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2010 VERMONT HOUSING NEEDS ASSESSMENT

Affordable Homeownership Options for Lower Income Vermonters

This assessment was conducted by Vermont Housing Finance Agency for the Vermont Department of Economic, Housing and Community Development, with financial and technical support from the Vermont Housing & Conservation Board, Vermont Agency for Human Services, and Vermont State Housing Authority.

Based on national and state data, this assessment estimates current housing needs in Vermont and projects trends for the next five years. Results focus on housing needs among the state's 55,000 lower income households that have incomes at or below \$41,000, approximately 80% of the state median.

[An explanation of the study's methodology is online.](#)

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AFFORDABLE HOMEOWNERSHIP OPTIONS FOR LOWER INCOME VERMONTERS

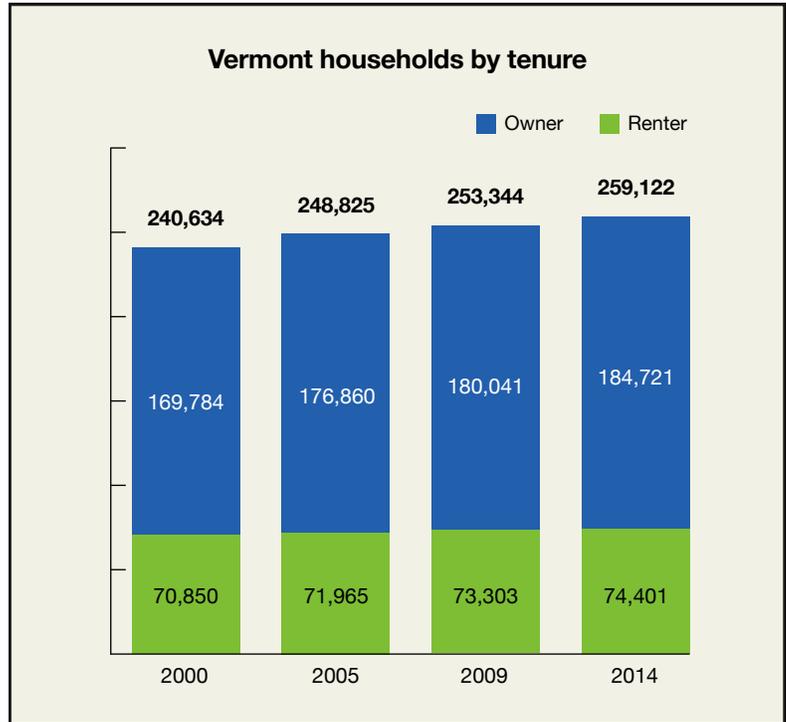
Summary

- Vermont's homeownership rate is consistently higher than the national average (by five percentage points in 2008), like many predominantly rural and racially homogenous states.
- Even among lower income Vermonters, homeownership is more common than renting. About 30% of Vermont's homeowners are lower income households with incomes at or below \$41,000 (80% of the state median).
- About 26,000 lower income Vermont households own their homes and have mortgages. An estimated 82%, or 21,000, of these households have mortgage payments and other housing expenses that consume more than 30% of their incomes. About 7,000 of these households pay more than 50% of their incomes for their mortgage and other housing expenses.
- Lower income home buyers face a very limited supply of affordable homes. Only about 18% of the homes sold in 2008 were at prices affordable to the many households with incomes lower than \$41,000.
- The current recession has prompted a fall in the number of building permits issued, homes sold, and median purchase prices. Nevertheless, Vermont will likely need construction of about 8,000 owner homes between 2009 and 2014, if current owner household growth projections hold true. Building these new units will require a pre-recession pace of construction.

