2011 UPDATE

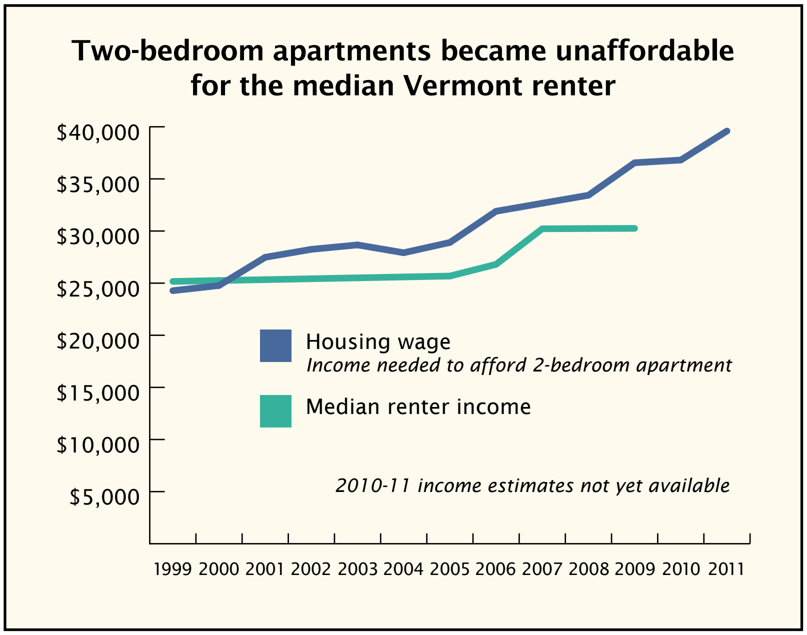
# BETWEEN A ROCK AND A HARD PLACE

## Housing and Wages in Vermont

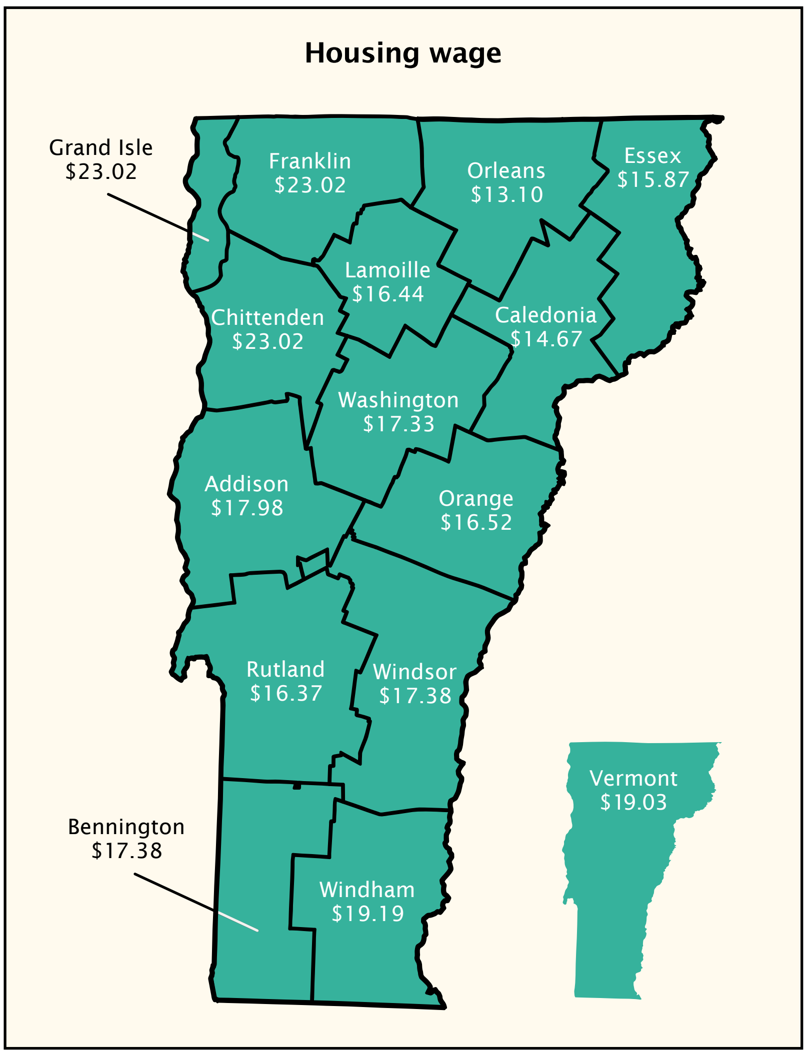
# Summary

For many families and individuals, Vermont is a very expensive place to rent an apartment, or purchase and own a home. In 2010, real incomes shrank while housing prices rose, creating a larger housing affordability gap although low mortgage interest rates helped to mitigate the modest increase in home prices. A growing gap continues to form between wages and rental costs. This combined with high utility costs, an aging housing stock, and expiring federal subsidies in some Vermont apartments is cause for alarm for lower income renters. Federal deficit reduction pressure creates an uncertain environment for continued housing and community development assistance.

