



Massachusetts  
Taxpayers Foundation

# The Real Estate Market of Downtown Boston:

*The Impacts of Changing Work & Life Patterns*

# Overview

The standard model for the role central business districts play in cities across the country has been forever disrupted by the pandemic. Reductions to in-person work have a cascade effect on commercial real estate, public finance, and city vibrancy.

Boston is not immune from this disruption. In fact, the outsized role that commercial real estate activity has played in Boston's economic growth over the last 20 years means that, in many ways, this threat is more pronounced here than in other areas.

To develop policy solutions to adapt to this changing world in a way that maintains a vibrant downtown while stabilizing city finances, it is critical to understand exactly what is happening, what it means for commercial real estate, and how different policy options do or do not move us in the right direction.



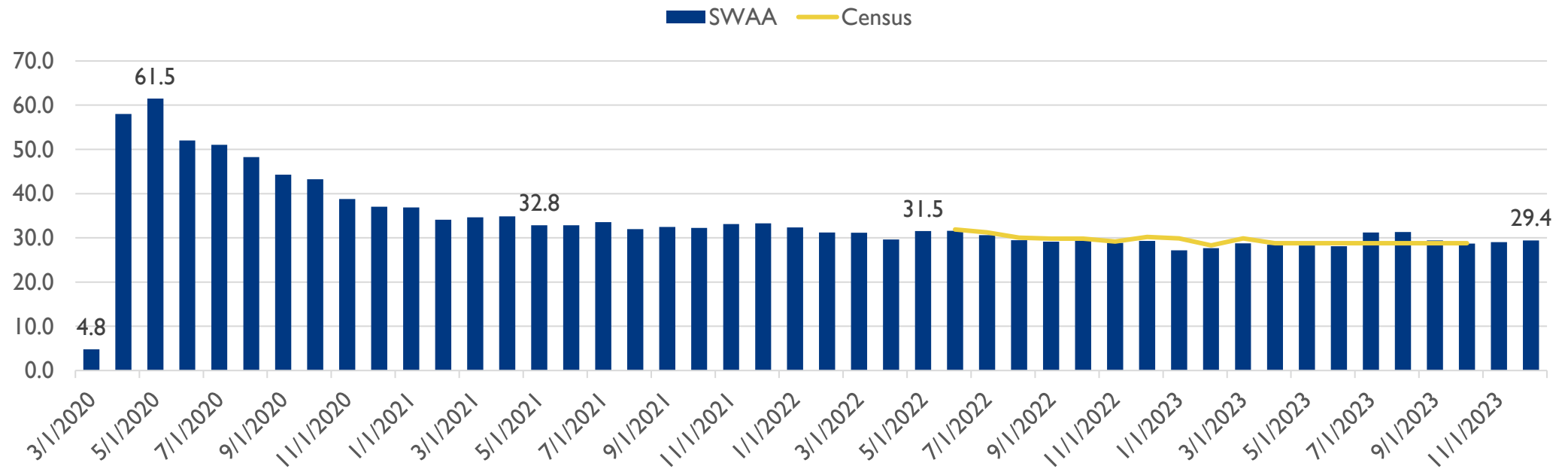


**This is Happening  
Everywhere**

# Working from Home has Increased

National work-from-home survey data shows an average of 30% of paid full days have been remote since May 2021.

## U.S. Percentage of Paid Full Days Worked From Home



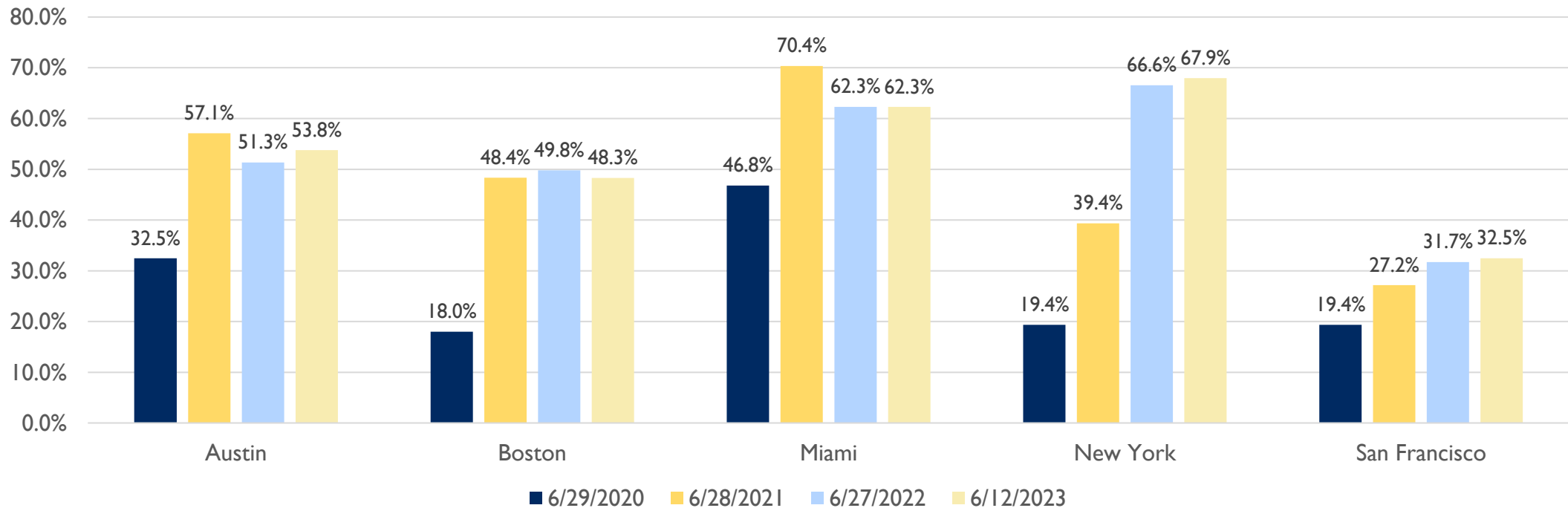
Data source: [SWAA January 2024 Updates](#), WFH Research, 18 January 2024, see slide 5  
Includes U.S. Census Household Survey Data from June 2022 – October 2023



# Downtown Foot Traffic has Decreased

Downtown foot traffic in Austin, Boston, Miami, and New York remains down 30%-50%, SF foot traffic is down 65%.

