

# The Data-Backed Case for Increased Production

*How building more homes can help solve the affordable housing crisis in Massachusetts*



HOUSING  
FORWARD MA



Massachusetts residents are all too familiar with the state's high housing costs. At \$422,856, our state's median home price is the [3rd highest in the country](#), behind only California and Hawaii. These numbers climb much higher when you take the Metro Boston region on its own. As of April 2020, even in the midst of a pandemic, the median selling prices for single-family homes and condos in Metro Boston [increased to \\$738,000 and \\$675,000](#), respectively.

While high housing costs disproportionately burden lower-income families, they affect Massachusetts residents at all income levels. Addressing our state's housing needs and creating more options have become top priorities for residents and elected officials alike. In response, Massachusetts has enacted some thoughtful policies to increase the stock of affordable and workforce housing, such as tax credits and subsidies, inclusionary zoning, and incentives for transit-oriented development. While important, these policies have only made a slight dent in the problem.

Demographic information from the past decade puts these shortfalls into perspective. According to US Census data, since 2010, Massachusetts' population [has increased by 344,718 people](#), twice as fast as in the 2000s. Yet, across the state, [only 142,815 new privately owned housing units](#) were authorized during this same time frame. Further, the Boston metro area alone produced [275,000 new jobs, but only 108,000 new homes](#). This has resulted in an increasingly larger pool of people competing for a proportionately smaller number of homes. Customers (renters and/or buyers) compete in the housing market through price and, because everyone needs a place to live and few alternatives exist, this drives up costs across the board. While increasing the number of available deed-restricted affordable homes is an important piece of the housing puzzle, [research shows](#) that the marginal effect of these policies on their own may be fairly small compared to the market forces of supply and demand." The bottom line? **We must build more homes, statewide, for all income levels.**

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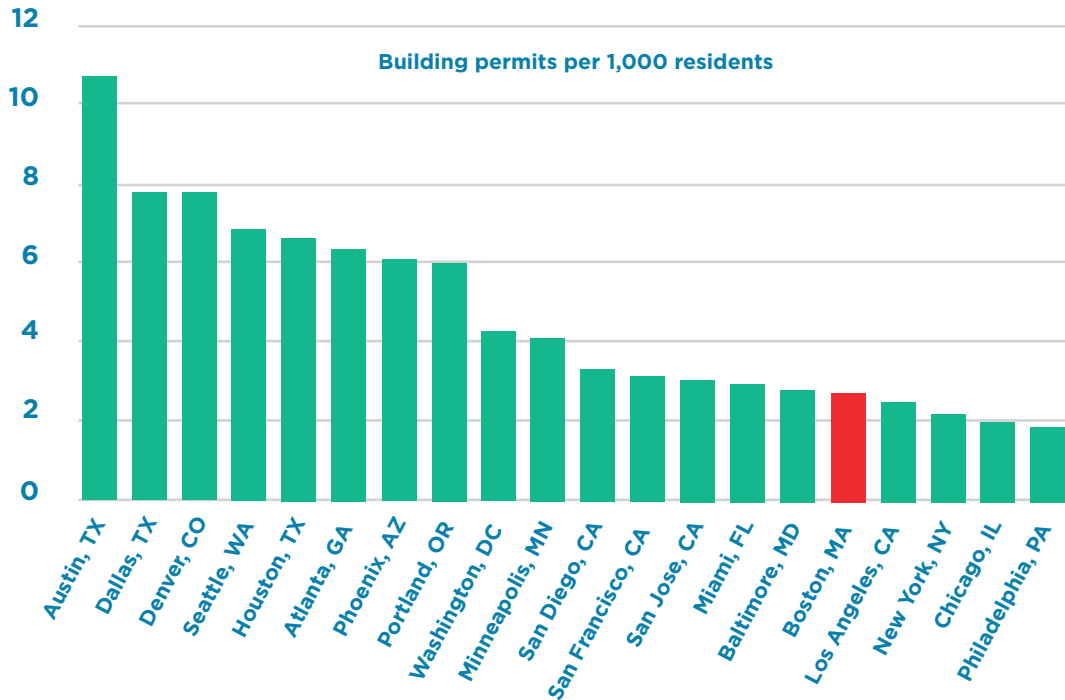
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## Building Permit Rates of the 20 Largest U.S. Innovation Economy Metros

Source: U.S. Census Bureau, 2016 Building Permit Survey and 2016 Population Estimates



## WHY DO MASSACHUSETTS HOUSING PRICES REMAIN HIGH?

Skyrocketing housing costs are not the pre-ordained result of population growth. In regions where there are fewer barriers to construction and builders are able to quickly respond to population growth with increased housing production (referred to as greater “supply elasticity”), housing prices have remained nearly constant. According to data from Zillow, [median rents and home prices in other growing innovation hubs like Atlanta, Charlotte, San Antonio, and Austin are 30 to 50 percent lower than in Greater Boston](#). Unsurprisingly, a growing list of peer metros also outpace Boston’s housing production levels, [some by a ratio of nearly 3-to-1](#). On a broader scale, [in 2019 Massachusetts ranked 28th](#) among all states for housing permits issued.

While it is true that hard construction costs (i.e. materials, labor) can be higher in Massachusetts than many other states, [the data show](#) that the vast difference in housing costs cannot be explained by these variations alone. **Rather, the building process in Massachusetts, including regulations, required approvals, long timelines, and increased uncertainty, increases costs and restricts growth.** According to a [2020 Brookings article](#), “regulatory barriers make it riskier, longer, and more expensive, which has consequences for housing affordability.” Making a more direct connection, [a 2018 joint study](#) between Harvard and the University of Pennsylvania finds that measures of zoning strictness are highly correlated with higher prices. Overall, more regulations produce lower levels of construction, which leads to a decrease in supply and higher rents and housing costs.