- A modest 2-bedroom apartment in Vermont now costs $990 a month on average, which is affordable on an hourly wage of $19.03 or an annual income of $39,595.[1] This represents a 7 percent increase over the year before and a 58 percent increase since 2000.[2] At least 53% of Vermont's occupations have median wages below this threshold.[3]
- A persistently high proportion of Vermonters pay too much for housing. 47% of renters and 38% of owners with mortgages pay more than 30% of their income for housing costs.[4] This ranks Vermont as the 17th worst state in the nation.[5] Paying less than 30% is typically the benchmark for "affordable." When families pay more than 30 percent of their income for housing costs, they don't have enough left over for other basic necessities, like food, clothing, transportation and health care.
- Median household income in Vermont was $52,000 in 2009, according to the most recent estimates available.[6] Incomes remained essentially flat since the previous year. Once the rising cost of goods and services is factored in, there was a small decline in the median income among Vermont households.[7] Households earning the median income who have at least $14,000 for down payment and closing costs could afford a home priced approximately $175,000.[8]
- The median home price in Vermont was $195,000 in 2010, 3% higher than last year.[9] This requires an annual income of $58,000 and at least $16,000 in down payment and closing costs.[10] More than 81% of Vermont's occupations had lower median wages.[11]
- Homelessness in Vermont continues to grow. On one day in January 2011, the state's network of shelters and service providers counted over 2,500 people who were homeless.[12]
- Prices of newly constructed houses and condominiums remained far out of reach of the median Vermont household. The median price of a newly constructed home was $290,000 in 2010.[13] A home buyer would need an income of $86,000 and down payment and closing costs of $24,000 to afford this home.[14]
- Interest rates for homeownership remained very low through 2010, but fees remained high and buyers needed larger down payments. Closing costs in Vermont, for example, increased 37% between 2009 and 2010.[15]




SOURCE: VHFA ANALYSIS OF CENSUS 2000, AMERICAN COMMUNITY SURVEYS 2005-2009 (1-YEAR ESTIMATES), AND HOUSING WAGE ESTIMATES FROM THE NATIONAL LOW-INCOME HOUSING COALITION'S OUT OF REACH SERIES (WWW.NLIHC.ORG/OOR).




SOURCE: VHFA ANALYSIS USING NATIONAL LOW INCOME HOUSING COALITION'S ANNUAL OUT OF REACH PUBLICATION METHODOLOGY.

## Rental housing prices continue to climb

Despite the recent recession, the cost of renting housing in Vermont continues to rise. The average fair market rent for a 2-bedroom unit is $990 in 2011, an increase of 58% since 2000.[16] Escalating rental prices, combined with increased costs of utilities and lower incomes puts additional pressure on many of Vermont's lower-income households.

A renter household must earn $19.03/hour while working full time to afford a modest 2-bedroom unit at HUD's Fair Market Rent (FMR) and only pay 30% of their income for rent and utilities. This "Housing Wage" is well over two times the state's minimum wage, and would equal an annual income of $39,595.[17] Over 300 occupations, more than 53% of Vermont's non-farm occupations, have median salaries less than this Housing Wage.[18]

The 10 occupations employing the most Vermonters are shown in the graph on the following page. All but two of these have median wages below the Housing Wage. Together, these 10 professions employ over 60,800 Vermonters or 22% of the state's workforce.[19]

While it's possible for a household to work more than one job to make ends meet, 62% of Vermont's households had only one, or less than one full time worker.[20]