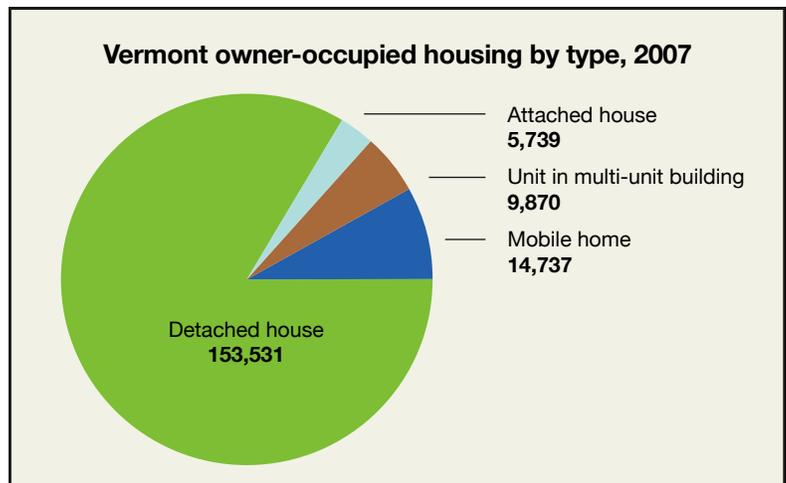
Number of owner households continues to grow

More than 70 percent of all Vermont households own their homes, ranking Vermont among the ten states with the highest homeownership rates. As of 2009, an estimated 180,000 households owned homes in Vermont. An additional 4,680 households will likely join the ranks of Vermont homeowners by 2014.¹

Vermont's owner households live predominantly in detached houses, although mobile homes also comprise a sizeable portion of the owner housing stock (8%).



SOURCES: VHFA ANALYSIS OF U.S. CENSUS BUREAU CENSUS 2000 SF1 TABLE H-4, AMERICAN COMMUNITY SURVEY 2005 TABLE 25003, AND NIELSEN CLARITAS ESTIMATES.



SOURCE: U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2007, TABLE 25032

IDENTIFYING HOUSEHOLDS WITH LOWER INCOMES

The following table describes income categories that relate a household's income to the median income among all households in the state.² For 2009, the median income of Vermont households is \$51,000, according to estimates provided by Nielsen Claritas.

Median income	\$51,000
<=30% of median	\$0-15,000
31-50% of median	\$15,001-25,000
51-80% of median	\$25,001-41,000
81-95% of median	\$41,001-48,000
>95% of median	\$48,001+

Throughout this report, households are grouped by income into these groups. The term "lower income household" refers to all households with income less than 80% of the median, or \$41,000.

What is counted as "household income" in this report?

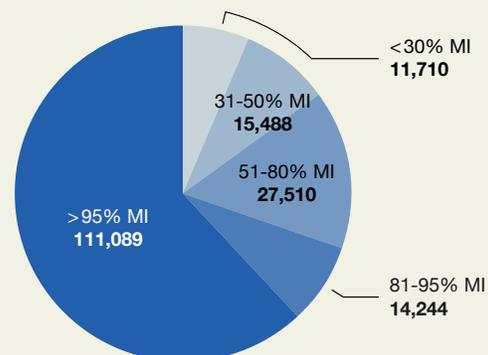
COUNTED as income	NOT COUNTED as income
Amounts reported separately for wage or salary income	Capital gains
Net self-employment income	Money received from the sale of property (unless the recipient was engaged in the business of selling such property)
Interest, dividends, or net rental or royalty income or income from estates and trusts	The value of income "in kind" from food stamps, public housing subsidies, medical care, employer contributions for individuals, etc.
Social Security or railroad retirement income	Withdrawal of bank deposits
Supplemental Security Income (SSI)	Money borrowed
Public assistance or welfare payments	Tax refunds
Retirement, survivor, or disability pensions	Exchange of money between relatives living in the same household
All other income	Gifts and lump-sum inheritances Insurance payments

SOURCE: U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2007 SUBJECT DEFINITIONS.

Homeownership is more common in Vermont than renting even among households with lower incomes. Approximately 55,000 of the 100,000 Vermont households with incomes less than \$41,000 (80% of median) owned their homes in 2009. These lower income households comprise 30% of all Vermont owner households.

By 2014, an additional 1,770 owner households with incomes at or below 80% of median are expected to live in Vermont.

