Action on Housing is Key to Economic Prosperity in Massachusetts

Why we struggle to compete with rest of U.S. and what reforms can help us realize our potential

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Massachusetts is an economic powerhouse. We have the best educated workforce in the U.S. and are home to some of the country’s most innovative companies and most prestigious universities and hospitals. Our state and local tax burdens, once among the nation’s highest, are now in line with the national average. So why, with just a few recent exceptions, has job creation in Massachusetts consistently lagged behind the rest of the country?

A major cause of weak job growth in Massachusetts is the lack of good housing options at reasonable prices for the people who would otherwise fill new jobs here. We’re far behind on housing because our state has no good mechanism to plan for growth and because local land use policies make it nearly impossible for housing to be built where it’s needed.

Governor Patrick addressed this problem head-on in November 2012 when he announced a goal of building 10,000 multifamily housing units in Massachusetts each year for the remainder of this decade. The new housing production goal -- combined with new state incentives for “compact neighborhoods”, a new technical assistance effort coordinated across state agencies and the Governor’s public leadership -- are major steps forward. These efforts will probably result in a significant increase in private sector housing production above the state’s recent baseline. Yet it is doubtful that the new statewide goal can be achieved without legislation to break us out of our destructive anti-growth pattern.

For more than a decade the Massachusetts Housing Partnership has been advocating for fundamental changes in state policy to restore a healthy balance between housing supply and economic growth. That advocacy has been backed up by significant economic research and policy analysis. This paper outlines the housing supply challenge we face in Massachusetts and the major legislative reforms that are needed to allow reasonable housing growth and to realize the state’s full economic potential.

Housing production in a healthy economy

In a well-functioning economy, the private sector is able to build and renovate housing in sync with market demand. A 20-year Federal Reserve Board analysis shows that across every metropolitan area in the U.S., employment only grows over the long term in direct proportion to increased housing supply. An analysis for MHP by economist Edward Moscovitch also examined housing and job growth in the U.S. across a 20-year period and found compelling evidence that production of new housing is a prerequisite for future job growth. When all other factors are taken into account, regions that fail to produce new housing consistently lose jobs to other parts of the country. Previous research led by Northeastern University economist Barry Bluestone found that extraordinarily high housing costs (a symptom of insufficient housing supply) have “a substantial adverse effect on a region’s ability to retain population and attract new residents.”
It’s a common misperception that we are awash in housing supply because of the recent financial crisis. Economic competitors like Seattle, Minneapolis and Raleigh-Durham that were steadily producing housing before the recent recession are recovering faster than restrictive low-growth housing markets like metro Boston.

**How does Massachusetts measure up?**

The most widely accepted measure of housing supply and demand is vacancy rates. Some vacancy is always necessary so that people can find housing when they move to Massachusetts or when their housing needs change. According to the most recent annual data from the U.S. Census Bureau, Massachusetts vacancy rates rank 45th out of the 50 states for owner-occupied housing and 47th for rental housing. Since the mid-1990s we have consistently had one of the worst housing supply shortages of any state in the U.S.

That means prospective renters and home buyers – our future labor force – have fewer housing choices in Massachusetts than in other states and those choices come at a much higher cost.

Without adding a single person to our labor force we would need the private sector to produce more than 28,000 additional housing units simply to achieve normal vacancy rates and to make our housing costs competitive with other states.

**How did our housing supply get off track?**

Until about thirty years ago the Massachusetts housing market was in the national mainstream. Median home prices in 1980 were right at the national average. While most population growth was occurring in the south and west, we still built enough new housing units in Massachusetts through the 1960s and 1970s to keep pace with demand.

Several changes took place in subsequent years that made us a national outlier and resulted in some of the most restrictive land use practices in the country:

- Cities and towns eliminated provisions in their zoning codes that allowed multifamily housing to be built as-of-right in designated areas.
Suburban communities adopted large lot zoning requirements that required an acre or more of land for each new single-family home that was built.

Communities were allowed to adopt strict wetlands protection and septic system regulations – far in excess of state requirements – without any evidence that the restrictions were needed to protect the environment.

