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TOWN OF WELLESLEY

*Housing  
Affordability  
Review*



Metropolitan Area  
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Town of Wellesley  
HOUSING AFFORDABILITY REVIEW

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Town of Wellesley

HOUSING AFFORDABILITY REVIEW<sup>1</sup>

Housing Affordability Trends

In recent years, housing costs throughout the Boston metropolitan area have increased far more rapidly than incomes. Between 1980 and 1986, single family home sales prices in the region tripled, while household income did not quite double. This disparity between housing costs and income, which applies to rental housing as well as homeownership, is often referred to as the "affordability gap."

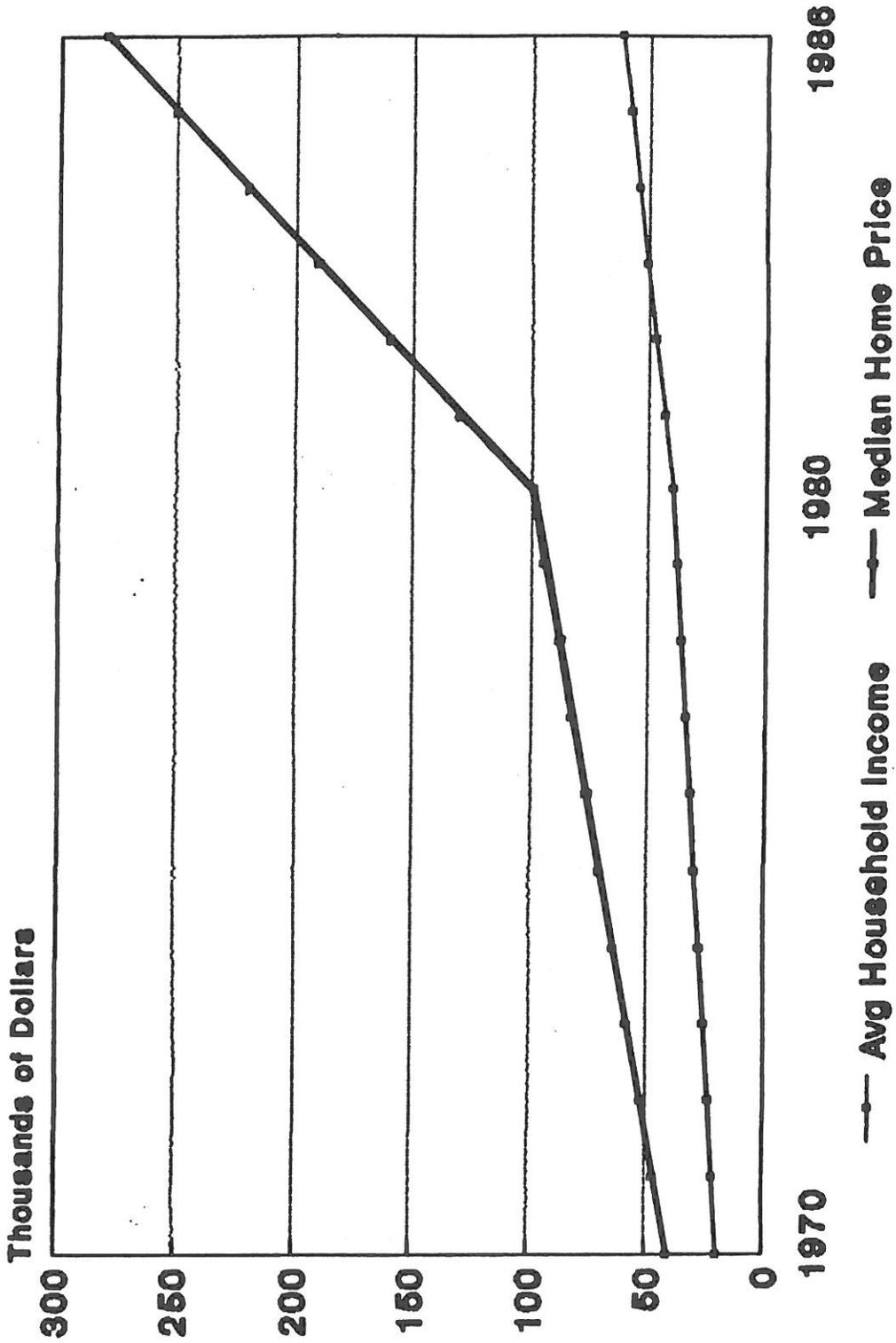
The affordability gap in Wellesley has mirrored that of the region as a whole. Between 1970 and 1980, home sales prices rose 144%, while average household income rose only 102%. The gap increased much more significantly between 1980 and 1986: housing prices rose 182%, while incomes increased by only 56% (see Chart 1).<sup>2</sup> In 1970, home sales prices were 2.1 times average household income. In 1980, the ratio was 2.5 times, the "rule of thumb" bankers and realtors use to estimate the price a family can afford. But by 1986, home sales prices were 4.5 times the average household income, far in excess of what may be considered "affordable."

