

## The New England rental market

*New England's rental prices are high but relatively affordable to most residents*

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Revised as of February 2007

Despite the New England housing market's recent slowdown, both house prices and rents in the region remain high compared to the rest of the nation. Various reports, commissions, and studies have found that owner-occupied housing is often unaffordable to the region's residents. But a detailed NEPPC analysis of affordability for the New England rental market reveals a much lesser-known and even counterintuitive fact about the region's broader housing picture: Though rental housing in New England is expensive relative to the rest of the nation, the region's incomes are high enough that rental housing is affordable to most New Englanders. Indeed, when household income is taken into consideration, rental housing is as affordable—in some cases, even more affordable—in every New England state than it is in the nation as a whole. This is primarily because rents in New England have not risen as rapidly as

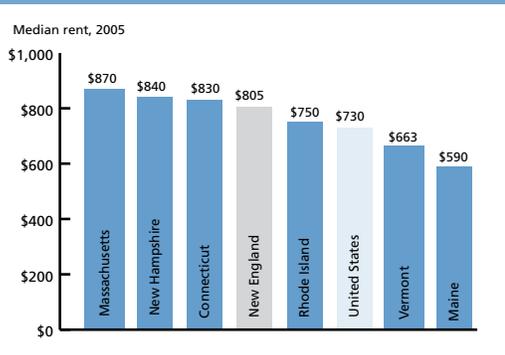
house prices over the past decade. Though rent payments certainly can be a financial burden for many New Englanders, these findings about the relative affordability of rental housing are especially important for the region's very low-income households, the majority of which are renters.

### Rents in New England have risen less rapidly than house prices

Over the past decade, prices for rental housing units have not accelerated nearly as quickly as those for owner-occupied housing in New England. Between 1995 and 2005, for example, rents in the Boston-Brockton-Nashua area increased by 2.3 percent per year in inflation-adjusted terms.<sup>1</sup> Although this was almost 2.5 times faster than the national rate, it was roughly half the annual appreciation in real house prices for the region during this period (6.3 percent per year). Moreover, since 2002, the growth in rents in the Boston area has slowed significantly with real rental costs holding constant between 2003 and 2004 and declining in 2005.

As a result, New England's median gross monthly rent of \$805 in 2005 was only 10 percent higher than the national median of \$730 (see figure). Although Connecticut, Massachusetts, and New Hampshire were among the top 10 highest states for median rent, rents in even those states were only about 15 percent higher than the U.S. median. Median rents in Vermont and Maine, which had the least expensive rental housing in

Rents are slightly higher in New England than the nation



Source: American Community Survey.  
Note: Median rent is based on gross rent, which is equal to contract rent plus the estimated average monthly cost of utilities. Sample is households where the household head is age 25+ and not enrolled in school and the household reports positive contract rent.

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New England, were 10 and 20 percent lower, respectively, than the national average.

Still, rents were higher in many New England metropolitan areas than they were in competitor areas. For example, median rents in the region's metropolitan areas ranged from \$667 per month in Springfield to \$1,021 in the Boston MA-NH PMSA,<sup>2</sup> compared to \$716 in the Raleigh-Durham-Chapel Hill, NC, MSA.

### A tale of two cost burdens: Renting versus owning

Despite having moderately higher rents and faster appreciation over time, New England's incomes are sufficiently high to keep rental housing affordable to most of the region's residents. In 2005, New England's median household income of \$55,000 was nearly 15 percent higher than the median income for all U.S. residents. Using two different measures of affordability, the study finds that once the relative difference in household incomes is taken into consideration, access to affordable rental housing in every New England state is, for the most part, either comparable to or better than it is in the nation as a whole.

Affordability is typically measured by looking at either the actual percentage of household income spent by renters (cost burden) or by comparing annual household income to the income needed to pay annual rent costs (income adequacy). By the first measure, a household is considered "cost-burdened" if

it spends more than 30 percent of its income on housing costs. Our analysis reveals that households in New England—unlike in the nation—are more likely to be cost-burdened as homeowners than as renters, both for very low-income and middle-income households.<sup>3</sup> (See Table 1, column 1 versus 2 and 3 versus 4.) For both income groups, the fraction of households that were cost-burdened was lower for renters in New England than for renters nationwide, while for owners the reverse was true.

But while relatively fewer low-income renters in New England are cost-burdened than in the nation as a whole, affordability remains a problem for these households. About 75 percent of very low-income renters were considered cost-burdened in 2005. Moreover, the report shows that nearly half were "severely cost-burdened," (spending more than 50 percent of their income on rent), leaving less room in the budget to pay for other household items like childcare and transportation. By contrast, slightly more than 15 percent of middle-income renters were cost-burdened and less than 1 percent severely cost-burdened.