Land use decisions by local boards were more frequently appealed by disgruntled abutters, which stopped many approved developments in their tracks because even frivolous appeals are expensive to defend and can take many years to resolve.

During this same time period, cities and towns became subject to a voter-approved property tax limitation known as Proposition 2-1/2. While the law had beneficial impacts in reducing the growth of property taxes and shifting the burden of public education from communities to the state, it also made communities reluctant to allow new housing construction out of fear that new tax revenue would be insufficient to cover the impact on local budgets. This has resulted in a municipal bias toward commercial and industrial development and a reluctance to approve new housing.

**Fragmented local government is a big part of the problem**

Compounding local reluctance to approve new housing in a Massachusetts is a government structure that dates back to our years as a British colony. Zoning and land use decisions in most of the U.S. are made at the regional or county level, typically in compliance with state-adopted standards. Massachusetts has moved entirely in the opposite direction and eliminated almost all county government. We allow 351 cities and towns to each adopt their own zoning and environmental codes and make their own land use decisions regardless of whether those decisions are based on thoughtful long-term planning or whether they are consistent with regional and state needs. Elsewhere in the country, where jurisdictions are larger, land use boards can much more easily take the heat and adhere to professional standards whenever neighbors complain about proposed new development. In smaller towns, that objectivity becomes difficult or impossible when planning boards are staffed entirely by volunteers. The same person complaining about a proposed new development may be a neighbor or a parent on your child’s soccer team.
The recent rezoning of Tysons Corner, Virginia is a great example of how effective regional planning can create a stronger economy and a broader tax base. Tysons is a low-density community of 13,000 residents located on a new Metrorail subway stop just 20 miles from Washington, DC. As a result of an extensive planning process, the area was recently rezoned to allow creation of up to 200,000 new jobs and housing for 100,000 new residents over the next forty years. The new plan creates neighborhoods where residents can walk to work, shopping, restaurants and transit without needing a car — the very essence of smart, environmentally-friendly growth. While residents of Tysons Corner had input in the planning process, the rezoning was adopted by the Fairfax County Board of Supervisors based on what they perceived as the best interests of the county as a whole.

Could the same thing have happened in Massachusetts? The Fairfax County supervisors represent the interests of just over a million residents, representing about 19 percent of the population of the Washington, DC metropolitan area. As illustrated on the map, a land use board representing a comparable share of our population would guide development for most of the South Shore. The role of that one board in metropolitan Washington would be played by 38 local boards in Massachusetts, each of which represents an average of just 18,700 residents or less than 3/10ths of one percent of the metropolitan area population. That is a prescription for paralysis. In our local political environment it is nearly impossible to imagine a planning initiative as bold and forward-looking as Tysons Corner ever getting off the ground.

**Our laws promote the wrong housing in the wrong places**

Our fragmented local decision making process might be defensible if it achieved good results, but there is overwhelming evidence that it does not. Homes that are located close to employment centers, that have easy access to public transportation, or that are within close proximity to shopping, recreation and other public amenities are in greater demand and produce greater economic benefit to the Commonwealth than housing in small, distant communities that may be 30 or 40 miles away from employment. While there has been some positive movement toward smart growth in Massachusetts over the last decade, the data shows that we have a long way to go.
Most of our quintessential town centers – which are among the most desirable places to live in Massachusetts -- could never be built today under current zoning.

It is a myth that trophy homes on large, isolated house lots – the kind of homes that have dominated new housing construction in Massachusetts since the 1980s -- are simply a response to market forces and consumer preferences. Large house lots are expensive to maintain and are rarely within walking distance of schools, shopping and transportation.

An in-depth analysis of assessors’ data in Ipswich by economist Edward Moscovitch found that adding an acre of land to a buildable house lot only adds $9,600 in market value. That means that homes would be built on much smaller lots if the market was not distorted by restrictive large-lot zoning. An analysis of census data by economists Edward Glaeser and Joseph Gyourko similarly found that a quarter-acre of land in Massachusetts loses 95 percent of its market value if it is added to an existing house lot instead of being used to allow creation of a new home.

