Earning More, but Struggling to Own a Home

By DAVID LEONHARDT

EDFORD, Mass. — Blake A. Newman is trying to avoid falling back two generations on the housing ladder.

His grandparents, immigrants from eastern Europe, lived in a rented apartment in the Bronx. His parents owned their own home in Queens, thanks partly to his father’s second job as a concessions salesman at the old Madison Square Garden.

But still stuck on the first rung, Mr. Newman, a 37-year-old renter, spends part of every day reading up-to-the-minute real estate listings delivered by e-mail in hopes that he, his wife and their two children can find a decent house they can afford on his salary as a musician and teacher and hers as a nurse.

Around Boston, and in many other big metropolitan areas, rapidly rising home prices have overwhelmed the recent decline in interest rates and made the purchase of a first home more difficult than it has been in years for large numbers of younger adults. Like Mr. Newman, some find themselves living an odd inversion of the American dream, earning considerably more money than their parents did, but still struggling to own a home.

In many places, people who did not join the ranks of homeowners in the last decade face greatly diminished financial prospects, having missed out on a home-price boom that added tens, if not hundreds, of thousands of dollars to other families’ wealth, economists say. Making matters worse, many renters invested in the stock market in recent years, to build up savings for a down payment or children's future college expenses, only to lose money or earn a meager return on their investment, while the homes they want to buy were soaring in value.

"It just feels like people like us, who've been renting for a long time and want to get started in their own house, can't," Mr. Newman said. "Prices have just gone crazy."

The house-price boom — concentrated in the Northeast and California — is also creating significant new social divisions in the metropolitan areas affected, separating younger families from older ones and making some towns less diverse. In Milton, Mass., for example, a grade-school teacher recently wrote to the town planning board asking it to create affordable housing, so she could move from her home 40 minutes away and more often attend Little League games and concerts where she teaches.

"People who haven't been in on the game find that the opportunity to own is a moving target that's moving further away from them," said Karl E. Case, an economist at Wellesley College and a co-founder of a real-estate research company that is now called Fiserv CSW. "It's creating inequality. It's creating more stratified communities."

Around Boston, where house prices have doubled in the last five years, a family making the local

median income of $61,000 can afford the monthly payments on a house worth only half the median price of $395,000. This is true even though the annual interest rate on a typical mortgage fell to a four-decade low last month, before inching back above 6 percent. In the mid-1990's, a median income allowed the purchase of nearly a median-priced house, according to Economy.com, a consulting firm in West Chester, Pa.

For families who own homes, of course, the surge in house prices and fall in mortgage rates have often brought a windfall, in the form of refinanced loans and lower monthly payments. Many consumers have spent the extra money on new cars and other products, preventing last year's recession from being worse than it was, economists say.

But homeowners will ultimately be affected as well by the growing number of people priced out of hot housing areas. With fewer potential buyers entering the market at the bottom, the sharp run-up in home values may be nearing an end, not only here in Boston but also in New York, Denver, Minneapolis, nearly every large city in California, and other places where prices have greatly outstripped incomes.

Already, the national home ownership rate, after rising steadily since 1994, has leveled off and fallen slightly over the last year when it reached a record high 68.1 percent. Here in the Boston region, only about 59 percent of families own their homes, and the proportion has dropped a little during the last five years of rapid price gains.

To be sure, prices of the most expensive homes in and around Boston, New York and a few other big cities have lately begun to slip, brokers say. But they add that most house prices continue to rise in spite of the lingering economic slowdown.

Even if the home market softens soon, most renters here will not be able to afford houses that they could have bought five years ago with less savings than they have today.

"I wish I had bought long, long, long ago," said Kelly P. Diamond, an administrator at a Boston-area university who rents a one-bedroom apartment in the city's North End, a neighborhood she said she would have to leave when she does buy an apartment. "I try not to dwell on it, but when I think about it, it's definitely upsetting."

The rapid price increases have been caused by the low mortgage rates, immigration, the aging of the population, and a widespread feeling that real estate is the new can't-miss investment, among other factors. The boom has been strongest in California and the Northeast, where land is often scarce and cities are seen to be much healthier than they were in previous decades.

