2007 UPDATE

Between a Rock and a Hard Place

Housing and Wages in Vermont

SINCE THE RELEASE of the 2006 report on housing costs v. wages in Vermont, rents and home prices have continued to climb, although the median price of a single-family home increased at a slower pace than in recent years. Both rents and home prices have increased at a faster pace than wage growth.

- The median purchase price of a single-family home in Vermont in 2006 reached $197,000, an 8 percent increase from the previous year and a 97 percent increase since 1996.[1]

- A Vermont household would need an annual income of $66,000 to purchase that home.[2] Sixty-seven percent of Vermont's households have incomes below that figure.[3]

- The median income for all Vermont's households is $48,500.[4] A household with that income could afford a home priced at about $143,500.[5]

- The median price for a newly-constructed home in Vermont rose to $282,000 in 2006, a 15 percent increase from 2005.[6] A household would need an annual income of $93,000 to afford that new home.[7]

- The average Fair Market Rent for a modest, two-bedroom apartment in Vermont reached $797 in 2006, a 10 percent increase since the year before and a 42 percent increase since 1996.[8]

- A Vermont household would have to earn $15.34 per hour, or $31,897 annually, to afford that Fair Market Rent.[9] At least 59 percent of Vermont's non-farm employees — more than 163,000 people — work in occupations with median wages below that level.[10]

- Vermont had the tightest rental housing markets in the nation in 2006. The rental vacancy rate was 3.6 percent. The homeownership vacancy rate was 1.2 percent, the third lowest in the nation.[11] The state's most recent housing needs assessment showed Vermont has a shortage of 21,000 affordable rental units and will need 12,300 more owner-occupied units by 2010. The current pace of housing construction is nowhere near what would be necessary to fill those gaps.[12]

- Estimates of Vermont's homeless population have hovered around 4,000 people for the last several years, based on the number of individuals served by the state's homeless shelters. Between July, 2005 and June, 2006, more than 3,800 people sought help from one of those shelters. One-third of those were in families.[13]

- In the annual one-night count of homeless Vermonters conducted in November, 2006, 35 percent of the people staying in homeless shelters that night were under 17, and a majority of that group was under the age of 5.[14]

- The time people spend in homeless shelters in Vermont is increasing. In 2000, the average stay was 11 days. In 2006, it was 25 days.[15]

What do we mean by "affordable housing?"

The generally-accepted standard for housing affordability defines housing as "affordable" if the household is paying no more than 30 percent of its income for rent and utilities or for mortgage, taxes and insurance. This standard may be too high when considering the rising costs of other necessities, such as health care, fuel, and child care, but it remains the basis for defining "affordable housing."

Affordability is determined by two factors. The first is the cost of housing, and the second is the ability of people to pay that cost. As home prices and rents rise at a faster rate than Vermonter's wages, housing becomes less affordable for an increasing number of people.

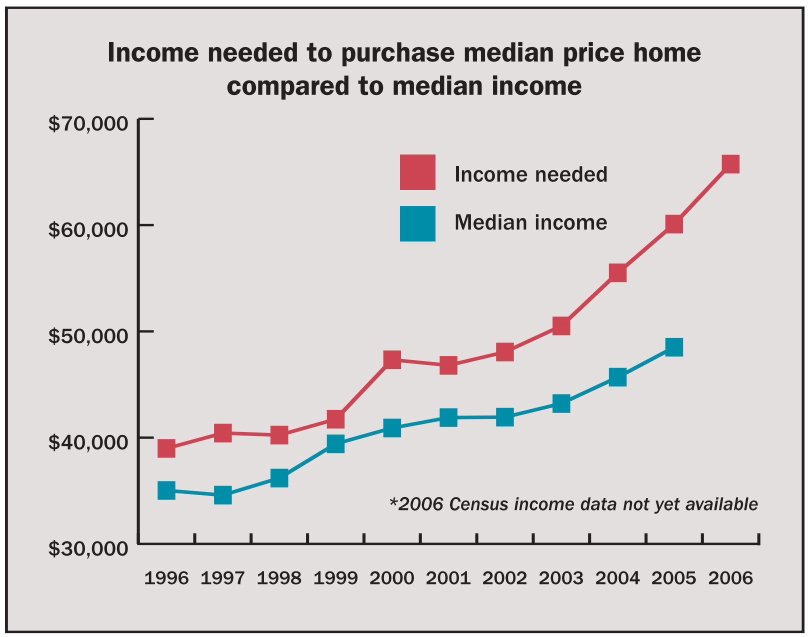
The Cost of Housing

Homeownership

Making the step to homeownership, an important part of long-term financial security for most people, got harder in 2006 as prices continued to move upward and the supply of homes affordable to most Vermont households shrank.