### Downtown Foot Traffic 2020-2023 v. 2019

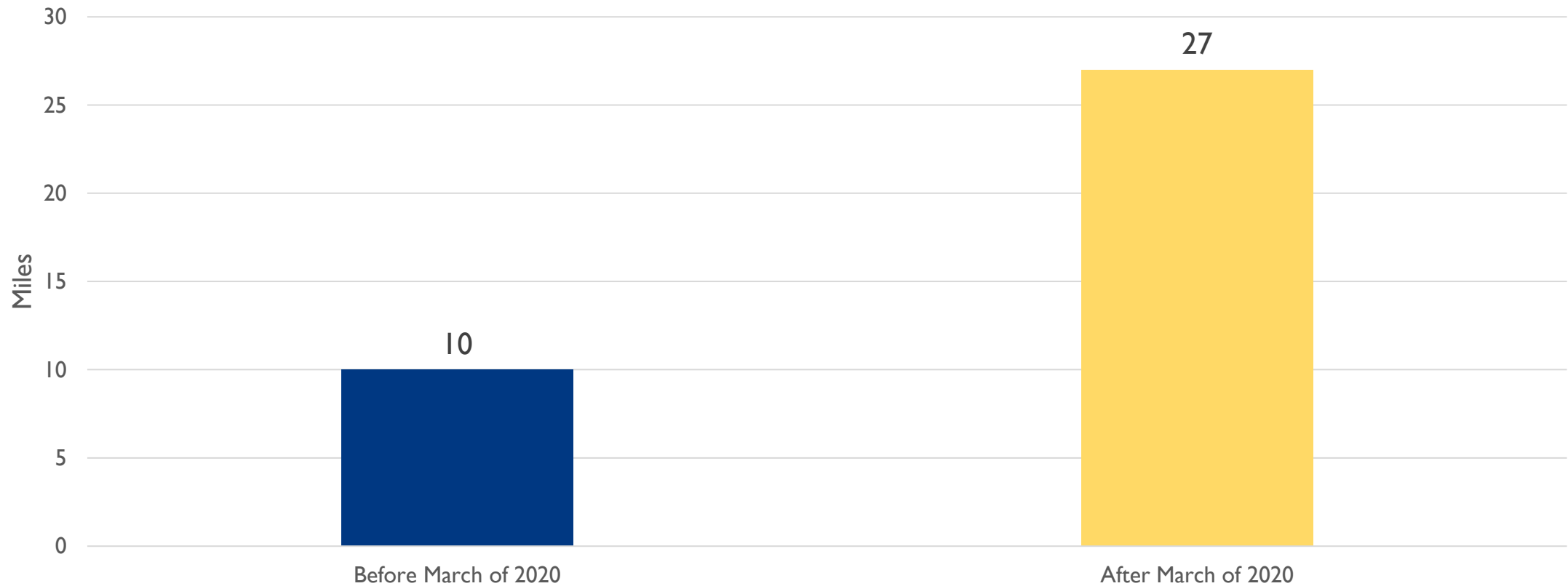


Source: Univ. of Toronto, Schools of Cities, May 2020 – June 2023 ([here](#))



# Workers are 3X Further from Their Jobs

**Average Distance from Work**



Source: Americans Now Live Farther from Their Employers, Feb. 2024 ([here](#))