Renters likewise face an affordability gap (see Chart 2). While their situation may actually have improved somewhat between 1970 and 1980, it declined substantially between 1980 and 1987. During that time, average rents in Wellesley increased 145%, while average wages increased only

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<sup>1</sup>Sources: 1980 Census; County Home data; Abt Associates, Inc., Massachusetts Housing Inventory and Policy Indicators; Rental Housing Association; Division of Employment Training and Security; Wellesley Housing Authority; Boston Sunday Globe; Wellesley Townsman; Wellesley Tab.

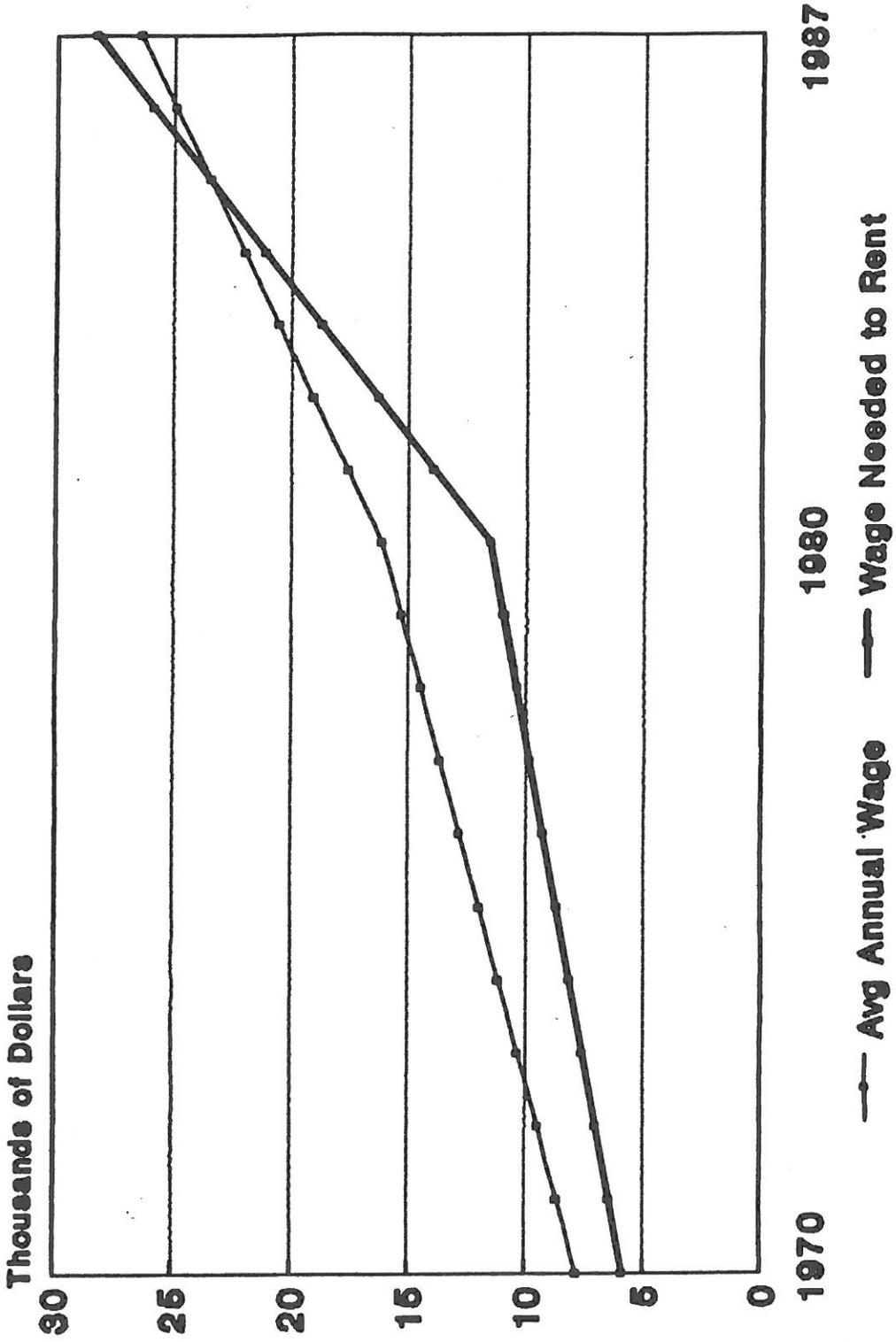
<sup>2</sup>Average income is used here because it is available over time. Averages are greatly affected by extremes and less accurately reflect central tendency than do medians. In Wellesley, the average has historically been higher than the median; thus the use of the average here probably understates the affordability gap.

