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The Boston Globe

The High Life

Don't fret about the state's exorbitant cost of housing. It's a good thing. Really.



(Illustration / Yvetta Fedorova)

By Tom Keane | July 16, 2006

Is housing in Massachusetts expensive? Sure. Is that a problem? Not really. In fact, the high cost of housing in the state illustrates our success, not failure.

I realize I'm in a minority on this one. The rhetoric around the housing issue is heated and almost apocalyptic. Expensive housing is driving people out of the state. It's strangling the Massachusetts economy and hurting job growth. It's making living in the Bay State unaffordable. It is, in short, that most overworked of all words, a "crisis."

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Yet costly housing in the Commonwealth isn't a new phenomenon. In 1950, our median home price was the fourth highest in the nation. And except for 1980 - when we dropped to 16th place just before the economy revived under the "Massachusetts Miracle" - we've been in the top 10 ever since. If something has been going on for more than a half century, it's probably more a fact of life than a crisis.

And that fact of life notwithstanding, we've done pretty well. In 2000, for example, our income per capita ranked third in the country. In 2004 - despite four years of rapid housing inflation - it had climbed to second (only Connecticut is ahead of us). Yes, with 5 percent

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unemployed in May, we're currently worse than the national average. Six months ago, though, we were doing better than average. In truth, monthly numbers don't tell you much. Over time, our unemployment rate has generally been better than the norm.

What about those 19,000 residents who the Census Bureau says left the state between 2003 and 2005 - a number that has lately provoked much angst? A persuasive analysis by real estate firm Spaulding & Slye earlier this year argued that the drop was a statistical anomaly - a fact that appears bolstered by just-released Census data that suggest Massachusetts may be growing after all. In any event, the dip - if it is one - probably means little. Massachusetts has been growing far more slowly than the rest of the nation for quite some time and, according to the Census, will continue to do so. In large part, that's because we're densely populated (we rank third of the 50 states) and much of the rest of the country is so empty.

Moreover, much of the recent panic over the surge in housing prices has little to do with Massachusetts itself. It's a nationwide phenomenon caused by falling interest rates. Since most of us measure the "price" of housing by our monthly mortgage, lower rates meant we could all pay more. The result: Massachusetts housing prices rose by 62 percent over the last five years, according to the Office of Federal Housing Oversight. The national increase of 57 percent, however, was almost the same. And now, with mortgage rates rising, it should be no surprise that prices are coming down. Like many "crises," this one may solve itself over time.

Still, how about the fact we've historically been so expensive? Doesn't that shut out those with lower incomes? Aren't we, in effect, creating a state only those with good jobs can afford?

Yes. And it's intentional.

Since 1950, we have quite consciously transformed the state's economy, shedding its manufacturing past in favor of high-wage, knowledge-based industries such as healthcare, finance, education, and high tech. Those well-paid employees use their money to buy bigger and more expensive housing (one telling indicator from Harvard economist Edward Glaeser: The median lot size for recently built homes is 0.91 acres, compared with 0.76 acres for those built between 1990 and 1998). High prices, in other words, are a measure of just how successful that transformation has been.

Which leads to this interesting conclusion: The housing crisis isn't about housing at all; it's about the nature of our economy. The new-style Massachusetts economy is unbalanced, favoring the highly educated and providing few well-paying jobs for those with lower skills. Good thing or bad, it's a situation that isn't going to change any time soon. How does one deal with it? Not by treating a symptom - somehow squeezing more housing into an already crowded state (indeed, even if we could build a lot more, demand from the rich would likely keep prices high). Instead, what we need to do is give people the education and training they need to become part of the Bay State's

economic mainstream. Rather than trying to make housing cheaper, the solution is to make people richer.

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