Estimated number of owner households by income group, 2009



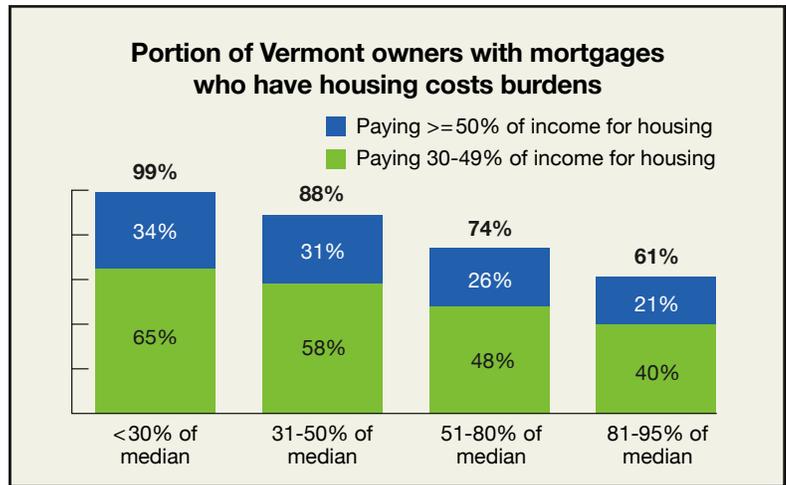
SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN/CLARITAS.

Note: "MI" refers to "median income."

Consistent with a national pattern, about two-thirds of all Vermont home owners have outstanding home mortgages. Among lower income homeowners (with incomes below \$41,000), the percentage is somewhat lower — an estimated 46-47% of lower income homeowners in VT (and the U.S.) are paying off mortgages.³ Many homeowners who fall in to the “lower income” category but have no mortgages are likely to be elderly households who have remained in the same home for years, paid off their mortgages, and live on limited incomes and/or assets.

21,000 lower income homeowners lack housing they can afford

An estimated 21,000 lower income Vermont mortgaged home owners lack housing they can afford due to high mortgage payments, property taxes, insurance and utility costs relative to their incomes. For these households, whose incomes are less than \$41,000 (80% of the median), their mortgage payment and other housing expenses absorb more than 30% of their income. About 7,000 of these households pay an alarming 50% or more of their incomes for their mortgage and expenses, leaving them with few resources for other necessities. They have little buffer against unanticipated income declines, home repair costs, or other family emergency expenses. Also, “housing costs” include variable factors such as utilities and taxes which can fluctuate from year to year without a corresponding increase in



SOURCE: VHFA ANALYSIS OF AMERICAN COMMUNITY SURVEY 2005-7, TABLES 25101 AND 25091.

income.⁴ While renters may be able to move to a more affordable unit when such variable factors increase or income decreases, homeowners face higher transaction costs of moving.

Cost-burdened homeowners with low incomes and outstanding mortgages face serious financial risks. They are much more likely to have difficulty making mortgage payments than their higher income counterparts or comparable households with affordable mortgages. They are also at higher risk of foreclosure and of foregoing other essential goods and services, such as food, child care, and health care should their income decline unexpectedly.

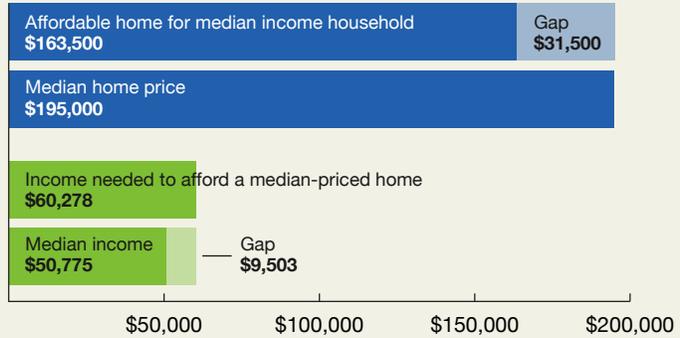
Demand for homes with affordable prices exceeds supply

The median price of a home sold in Vermont in January through June 2009 was \$195,000.⁵ Although this represents a decline of 3% relative to the prior six-month period, households with incomes at the median are not likely to be able to afford a median priced Vermont home. For these households, the gap between the purchase price they can afford (meaning their mortgage, taxes, and insurance payments are limited to 30% of their income) and the median home price is \$31,500, as shown on the upper set of bars in the graph on the following page. The lower set of bars illustrate

the difference between the annual income a household would likely need to purchase a median priced home (\$60,000) and the median income level in Vermont (\$51,000) — an income gap of \$9,503.⁶

For the many households with incomes less than \$51,000, this gap is even greater. Households with incomes of \$41,000 (80% of the median) would need a monumental down payment of about \$57,000 to afford a median priced home while keeping their mortgage payments affordable. Such a gap prompts lower income households to remain renters or to take on unaffordable mortgage and housing expense commitments.

