

Between a Rock and a Hard Place: *Housing and Wages in Vermont*



2005 UPDATE

THANK YOU FOR TAKING THE TIME to read the 2005 edition of “Between a Rock and a Hard Place.” The Vermont Housing Council and the [Vermont Housing Awareness Campaign](#) have published this report each year since 2002, tracking the growing gap between housing costs in Vermont and Vermonters’ incomes.

Since the 2004 edition of this report was released, the upward spiral of housing costs in Vermont has continued.

Rents may have moderated somewhat, but they are still too high to be considered affordable for thousands of Vermonters.

On the homeownership front, the news is not good. Home prices continue to climb rapidly, and homeownership — the American Dream, the first step to building wealth for most families — is slipping further and further out of the reach of many Vermonters.

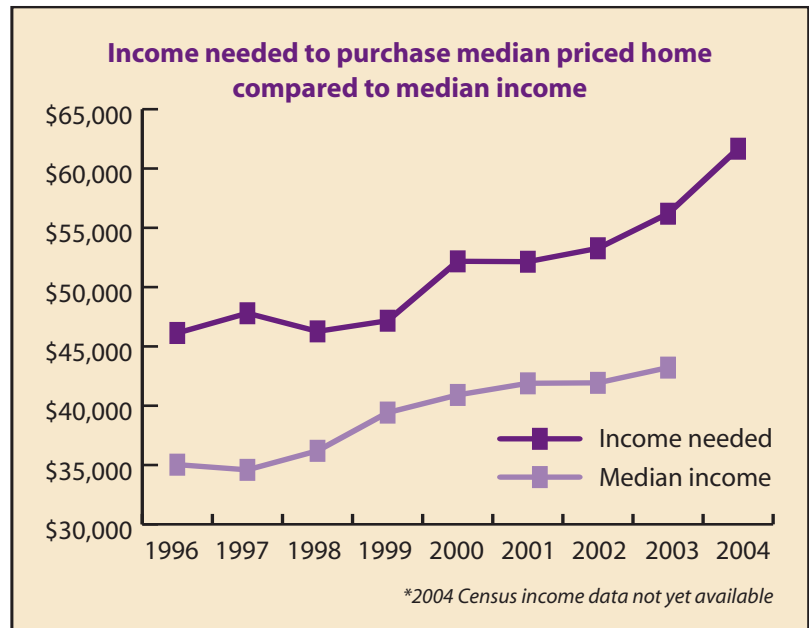
A shortage of new affordable housing development remains one of the main reasons for this problem. Despite some modest gains in housing production, Vermont is still not building enough housing, both for rent and for purchase, that average Vermonters can afford.

At the same time, some of the resources we need to help Vermonters afford a place to live, such as federal housing assistance, are being cut back. Vermont is facing a projected \$20 million shortfall in its Medicaid budget this year and a projected \$70 million in 2006.¹ That will have a significant impact on the state’s overall budget. Necessary public investments, including housing, will be competing with one another for slices from a smaller revenue pie. At the federal level, the [Department of Housing and Urban Development](#) is facing major budget cuts, which will translate into less support for important affordable housing programs.

These challenges will require creativity and commitment if we are going to provide the necessary services and public investments Vermonters need. We can build more housing, and we can build it in a way that strengthens our communities, supports our economy and respects the character of the state we love. We can do that, and we need to do that to ensure that all Vermonters have a safe, decent and affordable place to call home.

Some basic facts about Vermont's housing situation

- In 2004, the median purchase price for a home in Vermont rose to \$165,000, a 67 percent increase since 1996 and a 10 percent jump from 2003.²
- To purchase that median-priced home, a Vermont household would need an annual income of more than \$62,000.³ But the median household income in Vermont is just over \$43,000.⁴ A household with that income could only afford to purchase a \$114,600 home.⁵
- The median price for newly-constructed single-family homes and condominiums in Vermont was much higher — \$294,000.⁶ That's an 11 percent jump from 2003. Analysis of available real estate sales data for 2004 did not find a single new home sold that was affordable to a household earning Vermont's median income.
- The average Fair Market Rent for a modest, two-bedroom apartment in Vermont was \$698 in 2004, a 24 percent increase since 1996.⁷



- A Vermont household would need to earn \$13.42 per hour, or \$27,914 annually, to afford that average Fair Market Rent.⁸ Fifty-seven percent of Vermont's workforce is employed in jobs whose median wage is below that figure.⁹
- Over the last three years, an average of 4,000 Vermonters have relied on emergency shelters for housing.¹⁰ One-fourth of them are children. Because residents of homeless shelters are staying in those shelters longer, others are forced to make do with other kinds of temporary shelter.