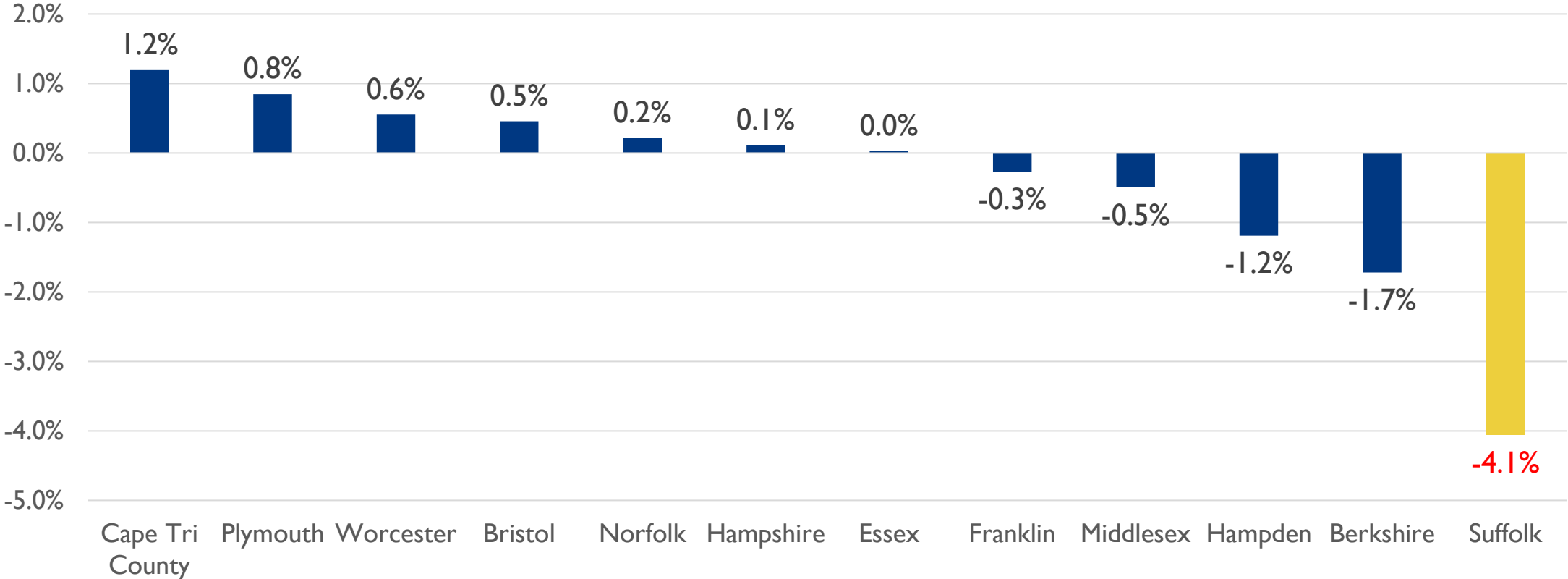




**Boston is Part of Everywhere**

# Boston is Losing Population Faster than Anywhere Else in the State

Population Change By County, 2020 to 2023 (%)



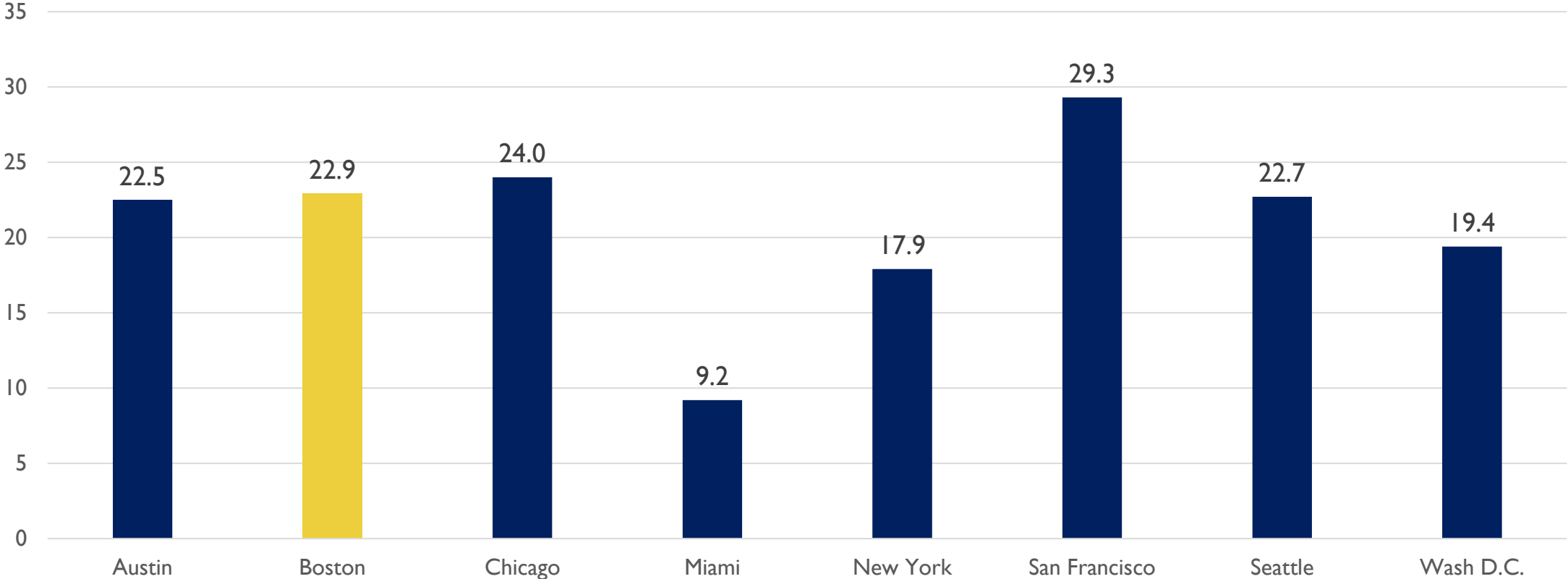