Comparing Vermont's median home prices and income with affordable prices, 2009



SOURCE: VHFA ANALYSIS OF FREDDIE MAC'S AVERAGE INTEREST RATE LOAN IN JUNE 2009 FOR A 30-YEAR MORTGAGE, A 5% DOWN PAYMENT, AVERAGE STATEWIDE PROPERTY TAXES, PROPERTY INSURANCE, PRIVATE MORTGAGE INSURANCE, CLOSING COSTS AND A 30-PERCENT HOUSING PAYMENT RATIO. AVERAGE PROPERTY TAX ASSUMPTIONS DO NOT INCLUDE INCOME SENSITIVE TAX REBATES THAT QUALIFYING HOUSEHOLDS RECEIVE.

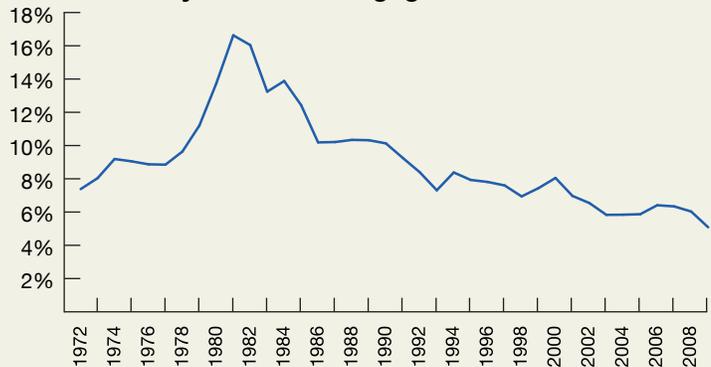
HOME PURCHASE AFFORDABILITY DEPENDS HEAVILY ON INTEREST RATES

When interest rates decline, the range of homes affordable for the average household expands. Since 1981, average interest rates for a 30-year fixed rate mortgage have trended downward.

While the general decline in interest rates improved options for Vermonters purchasing homes in recent years, many home owners do not share in this good fortune. Not all households who purchased homes during higher interest rate periods are able to refinance their mortgages, if their credit standing or home value deteriorate. Similarly, some home buyers in the current market cannot afford to refinance due to the unusually high fees currently being

charged. Furthermore, they may not qualify for the same low interest rates as the general population if they have credit problems or other unique circumstances that increase their risk to lenders.

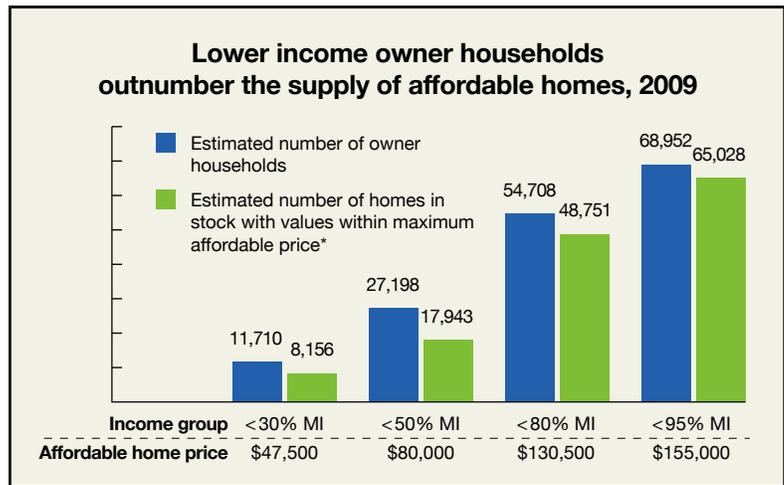
Average interest rates for 30-year fixed mortgages in the U.S.