Last year, the median purchase price of a home in Vermont rose to $197,000, an 8 percent increase from the year before and a 97 percent increase from 1996, the baseline year for this series of reports.[16]

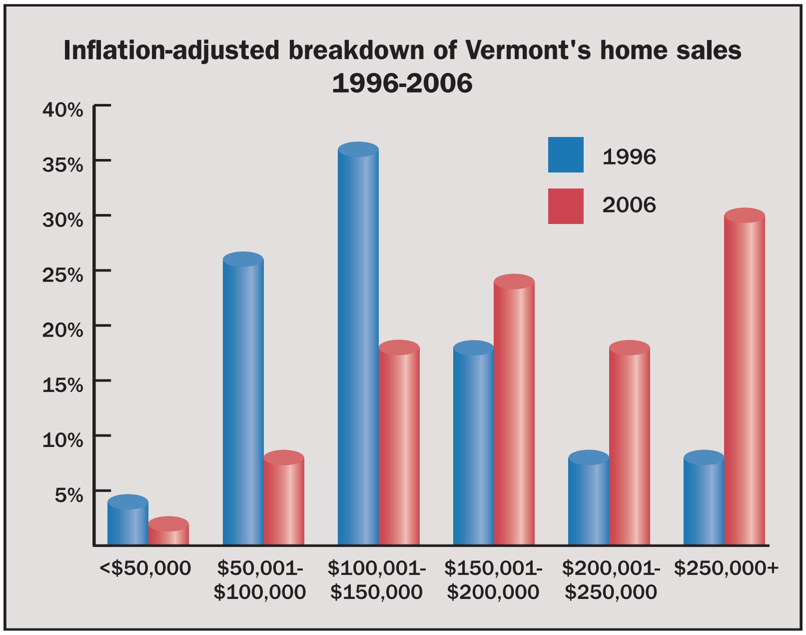
As in years past, the price of a newly-constructed home was higher still. An analysis of available real estate sales data for 2006 showed the median purchase price for a newly-constructed home in Vermont was $282,000, an increase of more than $36,000 from 2005.[17]



Vermont home sales data illustrate how the state's homeownership market has shifted dramatically, leaving thousands of Vermonters wondering if they will ever be able to afford a home of their own. In 1996, two thirds of the homes sold in Vermont carried a purchase price of $150,000 or less. In 2006, only 28 percent of home sales fell into that price range, but 72 percent of sales were of houses priced above $150,000.[18]

As another indication of how dramatically the market has shifted, the number of million-dollar homes in Vermont jumped from 48 in the year 2000 to 1,673 in 2005.[19]

When potential homeowners have found conventional "stick-built" homes out of reach, they have often turned to condominiums and mobile homes as more affordable alternatives. However, neither of these alternatives is immune from the runup in prices that has characterized Vermont's housing market in recent years. In 2006, the median price of a primary-residence condominium increased to $185,000, and for mobile homes with land, the median price reached $90,500.[20]



Vermont's tight homeownership market — a function of production, especially at the lower end of the price ladder, not keeping up with demand — is one of the reasons home prices continue to climb. In 2006, Vermont's homeownership vacancy rate was 1.2 percent, the third lowest in the nation.[21] The 2005 Vermont Housing Needs Assessment projected a need for construction of 12,300 additional owner-occupied units by 2010 in order to meet the anticipated demand.[22]

The housing market cooled somewhat in 2006; there were about 17 percent fewer primary home sales in Vermont last year than in 2005.[23] But, as described above, this did not result in prices declining, although the rate of appreciation slowed. Between Sept. 30, 2005 and Sept. 30, 2006, for example, prices of existing Vermont homes rose by 9.4 percent, based on repeat sales data. This was the highest appreciation rate in New England, and the 18th-highest appreciation rate in the nation.[24]