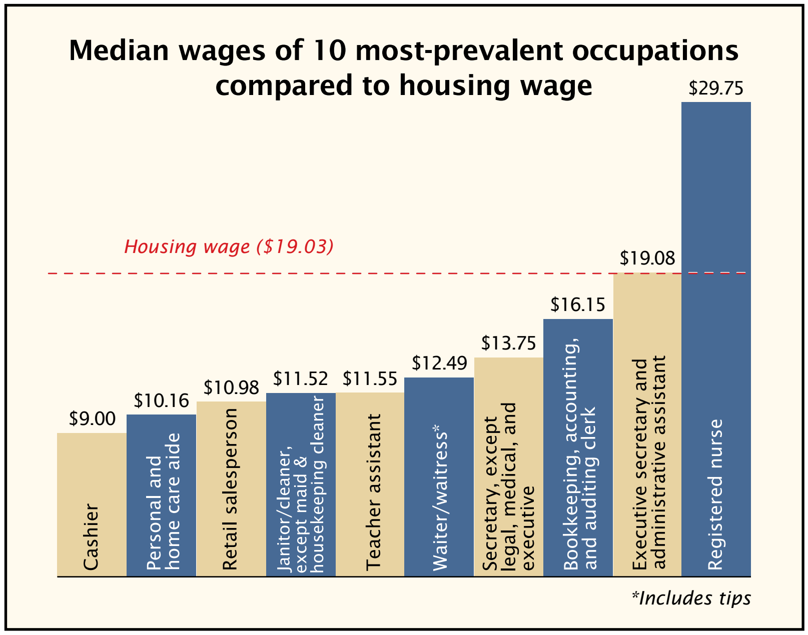
As rental prices continued to grow, so did the number of cost-burdened renters. An estimated

34,000 renting households were cost burdened, or paying more than 30% of their income for housing costs.[21] This is 47% of all renting Vermonters, ranking the state 17th worst in the nation.[22]

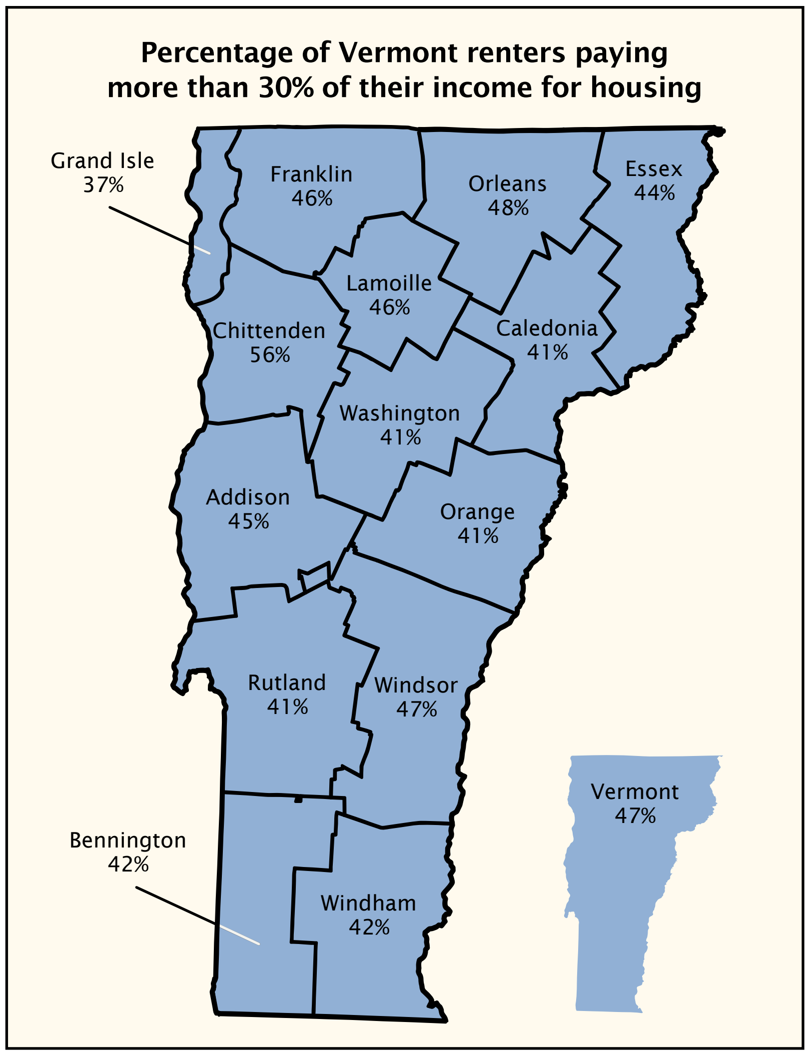
### *Publicly assisted housing at risk*

Publicly assisted rental housing is of crucial importance in meeting the housing needs of Vermont. The agencies that fund subsidized housing in Vermont have identified every project at risk of loss through the year 2018 due to expiring agreements or have need for recapitalization. A collaborative statewide Preservation Council has been formed to assess the level of risk associated with each project and to prioritize those most vulnerable. These include privately owned properties that may be lost to market rate conversion or deterioration and properties under preservation agreements whose rents should remain affordable but require assistance to remain financially viable.