What do we mean by “affordable housing?”

The traditional measure of “affordable” housing holds that housing — rented or owned — is “affordable” if the household is paying no more than 30 percent of its income for rent and utilities or for mortgage, taxes and insurance. In 2005, this standard may actually be too high, given the rising costs of other necessities, such as health care, transportation and child care. But this remains the generally-accepted standard for affordability in the housing and financial industries and in public housing programs.

“Affordability” is largely determined by two factors — the cost of a home or apartment and the ability of people to pay that cost. When rents and home prices go up faster than wages, as they continue to do in Vermont, that makes housing less affordable. This is true both for renters and homebuyers.

Why is housing so expensive in Vermont?

There are several reasons — economic and demographic — for this situation, including:

- There is a persistent shortage of affordable housing. We are not building enough housing to meet our needs, and that is creating a very tight housing market, which means higher rents and home prices.
- Vermont has the nation’s lowest vacancy rate for rental housing, and we have one of the lowest vacancy rates for homeownership.
- Single-family home construction is largely occurring at the upper end of the market. Starter homes are not being built in sufficient numbers to meet the need.
- Vermont’s housing market is becoming a magnet for speculation. Two recent economic forecasts prepared for the Legislature and the Executive branch note that investors see real estate in Vermont as an attractive place to put their money. That adds to the upward price spiral.
- While Vermont’s population has grown, the average size of a Vermont household has gone down. This puts additional pressure on the housing market; because when we have fewer people living under one roof, we need more roofs.
- Vermont is losing an increasing share of its housing stock to vacation and second-home conversions.

Homeownership — The American Dream is getting harder to find

Owning a home is a fundamental part of economic and social life, but it’s getting harder each year for average Vermont families to buy a home, especially a first home.

The latest Economic Review and Revenue Forecast prepared for Vermont’s Emergency Board and the Legislative Joint Fiscal Committee pointed out that home prices are accelerating faster than they did during the real estate market boom of the late 1980s.¹¹ The Vermont Housing Price Index, which tracks percentage increases in home prices, hit a record in the third quarter of 2004, reaching a level higher than the highest gains of the late ’80s.

If Vermont is in a housing “bubble” — and experts disagree on that — what if it bursts? Won’t prices come back down to Earth? Perhaps, but when the “bubble” of the late 1980s burst, annual home prices on the whole stagnated, with some moderate declines, rather than falling significantly. To make a real impact on affordability, home prices would have to fall significantly, interest rates would have to stay at relatively low levels, and Vermonters would have to see a robust increase in their incomes. Currently, interest rates are rising and will likely continue to rise in the coming year, and economic indicators are not forecasting a big pay raise for average families anytime soon.

“When thousands of Vermonters cannot afford to keep a roof over their heads, that’s not only a social or economic issue, it’s a moral issue, and we should feel compelled to address it.”

