



Questions and Comments on Worcester's Housing Market Study

Report No. 02-05

November 18, 2002

Introduction

In October, the City of Worcester released the results of a housing market study that had been completed for the City by RKG Associates. The purpose of the study was to document existing housing conditions in Worcester. This information would then be used by the City to formulate housing policy. In this response, the Research Bureau will consider the study's findings and discuss alternative options for addressing some of the needs it describes.

The study properly observes that any new housing strategy should address the needs of *all* residents and encourage the development of residential properties that will increase the municipal tax base. To do so, the report suggests encouraging the development of more high-end single-family units rather than so-called "affordable housing." However, it is not clear that the data contained in the report support this recommendation. Perhaps more important, it is doubtful whether City government has the tools to implement the proposals contained in the study, and even more doubtful whether some of the suggestions fall within the proper province of governmental authority.

I. Addressing the needs of all residents

To determine whether there is an "excess housing supply" in Worcester, as suggested in the report (chap. I, p. 5), housing needs should be evaluated across housing unit values as well as residents' income levels. The housing market study supplies some data for the highest and lowest valuation and income levels.

According to the study's estimates, as shown in Table 1 below, in 2000 the supply of high-end housing was approximately 5% (3,350 units) of the total occupied housing supply (67,028).¹ Approximately 8% (5,360) of the city's households (chap. I, p. 5) had incomes in 2000 that would support this type of housing. This suggests a shortfall of 2,010 housing units at the upper income level. The study also finds that there was a total supply of 9,360 rental-assisted affordable units,² but at least 14,900 households that earned less than \$15,000 per year. According to the report, then, there is a shortfall of 5,540 units at this income level. In other words, many households are living in units where they are paying more than 35% of their income for housing. These figures suggest that there is a total unmet housing need at these two extremes of an estimated 7,550 units.

Table 1: Supply and Unmet Need of High-End and Affordable Units (2000)

Type of Housing	Current Supply	Current Need	Unmet Need
High-end housing for affluent households	3,350 units valued at \$200,000 or more or rent of more than \$1,000 per month	5,360 households earning more than \$100,000 per year	Approximately 2,010 units
Low-income, affordable units	9,360 rental-assisted units	14,900 households earning less than \$15,000 per year	Approximately 5,540 units at the lowest income levels

Data source: RKG Associates

Prepared by: Worcester Regional Research Bureau

¹ The City Assessor has pointed out that the supply of high-end housing has increased significantly since 2000.

² This figure does not include 2,700 households with rental vouchers or Section 8 Certificates.

In order to meet the housing needs it has identified, the report discusses two strategies: First, the City should encourage the construction of more high-end housing in its downtown and surrounding neighborhoods. In response, we might observe that if there is a demand for such housing, assuming that there are no artificial barriers imposed by government, the market will build to meet that demand. But is there a demonstrated shortfall of high-end housing? Just because some people are owning “less” house than they can afford, it does not follow that they need or want to “buy up.” For example, older people whose families have grown may choose to sell their house, trade down to a less expensive house or condominium, and spend their extra income on travel rather than on a larger mortgage.

The second strategy recommended in the study is that the City should avoid encouraging the construction of more “affordable housing,” since 13.3% of its housing stock is already in rental assisted units, more than its “fair share” in relation to the region. (According to Chapter 40B of the Massachusetts General Laws, every community should have 10% of its housing units designated as “low or moderate income housing.”) In outlying towns, on the other hand, only 3.4% of the supply is rental assisted housing. Hence the report not only argues that additional affordable housing need not be encouraged, but actually suggests that the City reduce its existing supply of affordable housing by thinning out its stock of triple-deckers and replacing them with single-family townhouse style homes or pocket parks.

This recommendation is troubling. Obviously, the City has no authority to knock down privately owned housing units unless they are abandoned. Nor is there any reason to encourage private owners to destroy them, considering what an asset they are for first-time homeowners with relatively low incomes, and the assistance they offer in meeting the very need for low-end housing identified in the report.

II. Increasing the tax base

- **Residential properties**

The study argues that high-end housing will increase the tax base faster than two- or three-family homes. But is that necessarily the case? According to the data supplied in the housing study and as shown in Table 2, in 2001, two- and three-family home values were comparable to single-family values. Although condominium values were substantially lower (\$90,000), these properties tend to occupy less acreage than any of the other homes. Assuming that a minimum of two condominium units could occupy the amount of acreage that a single-, two-, or three-family home occupies, the combined value of two or more such units (\$180,000+) is greater than the other three categories.

In terms of recent growth in the median values of these four types of properties, also shown in Table 2, three-family homes exhibited the largest growth in median value (53%) between 1999 and 2001, followed by condominiums (35%), two-family homes (32%), and single-family homes (31%). Because two- and three-family homes have values that are comparable to single-family homes, and because the values of these properties are increasing faster than single-family homes, it is expected that those properties will add to the tax base at a rate faster than single-family homes in the coming years. (On the other hand, it needs to be noted that multi-family homes typically require more municipal services (especially public schools, but also such services as public safety and recreational facilities), and therefore, result in greater municipal spending than single-family homes. In this respect the study’s recommendation is fiscally on target.)