One of the greatest risks for this housing is the limited resources available for modernization of older properties and the acquisition of properties that are not permanently restricted to income eligible households. The need to preserve assisted housing has been exacerbated in the last decade by the withdrawal of the federal government in supporting the ongoing operations of assisted housing. Over the next decade, we estimate that 7,000 affordable rental units in 300 projects could be lost due to deterioration and/or conver-




SOURCE: 2009 VERMONT OCCUPATIONAL EMPLOYMENT AND WAGES, VERMONT DEPARTMENT OF LABOR.




SOURCE: 2005-2009 AMERICAN COMMUNITY SURVEY, TABLE B25070, US CENSUS BUREAU.

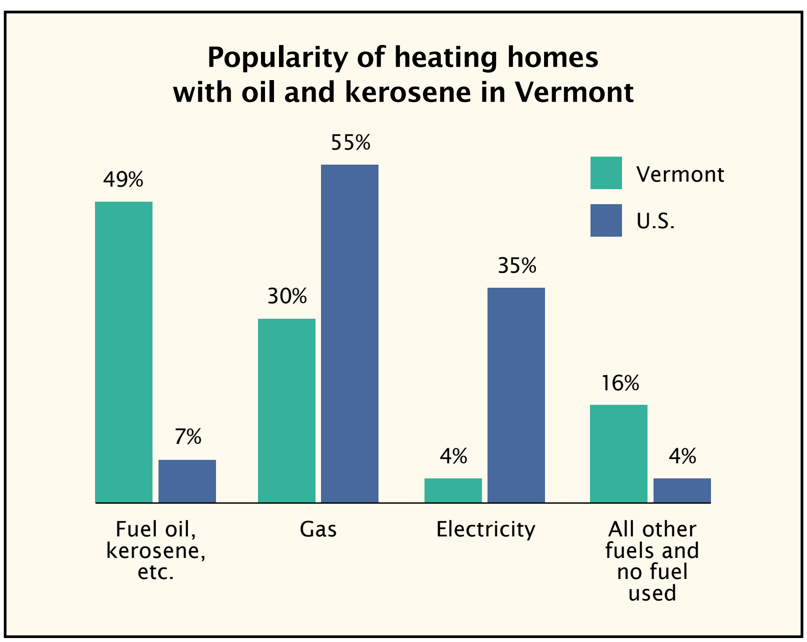
sion. In recent years in Vermont, very few projects have successfully opted out of expiring federal contracts and converted to market rent. So far, all other expiring contracts have been renewed by both private and non-profit owners with contract terms typically from five to 20 years.

The vulnerability of conversion to true market rate is greater in the state's tight real estate markets and some resort areas. Of those, there are very few properties that are completely outside some form of preservation influence by state funding agency requirements. However, if a community wants to retain its affordable housing for the future, the real issue will be the need to purchase those existing properties for their fair market value, and the time needed to assemble the resources to complete these transactions. There are also a few locations where projects are privately owned and the state's funding agencies have no preservation influence. We estimate the number of units that have the most vulnerability and risk to a market rent conversion at about 500 statewide.

The greatest risk to the state is the limited resources available to prepare these 7,000 units for future sustainability that will be required due to rising energy costs and the capital needs of an aging portfolio of housing.

## Impact of old and poor quality housing

Vermont's housing stock is among the oldest in the United States. 63% of owned homes and 74% of rentals in Vermont were built in 1979 or earlier, before newer energy efficiency technology was available, housing codes were more lax and the use of lead based paint was wide-spread.[23] These factors make an important impact on the cost of operating housing, assuring the health and safety of all residents, and providing access to Vermonters with different abilities.

