and keep a qualified work force.

The Rouse-Maxwell report also noted the tremendous expansion and growing sophistication of local housing programs using nonprofit community-based developers (often in partnership with government and business) and recommended that at least 10 percent of all federal housing funds be set aside for nonprofit groups that are dedicated to building and preserving housing for low- and moderate-income people.

The Community Housing Partnership Act (H.R. 3891; later incorporated into H.R. 1180, the Housing and Community Development Act of 1989), introduced by Representative Joseph Kennedy and cosponsored by more than one hundred other congressional representatives, also builds on the success of nonprofit organizations in developing housing. Modeled on the Boston Housing Partnership, it will provide $500 million annually for matching grants to subsidize the development by nonprofit organizations of low- and moderate-income rental, homeownership, and cooperative housing. The federal funds will be matched by state and local governments and private foundations three to one. The housing will remain affordable over time. Although $500 million is a small amount compared with previous HUD programs, it will dramatically improve the capacity of the nonprofit sector — which has borne the brunt of the federal withdrawal from the housing business — to develop affordable housing.

Hard on the heels of the Rouse-Maxwell task force report came a study by another blue-ribbon panel, *Preventing the Disappearance of Low-Income Housing*. This task force, chaired by Carla Hills, HUD secretary in the Ford administration, and former Representative Henry S. Reuss, a Wisconsin Democrat who chaired the Banking, Finance and Urban Affairs Committee and the Joint Economic Committee, focused on a very specific topic — the potential loss of about two million low- and moderate-income apartments built by private developers with federal subsidies in the 1960s and 1970s. As these subsidies expire and as many developments reach their twentieth anniversaries (a milestone that allows them to "opt out" of the subsidized program), a substantial portion of this valuable inventory of affordable housing could either go bankrupt or (in booming market areas) be converted to market-rate housing. In either event, the report suggests, the result would be a deepening of the housing crisis, not only for the poor but for the middle class. This panel, like the Rouse-Maxwell task force, called on the federal government to preserve this housing in cost-effective ways that will avoid a repeat of the same scenario when use restrictions on these developments expire again.

Although Congress recently instituted a two-year moratorium on prepayment of the mortgages for these federally assisted developments and on their conversion to market-rate housing, this is just an interim measure; stronger measures will be needed to save the 75,000 low- and moderate-income units at risk of loss through expiring subsidies, default, or mortgage prepayment in New England.

What will happen if the Bush administration ignores efforts to increase the federal housing budget? The federal deficit has emerged as an overriding concern of the new administration. But the affordable housing shortage shows no signs of subsiding in the Northeast. Although housing price increases in New England have slowed, many experts agree that, in the long term, demand for housing will remain strong and prices relatively high. Businesses in New England and other areas experiencing high housing costs will increasingly have to bear the costs of housing price increases through increased wage,

recruitment, or employee transportation costs (many companies already transport workers daily from remote areas). More companies may have to introduce housing assistance plans for their employees. In December 1988, for instance, Boston's hotels were persuaded by the Boston Hotel and Restaurant Workers Union to create a $1 million housing trust fund for hotel workers.

Regions with high housing costs will continue to suffer employment losses as large firms move elsewhere in response to the upward pressure that housing costs exert on wages. State and local governments, unable to provide significant housing production or subsidy, may increasingly turn toward regulation and preservation of existing housing to keep their housing affordable. Preservation and regulation efforts have already been directed to the existing privately owned, federally assisted housing stock, extending the terms of the original twenty-year affordability restrictions for these properties. Ultimately, banks and thrifts will increasingly be asked by states, cities, and community groups to fulfill their obligation under the Community Reinvestment Act to meet the credit needs of their communities specifically in ways that make housing more affordable. In several cities, for instance, banks and thrifts have provided construction mortgages at favorable rates and terms to nonprofit housing developers and mortgage financing at favorable rates and terms to low- and moderate-income families.

Even a relatively small shift of funds in the federal budget would be a significant increase in federal housing capacity, since the housing budget is relatively small compared with other components of the federal budget. For example, a shift of 5 percent ($14.4 billion) of the military budget[30] to housing in 1988 would have almost tripled the housing budget.

New England businesses can ease the affordable housing shortage locally and encourage an expansion of the federal role in housing in three ways. First, corporations can use the federal low-income rental housing tax credit, which was enacted by Congress in 1986 and has not yet been fully utilized by investors. The credit reduces taxes directly for individuals or corporations that provide equity capital for the construction, rehabilitation, or acquisition of low-income rental housing. Initial reports on the use of the tax credit indicate that more individuals than corporations are using it, even though corporations have significant potential advantages over individuals as tax credit investors. A mid-1987 survey revealed that only 16 percent of all the states' 1987 tax credit allocation was expected to be used. Another mid-1987 survey showed that only three out of the six New England states expected to use their full tax credit allocation in 1988.

