

## How we're doing

# Why VT housing prices aren't keeping pace

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Housing prices were flat in 2017 according to the Vermont Tax Department.

Based on a dataset that includes every residential house sold on less than six acres of land, which excludes vacation homes and those on larger lots, the median-priced house statewide sold for \$190,000 last year.

That's virtually the same as in 2016, when the median-priced home cost \$189,000. In fact, the median selling price of a Vermont house 10 years ago was the same as it was last year.

Although inflation has been low for the last decade, it hasn't been zero. When we include the effect of inflation, the real price of a house in Vermont has fallen by almost one-fifth over the past decade.

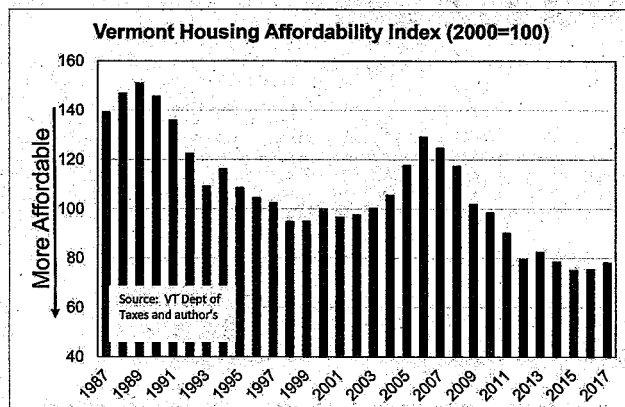
That wasn't the case in the decade before 2007. From 1997 to 2007, Vermont housing prices doubled. It might be hard to believe, but in 1997 the median-priced home in Vermont sold for \$100,000. In today's dollars, accounting for inflation, that would be about \$150,000, which still looks like a bargain.

Those years, 1997 to 2007, bracketed the beginning and end of the U.S. housing bubble. Ultimately, that bubble led to the financial crisis and the Great Recession of 2007-2009.

Vermont fully participated in that boom. According to the U.S. Federal Housing Finance Agency, Vermont housing prices rose by 103 percent over that 10-year period, more than the national increase of 88 percent.

There is a silver lining in the current cloud of flat housing prices. Although homeowners are not seeing any increase in their equity, potential buyers benefit. Flat prices help housing become more affordable, where affordability is the combination of the actual price of a house, the mortgage rate and homeowners' incomes. Housing prices are flat, but incomes are rising.

Mortgage rates have been nearly flat for the past decade. Last year, the interest rate on a 30-year fixed rate mortgage was just under 4 percent, and adjustable rate mortgages were even lower. Rates



are up somewhat from their level of the past couple of years, but still low. In 2009 a mortgage rate with comparable terms was over 5 percent, and in 2007 it was over 6 percent. The mortgage rate on the first house I bought in Vermont in 1981 was 16.75 percent.

My affordability measure is a simple one: It assumes that each year, a Vermont family with the median state income finances a median-priced house with a 30-year fixed rate mortgage. In the late 1980s, although a house cost less than \$100,000, a median income Vermont family earned \$35,000. Interest rates were very high and housing was much less affordable than at any time since then.

By the late 1990s, although housing prices had increased, so had incomes. More important was the significant decline in mortgage rates, which resulted in more affordable housing costs in Vermont.

During the years of the housing boom, housing price growth eclipsed income growth and housing became less affordable. But since 2006, housing affordability has improved.

For the last three years, housing has been much more affordable than it has been at any time in the last 30 years —

in the past, it is still less affordable than in many other states.

That's one contributing factor that makes Vermont a less desirable place to live, work or start or expand a business.

How can the state make housing more affordable? There is not much Vermont can do to reduce the cost of materials needed to build a home. Lumber, nails, plumbing and electrical supplies, insulation, shingles, and flooring cost just about the same in Vermont as anywhere else in the country. And these costs are not amenable to public policy. The same holds for construction workers' wages.

The single biggest cost item that is responsive to public policy is the cost of the land a house rests on. Vermont's state and local land use policies — everything from Act 250 to local zoning laws and planning regulations — contribute to higher costs for developable land. Someone has to pay those costs, and that someone is the future homebuyer.

A simple solution to making housing more affordable is to make it less costly for builders and developers to build new housing. With an increased supply of houses, prices will fall and middle class affordability will improve. Lower-cost housing would do a lot to entice younger people and families to move to Vermont.

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