Workforce Housing/Development

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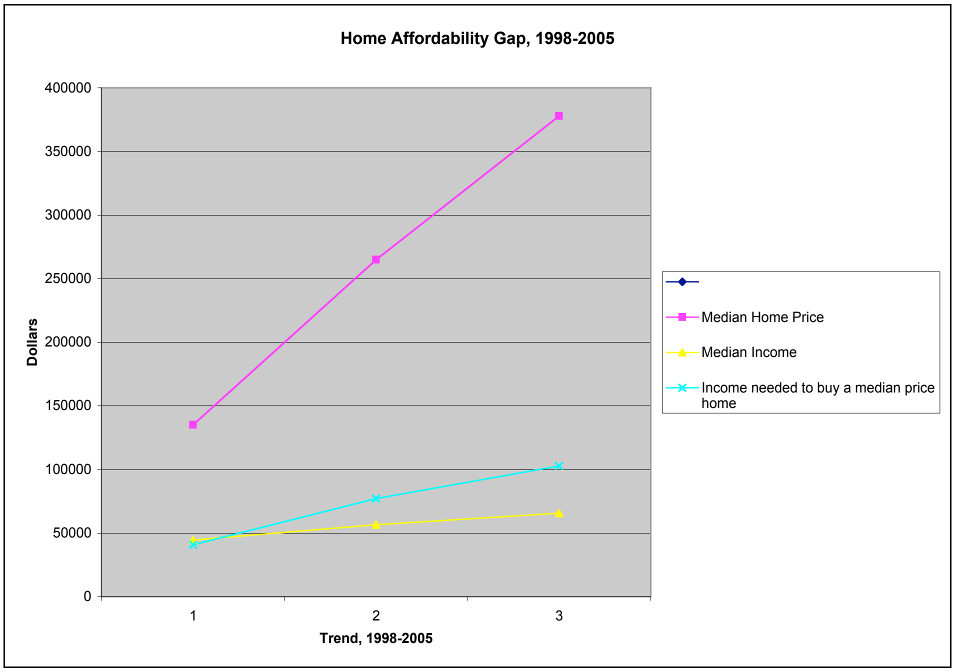
Cape Median Single Family House Prices and Median Income (1998- 2005)		
Year	Median Price	Median Income
1998	$135,000	$44,700
2002	$265,950	$56,500
2005*	$378,750	$65,700
% Increase	181%	47%

* Median price as of September 2005

Cape Affordability Gap - Ownership			
Year	Median Income – 4 Person HH	Income Needed To Buy Median Priced Home**	Affordability Gap
1998	$44,700	$40,925	-$3,775
2002	$56,500	$77,275	$20,775
2005*	$65,700	$102,800	$37,100

* As of September 2005
** Interest rate- Freddie Mac national average each year



Ownership:
Housing appreciation on the Cape has averaged nearly 7% a year for the past 30 years. During the past eight years appreciation has been much higher (15% per year), but for the first nine months of 2005 appreciation is down to a more normal 8%. Trends would indicate that rate of appreciation will decline a bit more and stay relatively stable for several years.

Because retiring baby boomers are likely to continue buying retirement homes on the Cape, significant deflation seems unlikely. With interest rates likely rising and consumer confidence falling, double digit inflation of housing values seems unlikely as well.

High levels of housing value appreciation have prevented many families new to the housing market from being able to purchase a home. Low interest rates have encouraged refinancing with borrowers often taking out cash for other purposes – a practice that is happening in most or all of the strong housing markets across the country. With Americans carrying higher and higher levels of debt, it is expected that fewer people will retire at traditional ages and will instead work an extra five or even ten years. If there is, in fact, housing depreciation as there was in the late 1980's, then some owners may end up owing more than their home is worth, which will increase the occurrence of foreclosures. Easy credit coupled with low interest rates and high debt loads can result in higher levels of foreclosures as interest rates increase and housing value stabilize.