Rental housing

Vermont's 72,000 renter households continue to face a wide gap between rent levels and what they can afford to pay.[25]

The average Fair Market Rent, or FMR, for a modest two-bedroom apartment in Vermont, as calculated by the U.S. Department of Housing and Urban Development (HUD), climbed to $797 last year, a 10 percent increase from 2005 and a 42 percent increase since 1996.[26]

As with the homeownership market, low vacancy rates are another reason prices continue to rise. In 2006, Vermont's rental vacancy rate, 3.6 percent, was the lowest of any state in the country.[27] The 2005 Housing Needs Assessment estimated a then-current shortage of 21,000 units of affordable rental housing.[28]

Housing wage	
Addison County	$14.37
Bennington County	$13.88
Caledonia County	$11.75
Chittenden County	$18.90
Essex County	$12.65
Franklin County	$18.90
Grand Isle County	$18.90
Lamoille County	$13.15
Orange County	$13.17
Orleans County	$10.42
Rutland County	$13.08
Washington County	$13.83
Windham County	$15.33
Windsor County	$13.88
Vermont	***$15.34***

The ability to pay

While housing costs are rising steadily, Vermonters' ability to pay those costs is slipping.

To afford the median-priced $197,000 home,[29] for example, a Vermont household would need an annual income of about $66,000.[30] Sixty-seven percent of Vermont's households have annual incomes below that figure.[31]

To pay the median price of a new home would require an annual income of $93,000.[32]

The median household income in Vermont is $48,500.[33] That income would be enough to purchase a home in the neighborhood of $143,500.[34]

On the rental side, the story is largely the same. To afford the $797 Fair Market Rent on a two-bedroom apartment, a Vermont household would have to earn at least $15.34 per hour, or $31,897 annually. This is known as the "housing wage," the income necessary to pay the Fair Market Rent and utilities while working 40 hours per week.[35]

At least 59 percent of Vermont's non-farm employees, or 163,000 people, work in occupations whose median wages are below $15.34 per hour.[36]

But can't a two-income family afford these rents? Sixty-one percent of all Vermont households have one, or less than one wage-earner.[37]

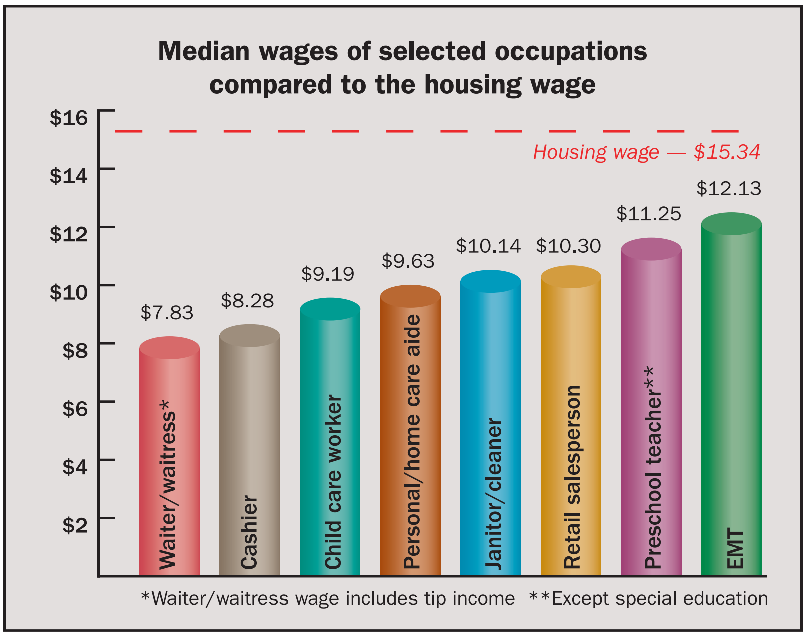
Thousands of Vermonters are working in jobs essential to our economy but which don't pay the kind of wages needed to afford housing.

The Vermont Department of Labor reported in May, 2005 (the most recent figures available) that the 10 occupations employing the most Vermonters were, in descending order: cashiers; retail salespeople; teacher's assistants; bookkeeping, accounting and auditing clerks; registered nurses; waiters and waitresses; secretaries (except legal, medical and executive); office clerks, general; elementary school teachers (except special education); janitors and cleaners (except maids and housekeeping cleaners).