These findings are supported by national survey research data which finds that only one out of four home buyers has a preference for a home on large lot. Most buyers are just as interested in homes in more compact neighborhoods, and about half of all households express a preference for living in city or town centers or in other mixed-use neighborhoods.

The purpose of zoning and land use regulations is not to keep housing from being built, or to restrict all new housing to a single type, but to ensure that housing is built in appropriate locations in a way that protects the environment and makes the best use of public facilities and services.

Our anti-growth practices actually harm the environment

Many towns claim they restrict housing growth to protect the environment. It is a myth that large-lot zoning and onerous wetlands and septic system rules are a legitimate growth management practice that protects communities from the impacts of more intense development. It is well-documented that clustered housing development near town and village centers reduces municipal service costs by making the delivery of water and sewer more efficient, reducing the mileage of public roads that need to be maintained, reducing school transportation costs, and improving public safety response times. Yet without municipal sewers or private packaged treatment plans, the land required to support individual septic systems makes compact development difficult or impossible. Shared wastewater systems also prevent groundwater contamination because they are easier to monitor and the maintenance responsibility does not fall on individual homeowners.
Perhaps the worst environmental impact of our current development approach in Massachusetts is the excessive land consumption that pushes new residents farther and farther away from jobs and forces them to spend more and more of their time in traffic. An MIT analysis of new housing development in metropolitan Boston found that each new unit of housing is consuming about three-quarters of an acre of land. The graphic at right shows the average amount of land now consumed for each new single-family home constructed in metro Boston: 1.1 acres or the equivalent of an NFL football field.

If we simply allowed new housing to be built at densities similar to the rest of the U.S. we could build enough housing to bring our supply and demand in balance while preserving more open space and consuming substantially less undeveloped land to support our growth.

Nothing is on the horizon to solve the problem

Warnings have been sounded about our destructive land use practices in Massachusetts for more than a decade, but little has changed. The most ambitious legislative response to date is the state’s smart growth zoning law, Chapter 40R, which since 2004 has given cities and towns financial incentives to adopt zoning at higher densities and to approve new housing developments in smart locations near transit and services. On the positive side, 40R has resulted in the creation of 33 new smart growth zoning districts with the potential to create more than 12,000 new housing units. Many of those 40R sites were already under development, however, and were simply rezoned to take advantage of the state funding. Only about 1,200 new housing units have actually been developed through Chapter 40R, which has barely moved the needle in terms of overall housing production and its relationship to housing demand.

The state’s zoning law for affordable housing, Chapter 40B, is also an important protection against unreasonable local zoning and land use regulations but it is not a substitute for good planning. The law creates an expedited local review process for developments in which at least 25 percent of the units are affordable. It also allows an expedited state appeal of those local decisions for developments in communities with a low percentage of affordable housing. The law has had a significant impact, with more than 60,000 housing units permitted in 246 cities and towns since 1969. Since suburban communities in Massachusetts generally make little or no allowance for multifamily housing, more than
two-thirds of the multifamily housing developed outside of central cities has relied on Chapter 40B for permitting.

A fundamental limitation of Chapter 40B, though, is that relief from restrictive local zoning is driven more by developer interest than by thoughtful state and regional planning. Sites on the outskirts of town are often more economically viable than sites closer to town centers that are more likely to encounter neighborhood opposition and protracted legal delays. Not all communities are affected equally by Chapter 40B, either, because communities without 40B permit applications are under no obligation whatsoever to allow for multifamily housing, no matter how much the housing may be needed and no matter how suitable the available locations.

For more than 30 years, Massachusetts governors have used their discretion over state funding to encourage cities and towns to allow housing in the right places. In 1982 Governor King promulgated Executive Order 215, which requires all discretionary state grants to be withheld from any city or town found “unreasonably restrictive” of new housing growth. That order was strongly enforced by Governor Dukakis for the remainder of the 1980s. In 2000, Governor Cellucci promulgated Executive Order 418, which prioritized the award of state funds to cities and towns that engaged in community development planning and that allowed significant new housing development to occur. In 2005, Governor Romney launched Commonwealth Capital, a scorecard system that prioritized state capital investments for cities and towns that had taken specific actions to promote smart growth. And in 2010, the Governor Patrick launched the MassWorks Infrastructure Program, which consolidated six major state funding sources into a single program targeted to help cities and towns with significant smart growth projects. All of these efforts have been thoughtfully conceived and implemented. As the data clearly shows, however, none of these efforts has yet been successful in stemming the state’s long term decline in housing production or steering more than a handful of cities and towns into a smart growth development pattern.