Town of Wellesley Chart 1  
**HOMEOWNERSHIP AFFORDABILITY GAP**



Sources: U.S. Census; County Home data; Abt Associates

# Town of Wellesley Chart 2 RENTAL AFFORDABILITY GAP



Sources: U.S. Census; Rental Housing Association;  
Division of Employment Security

63.5%.<sup>3</sup> In 1980, the average tenant spent 21% of his or her wages on rent; by 1987, the percentage had risen to 32.2%. Thus, while the average wage-earner could afford to rent in Wellesley in 1980, he or she can no longer afford to do so.

#### Affordable to Whom?

Another way to analyze the affordability of Wellesley's housing stock is to consider the income people need to rent or buy in the town. In 1987, the average rent was \$707 and required an income of \$28,280. The median advertised rent in January 1989 was \$933, requiring an income of \$37,320. For the first half of 1988, the median condo sales price was \$275,000, requiring an income of \$114,343. The median single family home sold during the same period for \$315,000 and required an income of \$126,000 (see Chart 3).<sup>4</sup>

These figures suggest a "bi-polar" housing stock, with a huge economic gap between renters and owners. But even the income needed to rent is higher than many local people earn. The 1987 average wage for Wellesley town government employees, for example, was \$24,802, more than 12% less than the income needed to rent in that year.

Wellesley's rental stock is limited not only in terms of affordability but in terms of availability as well. The town has very little rental housing, the only housing at the lower end of the spectrum, and a vacancy rate of less than 2%. A survey of rental listings advertised in January 1989 showed only 16 apartments available; most were two-bedroom units, but none were larger units suitable for larger families.

