

Can young professionals afford to buy a home in New England?

By Heather Brome

Although house prices began leveling off in 2006, housing affordability for young professionals is still a concern for policy makers, employers, and residents alike in all six New England states. This is especially true when it comes to owning a home as house prices rose rapidly throughout the late 1990s and early 2000s. Between 1995 and 2005, they jumped by 85 percent, almost doubling in Greater Boston alone, compared to an increase of only 56 percent nationwide. In addition, the growth in house prices far outstripped that of real incomes such that all households in the region, regardless of age, education, or income, have seen the affordability of owner-occupied housing decline in recent years. As a result, there has been speculation that young professionals are leaving the region, choosing not to move here, or facing financial strain because of high housing costs.

This policy brief explores whether young professional households can afford to own a home in New England. These are defined as households headed by a 25-39 year old with at least a BA and not currently enrolled in school. The analysis relies on two measures: (1) housing burden, defined as the percentage of household income spent on housing costs, and (2) income adequacy, defined as the ratio of household income to the income needed to purchase a home. (See New England Public Policy Center Working Paper, 06-1—"The Lack of Affordable Housing in New England: How Big a Problem? Why Is It Growing? What Are We Doing About It?" for more details on affordability measures and methodology.) The first gives us a sense of how burdened

current homeowners are by housing costs; the second indicates whether the incomes of young professional households generally are adequate to purchase a home. These measures are compared to other households in the region as well as to young professional households in other regions.

Are young professionals burdened by housing costs?

Young professional-headed households in New England tend to spend a larger share of their incomes on owner-occupied housing than their peers in other regions, despite their higher incomes. In 2005, the median young professional household in New England earned 14 percent more than its U.S. counterpart. Yet, young professionals who owned homes in the region paid about 1.4 percentage points more of their income for homeowner costs than the U.S. average. The fact that young professional households in the region spend a higher share of their income on housing indicates that their higher incomes do not completely offset the higher costs of owner-occupied housing.

The share of young professional households that are burdened by housing costs—that is, they pay more than thirty percent of household income for housing—is higher in New England than the rest of the U.S., though the difference is small (14.7 percent versus 13.3 percent). In contrast, the share of young professional households that are severely burdened—that is, they pay more than 50 percent of household income for housing—is comparable in New England to the nation. So, while young professional households in New England pay a larger

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Table 1: As of 2005, young professional homeowners paid a larger share of their income on housing in New England compared to the U.S.

	Median percentage of income spent on owner-occupied housing	Percentage of young professional homeowner households that have:		Percentage of all young professional households that are homeowners
		Any burden	Severe burden	
CT	18.4%*	15.3%	5.6%	69.8%*
ME	16.5%	9.7%	3.7%	72.1%
MA	18.9%*	14.5%	3.1%	61.2%*
NH	19.1%*	16.6%	3.5%	72.7%*
RI	18.6%*	15.8%	3.2%	65.3%
VT	19.1%	14.6%	4.6%	67.5%
NE	18.5%*	14.7%	3.9%	65.2%
US	17.1%	13.3%	3.6%	64.9%

Source: 2005 American Community Survey

Notes: Any burden indicates a household pays more than 30 percent of household income for housing; Severe burden indicates a household pays more than 50 percent of household income for housing. Homeowners include both owners with a mortgage and those who own their homes free and clear. The data in this table is not comparable to the housing burdens in NEPPC Working Paper 06-1. In that working paper, homeowners who own their homes free and clear were excluded from the analysis.

*Indicates statistically different from U.S. at 5 percent level. Note that all statistics were tested for significance. None of the other differences between the U.S. and New England state housing burdens were statistically significant.

share of their incomes on average, the percentage of households that are severely burdened is not out of line with the rest of the U.S. Nonetheless, there is a great deal of variability throughout the region. Young professionals living in Connecticut and Vermont are more likely to be severely burdened by owning a home, while those in Massachusetts, New Hampshire, and Rhode Island are less likely.

Can young professionals afford to purchase a home?

While this look at housing burdens gives us a sense of how “stretched” current owners are, it does not indicate how affordable the market is for young professional households in general, including renters aspiring to become homeowners. However, given that the percentage of young professional headed households that are homeowners in all New England states except Massachusetts is higher than that of the U.S., housing prices in most of the region may not be a barrier to homeownership. Massachusetts, which has the two most expensive metropolitan areas in the region, has a lower percentage of young professional households that own their homes than any other New England state or the U.S.

To explore whether young professional

households can afford the costs of owning, we turn to our second indicator—the ratio of the median household income of this group to the income needed to afford the median priced house. By using this indicator, we implicitly assume that young professional households earning the median income should be able to or would want to purchase the median-priced house in their metropolitan area. Yet, it provides a common measuring stick by which we can compare affordability across geographic areas and demographic groups.