Since lower income owner households outnumber the supply of affordable homes, it is no surprise that many pay more than 30% of their incomes for housing. For example, the 27,000 owner households with incomes less than \$25,000 (50% of the median) are likely to be able to afford the mortgage on a home costing up to \$80,000. However, there are only approximately 18,000 homes in Vermont's owner housing stock with values in this range.⁷ Some of these households may have bought their homes before values rose to current levels and may have paid off much of their mortgages. However, most lower income home owners are cost burdened by their housing expenses, indicating a widespread mismatch between homeownership costs and incomes.⁸

The number of affordable homes for sale is extremely limited for any lower income household entering Vermont's home purchase market. Only about 18% (or 900 homes) of the primary homes sold in 2008 were at prices a household earning \$41,000 (80% of median) could likely afford.

In light of the limited purchase opportunities for lower income households, affordable financing options are very important. The U.S. Department of Agriculture's Guarantee and 502 Program helped 191 mostly lower-income households purchase homes in 2008. In addition, community land trusts and other housing organizations have developed an estimated 900 resale-restricted single family homes targeted



SOURCE: VHFA ANALYSIS OF U.S. CENSUS BUREAU HOUSING UNITS ESTIMATES (TABLE HU-EST2007), BUILDING PERMIT REPORTS, ESTIMATES PROVIDED BY NIELSEN CLARITAS, AND AMERICAN COMMUNITY SURVEY 2005-7 TABLES B25002-4 AND B25075.

*Number of affordable homes is based on Freddie Mac's interest rate survey results for June 2009 for a 30-year mortgage with a 5 percent down payment, average statewide property taxes, property insurance, private mortgage insurance, closing costs, and a 30 percent housing payment ratio.

Few Vermont homes affordable to lower income households sold in 2008

Maximum affordable purchase price*	Homes sold at or below this price		Median home price
	Number	% of all primary homes sold	
\$130,500	893	18%	\$200,000

SOURCE: VHFA ANALYSIS OF VERMONT DEPARTMENT OF TAXES PROPERTY TRANSFER TAX DATA FOR PRIMARY HOMES (INCLUDING SINGLE-FAMILY, CONDOMINIUMS, AND MOBILE HOMES WITH LAND).

*This is the estimated price affordable to a household with income of \$41,000 (80% of the state median), assuming a down payment of 5% and average interest rates, property taxes, and insurance rates. Average property tax payment does not include tax rebates that qualifying households would receive.

to lower income households. About 25-50 of these homes are resold each year. This housing is permanently restricted and intended to remain available to moderate and lower income households at affordable prices on an ongoing basis.⁹

Mobile and manufactured homes in mobile home parks are also an important source of housing for households with limited income. There are 7,233 lots in 243 parks statewide, most of

which are leased to owner-occupants of mobile and manufactured homes.¹⁰ Important issues for this stock of housing include the availability of affordable financing options for homeowners, the physical condition of homes, and the quality of park infrastructure.

Home building during troubled economic times

Despite current housing market declines, there will likely be a need for construction of about 8,000 owner-occupied homes between 2009 and 2014 to accommodate the latest projections of population growth, replace units at the end of their life cycle and provide a normal vacancy rate.

Producing these new homes would require construction of 1,641 homes per year. This is about equal to the average rate of construction during the past five years. However, the pace of construction has fallen dramatically in recent months as the economy declined. Vermont's housing stock expansion was less than half the national average between 2007 and 2008.¹¹ Keeping pace with the potential demand outlined in current projections will require the rate of construction to quickly return to pre-recession levels, as shown to the right.