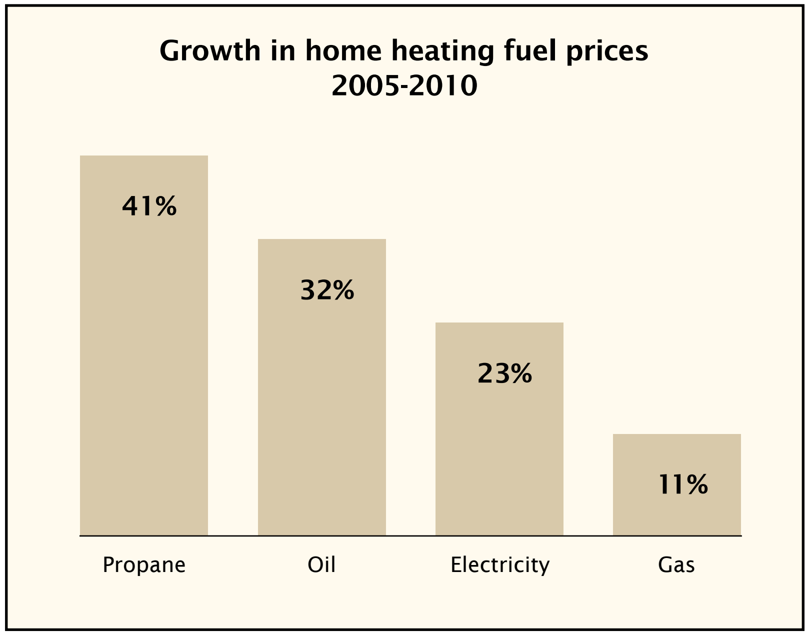



SOURCE: 2009 AMERICAN COMMUNITY SURVEY, TABLE B25040. US CENSUS BUREAU.

Additionally, there is a wide discrepancy between the sources of heating in Vermont compared to the rest of the nation. As can be seen in the graph, the majority of Vermont's housing units are heated with fuel oil or kerosene, both non-regulated heating sources. When the market determines the price for these products, instead of state regulations, there is higher potential for dramatic fluctuations in prices. The second most used heating source is gas, which is only readily available in Northwestern Vermont.

## Homelessness continues to rise

In recent years Vermont's homeless shelters have been consistently full, leading a growing number of shelter and service providers to open up emergency "overflow" shelters to accommodate the increased demand. Tragically, the largest growth in Vermont's homeless population is families with children.[24] On one day in January 2011, the state's network of shelter and service providers counted over 2,500 people living in shelters, on the streets, or in other places not meant for habitation.[25] The dramatic rise in homeless Vermonters continues unabated despite additional funding from federal stimulus programs designed to address the increase in homelessness due to the recession.




SOURCE: VHFA ANALYSIS OF RESIDENTIAL PRICE DATA FROM U.S. ENERGY INFORMATION ADMINISTRATION. WWW.EIA.GOV.

Another study of Vermont's homeless in November 2010, found 21% of those sleeping in shelters had a disability, 4% were veterans and 32% were children.[26] A lack of available and affordable housing perpetuates the long and stagnant cycles of homelessness. The average length of stay in the state's shelters was 34 days in 2010, up 162% from 2000 when the average was 13 days.[27] Because people are staying in emergency shelters longer, it means fewer households can be served because there is not enough room. Affordable housing with appropriate support services is needed to address this growing problem.

## Federal housing cuts put public-private partnership at risk

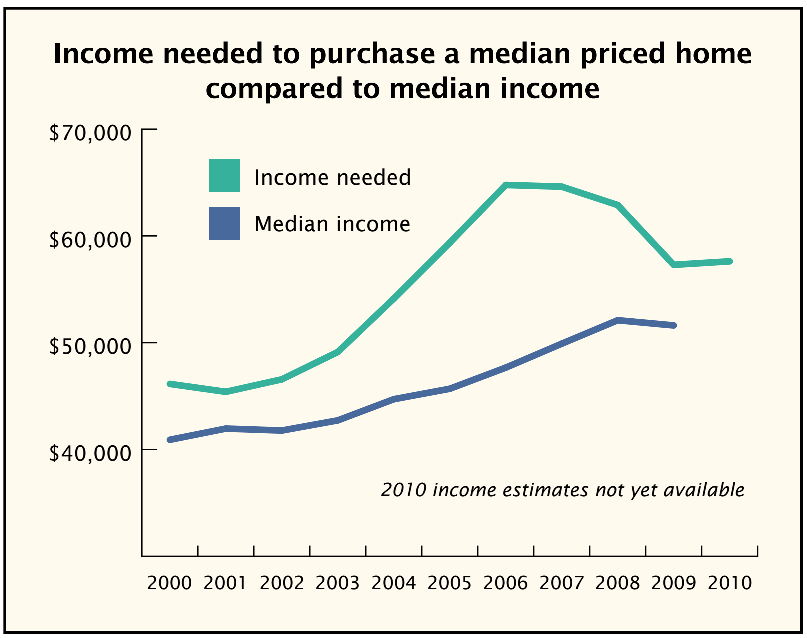
Rental housing development is currently funded mainly from private investments as well as some investments from the state and federal budget. About half of the funding for housing development comes from either private equity invested in projects by for-profit companies looking for a tax credit or private debt the projects assume. Housing developments are truly a public/private partnership of private investment in the public good of assisted housing. Each housing development often has a half dozen or more sources of funding, which shows the complexity of developing assisted rental housing. This is not a Vermont phenomenon, and instead is the way the funding streams were set up intentionally because of funding realities and sharing risk.