As of 2000, the most recent year for which income can be calculated at the metropolitan level for this group, the median incomes of households headed by a young professional were such that they could qualify for a standard fixed-rate mortgage to purchase the median-priced home in every major city in New England. Some areas were more affordable than others (see Figure 1), but even in Boston or Cambridge—the most expensive of the region’s cities—the median income young professional household earned just enough to qualify for a mortgage on the median priced home.

Moreover, on the whole young professionals are better able to afford a home in any of the region’s cities than middle-income

households, whose incomes fall short in some states, particularly in southern New England. However, it should be noted that young professional households with incomes below the median may be unable to afford the median-priced home in some areas. Indeed, since 2000 many of these metropolitan areas have become less affordable. But, given the range of housing affordability across New England, young professionals in the most expensive areas who seek more “bang for their buck” may choose to locate in other parts of the region, such as southern New Hampshire or western Massachusetts.

However, even if a household can afford a home in one of New England’s metro areas, they can do so more easily in several competitor areas (See Figure 2). Compared to other U.S. cities, Boston and Cambridge are more affordable than San Francisco, New York City, and Seattle; however they are less affordable than most competing metro areas outside New England, including Chicago, Philadelphia, Phoenix, and Raleigh. So, while young professionals in San Francisco, New York, and Boston tend to earn more than their peers in other cities, housing is also more expensive

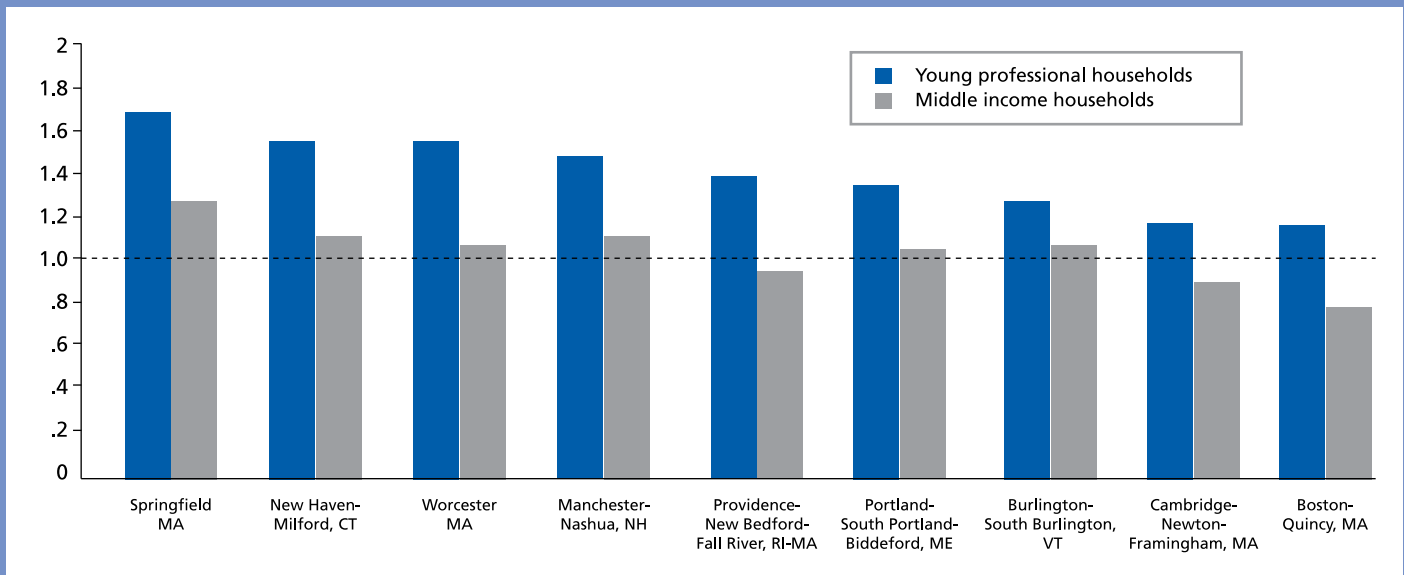
even relative to their higher incomes.

There are some caveats to these comparisons across regions. We cannot control for the quality of housing in these rough estimates or the level of amenities provided in the area such as climate, quality of life, proximity to jobs, and quality of public schools. Additionally, looking at housing costs alone excludes other costs of living in a particular location that may vary significantly, such as commuting costs or utilities. It is possible that home owners can get more for their money in some markets than in others given these differences.

Indeed, both of the measures in this policy brief reflect the affordability of housing for young professionals already living in the region. Yet there is a group of households that are potentially even worse off—potential migrants to New England who would like to live here but who cannot afford to buy a house, including the savings necessary for a down payment, and so have chosen to live elsewhere. Not capturing these individuals in our measures has the potential to understate the housing affordability problem for young professionals.

Figure 1: Unlike middle income households, as of 2000 young professionals could afford to purchase homes in all of New England’s major metropolitan areas.