High housing costs are also causing many new to the market to accept adjustable rate mortgages (ARM's) and even no principal payment mortgages in order to get the monthly payments as low as possible. If interest rates go up, and many expect they will, then those households' ability to meet monthly mortgage payments may be compromised. Lending policies will tighten and it may become even more difficult for first-time buyers.

Buying a first home will continue to become more and more difficult particularly impacting those in the 25-35 age group. The decline in the number of people in that age group who will choose to make their permanent home on Cape Cod is likely to continue. The present high "affordability gap" isn't going to go away anytime soon and will likely continue to increase, albeit more slowly, at least for a while.

Cape Affordability Gap - Rental

Year	80% Median Income - 3 Person HH	Income Needed To Rent Median 2 Bdrm Apt	Affordability Gap
1998	$34,250	$42,000	$7,750
2002	$40,700	$55,200	$14,500
2005	$47,300	$48,600	$1,300

Rentals:

The appeal of investing in the rental market on the Cape has always been complex. High "for sale" prices have resulted in high rents in relation to median incomes, but not as high as you might expect. Because rents are not high enough in relation to the costs of development, rental housing is a relatively poor investment on Cape Cod. Market rents are not high enough to cover the present cost of a real estate investment and most don't come close to providing a return on the owner's investment. Owners who bought their rental property at lower prices in the past may be finally realizing a return. Some owners are forced to cover monthly costs out of other income. Others buy because they want to have a property on the Cape and have the income needed to support it.

There are few public wastewater systems in village centers and relatively few parcels zoned to accept relatively large rental projects that might be of interest to a motivated developer. Developers are even reluctant to build multi-unit rental "40b" projects because the monthly return on investment is so low or even non-existent. Market rents need to be higher in order to justify investment by the private sector in rental development, but the income base is not here to pay higher rents.

While the region added over 17,000 units from 1990 - 2000, the number of dedicated year-round rental units on the Cape actually declined by 415 units during that period. However, the data indicates that there has been a softening of the rental market since 2002. At this point, we can only speculate on the reasons for this softening: more supply (5,500 new housing units on the Cape since 2000), less demand (younger households leaving the Cape because of high housing costs), or some combination of both?

The affordability gap for renters, using 80% of median income, is relatively small, meaning that higher income renters, with more than 80% of median income, can often with some stretching afford to pay market rents. However, many if not most potential renters have incomes below 80% of median. There is also a shortage, as mentioned earlier, of traditional rental developments for households needing or wanting to rent, who may want to buy a house later. It appears that more modestly priced market rent developments would be useful for Cape Cod if we are to attract or keep people entering the labor market from choosing to live elsewhere. The shortage of jobs paying median income or above is also a factor influencing people to choose not to live on the Cape. According to the recent nexus study by the Cape Cod Commission, 50% of the Cape's net job growth since 1990 has been from occupations that pay less than $25,000 per year and 95% of the projected job growth over the next few years will come from occupations that pay less than the Cape average wage, which is already 27% less than the state average.

Percentage of Cape Affordable Housing Stock

Year	Affordability %
1997	3.76%
2001	3.75%
2005	4.80%

Percentage of Housing Affordability:
The state has set a goal for each community to have at least 10% of its year round housing stock be affordable to low income households - those earning less than 80% of the area's median income. After making absolutely no progress from 1997- 2001, the region added almost 1,100 new affordable units between 2001- 2005. However, even this slight progress still left the region over 5,200 units short of the 10% goal. If we continue to add affordable units at the same rate as the last four years, it will take from 20- 25 years to achieve 10%.

Conclusion:
There needs to be a strong emphasis on public policies that encourage and enable the development of both market and affordable rental housing. Developments need to be allowed that are large enough to justify investment in on-site wastewater treatment systems and are near to village centers, jobs, and public transportation. Rental housing development needs to be profitable for

developers and creative mechanisms need to be employed to do so. Three options that should be considered are allowing tax abatements, as is done in Provincetown, creating a very-low interest loans program, and finding ways to underwrite monthly investment returns. With the prospect of reasonable monthly returns on investment and a welcoming development process many developers would turn their time, talent, energy and money toward the development of much needed rental housing.