Source: U.S. Census ([here](#))





# Building Vacancies and Subleases are Historically High; MA Office-based Employment Declines

Overall Vacancy Rates, Q1 2024



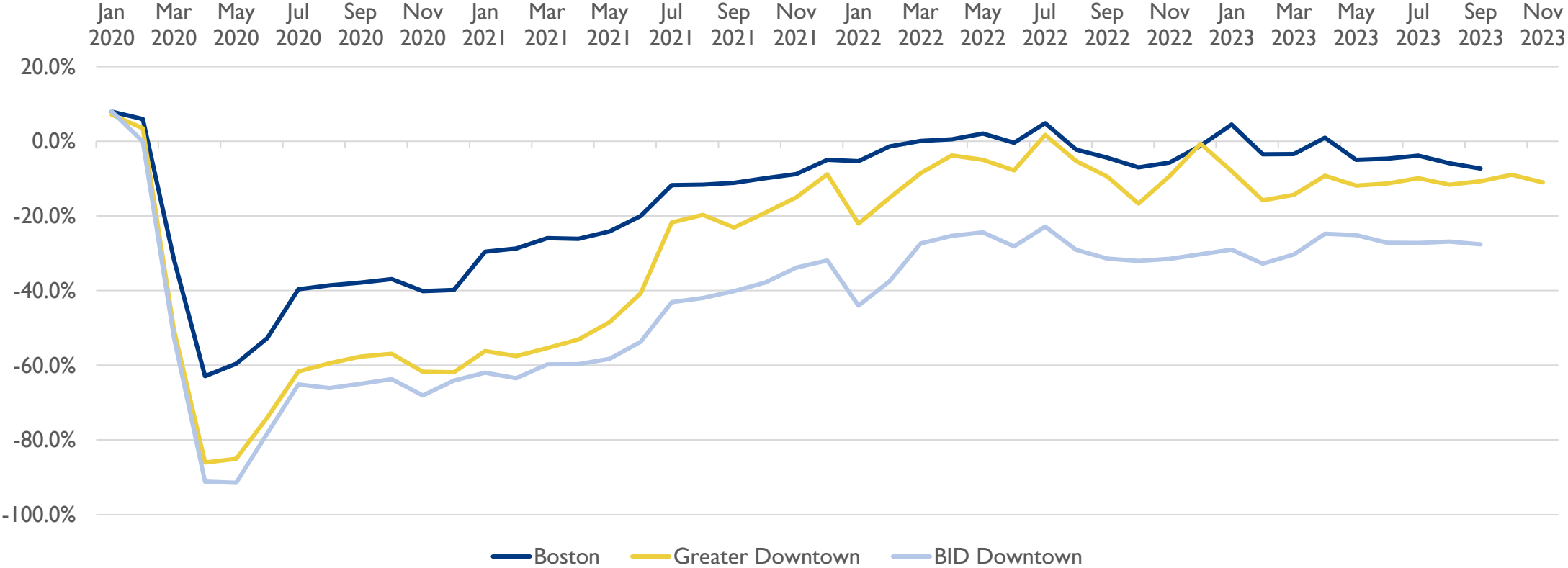
Source: U.S. Office 24 Q1, Colliers ([here](#))