In addition, rental housing assistance is heavily influenced by federal policies and funding realities. At the time of this printing, the FY2011 federal budget has yet to be finalized despite being halfway through the year. There are several proposals being considered, all of which would result in hundreds, if not thousands, of rental assistance vouchers being cut from Vermont.[28] In a state with over 6,600 vouchers statewide, a reduction of this magnitude will have immediate and severe impacts on very low-income renters statewide.[29] Additionally, there are talks of cutting more than 60% from some housing development programs, potentially stalling the efforts to preserve the assisted housing stock despite the need discussed above.

The thousands of Vermonters who are cost burdened prove that there is high unmet demand for more rental assistance. Also, the state needs continued funding for housing development or else it could put at risk the private investment in housing development that Vermont relies on.

## Buying a home remains a stretch for many

Even with a very slow economic recovery, Vermont's homeownership market appears as if it has begun to turn a corner. The median home price for primary residences in Vermont was $195,000 in 2010, up from $190,000 in 2009, a 3% increase.[30] Despite the recession, Vermont's median home price is still 64%, or $76,000, higher in 2010 than in 2000 while incomes are an estimated 24%, or $10,000, higher during that time period.[31]




SOURCE: "INCOME NEEDED" ESTIMATES ARE BASED ON VT PROPERTY TRANSFER TAX DATA AND AFFORDABILITY ASSUMPTIONS LISTED IN ENDNOTE 8. "MEDIAN INCOME" ESTIMATES ARE BASED ON DATA FROM THE 2000 CENSUS AND THE AMERICAN COMMUNITY SURVEY FROM THE U.S. CENSUS BUREAU AND ON VERMONT INCOME TAX SUMMARY DATA FROM THE VT DEPARTMENT OF TAXES.

A median priced home in 2010 would require an annual income of $58,000 and at least $16,000 in down payment, closing costs and fees.[32] One measure of market balance is for a median priced home to be affordable to households earning the state's median income. There remains a $6,000 gap in this measure, in terms of household income.

Prices of new homes were even less affordable to the average Vermonter. The median price of a newly constructed home was $290,000.[33] A home buyer would need an income of $86,000 and down payment and closing costs of at least $23,000 to afford this home.[34]

For some first time buyers, the combination of favorable market conditions and a large federal tax incentive that carried over into early 2010 may have helped them enter the homeownership market. The problem was that affordability improved only if the borrower had 20% of the purchase price to put down, stellar credit, and had enough cash at closing to cover the tax credit. In reality, few first time borrowers can save up the $39,000 to put 20% down on a median priced home, plus estimated closing costs and fees of $6,000.[35]

The number of homes sold in Vermont was up 8% in 2010 from the year before, but is still 52% lower than its peak of 9,659 in 2004.[36] According to data provided by the state's Realtors, higher-priced homes took longer to sell; homes priced over $400,000 took an average of 247 days to sell compared to 209 days for lower-priced homes.[37]

Falling home prices and federal incentives enticed some to become home owners, but 46,000 owners with mortgages were paying too much for their housing and were considered cost-burdened.[38] This means they were spending more than 30% of their income on their mortgage, property taxes, homeowners insurance, and utilities. This is 38% of owners with mortgages, which ranks Vermont the 17th worst state in the nation.[39]

### *Delinquencies and foreclosures persist*

Delinquencies and foreclosures change continually, but as of December 31, 2010, the 5% of loans that were delinquent in Vermont ranked it lowest in New England and 6th lowest state nationally (the national delinquency rate was 9%). Vermont's 3% foreclosure rate at the end the year ranked 22nd lowest nationally, and still well below the national rate of 4.6%.[40]

The state's Banking, Insurance, Securities, and Health Care Administration tracks foreclosures filed by the county courts, and it reported 1,638 foreclosure filings in 2010, down 15% from 2009. This decline was experienced in most counties across the state, although Rutland County suffered an 11% increase.[41] While this listing also includes commercial properties, evidence shows that this is a small piece of this inventory.