Throughout much of the rest of the country, particularly in the South and Midwest, the decline in mortgage rates has kept first homes as affordable as they were in past years. In Chicago, Las Vegas and Richmond, Va., for example, prices have increased only moderately faster than incomes since the mid-1990's, according to Economy.com. In the Dallas region, home prices and incomes have grown at roughly the same rate, making the typical home effectively less expensive today than it was seven or eight years ago, once mortgage rates are taken into account. In a few places, including Rochester and Pittsburgh, incomes have actually increased more rapidly than house prices.

But in California, the Northeast and other hot housing cities like Denver, renters say they feel some of the same pangs of regret that were common among investors who missed out on the run-up in stock prices during the late 1990's. Moreover, the consequences of missing the real-estate boom seem harsher, since some people have moved out of neighborhoods they like and instead begun commuting from

faraway suburbs, like New Hampshire towns that are an hour's drive from Boston.

People who already own homes, by contrast, are able to use their earlier investment to maintain their standard of living if they move. Once on the home ownership ladder, many people use their homes to improve their position. Some of Ms. Diamond's friends who did buy apartments years ago have taken profits from selling them to buy much bigger units or to move into townhouses. To save for a down payment, Ms. Diamond, who is in her mid-30's, has been cutting back on her travel and has decided not to buy a new car. Still, she expects to be forced to move away from downtown, where she likes walking.

In the 12 months ended Sept. 1, only 28 two-bedroom apartments sold for less than $300,000 in the main residential neighborhoods near Boston's center, while 85 sold for more than $1 million, according to Link, a company that tracks listings. Three years earlier, 265 apartments sold for less than $300,000 and 14 sold for more than $1 million. The situation is similar in the nearest suburbs.

"Prices have gone through the ceiling in Somerville; Cambridge is almost unbelievable," said Michael Albano, vice president at the Boston Real Estate Group, a brokerage. "Brookline, forget about it."

Here in Medford, a middle-class suburb just north of Boston, Mr. Newman and his wife nearly bought a two-family house for $260,000 in 1999. They backed off because the rental unit needed renovations, and they would not have had enough money left over to make them. Mr. Newman, regretting their decision, figures the house now sells for almost $400,000.

The price increases have also become a political issue, with dozens of communities voting over the last year on whether to raise taxes and create affordable housing with some of the money. The measure was voted down in Boston, but around the state has passed in about the same number of places as it has failed.

Meanwhile, Citizens Bank, which has many branches here, has begun subsidizing the home purchases of its workers who make less than $100,000 and are buying a house. The employees receive a zero-interest loan of up to $8,000, which the bank forgives over five years.

The biggest price increases have probably ended around Boston, brokers say. Houses are staying on the market longer, and some sellers of expensive homes have reduced their asking prices in recent months.

The market "is a little bit less robust," said Steven Cohen, a senior broker in Gibson Domain/Domain in Boston's South End. "Still, there's a sense of a long-term boom that has not ended."

Indeed, many renters remain eager to become buyers, convinced of the long-term financial and personal benefits of owning a home.

Classes for aspiring homeowners offered by the Massachusetts Affordable Housing Alliance are more popular than ever, said Thomas Callahan, the group's executive director, but fewer of the course's graduates are buying homes afterward. Last year, 200 families bought homes through one state-subsidized mortgage program, down from about 400 a few years ago.

"I feel ready to lunge at any home in my price range, if I can find one in my price range," said Acia Heath, a graduate of a home-buying class who lives in Dorchester, a Boston neighborhood. Together, she and her husband make about $70,000, and they are looking for a two-family house that costs no more than $280,000.
The most frustrating part of the search, many young renters say, is their feeling that the purchase of a home around many major cities has become more difficult despite the decline in interest rates.

"It's hard to see how I might end up as my parents did, in a nice little starter home when I'm ready to have kids," said Jennifer K. Lanigan, 27, the teacher in Milton who recently wrote to the planning board. "When you look at how incomes have changed and how home prices have changed, it doesn't line up. It's very disheartening."