The Right Reverend Thomas Ely
Episcopal Diocese of Vermont

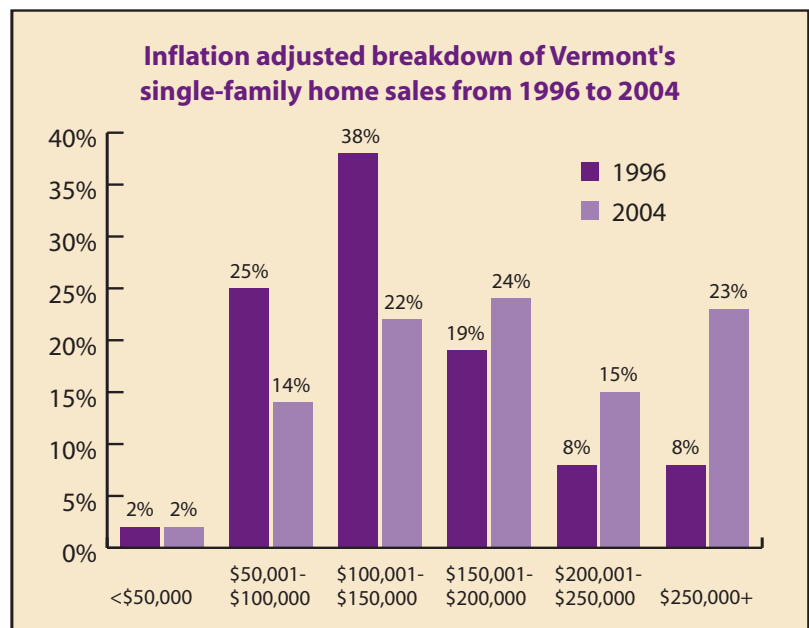
The gap between home prices and what Vermonters can afford to pay is a large one, and it’s growing. In 2004, the median purchase price of a home in Vermont reached \$165,000, a 67 percent increase since 1996 and a 10 percent increase from 2003 alone. To afford that \$165,000 home, a Vermont household would need to earn just more than \$62,000, but the median household income in Vermont is only about \$43,000. That household could only afford to purchase a \$114,600 home.

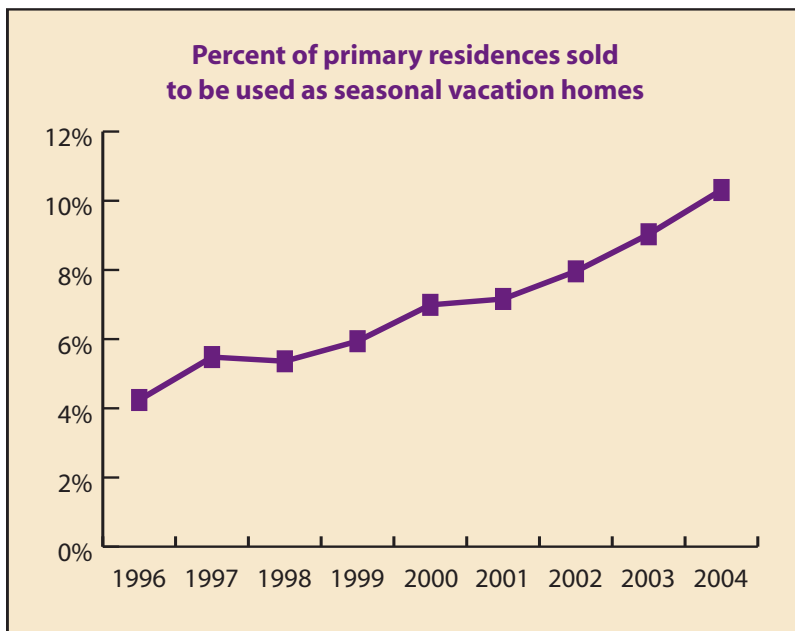
For new homes, the price is much higher. The median sales price of new single-family homes and condominiums in Vermont in 2004 was \$294,000, an 11 percent jump from 2003. An analysis of available 2004 real estate sales data did not turn up a single new home sold in Vermont that a household earning the median income could afford.

In recent years, even after adjusting for inflation, sales of high-end homes have doubled as a proportion of all home sales in Vermont, while sales of moderately-priced homes have fallen dramatically.¹²

Vermont continues to lose a portion of its housing stock to vacation and second-home conversion. About 10 percent of primary residences sold in Vermont in 2004 were converted to vacation or second homes after the sale.¹³

Vermont’s tight housing market is another reason prices are going up. Between 2002 and 2003, Vermont was one of only five states in the country where the homeownership vacancy rate dropped below 1 percent.¹⁴





Vermont now has one of the tightest housing markets in the nation.

Condominiums and mobile homes have, in recent years, been considered affordable alternatives for Vermonters who want to purchase their own homes. But even though condos and mobile homes are less expensive, their prices are rising faster than prices of traditional homes. The median price of a primary residence condo in 2004 was \$157,000, a 14 percent increase from 2003.¹⁵ For mobile homes with land, the median price was \$73,000, up 15 percent from 2003.¹⁶

Not much relief for Vermont’s renters

Rents in Vermont have stabilized somewhat, according to the [U.S. Department of Housing and Urban Development](#), but they are still too high for many Vermonters to afford.