These 10 job categories employ 21 percent of Vermont's workforce (a slight increase from 2005), or approximately 60,000 people. Only two of these job categories — registered nurses and elementary school teachers — paid median wages above Vermont's housing wage of $31,897. The median wage of the largest employment category, cashiers, was $17,200. Thousands more Vermonters are employed in equally necessary jobs, including EMTs, nurse's aides, and child care providers, whose median wages fall below the state's housing wage.[38]

More Vermont households "cost-burdened"

Housing policy experts use the term "cost-burdened" to describe people living in a housing market where costs are out-running their ability to pay. A household is considered "cost-burdened" if the people in it are paying more than 30 percent of income for housing, and that household is considered "severely cost-burdened" if it is paying 50 percent or more of its income for housing.



The number of Vermont households considered "severely cost-burdened" has grown substantially in recent years. Between 2003 and 2005, for example, the total number of owner households in Vermont grew by 4 percent, but the ranks of those considered severely cost-burdened grew by 31 percent.

Twenty-nine percent of Vermont owner households in 2005 were paying more than 30 percent of their incomes for housing, and one in 10 was paying more than 50 percent.

On the rental side of the market, the number of rental households in Vermont grew by 2 percent between 2003 and 2005, but the number of renters considered severely cost-burdened increased 19 percent. Forty-six percent of Vermont's renter households were paying more than 30 percent of their incomes for rent and utilities in 2005, and one-fourth of renter households were paying more than 50 percent of their incomes for rent and utilities.[39]

Not surprisingly, Vermont's rental housing environment is particularly difficult for the 13,110 Vermonters who live on Supplemental Security Income, or SSI. Monthly SSI checks were $675 in 2007, or $122 less than the 2-bedroom FMR, and 83 percent of SSI recipients have no other source of income.[40] The average FMR for a one-bedroom apartment in Vermont — $591 — would consume 88 percent of an SSI check. A Vermonter living on SSI can afford just over $200 per month for housing.

More home owners own less of their homes

As housing costs continue to rise, more people have taken advantage of low interest rates in recent years to become homeowners, with the result that they actually own less of their homes than they have in decades. This happens when a household puts down less money for the purchase of a home and borrows more or takes money out of their home's equity, potentially to be spent on other purposes.

In the last quarter of 2006, 47.9 percent of home buyers who financed their homes did so with a down payment of less than 5 percent of the purchase price, a significant increase from 2000, when that percentage was 30.6.

At the same time, it is becoming increasingly common for a purchaser to have two loans — a regular mortgage covering the first 80 percent of the purchase price, and a home equity loan or home equity line of credit, which pays for the rest. As of the last quarter of 2006, these structures accounted for 49.7 percent of all home purchase mortgage dollars, a big jump from 19.9 percent in 2001.[41]

Federal housing assistance declines

Very low income Vermonters once could rely on the federal government to help close the affordability gap. Cities and states could count on federal grants and loans to help create affordable housing. But in the last 30 years, there has been an overall

Homelessness remains a major challenge

One consequence of Vermont's expensive housing market is homelessness. Vermont has not made much progress against this problem in recent years. About 4,000 Vermonters receive assistance from the state's network of homeless shelters each year,[42] and there is general agreement that figure understates the number of homeless Vermonters, as it counts only those who have spent a night or nights in a shelter. The exact number of men, women and children who are "couch surfing" (meaning hopping from one house or apartment of a friend or relative to another) or sleeping in abandoned buildings, campgrounds, cars or on the street can only be estimated.