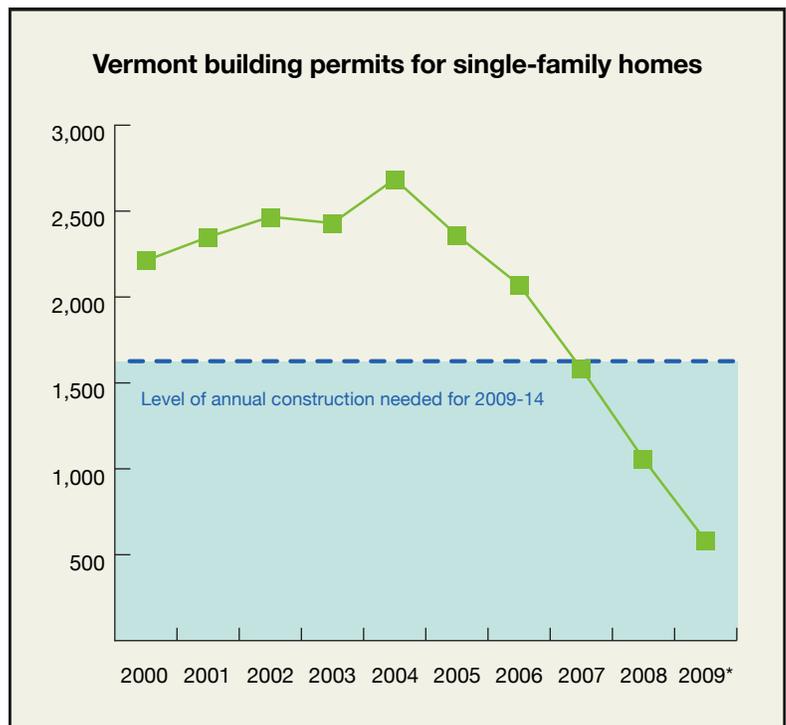
Since current economic instability makes homeowner population projections more tenuous, updating this analysis frequently is critical to accurately quantifying Vermont's new construction needs until the economy

Estimated demand and supply of owner homes in Vermont

Additional owner households	4,680
Units removed from stock/destroyed*	939
Additional units needed to reach a healthy vacancy rate*	2,586
Total additional units needed	8,205

SOURCE: VHFA ANALYSIS OF ESTIMATES FROM NIELSEN CLARITAS AND U.S. CENSUS BUREAU HOUSING UNIT ESTIMATES, BUILDING PERMIT REPORTS, AND AMERICAN COMMUNITY SURVEY 2005-7 TABLE B25003.

*Assumes an annual housing destruction rate of 0.103% and that 3% is a "healthy" vacancy rate, as opposed to the 1.6% rate most recently estimated by the U.S. Census Bureau for 2008.



SOURCE: VHFA ANALYSIS BASED ON ESTIMATES FROM NIELSEN CLARITAS, U.S. CENSUS BUREAU HOUSING UNITS, BUILDING PERMITS, AND AMERICAN COMMUNITY SURVEY 2005-7 TABLE 25003.

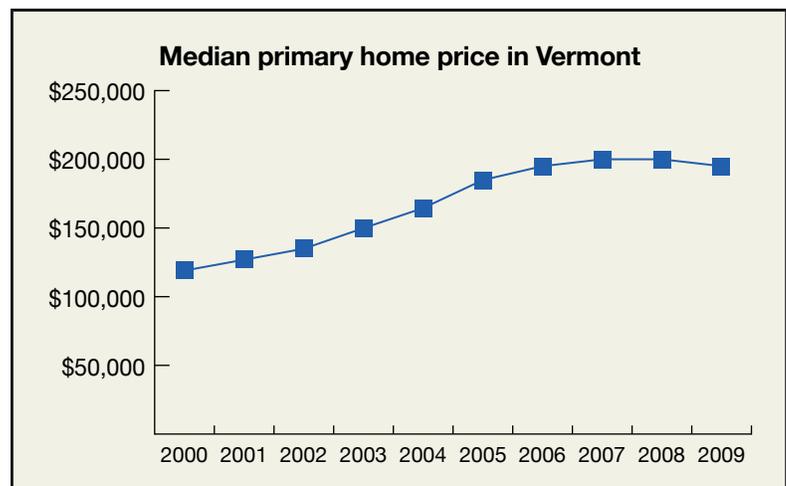
*2009 figure is estimated.

normalizes. Although Vermont has one of the lowest foreclosure rates in the country, the number of Vermont home owners experiencing foreclosure is at its highest point in recent years. In April through June 2009, approximately 470 first-lien mortgages on 1-4 unit Vermont properties entered foreclosure.¹² Even if foreclosures reduce the number of new home owners between 2009 and 2014 by half of the current projection, an estimated 5,600 owner units will still need to be built during this period.¹³ Home building during a recession also requires careful local market analysis and strategic long-range planning, since not all communities reflect the statewide trends discussed in this study.