The most recent HUD calculation puts the average Fair Market Rent, or FMR, for a modest two-bedroom apartment in Vermont at \$698 a month. This could be welcome news if that number were accurate, but it is the product of a new HUD formula, and state housing experts strongly question whether it accurately reflects the actual situation faced by Vermont renters, since the new formula does not take into account information from regional rental surveys, as it has in previous years.

“If your police officers, your firefighters, your teachers, or your store clerks can’t afford to live in your town, they’re not going to be as connected to the community, and that’s a loss.”

*Byron Kelly, Chief of Police
Woodstock*

Given that Vermont’s vacancy rate for rental housing has eased only slightly, to 4 percent — the lowest in the country — it is unclear why rents would have dropped.¹⁷

To afford \$698 per month, a household would have to earn at least \$27,914 annually, or about \$13.42 per hour. This is the “housing wage,” the income needed to pay that Fair Market Rent while working 40 hours a week and paying 30 percent of income for rent and utilities.

Fifty-seven percent of Vermont’s workforce is employed in jobs whose median wage is below \$13.42 per hour. This means a lot of people we depend upon for basic services — EMTs, police officers, day care providers, retail workers and office staff — are finding it harder to pay the rent.

While two-income households might be in better shape, the most recent available Census data show half of Vermont's households have only one, or less than one, full-time worker.¹⁹

With rents taking such large portions of Vermonters' incomes, it's harder for them to pay for other necessities, much less save for a home. In fact, the number of Vermonters who pay 50 percent of their incomes for rent is increasing.²⁰

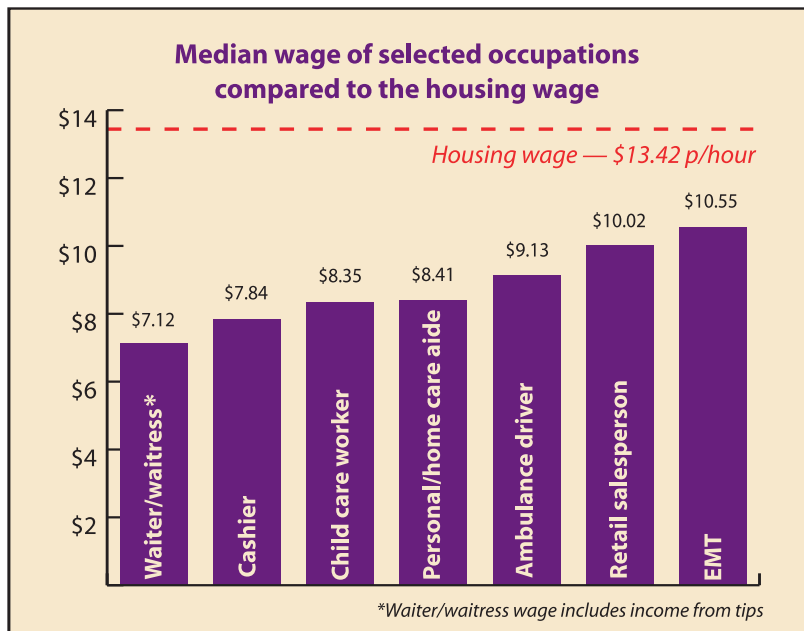
The situation is harder still for the more than 12,700 Vermonters living on Supplemental Security Income (SSI) checks.²¹ Monthly SSI checks were \$616 in 2004, or \$82 below the average Fair Market Rent for a two-bedroom apartment.²² Fifty-five percent of SSI recipients have no other source of income and cannot afford to pay more than \$185 per month for rent.²³ Even the average Fair Market Rent on a one-bedroom apartment in Vermont — \$568 — would consume 92 percent of an SSI check.²⁴

For many years, very low-income Vermonters were able to get some help through the federal Section 8 housing voucher program, but that program has been targeted for funding cuts. Section 8 provides vouchers for low-income recipients to help them pay rent or, in some cases, a mortgage. (Vermont is one of the most successful states in the country in using Section 8 vouchers to promote homeownership.) Currently, 6,000 Vermont households receive Section 8 vouchers. Sixty-four percent of those households have people in them who are elderly or disabled and living on SSI or Social Security.²⁵

Waiting lists for vouchers run into years. Some local housing organizations who administer Section 8 vouchers have closed their lists, citing the long waits applicants are facing.