# ADDRESSING AFFORDABILITY CONCERNS ABOUT MARKET-RATE GROWTH

Generally, there is widespread agreement that Massachusetts needs more housing; however, developers often face opposition when it comes to where new housing should be located or for whom it should be built. New market-rate housing proposals are often met with pushback based on skepticism and the belief that these new homes will not help meet the growing need for affordable housing. While recognizing that these concerns are founded in the lived experience of many lower-income residents, **research shows that new market-rate units have widespread positive effects on affordability across all housing submarkets.**

Much of the skepticism of market-rate units is based on a belief that these units will not cause other housing to “filter down” to lower income households. However, a [report released by the Hudson Institute in 2017](#) found that 23.4% of rental units that were affordable to very low-income renters in 2013 had filtered down from higher rent categories, and 19% of them had been higher rent, or “luxury,” units as recently as 2005. Additionally, it is important to consider filtering from the opposite direction. In areas with increased demand, new market-rate housing protects against “upward filtering,” or the transition of a [“rental unit currently deemed affordable from becoming unaffordable, owner-occupied, or demolished.”](#) A [2003 study](#) found that in metropolitan areas where it is more difficult for developers to build (i.e. where housing supply is less responsive to demand), “units affordable to those with incomes at or below 35% AMI are more likely to filter up” and become unaffordable.

Another important concern about new, market-rate buildings is the potential tradeoff between regional and localized effects. In other words, although a new building might help alleviate overall housing demand in a city or region, opponents to the development fear price increases and displacement in the proposed building’s immediate surrounding community. However, new research shows an opposite effect:

- A [2019 report](#) by the Upjohn Institute uncovered that, “contrary to common concerns, **new buildings slow local rent increases** rather than initiate or accelerate them.” Specifically, it found that “new buildings lower nearby rents by 5-7%,” thus creating opportunity for new households at somewhat lower incomes to move in.
- In 2019, [Xiaodi Li](#), a researcher at NYU, found evidence that the addition of a new market-rate high-rise in New York City **decreased market-rate rents** and sales prices within a 500 foot radius, and did not appear to have an effect on rents for lower cost units.
- A [California study](#) released in 2016 found that the production of market rate housing was associated with **a lower probability that low-income residents in the neighborhood would experience displacement.** In fact, “displacement was more than twice as likely in low-income census tracts with little market-rate housing construction than in low-income census tracts with high construction levels.”



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While these findings are encouraging, it is important to point out that the rent and home price decreases cited in these studies are measured [relative to existing trends](#). **Developers typically do not seek to build market-rate units in neighborhoods that have not already been identified as “hot” markets.** Much of the time, rising costs and displacement get attributed to development; however, these studies suggest that new buildings are a response to already-existing demand and [“slow the pace of rent increases” in neighborhoods where “rents are most likely already rising rapidly.”](#) It is easier to understand the effect of a new market-rate building based on lived experience and absolute housing costs; however, when government leaders, advocates, and longtime residents block the construction of new units, they are only exacerbating the negative effects of an existing and ongoing trend.

### OTHER CHALLENGES CAUSED BY MARKET RESTRICTIONS

**A**lthough stabilizing housing prices is a top priority in Massachusetts, it is worth noting that easing market restrictions and accelerating housing production will likely have positive spillover effects, addressing other important challenges:

#### ECONOMIC PRODUCTIVITY

Because housing prices and availability are directly related to job opportunities, constraints on the housing market have **negative consequences on regional economies and local labor markets**. [A 2008 study](#) published in the *Journal of Economics* found that, compared to areas with less restrictive regulations, increases in demand for workers in cities with more restrictive land use regulations did not lead to increased supply of homes, but instead to lower levels of long-run employment.

#### ENVIRONMENTAL CONCERNS

Much research and data exist that demonstrate **where and how we build our homes is a necessary piece of addressing the climate crisis**. When supply cannot meet demand, people must travel further from city centers and employment opportunities to find housing that they can afford. This increases automobile dependence and, consequently, greenhouse gas emissions. Additionally, [research has found](#) that allowing for greater density also: requires less energy for heating and cooling; lowers per capita impacts on water quality; and lowers rates of destruction of critical habitat and open space.

# INCOME AND RACIAL SEGREGATION

Research suggests **an association between land use restrictions and income and racial segregation**. A [nation-wide study in 2015](#) found that more local pressure to regulate land use is linked to higher rates of income segregation. Closer to home, a [2013 Harvard University study](#) looked at zoning borders in municipalities across Massachusetts and found that blocks zoned for multifamily housing have Black and Hispanic population shares 3.4 and 5.8 percentage points higher, respectively, than the blocks directly across the border that are zoned exclusively for single family use. Although the increases are small, housing production does facilitate new opportunities for households facing an increasingly difficult market to find homes in communities that are currently out of reach.



Overall, existing demographic trends and academic research show that a significant increase in our housing supply is a critical piece of the solution to Massachusetts' current housing crisis. While inclusionary zoning requirements and other tax credits and subsidies are necessary to meet the housing needs of our lowest income residents, additional homes at all income levels and across cities, towns, and neighborhoods are equally necessary. To meet this urgent challenge, we must work to promote policies that streamline smart production, loosen unnecessary land use regulations, and increase certainty in the process to allow development to more quickly respond to population increases and move closer to a supply and demand equilibrium.

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