\*BLS: Professional and Business Services, Financial Activities, and Information

Insight. Influence. Impact.

# Downtown is Doing Worse than the Rest of the City

## Consumer Spending Comparison



Source: BPDA ([here](#)) - "Greater Downtown" includes Downtown, Chinatown, Leather District, North End, West End, and Beacon Hill

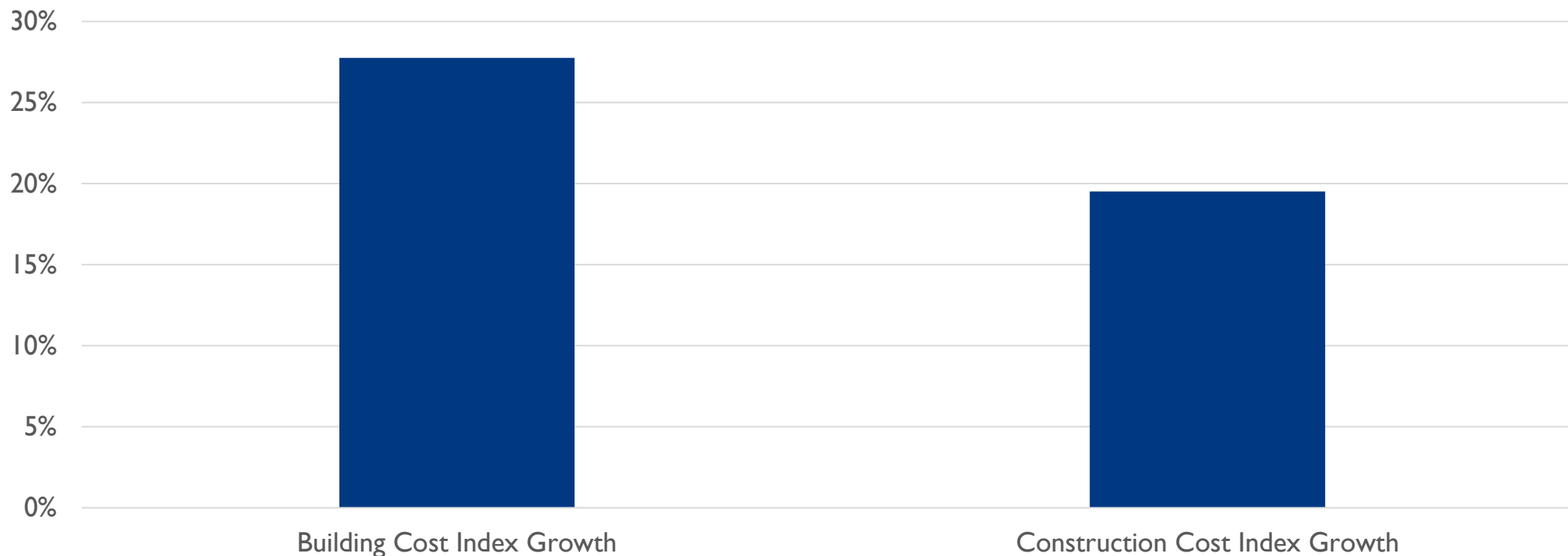




**Changing Work Patterns Aren't the Only Thing Affecting Commercial Real Estate**

# Building & Construction Costs in Boston are Up

February of 2020 v. 2024



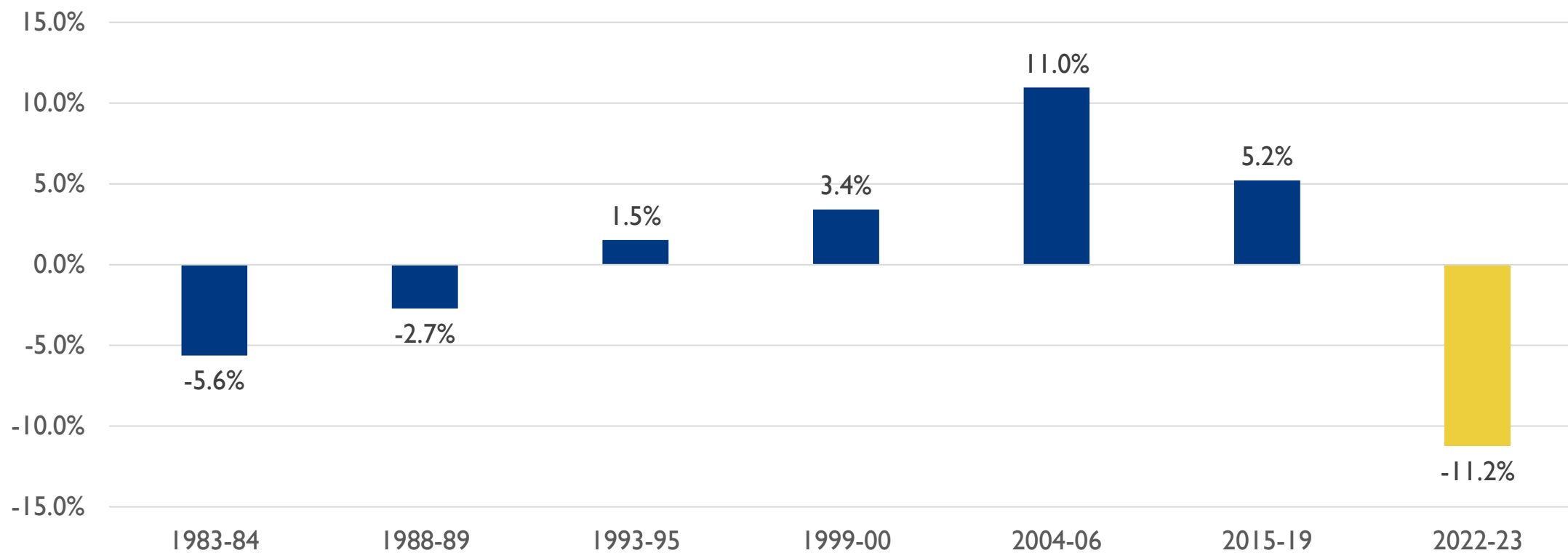
Source: Engineering New Record (ENR – [here](#))





# Tightening Interest Rates Chill Real Estate Investment

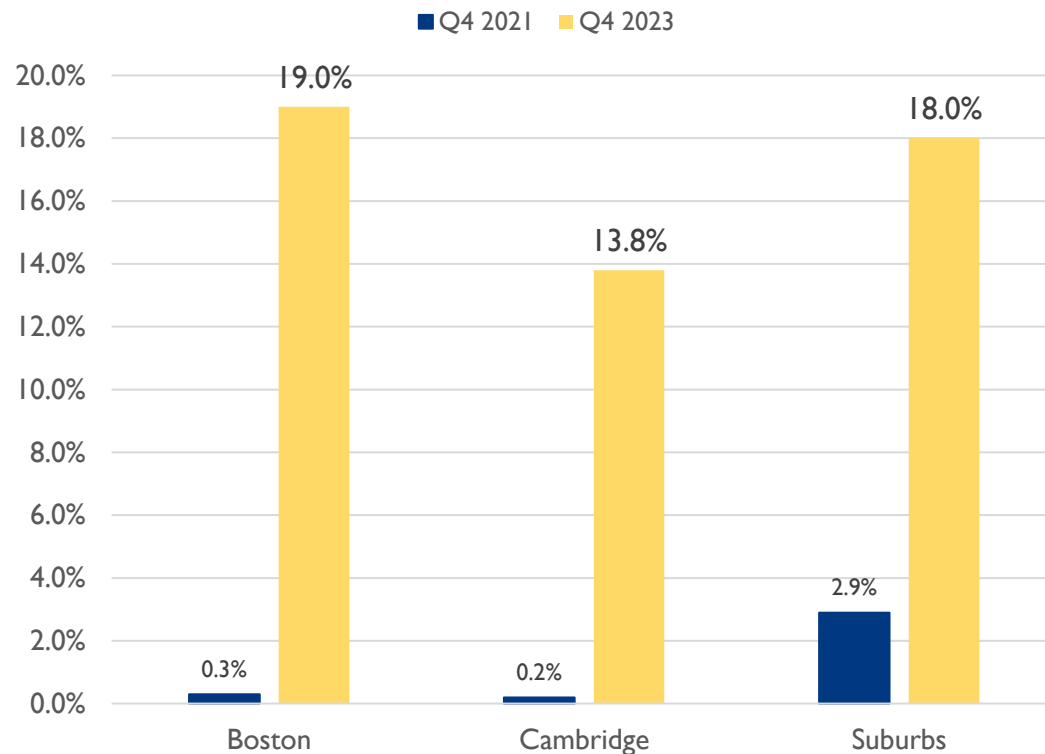
**Real Change in Commercial Real Estate  
(through 5 quarters of monetary tightening)**



Source: IMF Blog ([here](#))