Home sales volumes, inventories, and median home prices across the state have been affected by the recession. The number of Vermont primary residence homes sold dropped by 25% in 2008 to a low point for the decade, with sales in 2009 running even lower.¹⁴ Inventories of homes for sale in Vermont during the first six months of 2009 were about 8% larger than they were 12 months earlier (in 2008).¹⁵ As the economy recovers and the number of owner households

in Vermont continues expanding, this inventory is likely to diminish and stabilize.

Home prices have remained fairly constant during the past four years, with a slight decline during the first six months of 2009, as shown below:



SOURCE: VHFA ANALYSIS OF VERMONT DEPT. OF TAXES' PROPERTY TRANSFER TAX RECEIPTS FOR PRIMARY RESIDENCE HOMES INCLUDING SINGLE-FAMILY HOMES, CONDOMINIUMS, AND MOBILE HOMES WITH LAND.

According to Vermont economists, Vermont home prices will likely stabilize and begin to increase again in 2011.¹⁶ Despite the housing market declines brought on by the recession, Vermont's population will keep up its pace of modest expansion only if the supply of housing is adequate to serve potential new home owners.

1 Based on estimates provided by Nielsen Claritas.

2 The median is the figure that occurs halfway down a list of figures that are sorted from smallest to largest, so that half of all the figures are higher than the median and half are lower.

3 Based on VHFA's analysis of estimates from Nielsen Claritas and *American Community Survey 2005-7, Table B25098*. US Census Bureau.

4 The American Community Survey defines owner housing costs as "the sum of payments for mortgages, deeds of trust, contracts to purchase, or similar debts on the property (including payments for the first mortgage, second mortgages, home equity loans, and other junior mortgages); real estate taxes; fire, hazard, and flood insurance on the property; utilities (electricity, gas, and water and sewer); and fuels (oil, coal, kerosene, wood, etc.). It also includes, where appropriate, the monthly condominium fee for condominiums and mobile home costs (installment loan payments, personal property taxes, site rent, registration fees, and license fees)."

- 5 VHFA analysis of [Vermont Department of Taxes property transfer tax data](#) for primary residence single-family, condominiums, and mobiles with land.
- 6 Affordability calculations were prepared by VHFA based on Freddie Mac's average interest rate loan in June 2009 for a 30-year mortgage, a 5% down payment, average statewide property taxes, property insurance, private mortgage insurance, closing costs and a 30-percent housing payment ratio. Average property tax assumptions do not include income sensitive tax rebates that qualifying households receive.
- 7 VHFA analysis of estimates from Nielsen Claritas and the U.S. Census Bureau's [American Community Survey 2005-7 Table B25075](#). US Census Bureau.
- 8 According to VHFA's analysis of estimates from [American Community Survey 2005-7 Table B25106](#), 62% of all lower income homeowners (with incomes less than \$41,000) pay more than 30% of their income for housing.
- 9 Estimates provided by the Vermont Housing and Conservation Board, October 2009.
- 10 [Registry of Vermont Mobile Home Parks](#). VT Department of Economic, Housing and Community Development.
- 11 [Estimates of Housing Unit Change for the United States and States, and State Rankings: July 1, 2007 to July 1, 2008](#). US Census Bureau.
- 12 VHFA analysis of estimates from the [National Delinquency Survey](#). Mortgage Bankers Association. 2nd Quarter 2009.
- 13 VHFA analysis based on estimated vacancy rate of 3% and an annual housing destruction rate of 0.103%.
- 14 VHFA analysis of Vermont Department of Taxes property transfer tax data for primary homes.
- 15 VHFA analysis of data from the Vermont Real Estate Information Network.
- 16 [Economic Review and Revenue Forecast Update](#). Kavet, Rockler & Associates, LLC. July 2009. Page 16.