The most recent Emergency Shelter Census Count of homeless Vermonters, conducted by the Office of Economic Opportunity (OEO) November 29, 2006, found 317 people in Vermont's 28 OEO-funded emergency shelters. Of those, 110 were 17 years old or younger, and 62 of those homeless children were under the age of 6. Fifty-four percent of shelter residents counted in the Census were in families. During the week the Census was conducted, the 28 shelters reported they turned down 58 requests for assistance; because they were full.[43]

A lack of an adequate supply of affordable housing means the amount of time homeless Vermonters live in shelters is increasing. In 2006, the average length of stay in a homeless shelter in Vermont was 25 days, more than double the length of stay in 2000.[44] When people are staying longer in shelters due to a lack of available housing they can afford, it means shelters must continue to turn away others in need.

decline in funding for HUD, and USDA Rural Development has seen similar cutbacks. Since 1978, the high water mark for HUD funding, its budget has declined by 66 percent, adjusted for inflation.[45]

The Section 8 housing voucher program, which helps very low income Vermonters pay their rent or, in some cases, their mortgage, has been undermined by a combination of lack of funding sufficient to meet the need and changes in the method HUD uses to distribute the funds. These changes have left Vermont's housing authorities struggling to keep serving the same number of families. While Vermont has been fortunate to lose only a relatively small number of vouchers so far, tens of thousands have been lost across New England and the rest of the country.

"We're seeing more homelessness, more families, more people who are working but aren't earning enough to afford their housing. Minimum-wage jobs and low-wage jobs just don't cut it when you're trying to pay for housing."

— Kendy Skidmore, Executive Director, Bennington Coalition for the Homeless

Section 8 currently serves just over 6,100 Vermont households, 66 percent of which have members who are elderly or disabled and live on SSI, Social Security, or pensions.[46]

The changes of the last several years have left many low-income Vermonters who receive assistance struggling to pay more for rent. Those receiving assistance for the first time have often been unable to find apartments that rent for less than the required rent ceilings. People on the state's long waiting lists will have to wait years for help. Advocates are optimistic that many of the program's problems will finally be fixed this year.

The Community Development Block Grant (CDBG) program, another mainstay of federal housing assistance, has also sustained deep cuts in recent several years. Vermont has lost approximately $1.4 million in CDBG funding over the last two years. The Bush administration's FY 2008 budget proposes cutting the program by another 20% for an additional loss of $1.5 million for Vermont. Funds for USDA Rural Development, as well as for public housing operating expenses and capital improvements, have also received major cuts over the last few years and are scheduled for further reductions in 2008.[47]

What should be done?

Rising housing costs have been a persistent problem in Vermont for several years, and those costs, coupled with people's relatively modest wage gains and the sizeable number of low-wage jobs in the state, present an economic and social challenge.

Last year, the Vermont Legislature took several steps forward on housing, including approving an increase to the state's Affordable Housing Tax Credit to $300,000 annually, with another increase scheduled for FY 2008 to $400,000. The Tax Credit is used to leverage investment in affordable housing development. The Legislature increased base funding for the Vermont Housing and Conservation Trust Fund by 4.5 percent and dedicated a one-time investment of $1 million into the Trust Fund. Lawmakers also created a number of incentives for affordable housing in the "growth center" legislation.

In communities around the state, housing task forces or housing committees have sprung up to support local housing development. Vermont's business community is also responding. Following the model of the Upper Valley Housing Coalition, a business-led housing organization based in White River Junction (www.uvhc.org), similar groups have formed in Brattleboro, in Central Vermont and in Chittenden County.

> "With the cost of housing continuing to rise, it is important that policy makers look into every possible solution to lower the cost of housing. Vermont is still experiencing a housing crisis, and it is becoming harder and harder for the average Vermonter to afford to purchase a home."
>
> *— Joe Sinagra, Executive Officer, Home Builders and Remodelers Association of Vermont*

Vermont must continue to put more public and private investment into housing, continue developing policies that encourage housing while protecting our state's character and environment, and continue bringing community leadership into solving Vermont's housing problems.

State officials should look for ways to expand investment in housing development, strengthen programs that help Vermonters afford housing, and create policies encouraging affordable housing development.

Local officials can work to ensure their communities encourage, rather than discourage, affordable housing development through their planning and zoning. They can 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.

> "People need to understand that the only way we're going to preserve the character of our towns is to make sure people who can't afford to live there now can afford to live there in the future."
>
> *— Bruce Pacht, Executive Director, Twin Pines Housing Trust*

Vermont's employers should become leaders on the issue of affordable housing development in their communities, and they can look into developing Employer-Assisted Housing benefit packages for employees. These can range from grants or forgivable loans to assisting with costs of commuting.