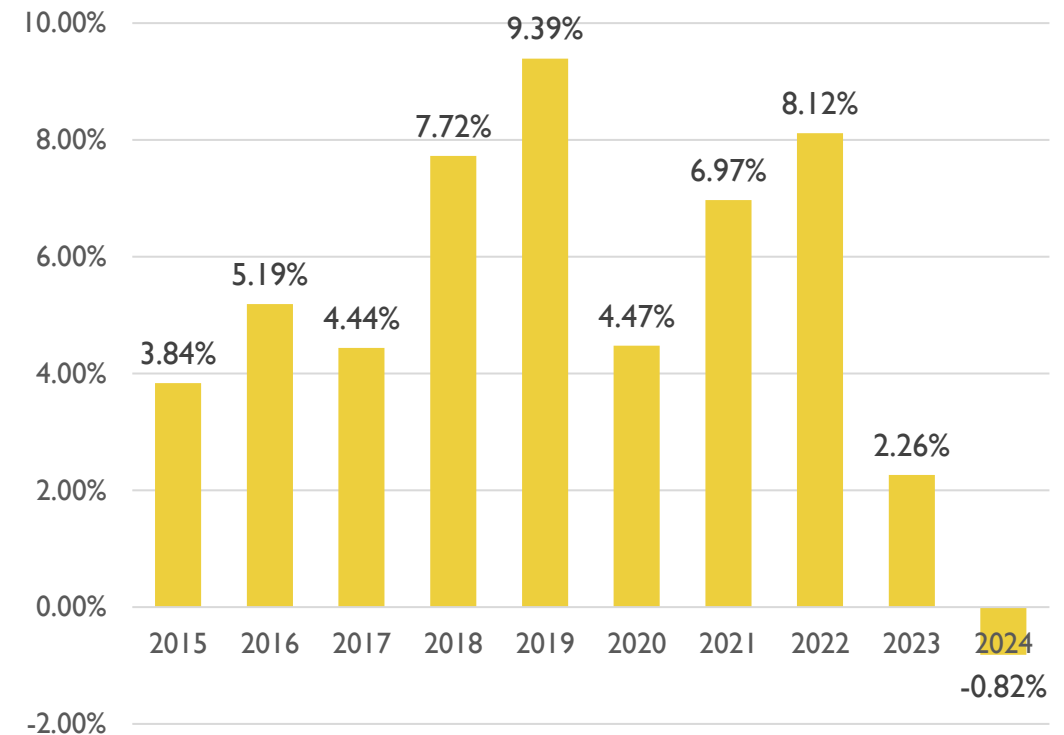
# Life Science Commercial Market and Employment Growth Slow

## Life Sciences Vacancy Rate, Q4 2021 v Q4 2023



Source: [Life Sciences 23Q4](#), Colliers

## Year-over-Year Change in MA Life Science Employment



Source: U.S. Bureau of Labor Statistics ([here](#))



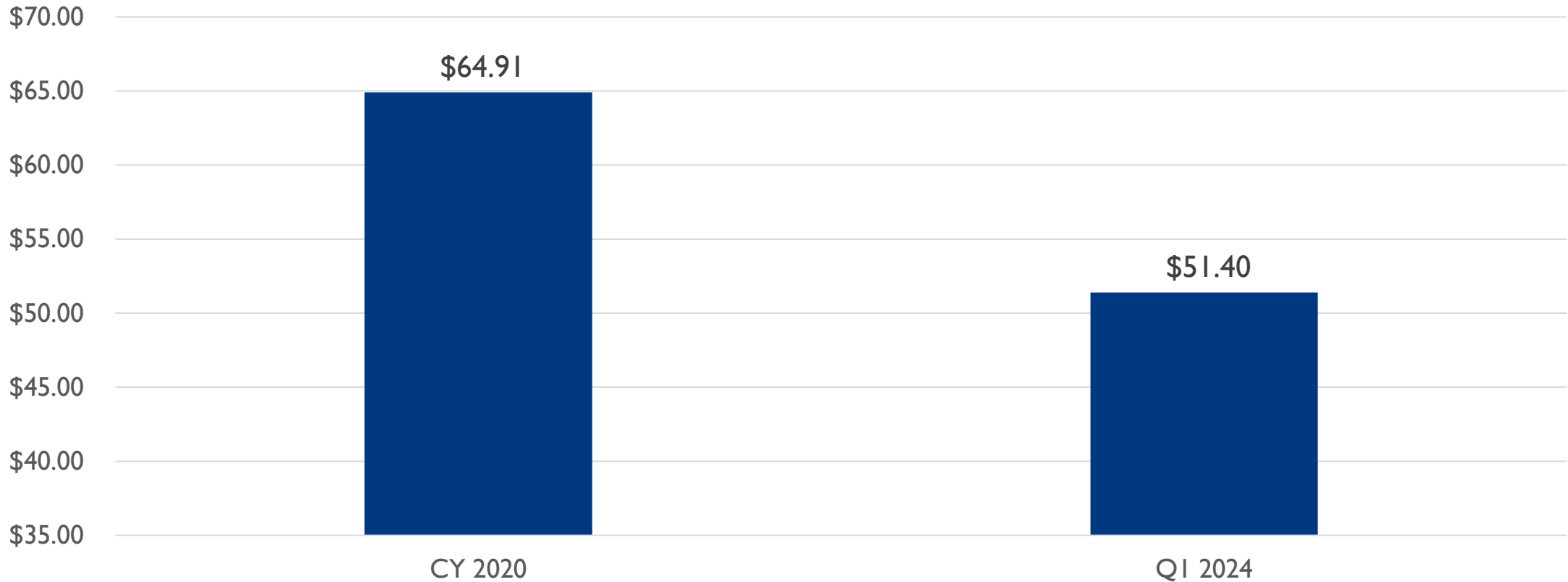
**Insight. Influence. Impact.**

A panoramic view of the downtown Boston skyline at dusk. The sky is a deep blue with wispy clouds. The city's buildings are illuminated with warm yellow and orange lights, which reflect on the water in the foreground. A bridge is visible on the left side of the image. The water is calm, and several boats are docked along the waterfront.