Ratio of median household income to income needed to purchase the median priced house; “young professional” households and “middle income” households

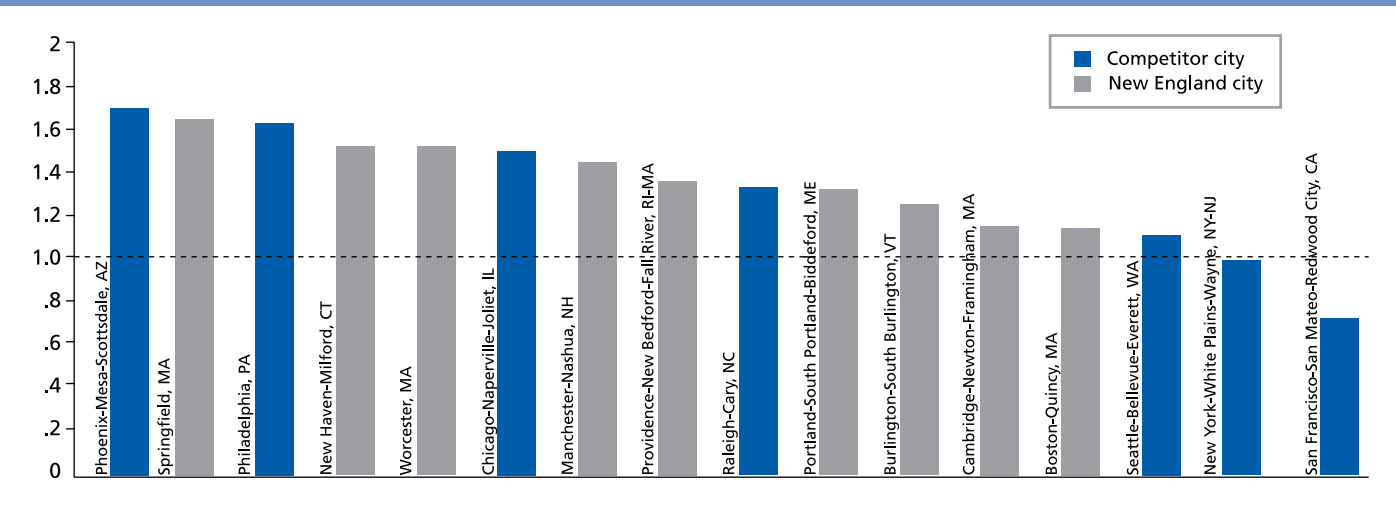


Source: New England Public Policy Center Working Paper 06-1.

Notes: Affordability is defined as the ratio of annual median household income for a particular demographic group in a given metro area to the annual income needed to purchase the median-priced house in a given metro area. Middle-income households are households with a household head age 25+ of any education level that fall in the third income quintile of all such households in a given metro area. Young-professional-headed households are households with a household head age 25-39 with at least a BA and not currently enrolled in school. Annual income needed to purchase the median-priced house is based on monthly principal and interest for a 30-year fixed rate mortgage with 20 percent down payment, real estate taxes, and homeowners’ insurance premiums.

Figure 2: Some New England metro areas are more affordable than competitor cities, others are less.

Ratio of median household income to income needed to purchase the median priced house: "young professional" households



Source: New England Public Policy Center Working Paper 06-1.

Notes: Affordability is defined as the ratio of annual median household income for a particular demographic group in a given metro area to the annual income needed to purchase the median-priced house in a given metro area. Middle-income households are households with a household head age 25+ of any education level that fall in the third quintile in a given metro area. Young-professional-headed households are households with a household head age 25-39 with at least a BA and not currently enrolled in school. Annual income needed to purchase the median-priced house is based on monthly principal and interest for a 30-year fixed rate mortgage with 20 percent down payment, real estate taxes, and homeowners' insurance premiums.

Conclusion

While young professionals do spend a greater share of their income on housing in New England, they tend to earn enough to purchase a home in the region. Moreover, there is a diversity of housing options in the region. While not all households, including many young professional households, can afford to purchase a home in the Boston or Cambridge area, a home in Western Massachusetts, Southern New Hampshire, Providence, or another metro region might be affordable. Compared to their peers in competitor regions, New England's young professionals are paying somewhat more for housing as a share of their incomes and young professionals in many other metro areas can afford to purchase a home more easily.

What this means for the region's competition for young, educated workers depends

on the extent to which housing costs factor into long distance moves for this demographic group. Hard evidence on this issue is scant; yet the Current Population Survey indicates that housing is not the primary factor for most long-distance movers. Other factors, such as the availability of jobs and proximity to family appear to play a greater role in long distance migration decisions. Future research into the determinants of migration will be needed to shed more light on this question and guide policymaking in this area.

Further Reading:

U.S. Census Bureau. "Why People Move: Exploring the March 2000 Current Population Survey." May 2001.

This policy brief is based on New England Public Policy Center Working Paper 06-1—"The Lack of Affordable Housing in New England: How Big a Problem? Why Is It Growing? What Are We Doing About It?" The full paper is available at <http://www.bos.frb.org/economic/neppc/wp/2006/neppcwp0601.htm>