Turning to the second measure, which compares annual household income to the income needed to pay annual rental costs, most New Englanders earned incomes that were adequate to afford rental housing. In 2005, the median household in New England earned be-

Table 1: Higher incomes make rental housing affordable to most New Englanders

	<b>Cost burden</b> Share of households spending more than 30% of income on housing				<b>Income adequacy</b> Ratio of annual household income to income needed to rent or own			
	Middle-income households		Very low-income households		Middle-income households		Very low-income households	
	Renter	Owner	Renter	Owner	Renter	Owner	Renter	Owner
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Connecticut	7%	20%	78%	88%	1.75	0.69	0.89	0.32
Maine	16%	17%	70%	71%	1.79	0.88	1.25	NA
Massachusetts	19%	29%	73%	87%	1.57	0.64	1.11	NA
New Hampshire	10%	28%	78%	82%	1.75	0.81	0.95	NA
Rhode Island	9%	32%	69%	87%	1.66	0.64	1.18	NA
Vermont	8%	15%	83%	80%	1.83	0.92	1.01	NA
New England	15%	25%	74%	84%	NA	NA	NA	NA
United States	18%	21%	83%	80%	1.65	0.82	0.89	NA

Source: NEPPC Working Paper 06-1, 2006. See the full report for details of the calculations.  
Table revised as of February 2007.

tween 1.5 and 1.8 times the income needed to rent the median-priced apartment, comparable to the national ratio of 1.65. (See Table 1, column 5.) Except for Connecticut and New Hampshire, even very low-income households in the region, unlike their counterparts elsewhere in the nation, earned incomes that were sufficient to rent the least expensive apartments (Table 1, column 7). In contrast, household incomes were not adequate to purchase the median-priced house in most New England states (Table 1, column 6).

One important caveat to this analysis of relative affordability is the difficulty of determining the relative quality of the rental housing stock in New England versus the nation. Data on housing characteristics such as the number of bedrooms, square footage, and age of units in a given area suggest that New England’s rental stock may be of lesser quality. For example, according to the 2005 American Community Survey, 47 percent of rental units in New England were built before 1950, more than double the 23 percent nationwide figure. However, strictly applying such data can be problematic: age alone (or size or other single factors) do not necessarily equate to quality. This lack of hard data, as well as the challenge of region-to-region comparisons, make it difficult, if not impossible, to compare empirically what the same rental dollars purchase in different housing markets in terms of housing stock quality and local amenities.

**Apartments may be affordable—but are they available?**

Just because something is affordable does not mean it is available. Between 2000 and 2005, the number of housing units in the region (both rental and owner-occupied properties) grew by only 3.2 percent, or less than half the national growth rate of 7.4 percent. So while rental housing is affordable in New England, it is not necessarily available to households in need of it. This issue of availability is particularly salient for the region’s very low-income households, the majority of which are renters.<sup>4</sup>

**Table 2: Three to four very low-income households are competing for every one affordable, available apartment**

	Number of very low-income households per affordable rental unit	Number of very low-income households per affordable and available rental units
	[1]	[2]
Connecticut	2.3	3.1
Maine	2.3	3.1
Massachusetts	2.0	2.5
New Hampshire	2.5	4.0
Rhode Island	2.1	2.7
Vermont	2.8	3.8
United States	2.5	3.6

Source: NEPPC Working Paper 06-1, 2006. See the full report for details of the calculations.

Because affordable rental units are scarce, low-income households have little choice but to commit an extra portion of their income to pay for shelter, at the expense of other important items.

The study uses two measures to examine whether a sufficient supply of rental units is affordable to very low-income households. First, it compares the number of units that are affordable to households in a given income range to the actual number of households in that income range. Second, it compares the number of affordable units to the number of households in a given income range, excluding those units occupied by higher-income households. The second measure indicates whether the potential supply of affordable units is actually available for a given income group.

The analysis shows that the supply of affordable housing available to very low-income households in New England is inadequate. As of 2005, roughly one affordable apartment was available for every two such households (Table 2, column 1). Excluding those apartments occupied by higher-income households, approximately one affordable apartment was available for every three to four very low-income households. There are simply not enough affordable units to go around, again saying nothing about the quality of these low-cost apartments.

This supply situation is not likely to improve soon. While many New England states have had some success building new afford-

able rental housing, states are racing against the expiration and conversion of existing, affordable units. Over the past few years, many apartment owners have chosen to convert units to condominiums to take advantage of the hot real estate market. According to the 2005 *Greater Boston Housing Report Card*, nearly 1,700 rental units were converted to condominiums between 1999 and 2005, often in working-class neighborhoods where the new condos were not affordable to former occupants.

While the recent slowdown in the housing market could alleviate some of the supply constraints in the rental market by enticing more households to become homeowners, the slowdown is not likely to be deep or sustained enough to make a major dent in affordability, as prices have risen much more rapidly than incomes over the past decade. And even if prices fell sharply, the economic consequences of

such a drop (such as a recession) would further compromise the ability of the region's low income households to pay for rental housing.

Although the relative affordability of the rental market in New England is a bright spot in the region's comparative cost-of-living, affordability and availability remain problems for the region's poorest households.

### Endnotes

<sup>1</sup> The calculation is based on CPI-rent of primary residence, which controls for the quality of rental housing.

<sup>2</sup> The Boston MA-NH primary statistical area (PMSA) includes Bristol County MA, Essex County MA, Middlesex County MA, Norfolk County MA, Plymouth County MA, Suffolk County MA, Worcester County MA, and Rockingham County NH.

<sup>3</sup> In our analysis, middle-income households are those that fall in the middle 20 percent of the income distribution, while very low-income households are those in the bottom 20 percent of incomes.

<sup>4</sup> By comparison, more than three-quarters of the region's middle-income households are owners.

*NEPPC consultant Phil Primack assisted with this policy brief.*

This policy brief is based on *The Lack of Affordable Housing in New England: How Big a Problem? Why Is It Growing? What Are We Doing about It?*, a New England Public Policy Center working paper. The full paper is available at <http://www.bos.frb.org/economic/neppc/wp/2006/neppcwp0601.htm>. To receive a copy of future policy briefs, please contact us at [neppc@bos.frb.org](mailto:neppc@bos.frb.org) or 617-973-4257.

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