In 2004, Congress worked to protect Section 8, the largest housing program in the federal government, but lawmakers had to take money from other housing and development programs in an effort to keep Section 8 whole. Nonetheless, HUD devised a new funding formula that has resulted

Housing wage	
Addison County	\$13.12
Bennington County	\$12.67
Burlington MSA ¹⁸	\$15.58
Caledonia County	\$10.71
Chittenden County (non-MSA)	\$15.23
Essex County	\$11.54
Franklin County (non-MSA)	\$15.23
Grand Isle County (non-MSA)	\$15.23
Lamoille County	\$12.00
Orange County	\$12.02
Orleans County	\$9.52
Rutland County	\$11.94
Washington County	\$12.62
Windham County	\$13.98
Windsor County	\$12.67
Vermont	\$13.42



in the loss of vouchers and in tenants paying more for rent. Vermont will lose at least 73 Section 8 vouchers in 2005, and HUD's budget is targeted for deep funding cuts this year. If those cuts are enacted, that will lead to a further reduction in Section 8 vouchers, and it is estimated Vermont could lose 1,700 vouchers by 2009.²⁶

Homelessness in Vermont

On any given night, 300 Vermonters — many of them children — will be sleeping in one of Vermont's homeless shelters.²⁷ This is only a portion of Vermont's total homeless population, and with our homeless shelters filled to capacity, some Vermonters will seek refuge in abandoned buildings or campgrounds. Some will be fortunate enough to sleep on the floor of a friend's apartment. Others will be sleeping in cars.

On any given day, an additional 200 homeless Vermonters will be seeking some kind of assistance from programs aimed at buffering the effects of homelessness.²⁸

"Homeless shelters are turning people away because we don't have places to put them. There are folks who are in danger of freezing on cold winter nights here."

*Melinda Bussino, Executive Director
Brattleboro Area Drop-In Center*

The average stay in a homeless shelter is 26 days, and it is not uncommon for residents to stay more than a month; because they have nowhere else to go.²⁹

Over the last three years, an average of 4,000 Vermonters annually have relied on emergency shelters for housing. One-fourth of them are children. This figure is based on the annual number of people served by emergency shelters. The actual, no doubt higher, number is almost impossible to determine, since there is almost no way of counting all the people who may be sleeping in cars, abandoned buildings, campgrounds or making use of some other kind of temporary shelter, however inadequate.

While some of the affordable housing that has opened in the last few years has helped reduce homelessness in Vermont, the problem is still substantial. The [Committee on Temporary Shelter \(COTS\)](#) in Burlington, the state's largest homeless service provider, reports the fastest-growing group of clients is families, many of whom are working families who simply do not make enough money to afford a decent and secure place to stay.³⁰ Homeless providers say one in four victims of domestic abuse returns to her abuser because she has nowhere else to stay.³¹

Cuts in Section 8 housing assistance noted above in this report may push more Vermonters into the ranks of the homeless.

The answer, of course, is more affordable housing. In Burlington for example, COTS saw a 400 percent increase in the number of homeless families it served between 1995 and 2000.³² As more affordable housing development in Burlington and South Burlington created more affordable places for people to live, that number began to drop.

Housing development is economic development

A lack of affordable housing acts as a drag on the state's economy, but investment in housing pays significant economic benefits, both to the public and private sectors.

As rising prices make affordable housing harder to come by, many Vermonters are forced to live further from their jobs. The resulting longer commutes cost them time, add expense and can have a negative effect on productivity.

A comparison of data from the 1990 and 2000 Census shows the number of Vermonters commuting more than an hour to work rose 92 percent.³³ One in five Vermonters crosses a county line to get from home to work.³⁴

A good example of this phenomenon is the situation in several of Vermont's ski areas. In 2000, the most recent year for which data is available, 82 percent of the workforce in [Killington](#) lived outside town. In [Warren](#), it was 66 percent. In [Stowe](#), 62 percent.³⁵

Employers from around the state say they are concerned about the impact of high housing costs on their ability to attract and retain workers. Businesses often report that a prospective employee will come to the area, eager to take a job, but cannot stay because housing costs are prohibitive. This limits the ability of companies to grow.

Housing development not only addresses these issues for employers and employees; it also provides a major economic boost.