In the final analysis, our badly broken system of land use regulation can only be addressed through changes in state law, including the rewrite of a zoning act that has not been significantly amended since 1975. Two major zoning reform bills, including one proposed by the Patrick Administration, have languished in the Legislature over the past four years. A new compromise bill introduced for the 2013-2014 session would modernize some of our antiquated land use practices, but it relies entirely on voluntary change at the local level. Passage of such modest legislation would represent a small step forward, but it would not close the gap between housing supply and demand or prevent cities and towns from engaging in land use practices that harm the economy as a whole.
**Major reform would be a win for everyone**

What’s striking about the current situation is that planning and land use policies in Massachusetts don’t effectively serve anyone’s needs. We’re not building enough housing to sustain our economy, much of the housing that does get built is the wrong type in the wrong places, builders are frustrated that there is no clear direction about where housing is encouraged, limited housing choices force many people to drive great distances to work, and the large-lot sprawl that our zoning does allow is harming the environment and consuming vast quantities of open space. Even suburban communities that would prefer not to allow any new housing have come to realize that they cannot stop new development altogether.

A fundamental change in state policy would serve everyone’s needs. It would allow the housing we need, create a more predictable environment for builders, make housing available closer to jobs, and do a much better job protecting our land and open space. **Major reform land use reform can even be structured to protect our tradition of home rule — and allow each city and town to shape its own destiny — provided that every community does its part to meet our housing needs and cannot engage in land use practices that harm the Commonwealth as a whole.**

**New housing policies would add significant jobs.** Housing supply is among the major factors affecting whether employers add new jobs and how employers pick new locations. There is overwhelming evidence that places that allow healthy housing construction are likely to have higher job growth. The [Federal Reserve board analysis](#) cited earlier found that highly-restrictive land use policies, like we have in Massachusetts, are associated with a 20 percent decline in metropolitan area job growth. The [Edward Moscovitch analysis](#) cited earlier found that metropolitan areas that allow more housing development create more jobs than areas like metro Boston that tightly restrict housing growth. His model predicts that we would have had 156,000 additional jobs in Massachusetts going into the last recession if – like many of the states we compete with – we had allowed housing to be built in response to market demand in the 1990s. His model also found a statistically significant correlation between large lot zoning and weaker employment growth.

**The economic benefits of housing growth would significantly outweigh the costs.** It’s a fair question to ask whether higher job growth would result in a net benefit to the Commonwealth. The answer, based on available evidence, is yes. An [analysis for MHP by Abt Associates](#) examined the impact of increasing Massachusetts employment by 9 percent over this decade, including the new housing that would be required to the support 208,000 additional jobs. The projected net benefit of that growth to residents of the Commonwealth would be more than $19.5 billion. The underlying dynamic is fairly simple: each new person added to the Massachusetts workforce generates net income that exceeds the economic impact on other residents, including the cost of providing schools, transportation and other public services. The Abt analysis may even understate the benefits of a higher growth rate because a permanent increase in the employment base generates recurring net income beyond the 10-year study period. The data does not suggest that growth of any magnitude is beneficial, but simply that a measured increase in growth – well within national norms – would be in the state’s best interest.


**Everyone in the Commonwealth would share the benefits.** An equally important question is how a higher growth rate would affect existing residents of Massachusetts. Wouldn’t more housing just diminish the value of existing homes, create more congestion on the highways, and put more kids into crowded and underfunded public schools? If growth is properly planned, it would have little or none of that impact and would actually stabilize home values while improving the quality of public services.