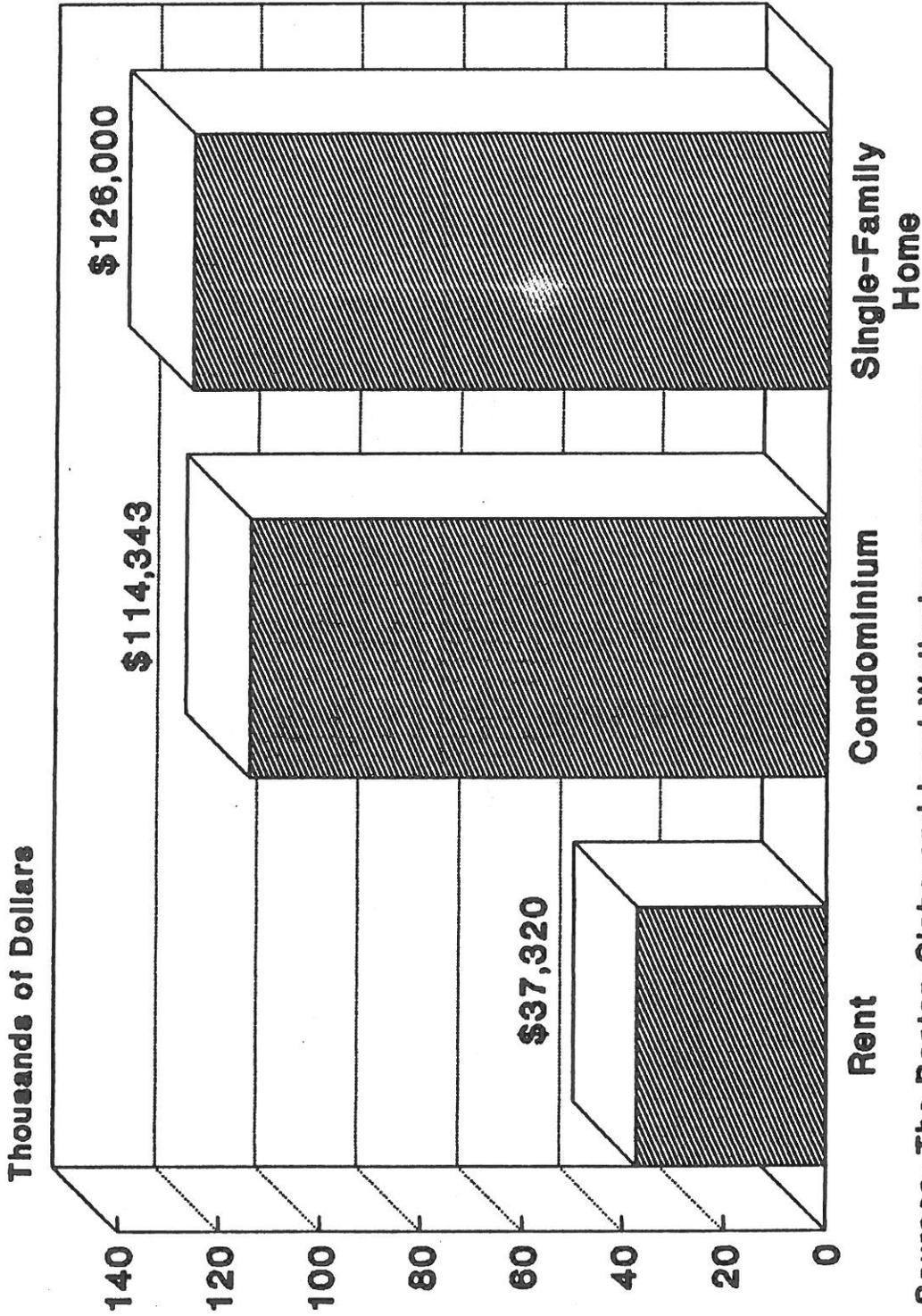
Rental housing constitutes less than 19% of town's housing units, compared to 41% for the region as a whole. The percentage of rental housing declined slightly since 1980, in part through the conversion of relatively affordable rental units to more expensive condominiums; of the condominiums added since 1980, 69% were converted from rental use.

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<sup>3</sup>Average wage is used here instead of household income because it reflects the situation of the single person household, the single income family (such as single parents), and locally employed workers, likely markets for rental housing in Wellesley.

<sup>4</sup>Calculations assume: Tenants pay no more than 30% of income, homeowners no more than 28%; 10% downpayment; 30-year mortgage at 10.5%; condominium ownership costs include condominium fees.

# Town of Wellesley Chart 3 INCOME NEEDED TO RENT OR BUY



Sources: The Boston Globe and local Wellesley newspapers;  
County Home data.

Condominiums -- often thought of as the "first-time homebuyer" opportunity of the 1980's -- are neither affordable nor plentiful in Wellesley. They constitute only 3.2% of Wellesley's housing stock, compared to 6.8% for the region as a whole. Prices are targeted toward the luxury market; in 1986, Wellesley's condominium sales prices were as high as its single family sales prices and were 2.4 times the regional median; single family sales prices, on the other hand, were 1.7 times the figure for the region.

In all, very little of Wellesley's housing is affordable to those of limited means. Of the 465 housing units sold during 1988, only 24, or 5%, sold for less than \$150,000. Of the 2097 sales between 1984 and 1987, only 119, or less than 6%, sold for under \$100,000.<sup>5</sup>

Distribution of Affordability Problems

Thus far, we have considered housing affordability only in terms of "measures of central tendency" -- median or average incomes or housing costs -- which tell us very little about the actual incidence of housing-related economic stress.