# **These Factors Put Commercial Real Estate in Downtown Boston at Risk**

# Office Rent is Down 20%

## Average Net Effective Rent

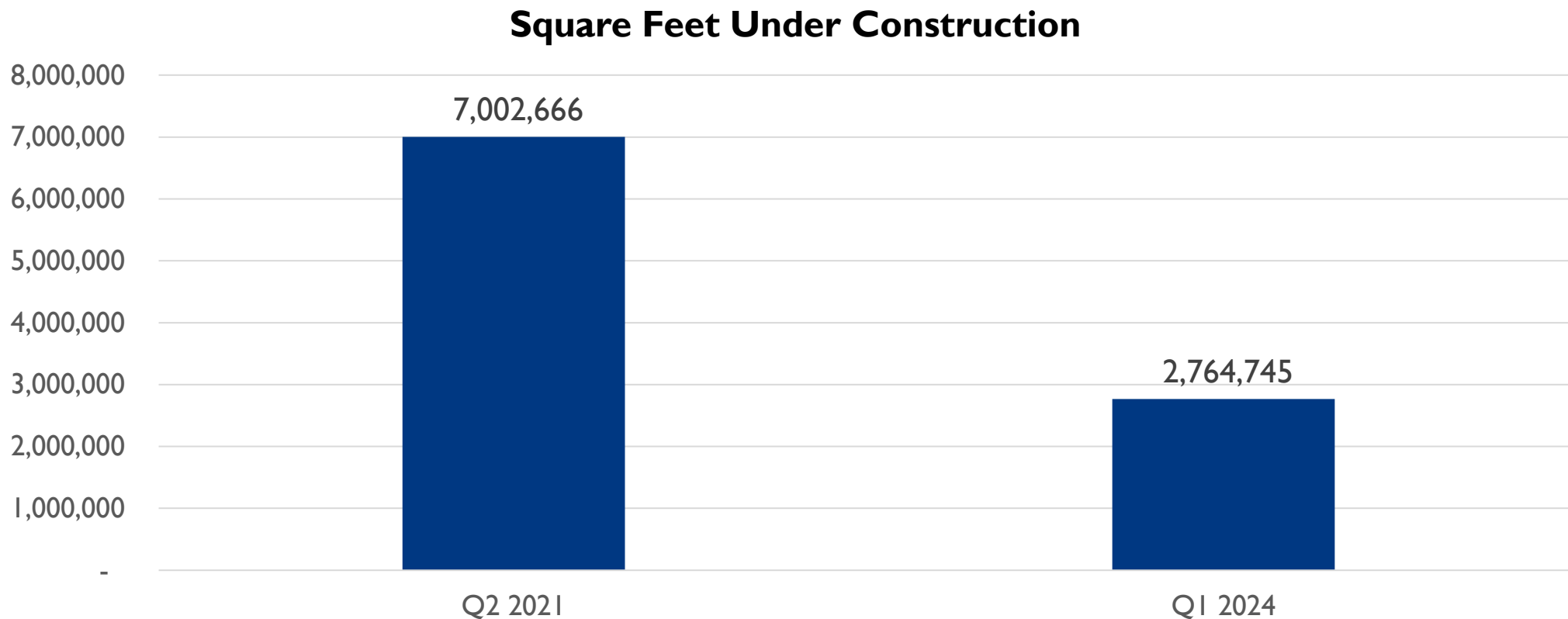


Source: Boston Downtown Office, Q1 2024, CBRE ([here](#))





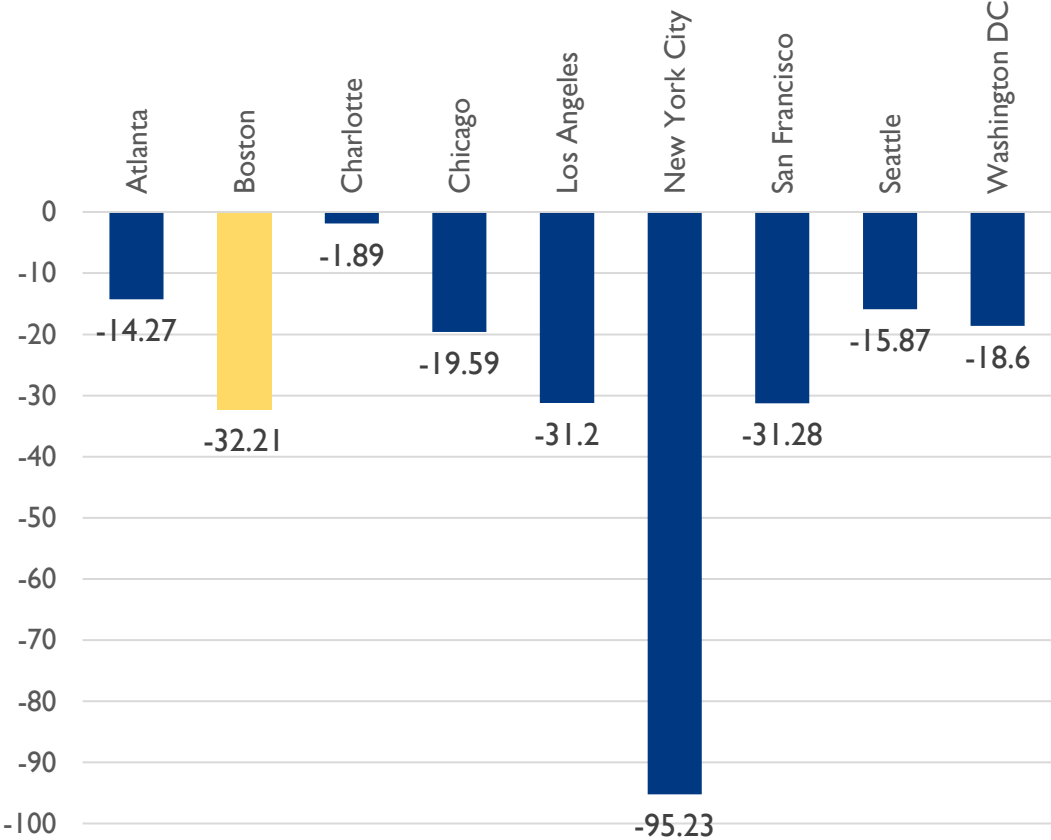
# The Pipeline for New Growth has Fallen Sharply