It has been estimated, for example, that housing development created 10,000 jobs in Vermont between 1998 and 2002, and more than half the jobs in Vermont's construction industry are related to residential construction.³⁶

The [National Association of Homebuilders](#) (NAHB) estimates building 100 single-family homes creates 245 jobs in construction-related industries alone, generating \$7.9 million in wages and another \$4.2 million in combined federal, state and local revenues and fees. Building 100 multi-family units creates 103 jobs paying \$3.3 million in wages and generating almost \$2 million in revenues and fees.³⁷

"Housing development is economic development. An economic plan that does not include housing is flawed from the start."

*Jim Condos, Chair
[South Burlington](#) City Council*

Here in Vermont, the January Economic Review and Revenue Forecast Update reported that real estate-related tax receipts are soaring. These taxes represented “[t]he strongest percentage growth in General Fund tax categories.”³⁸

It is clear that affordable housing development not only meets a basic need of Vermonters and their families, but it helps our business sector stay vital and competitive while creating jobs and generating public and private revenue.

What can we do?

Continued public and private investment, development of policies that encourage housing while protecting Vermont’s character and environment, and engagement of community leadership are essential ingredients to solving Vermont’s housing problems.

- **Vermont’s business community**, which needs housing for its workforce, must become more active in promoting housing development. A good model for this kind of needed engagement is the [Upper Valley Housing Coalition](#) in White River Junction. Employers should also look at developing employee benefit packages that include housing assistance.
- **State officials** should continue, and, if possible, expand investment in housing development and in programs that help Vermonters afford housing as well as developing policies that encourage housing development.
- **Local officials** can make sure their communities encourage, rather than discourage, housing development through their planning and zoning. They can also create incentives for construction and/or rehabilitation of affordable housing, particularly in town centers, and they can bring other community leaders together to support housing and educate the public on the need for and benefits of housing development.
- **Private citizens** can form housing task forces, host public discussions on housing in their communities, support lawmakers’ and policymakers’ efforts to continue investment in housing and create policies that encourage housing.