Second, businesses can participate in the housing partnerships that have been created in several cities and states. So far, business sector participants in these public-private-nonprofit partnerships have been primarily banks and insurance companies. A wider array of businesses must participate in these efforts to produce affordable housing. Increasing numbers of cities are creating housing partnerships to pool the resources and expertise of a broad range of organizations.

Finally, and most important, businesses can show their support for a more substantial federal housing policy. In the 1988 legislative session, several bills and proposals, in addition to the Kennedy bill, were offered that could form the basis of a national housing program for the rest of the century. Now, more than any time in the last twenty years, New England business, civic, and political leaders need to urge the federal government to play an active role in housing. New England business leaders, more than their counterparts in any other region, have a stake in the revitalization of federal housing policy. It is in the

long-term self-interest of New England businesses and community leaders to make sure Congress and the new president enact a housing bill that meets regional and local needs.

Notes

1. Katharine L. Bradbury and Lynne E. Browne, "New England Approaches the 1990s," *New England Economic Review* (January/February 1988): 32 (1987 data provided verbally).
2. U.S. Department of Labor, Bureau of Labor Statistics, Series 790 (1987 datum is preliminary).
3. Bradbury and Browne, "New England Approaches the 1990s," 32 (1987 datum provided verbally).
4. Bradbury and Browne, "New England Approaches the 1990s," 31 (1987 datum provided verbally).
5. Bradbury and Browne, "New England Approaches the 1990s," 32 (1987 datum from U.S. Bureau of the Census).
6. Ann Greiner, *The Housing Affordability Gap and Boston's Economic Growth: Potential for Crisis* (Boston: Boston Redevelopment Authority, 1987), 24.
7. Greiner, *Housing Affordability Gap,* 22.
8. Ron Doyle, "Politicians Zero in on Housing," *Middlesex News,* 17 May 1987.
9. *New Hampshire Housing Analysis: Technical Report* (Concord, NH: New Hampshire Office of State Planning, May 1987), 62.
10. Bob Hohler, "Businesses, Social Services Urge N.H. to Fund Housing," *Boston Globe,* 5 November 1987.
11. Thomas J. Lueck, "As Housing Costs Mount, New York Companies Move Away," *New York Times,* 3 March 1987.
12. Bill Ryan, "Gold Coast Becoming Tarnished as Real Estate Prices Soar," *Hartford Courant,* 4 January 1988.
13. Margaret Pantridge, "Expansion Plans Bring Fears of Labor Council," *Boston Herald,* 4 May 1987.
14. David Warsh, "Decade of Slow Growth Seen for Massachusetts Economy," *Boston Globe,* 23 June 1988.
15. Frank Levy and Richard Michel, *The Economic Future of the Baby Boom* (Washington, DC: Urban Institute, 1985), 13.
16. William C. Apgar, Jr., *The Nation's Housing: A Review of Past Trends and Future Prospects for Housing in America* (Cambridge: MIT Center for Real Estate Development, 1988), 24.
17. Apgar, *Nation's Housing,* 8.
18. Apgar, *Nation's Housing.*
19. Phillip L. Clay, *At Risk of Loss: The Endangered Future of Low-Income Rental Housing Resources* (Washington, DC: Neighborhood Reinvestment Corporation, 1987), i.
20. Peggy Gilligan, "Home-Ownership Affordability: New England Loses Ground," *Statements of Interest* 10 (Summer 1987), 9.
21. Michael Stone, University of Massachusetts at Boston, unpublished survey of rents advertised in the *Boston Globe.*
22. *Home Sales,* vol. 2 (Washington, DC: National Association of Realtors, March 1988), 13.
23. Peggy Gilligan, Federal Home Loan Bank of Boston, unpublished table.

24. Though several sources were consulted for this table, the author may have inadvertently omitted a program from a state column either because it is very recent or because it wasn't mentioned by the sources.
25. An additional dollar is paid by the developer for employment programs that enable Boston residents to take advantage of the economic opportunity created by the city's job boom.
26. Assuming a 10 percent down payment and a 10 percent mortgage interest rate.
27. A substantial federal presence in housing would also create jobs in the housing construction industry and, indirectly, additional jobs in other sectors, further ensuring that strong economies remain strong.
28. Michael A. Stegman and J. David Holden, *Nonfederal Housing Programs* (Washington, DC: Urban Land Institute, 1987), 5.
29. *State Housing Initiatives: The 1988 Compendium* (Washington, DC: Council of State Community Affairs Agencies, 1988), 7.
30. Including the Department of Defense budget, nuclear weapons activities of the Department of Energy, international military assistance, and the National Aeronautics and Space Administration; not including the military share of net interest on the public debt.

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