Private citizens can form housing task forces, host public discussions on housing in their communities and support lawmakers' and policymakers' efforts to continue investment in housing and create policies that encourage housing. They can also speak in favor of affordable housing developments at public hearings during the permitting process. ■

APPENDIX: Affordability of buying a home in Vermont counties

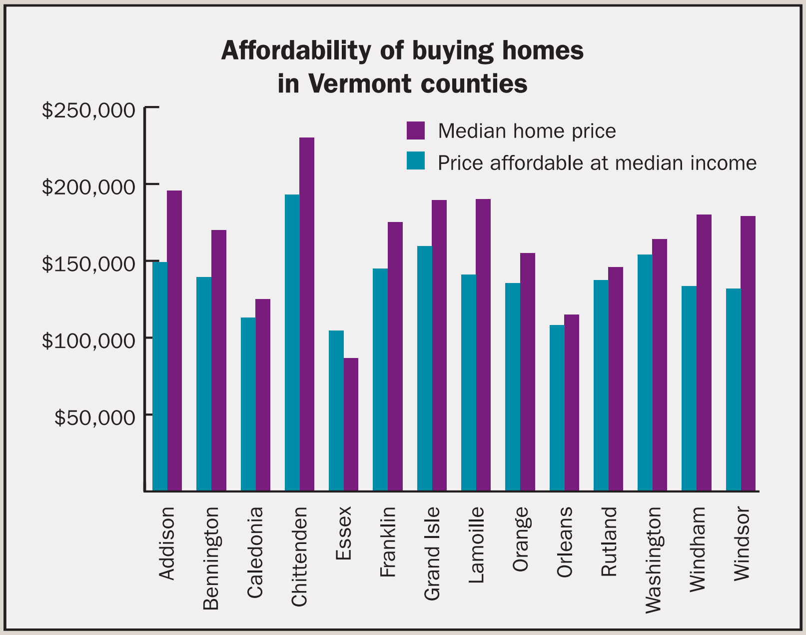
Buying a home is more difficult in some counties than in others due to variations in the gap between home prices and household income levels. Essex is the only Vermont county in which the median-priced home is within reach of the median-income household. The gap between median price and median income is greatest in Lamoille, Windham, and Windsor counties.

Home purchase affordability in Vermont's counties, 2005

Location	*Affordability index*
Addison County	77%
Bennington County	83%
Caledonia County	91%
Chittenden County	84%
Essex County	119%
Franklin County	84%
Grand Isle County	85%
Lamoille County	75%
Orange County	88%
Orleans County	95%
Rutland County	95%
Washington County	94%
Windham County	75%
Windsor County	75%
Vermont	***81%***

To compare the affordability of buying a home in each of Vermont's 14 counties, VHFA constructed an "affordability index" based on the median home sales price and the price estimated to be affordable for the median income household. Primary data sources used to calculate the index are Property Transfer Tax data on primary home sales and family income data from the Vermont Department of Taxes and estimates of household income from the U.S. Census Bureau's Current Population Survey. The index applies to affordability in 2005 — the most recent year for which median income estimates are available.

When the affordability index equals 100%, the purchase price of the home estimated to be affordable for the median income household in an area is equal to the median purchase price in that area. Only Essex County had an index of at least 100%. In all other Vermont counties and in the state as whole, a median income household could not afford a median-priced home. In Lamoille, Windham, and Windsor counties, home buyers are only likely to be able to afford a home priced at 75% of the median priced home. Since the median price is the point at which half of the homes sold were priced above this point, median income home buyers in these counties are competing for a small portion of all homes sold at the lower end of the price spectrum.



ENDNOTES

1 Vermont Housing Finance Agency (VHFA) analysis of Vermont Department of Taxes' Property Transfer Tax receipts. This includes all valid records of primary residence homes, including single-family, condominiums, and mobile homes with land. It excludes any transactions not deemed "at arm's length." www.state.vt.us/tax/propertytransferdata.shtml.

2 VHFA calculation, January, 2007. Based on Freddie Mac's average 2006 interest rate and points for a 30-year mortgage with 5 percent down payment, average statewide property taxes, property insurance, private mortgage insurance, closing costs, and a 30 percent housing payment ratio.

3 VHFA analysis of 2005 American Community Survey, Table S1901.

4 U.S. Census Bureau. Current Population Survey three-year average median income estimates for years 2003 to 2005, the most recent data available. www.census.gov/hhes/www/income/income05/statemhi3.html.