Endnotes

- 1 Joint Fiscal Office. Montpelier, VT. www.leg.state.vt.us/jfo/Healthcare/Medicaid%20in%20Vermont%2001-13-2005.ppt#14.
- 2 Vermont Housing Finance Agency (VHFA) analysis of VT Department of Taxes' Property Transfer Tax receipts. This includes all valid records for primary residence homes including single family, condominiums, and mobile homes with land. It excludes any transactions that were not deemed at "arm's length." www.state.vt.us/tax/propertytransferdata.shtml.
- 3 VHFA calculation, January, 2005. Based on 2004 median sale price (see note 2) with Freddie Mac's average 2004 interest rate (5.84%) and points (.7) for a 30-year mortgage with 5% down payment, average statewide property taxes, property insurance, private mortgage insurance, and a 30% housing payment ratio.
- 4 US Census Bureau. Three year non-adjusted average median income for years 1996 to 2003, the most recent available data. www.census.gov/hhes/income/income03/statemhi.html.
- 5 See note 3.
- 6 Based on information from the Vermont Real Estate Information Service, Inc. for the period January 1, 2004 through December 31, 2004.
- 7 Fair Market Rents (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 all counties plus the Burlington Metropolitan Statistical Area (see note 18), weighted according to the number of renter households reported by the U.S. Census Bureau. www.huduser.org/datasets/fmr.html.
- 8 "Out of Reach 2004." National Low Income Housing Coalition, Washington, DC. December, 2004. www.nlihc.org/oor2004.
- 9 "November 2003 Statewide Occupational Wage Estimates." VT Department of Employment and Training, Montpelier, VT. www.vtmi.info/public/wagevt.xls.
- 10 VT Office of Economic Opportunity. Annual Data of VT's Emergency Shelters. Fiscal years 2002-2004.
- 11 Joint Fiscal Office. Montpelier, VT. www.leg.state.vt.us/jfo/State%20Forecasts/05%20January%20Forecast.pdf.
- 12 VHFA analysis of VT Department of Taxes' Property Transfer Tax receipts in 1996 and 2004. 1996 home prices were adjusted upwards for inflation based on the Consumer Price Index inflation calculator available at www.bls.gov.
- 13 VHFA analysis of VT Department of Taxes' Property Transfer Tax receipts for primary homes converted to vacation homes after the sale.
- 14 "Housing Vacancies and Homeownership, Annual Statistics: 2003." US Census Bureau, Washington, DC. www.census.gov/hhes/www/housing/hvs/annual03/ann03ind.html.
- 15 See note 2. Sales limited to condominiums.
- 16 See note 2. Sales limited to mobile homes with land.
- 17 See note 14.
- 18 The Burlington Metropolitan Statistical Area (MSA) includes the Chittenden County towns of Burlington, Charlotte, Colchester, Essex, Hinesburg, Jericho, Milton, Richmond, St. George, Shelburne, South Burlington, Williston and Winooski; Franklin County towns of Fairfax, Georgia, St. Albans City, St. Albans Town and Swanton; and Grand Isle County towns of Grand Isle and South Hero.
- 19 US Census Bureau, Washington, DC. Summary File 3, Tables P48 and P10.
- 20 "Up Against A Wall. Housing Affordability for Renters: An Analysis of the 2003 American Community Survey." National Low Income Housing Coalition, Washington, DC. November 2004. www.nlihc.org/pubs/uaw04/UpAgainstWall.pdf.
- 21 "SSI Recipients by State and County, 2003." Social Security Administration, Washington, DC. March 2004. www.ssa.gov/policy/docs/statcomps/ssi_sc/2003.
- 22 According to VT Department of Health, Division of Mental Health.
- 23 "SSI Annual Statistical Report, 2003." Social Security Administration, Washington, DC. September 2004. www.ssa.gov/policy/docs/statcomps/ssi_asr/2003/index.html.
- 24 VHFA calculation based on methodology created by Technical Assistance Collaborative, Boston, MA.
- 25 HUD's Resident Characteristics Report. Accessed January 2004. www.hud.gov/offices/pih/systems/pic/50058/rcr.
- 26 "Local Effects of Proposed Cuts in Federal Housing Assistance Detailed." Center on Budget and Policy Priorities, Washington, DC. March 2004. www.cbpp.org/states/3-17-04hous-vt.pdf.
- 27 VT Office of Economic Opportunity. One night count of VT's Emergency Shelters. December, 2004.
- 28 See note 27.
- 29 See note 10.
- 30 Unpublished data provided by COTS shows that between 2003 and 2004, the number of individuals served increased by 7.7 percent, while the number of families served increased by 24.5 percent.
- 31 According to Women Helping Battered Women in Burlington, VT. Based on victims leaving emergency shelter in 2003.
- 32 "Resources: Homeless Facts Children and Homelessness." Committee on Temporary Shelter (COTS), Burlington, VT. www.cotsonline.org/homeless_kids.html.
- 33 US Census Bureau. Washington, DC. Summary File 3, Table P31.
- 34 "Worker Flow Files." US Census Bureau, Washington, DC. www.census.gov/population/www/cen2000/mcdworkerflow.html.
- 35 See note 33.
- 36 "The Economic Benefits of Investments by the Vermont Housing and Conservation Board." Vermont Housing and Conservation Board, Montpelier, VT. October 2003. www.vhcb.org/economicbenefits.pdf.
- 37 "Housing's Direct Economic Impact." National Association of Home Builders. www.nahb.org/generic.aspx?sectionID=784&genericContentID=543.
- 38 "January 2005 Economic Review and Revenue Forecast Update," Kavet, Rockler & Associates, Williamstown, VT, January, 2005.

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Released by the Vermont Housing Council

The Vermont Housing Council is a broad-based group of public and private housing entities created to oversee implementation of the state's housing policy and to coordinate housing services and initiatives.

And the [Vermont Housing Awareness Campaign](#)

The Vermont Housing Awareness Campaign is an effort by public and private sector interests to promote more housing opportunities for all Vermonters.

On the cover: This poster, created by a young woman named Jamie, of Alburg, is one of 21 drawings and paintings currently touring the state in an exhibit titled, "Art House." The exhibit, a project of the Vermont Housing Awareness Campaign, highlights the importance of having enough safe, decent and affordable housing for Vermont's children, both now and when they are older and starting families and futures of their own. Pictures of the show and a schedule of venues where it will appear are available at www.housingawareness.org.

Download a copy of this report at www.housingawareness.org/facts.htm.