A stronger employment base creates sustained long-term demand for existing homes, tempers the boom and bust of our real estate market, and helps ensure modest, stable growth in home values. Without expanding employment, there will be fewer potential buyers when baby boomers retire and sell their homes. The Abt analysis assumes that a significant percentage of new housing is developed in locations that require only short commutes and that in many cases are within walking distance of public transportation.

A major benefit of higher job growth is that it creates the state revenue stream needed to adequately fund our existing public transportation network and to expand that system in ways that are specifically tied to economic growth. While higher growth would disproportionately affect some schools districts with cost impacts that are not adequately mitigated by local property taxes and current formula-based state education aid, it would also creates more than enough state revenue needed to solve that problem. All that’s needed is a mechanism in state law to fully compensate cities and towns for the education costs attributable to higher growth.

**What steps do we need to take?**

MHP has identified six major reforms necessary to allow the market to build the housing we need to achieve the Commonwealth’s true economic potential, preserve our natural resources and enhance our quality of life. These reforms fall into six categories:

- PLANNING
- MEASUREMENT
- LOCAL REALIGNMENT
- STATE COORDINATION
- EQUITY
- ACCOUNTABILITY

Some of these reforms have already been initiated by the Patrick Administration and others remain to be addressed. Each action step is outlined below and will be fully developed by MHP into concrete legislative proposals during the first half of 2013.

**STEP 1: CREATE A STATE PLANNING OFFICE AND PLAN FOR GROWTH**

Most states have an interagency planning office responsible for data collection, analysis, and mapping on economic growth, housing, transportation and environmental protection. Massachusetts has not had an Office of State Planning since 1982.
There are many technical experts within state government on issues relating to planning and growth, but they are scattered across at least four cabinet-level departments and dozens of agencies. Most critical policy decisions about growth in Massachusetts cut across those agency lines: where would public investments in water and sewer capacity yield the best alignment of new housing with jobs and transportation? Where is there sufficient transit capacity now or could capacity be expanded in the future to encourage housing that is not auto-dependent? What zoning should the state expect from host communities in order to justify investments in new transportation capacity? How are long-range employment and revenue projections affected by the adequacy of housing supply?

A new Office of State Planning would frame those questions to allow more informed decisions, would strengthen the state’s relationship to existing regional planning agencies (RPAs), and be responsible for the technical analysis to develop and update state-level housing goals and economic growth projections. It would be responsible for developing minimum planning and growth thresholds required (as discussed below) for cities and towns to retain local control over zoning and land use regulation.

**STEP 2: FORMALIZE HOUSING AND GROWTH GOALS**

Statewide goals for housing production and economic growth must have broad-based support in order to have a meaningful impact. The Legislature should add significant weight to the Governor’s 10,000 unit housing goal by mandating that future administrations establish biennial housing and growth goals and by linking future goals to expert testimony, similar to the process of developing consensus on annual state revenue projections. Since housing growth is always likely to encounter local resistance, statewide goals should be submitted to the legislature for an up-or-down vote without amendments similar to the process followed by the federal base closing commission. Establishing statewide housing goals through an open and transparent process is likely to increase public support for new housing because there would be a much clearer understanding of the new jobs and improved funding of schools, transportation and other public services that are likely to result.

**STEP 3: MODERNIZE LOCAL PLANNING AND ZONING**

Land use laws in Massachusetts have not been significantly revised or updated since the 1970s. Two major reform proposals have languished in the Legislature for the past four years. It is time to get serious, and a good starting point is a zoning and land use reform bill being championed this year by the Massachusetts Smart Growth Alliance and other organizations. Among the most important elements of this bill are a requirement that local zoning actually results from local planning, that loopholes in current law allowing sprawl to occur without local control (so called “approval not required” lots) be eliminated, and that financial demands on private developers be implemented only through fair and predictable impact fees.

Yet the very modest zoning reform being proposed this year is not nearly enough to support the state’s future economic growth. The Legislature needs to go several steps further:

- Every city and town should be required to create zoning districts that allow higher-density denser housing development, and local regulations and land use practices should be aligned to
allow that development to occur. *Local zoning codes that allow smart growth should not be optional – they should be mandatory.* Communities that do so should then be given greater latitude to reduce densities and minimize development in areas more suitable for land preservation.