5 See note 2.

6 Based on information from the Vermont Real Estate Information Service, Inc. for the period January 1, 2006 through December 31, 2006.

7 See note 2.

8 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 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. www.huduser.org/datasets/fmr.html.

9 "Out of Reach 2006." National Low Income Housing Coalition, Washington, D.C., 2006. www.nlihc.org/oor2006.

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11 "Housing Vacancies and Homeownership, Annual Statistics: 2006." U.S. Census Bureau, Washington, D.C. www.census.gov/hhes/www/housing/hvs/annual06/ann06ind.html.

12 2005 Vermont Housing Needs Assessment by Gent Communications Consulting, LLC for the Vermont Department of Housing and Community Affairs, Montpelier, VT. This report is included in the HUD Consolidated Plan, Vol. 1. www.dhca.state.vt.us/Housing/ConPlan/index.htm.

13 Emergency Shelter Grant Program Final Report on State Fiscal Years 2000-6.

14 Emergency Shelter Grant Program One-Night Census Report taken Nov. 29, 2006.

15 See note 13.

16 See note 1.

17 See note 6.

18 See note 1.

19 U.S. Census Bureau, 2005 American Community Survey, Table B25075.

20 See note 1.

21 See note 11.

22 See note 12.

23 See note 1.

24 "House Price Index for the Third Quarter of 2006." U.S. Office of Federal Housing Enterprise Oversight, Washington, D.C. www.ofheo.gov/HPI.asp.

25 U.S. Census Bureau, 2005 American Community Survey, Table B25003.

26 See note 8.

27 See note 11.

28 See note 12.

29 See note 1.

30 See note 2.

31 See note 3.

32 See note 2.

33 See note 4.

34 See note 2.

35 See note 9.

36 See note 10.

37 U.S. Census Bureau, 2005 American Community Survey, Table B08202.

38 See note 10.

39 U.S. Census Bureau, 2005 American Community Survey, Tables B25070 and B25091 and 2003 Table H088.

40 Social Security Administration, "SSI Recipients by State and County, 2005." June, 2006. www.ssa.gov/policy/docs/statcomps/ssi_sc and "Supplemental Security Income (SSI) in Vermont." www.ssa.gov/pubs/11128.html.

41 "Home Purchase Market Quarterly." SMR Research Corp., Hackettstown, N.J. 2007. Analysis of combined loan-to-value (CLTV) data from 490 counties nation-wide. www.smrresearch.com

42 See note 13.

43 See note 14.

44 See note 13.

45 "Changing Priorities: The Federal Budget and Housing Assistance, 1976-2005." Cushing N. Dolbeare, Irene Basloe Saraf, and Sheila Crowley. National Low Income Housing Coalition, Washington, D.C. October, 2004. www.nlihc.org/doc/cp04.pdf.

46 "Resident Characteristics Report." U.S. Department of Housing and Urban Development, Washington, D.C. www.hud.gov/offices/pih/systems/pic/50058/rcr/.

47 Vermont Affordable Housing Coalition analysis of Community Development Block Grant funding.

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Research
Leslie Black-Plumeau, Vermont Housing Finance Agency
Maura Collins, Vermont Housing Finance Agency

Writing/editing
Rick DeAngelis, Vermont Housing & Conservation Board
John Fairbanks, Vermont Housing Finance Agency
Erhard Mahnke, Vermont Affordable Housing Coalition

Design
Craig Bailey, Vermont Housing Finance Agency

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

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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 Awareness Campaign (www.housingawareness.org)
- Vermont Housing & Conservation Board (www.vhcb.org)
- Vermont Housing Data, comprehensive statistical information regarding housing costs, housing supply, and ability to afford housing (www.housingdata.org)
- Vermont Department of Housing and Community Affairs, which includes the Vermont housing needs assessment (www.dhca.state.vt.us)
- Vermont Housing Finance Agency (www.vhfa.org)
- Vermont State Housing Authority (www.vsha.org)
- Housing Vermont (www.hvt.org)
- Vermont Association of Planning and Development Agencies (www.vapda.org)
- Vermont Coalition to End Homelessness (www.helpingtohouse.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.