## Vacancy rates still low

Vermont's overall residential vacancy rates did not change significantly between 2009 and 2010. The vacancy rate among owner homes was estimated at 1.9% for 2010, ranking it 13th lowest in the country. The vacancy rate among rental homes was estimated at 6.1% — fourth lowest in the country.[42] Vermont's vacancy rates have been below average for most of the past decade, and only began to increase since the Great Recession. The U.S., on the other hand, has been well above average since 2000, which helps explain the excess inventory of homes in other parts of the country.

## Vermont incomes remain stagnant

The Great Recession has taken a toll on the income of many Vermonters, especially the 20,700 people who were unemployed at the end of 2010.[43] Unemployment, declining work hours, and flat salaries and wages contributed to another year of stagnant median income estimates. Data on median household incomes of all Vermont households show no growth since 2007. The median household income in 2009, the most recent year for which income data is available, remained at approximately $52,000, according to U.S. Census Bureau estimates.[44]

After adjusting for inflation, the median income of Vermont households in 2009 was essentially unchanged from 2000.[45]

## A path to sustainability

To address Vermont's housing needs, and the Vermont economy as a whole, the state should focus on enhancing sustainability. By continuing its wise policy of making key public investments in housing infrastructure that is permanently affordable, Vermont will improve the sustainability of its economy and the lives of all Vermonters who depend on it for their well being.

### *Sustaining Vermont's housing stock*

About one-third of Vermont's housing was built before 1950.[46] While some of these homes are likely renovated and in good condition, most are highly inefficient and costly in terms of energy. These homes need energy efficiency upgrades, lead based paint remediation, and other rehabilitation to make them safe, affordable and sustainable over the long term. Additionally, Vermont is at risk of losing hundreds of publicly assisted rental units to market rate conversion which could displace tenants and remove any limits on rents charged in these buildings. The state must prioritize saving these units and the public subsidies already in place.

Vermont still needs to add to its stock of affordable housing to meet demand. With low vacancy rates, rising numbers of cost burdened households and persistently high rents, many regions of the state need new units affordable to lower income Vermonters.

Rehabilitating existing housing and putting energy efficiency technology into greater use for both existing and new units will strengthen the housing infrastructure in Vermont, and also the residents who can enjoy the cost savings. Housing is a non-transferrable resource that — unlike jobs — cannot be outsourced or transferred out of state. Since housing is a key piece of Vermont's infrastructure, investing in housing creation and rehabilitation will strengthen the state's future.

### *Creating a sustainable economy*

Housing can play a key role in creating a sustainable economy in Vermont. Research has shown that unaffordable housing can significantly affect local employment growth. The Federal Reserve Bank of Boston found that for every one-unit increase in housing unaffordability, employment growth is reduced by about 10 percentage points over 10 years.[47]

Housing construction is a great economic engine with a high multiplier effect. For example, building 25 modest single family homes in Vermont in 2005 would create an estimated $6.3 million in additional income for Vermont businesses and 61 Vermont jobs, paying just more than $2 million in wages.[48] Similarly, every dollar spent building apartments is likely to create at least another $1.10 in total economic activity across the state.[49] ■