- All communities of various types (urban, suburban, rural) should have an obligation to allow housing growth at reasonable rates consistent with professional land use planning and with state and regional economic needs.
- In smaller communities (e.g., towns with a population of less than 20,000) regional planning staff should assist local boards and formally participate in the review and approval of all developments with significant regional impact.
- Smaller towns should be allowed to regionalize their land use regulation (planning boards, conservation commissions, boards of health) and combine those functions with neighboring communities at local option by a vote of town meeting, without the need for special state legislation.

**STEP 4: ALIGN STATE POLICY WITH HOUSING AND GROWTH GOALS**

State policies sometimes work at cross purposes with the need to encourage smart and sustainable growth. Some of these problems can and should be addressed right away by the Legislature. Local septic system regulations and wetlands protection bylaws that exceed state standards should only be allowed if they are *growth-neutral* (i.e., if the number of housing units prohibited by stricter local regulations is replaced by allowing higher density elsewhere in the community). Land use appeals should go through the *same expert review process* as medical malpractice claims in Massachusetts, so that parties who cannot demonstrate the merit of their case to an expert panel must post a bond and be liable for attorneys fees if they are unsuccessful.

A new Office of State Planning should be the focal point within state government for identifying and addressing those concerns. One immediate challenge is the state’s approach to housing development in growth areas not served by public sewer systems. On one hand the state sets very strict limits on the size of shared septic systems, which has the effect of promoting large-lot zoning and discouraging clustered housing development. On the other hand, the regulations governing privately owned and operated “package treatment” plants often makes them infeasible except for large developments of 200 or more bedrooms. It has also been decades since the state defrayed the cost of sewer extensions at any significant scale, despite the payoff in economic growth. A coordinated state policy would encourage housing development in the places it is most needed while doing an even better job protecting environmental quality.

**STEP 5: SHARE THE FISCAL BENEFITS OF GROWTH**

One of the most troubling aspects of our growth policy in Massachusetts is that the state realizes most of the fiscal benefit from increased housing development while cities and towns bear most of the cost. A new Growth Revenue Trust would share the benefits of stronger economic growth with the cities and towns whose housing development practices facilitate that growth. A fixed share of the Trust would
automatically be distributed to cities and towns each year based on their contributions to multifamily housing supply (and to a lesser extent to their contributions to single-family housing on lots of a quarter-acre or less). Another share of the Trust would pay for sewer system expansion, transportation improvements and other public infrastructure needed to facilitate achievement of state housing and economic growth goals.

One immediate legislation solution is to amend the state’s Chapter 70 formula to make it growth neutral (i.e., so that property taxes and state education assistance cover all net increases in public education costs resulting from new multifamily development). The current state formula, which is based on personal income and assessed property value in each community, has a built-in but unintentional bias against smart growth at higher densities.

**STEP 6: ESTABLISH STRONG BACKUP POLICIES IN THE EVENT GROWTH GOALS ARE UNMET**

With concerted political leadership and several legislative reforms it is possible that the Governor’s multifamily housing goals will be met over this decade, but it is unlikely because most cities and towns do not think housing growth is in their best interest. While it may be politically difficult, the Legislature must put a mechanism in place now to ensure that thoughtful, well-planned growth is allowed to occur even in the face of local resistance. The most direct approach is to establish a backup zoning and land use code that automatically takes effect at a future date (e.g., five years from the adoption of statewide land use reform). The backup code would have no effect any cities or towns that have implemented zoning reform in good faith. It would only affect communities that fail to zone for growth or that fall below minimum state housing goals as a consequence of denying permits for new housing on sites zoned for development. An alternative is to delegate all land use review and approval decisions to the appropriate regional planning agency in any city or town that has failed to meet those basic planning and growth thresholds.

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It will not be quick or easy to change the way we manage growth in Massachusetts, but the consequences of drifting along and failing to address our underlying problem is far worse. It is well within our grasp to build more livable communities in a way that also creates a stronger and healthier state economy -- and that’s a cause worth fighting for.

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