To identify affordability problems more accurately, we must look at the distribution of incomes and of housing costs in proportion to incomes. The chart below, taken from the 1980 Census (1979 incomes), shows Wellesley's income distribution.

<u>Income</u>	<u>Number of Households</u>	<u>Percent</u>
Less than \$5,000	489	5.8
\$5,000 - 9,999	714	8.5
\$10,000 - 14,999	599	7.1
\$15,000 - 19,999	582	6.9
\$20,000 - 24,999	696	8.3
\$25,000 - 34,999	1515	18.0
\$35,000 - 49,999	1584	18.8
\$50,000 or more	2231	26.5

} — 28.3%  
 } — 45%  
 } — 26%

While it is perhaps no surprise that most of Wellesley's households have relatively high incomes, it is important to note that 2384 households -- over 28% of the town's total households -- have incomes under \$20,000. While some of these households may be retirees with substantial savings, an unknown number may be experiencing housing-related economic stress, a function of income, housing costs, and household size.

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<sup>5</sup>Data include intra-family transactions, thus overstating the amount of lower cost housing available on the open market.

Tenants are more likely to face severe housing cost burdens, but homeowners may be affected as well. The Wellesley Housing Authority periodically receives calls from older homeowners who are "house rich and cash poor" -- they have substantial equity in their homes but have insufficient<sup>6</sup> cash flow to support themselves, pay taxes, and do maintenance.

While there are no available data to adjust for savings or family size, it is significant that 19.5% of Wellesley households earn less than \$20,000 and pay 25% or more of their income for housing; 42% of tenants are in this category, as are 14% of homeowners. Similarly, 13.4% of the town's households earn less than \$20,000 and pay 35% or more for housing; 30% of tenants are in this category, as are 10% of homeowners. These households do not include public or subsidized housing tenants, who generally paid no more than 25% of their income for rent at the time the Census data were collected. Thus these potentially distressed households are in addition to existing assisted housing tenants.

Much, of course, may have changed since 1980. As we have seen, however, the housing affordability gap has substantially worsened since that time. Thus households facing stress in 1980 are likely to be facing greater stress today. In addition, there has been a shift in the jobs available in the town: the numbers of low wage jobs in retail trade and services have increased by 40% and 22% respectively; moderate wage jobs in finance, insurance, and real estate have increased 37%; and high wage jobs in manufacturing have declined by 53%. Of the total number of non-government jobs available in Wellesley in 1987, 64.5% are in the lower wage categories, compared to 59.7% in 1980. These figures suggest again that more people who live or work in Wellesley may be increasingly hard-pressed to meet the costs of housing in Wellesley.

Housing Authority records, shown below, provide some indication of housing need.

Wellesley Housing Authority  
WAITING LIST

<u>Program</u>	<u>Number of Households</u>
Family	60
Elderly	34
Section 8	5
Chapter 707	36

The wait for town residents may be less than a year, but the wait for non-residents is generally 3-4 years for public housing and much longer for the mixed-income MHFA development. The "success rate" for placing Section 8 certificate holders within the town is zero; residents qualifying for this assistance must find private apartments that meet rent maximums, and they are unable to do so in Wellesley.

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<sup>6</sup>Housing Authority programs cannot address this problem. There are strategies the town could adopt, such as home sharing programs, tenant matching, and accessory apartments, and there are financial options, such as home equity conversion.

## Summary

Wellesley's housing affordability can be summarized as follows:

- \* The housing affordability gap has worsened substantially, both for owners and for tenants, since 1980.

As of 1986, home sales prices were 4.5 times the average household income, up from 2.5 times in 1980.

1987 rents require 32.2% of the average wage, up from 21% in 1980.

- \* Very little of Wellesley's housing is affordable to low, moderate, or even middle income households.

The town has fewer rentals (19%) than the region as a whole (41%).

Average rents are higher than the average town government employee can afford.

The town has fewer condominiums (3.2%) than the region as a whole (6.8%).

Condominiums are geared toward the luxury market, requiring an income of \$114,343.

- \* Many town residents -- both tenants and homeowners -- may be experiencing housing-related economic stress.

19.5% of Wellesley households in 1980 earned less than \$20,000 and paid more than 25% of their income for housing.