# Endnotes


1 VHFA analysis of HUD's Fair Market Rents (FMR) data assuming a 30% affordability threshold. This methodology was pioneered by the National Low Income Housing Coalition in their annual "Out of Reach" reports. The 2011 report is due Spring 2011.
2 Based on an estimated Vermont fair market rent of $627 for 2000.
3 Statewide data for 2009, Occupational Data Center, Vermont Department of Labor, Montpelier, VT.
4 2009 American Community Survey, Tables B25070 and B25091. U.S. Census Bureau.
5 2009 American Community Survey, Ranking Tables R2515 and R2513. U.S. Census Bureau.
6 2009 American Community Survey, Table B19013, U.S. Census Bureau.
7 Based on estimates from Table B19013 from the 2008 and 2009 American Community Survey from the U.S. Census Bureau and the CPI-U from the U.S Bureau of Labor Statistics.
8 VHFA affordability estimates based on Freddie Mac's average 2010 interest rate for a 30-year mortgage with a 5% down payment, average statewide property taxes, property insurance premiums, private mortgage insurance premiums, closing costs, fees based on a national average credit score of 680 and a 30% housing payment ratio.
9 VHFA analysis of Vermont Department of Taxes property transfer tax records.
10 See note 8.
11 See note 3.
12 Point-In-Time Homeless Survey for the Balance of State and Chittenden County Continuums of Care, 1/26/2011.
13 Based on information from Northern New England Real Estate Network (NNEREN) for the period January 1, 2010 through December 31,2010 for all towns in the State of Vermont. All analysis and commentary related to the statistics is that of VHFA, and not that of NNEREN.
14 See note 8.
15 Bankrate.com's annual state-by-state closing cost survey.
16 FMRs are rent estimates calculated annually by the U.S. Department of Housing and Urban Development. FMRs are 40th percentile rents, the dollar amount below which 40 percent of standard quality rental housing units rent, including the cost of utilities. The statewide average FMR is an average of each county, including the Burlington-South Burlington Metropolitan Statistical Area (a combination of Chittenden, Franklin and Grand Isle counties). The rents are weighted according to the number of renter households reported by the U.S. Census Bureau.
17 See note 1.
18 See note 3.
19 See note 3.
20 2009 American Community Survey, Table B08202. U.S. Census Bureau.
21 2009 American Community Survey, Table B25070. U.S. Census Bureau.
22 2009 American Community Survey, Ranking Table R2515. U.S. Census Bureau.
23 2005-2009 American Community Survey, Table B25036. U.S. Census Bureau.
24 The number of people families served by Vermont's Emergency Shelter Grant program increased by 23% between 2009 and 2010, compared to an increase of 8% in the number of single people, according to the program's annual report for FY 2010.
25 See note 12.
26 Emergency Shelter Grant count, November 15, 2010, Vermont Office of Economic Opportunity.
27 Emergency Shelter Grant Program, Vermont Statewide Report, State Fiscal Year 2010, Vermont Office of Economic Opportunity.
28 Proposals to Cut Domestic Programs Threaten Loss of Housing Assistance for Thousands of Low-Income Families, Center on Budget and Policy Priorities, Washington, DC.
29 HUD's Resident Characteristics Report of all voucher programs in Vermont.
30 See note 9.
31 Based on state median household income estimates from the U.S. Census Bureau's Current Population Survey (3-year rolling averages) for 2007-9 and 1998-2000.
32 See note 8.
33 See note 13.
34 See note 8.
35 VHFA estimate based on median purchase price of $195,000.
36 See note 9.
37 See note 13.
38 2009 American Community Survey, Table B25091. U.S. Census Bureau.
39 2009 American Community Survey, Ranking Table R2513, U.S. Census Bureau.
40 Mortgage Bankers Association, 4th quarter 2010 data.
41 New Foreclosure Filings by County. VT Banking, Insurance, Securities, and Health Care Administration.
42 Annual Statistics: 2010. Housing Vacancies and Homeownership, Tables 3-4. U.S. Census Bureau.
43 Labor Force and Employment Statistics, December 2010. Vermont Department of Labor.
44 See note 6.
45 See note 31.
46 See note 23.
47 Unaffordable Housing and Local Employment Growth, Federal Reserve Bank of Boston.
48 Housing and the Vermont Economy, January 2006. Vermont Housing Finance Agency.
49 Housing as an Economic Stimulus, Oregon Housing and Community Services, Salem, OR.

# Between a Rock and a Hard Place

## Housing and Wages in Vermont

April 2011

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**www.vhfa.org/resources/publications.php**

## Housing information resources

Vermont's housing development network is strong and effective, a model for other parts of the U.S. There is a wealth of information about Vermont's housing environment and steps being taken to address our housing shortage online. A few of the Vermont housing websites include:

**Vermont Housing Finance Agency** (www.vhfa.org)
**Vermont Housing Data**, comprehensive statistical information regarding housing costs, housing supply, and ability to afford housing (www.housingdata.org)
**Vermont Housing & Conservation Board** (www.vhcb.org)
**Vermont Department of Economic, Housing and Community Development**, which includes the Vermont housing needs assessment (www.dhca.state.vt.us)
**Vermont State Housing Authority** (www.vsha.org)
**Housing Vermont** (www.hvt.org)
**Vermont Coalition to End Homelessness** (www.helpingtohouse.org)
**Vermont Affordable Housing Coalition** (www.vtaffordablehousing.org)

Other housing organizations — land trusts, homeless providers, and local housing task forces among them — also have websites, and links to those may be found on several of the sites listed above.