Table 2: Residential Median Value by Type (2001)

Type of housing	2001 median value	Change from 1999 median value
Single-family	\$147,500	31%
Condominium	\$90,000	25%
Two-family	\$143,000	32%
Three-family	\$140,500	53%

Data Sources: RKG Associates; City of Worcester, Assessor's Office

Prepared by: Worcester Regional Research Bureau

There is another consideration weighing against any attempt by the City to encourage single-family housing at the expense of other types. The relative strengths of the markets for single- and multiple-family houses tend to fluctuate over time. Hence the best scenario from a residential tax base perspective would be a mix of the two, hedging the declines in revenue from one category with an increase in returns from the other.

- **Commercial and industrial properties**

The residential tax base cannot be considered in isolation of the commercial/industrial tax base. The Worcester Regional Research Bureau’s recent report “Benchmarking Economic Development in Worcester: 2002” (Report no. CCPM-02-05)

shows that between FY96 and FY02, the proportion of the City's property tax base from commercial/industrial properties has decreased to about 25%, with an acceleration of this decline in recent years. (The recently released figures indicate that the commercial/industrial proportion of the tax base has shrunk to 22.4% in FY03.) While the commercial/industrial share of the property tax base was only 25%, in FY02 commercial/industrial properties accounted for 41% of total property taxes because of a significantly higher tax rate on commercial/industrial properties. Therefore, the commercial/industrial tax base provides a critical funding source for municipal services without a commensurate increase in the need for those services. In addition, the companies that constitute the tax base provide jobs for residents.

The decline in the commercial/industrial proportion of the tax base reflects uneven growth rates of the two classes of property. During the last year, the value of residential properties in the City increased by 18.6% to \$5.9 billion, while the commercial/industrial value increased by only 2.3% to \$1.7 billion. This disparity in growth rates may partly reflect recent low mortgage rates, but also undoubtedly reflects Worcester's relatively high commercial/industrial property tax rate (which discourages new business investment). Although Worcester's commercial/industrial property tax rate has been reduced by more than 13% during the last three years, the communities that border Worcester have also reduced theirs during the same period by an average of 12.75%. As a result Worcester's rate, at \$31.46 per \$1,000 of value, remains by far the highest commercial/industrial property tax rate in the region, 23% *higher* than the second-highest rate.

If the City aims to increase its tax base, then it needs to focus on encouraging the expansion of existing businesses and attracting new ones to Worcester. This would also provide more jobs for the City's increasing population.

III. What can the City do?

The housing market study does not address what tools the City government can use to influence the housing market in Worcester. As indicated by the rapid rise in home valuations over the last two years, housing is largely a market-driven industry. However, there are a few policy tools that the City government can use to encourage and guide housing as well as commercial/industrial development.

First, the zoning ordinance, which is currently under review, is the primary means of encouraging development. It can be used to determine the type and density of housing and commercial development in various parts of the city. Any changes in the ordinance should ensure that there is sufficient place for commerce and industry as well as housing. For example, in order to encourage commercial development, the City should consider liberalizing parking requirements.

Second, the Central Massachusetts Regional Planning Commission's recent buildout analysis identified enough undeveloped residential land without any constraints that could accommodate an estimated 5,970 units under current zoning regulations. In addition, ten redevelopment sites could add an additional 1,200 possible residential units. The City's role should be to maintain a database of available residential and commercial sites, and work with the private sector to market them to developers and other interested parties. Alternatively, perhaps some of this land should be designated as open space.

Third, the City's permitting process should be as user-friendly as possible to encourage residential and commercial development. As identified in the Research Bureau's recent report (Report no. CCPM-02-05), the permitting process is currently being redesigned within the new Department of Code Enforcement. The changes should ensure that the permitting process is easy to navigate and encourages development. The new procedures should focus on the various regulatory boards and commissions, including the zoning board of appeals and the planning board.

Fourth, property tax rates are an important factor in the cost of owning a home or business. Currently, Worcester's residential and commercial/industrial tax rates, as identified above, are not competitive with bordering towns or those nearest to us in the I-495 corridor. (See Research Bureau report no. CCPM-02-05.) As property values continue to increase, average tax bills will also rise, thus reducing Worcester's attractiveness as a place to live and conduct business. Worcester needs to reduce its commercial/industrial tax rate if it wants to expand its tax base.

Finally, the Commonwealth should encourage suburban communities to reduce their lot sizes for building residential units in order to decrease the overall cost of housing. This would result in an increase in the number of less expensive units being built in the suburbs as the housing study suggests.

Mission Statement

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Upcoming Forum:

Main Street Worcester: Should it be our main street?

Wednesday, December 11, 2002

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