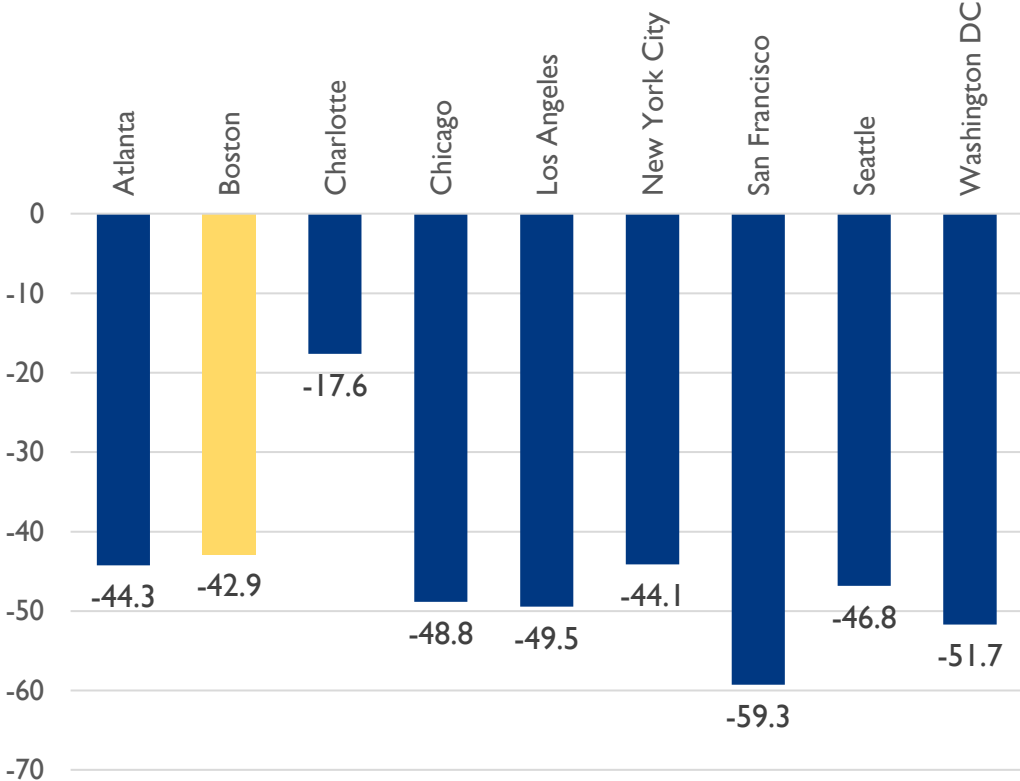
Source: Greater Boston, Q1 2024, JLL (here)

# Boston Projected to Have One of the Highest Declines in Office Value

Value Change in \$ (Billions)



Value Change in %



Source: [Work From Home](#), p. 31, December 2, 2023

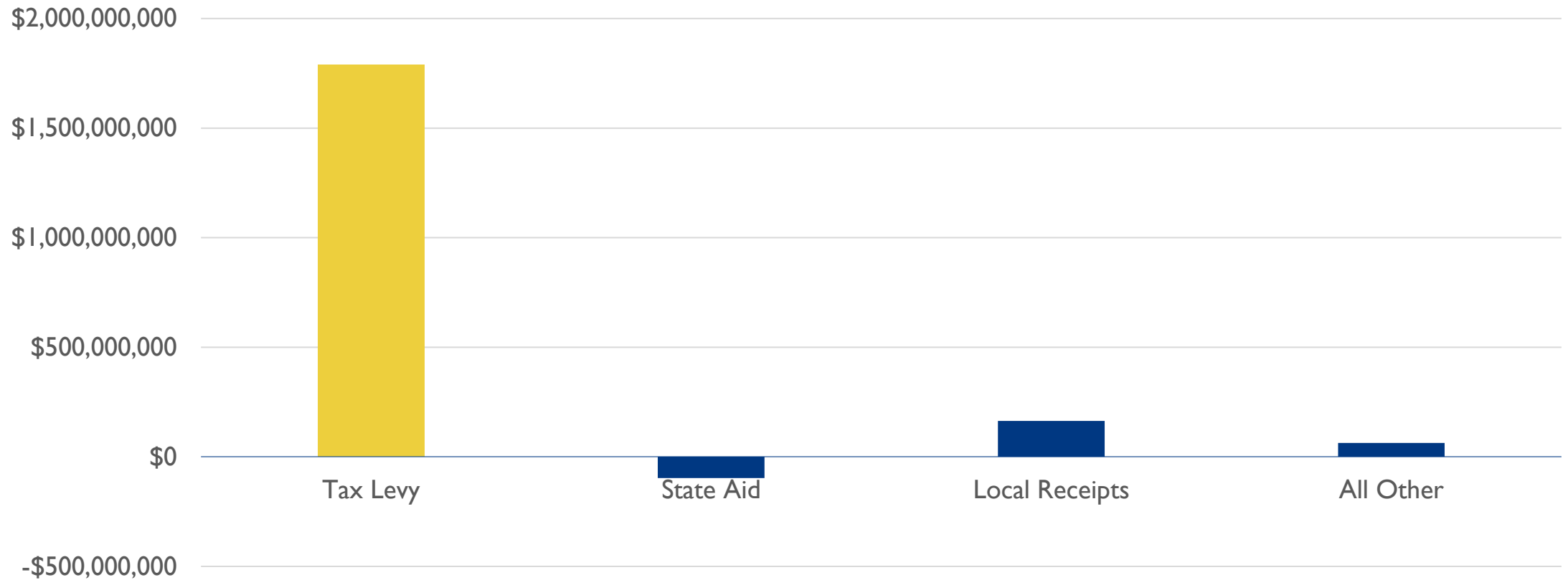




**If Boston's Commercial Real Estate  
Market Doesn't Grow,  
Neither Does the City's Budget**

# Property Taxes Have Accounted for 93% of Boston's Revenue Growth Since FY 2009

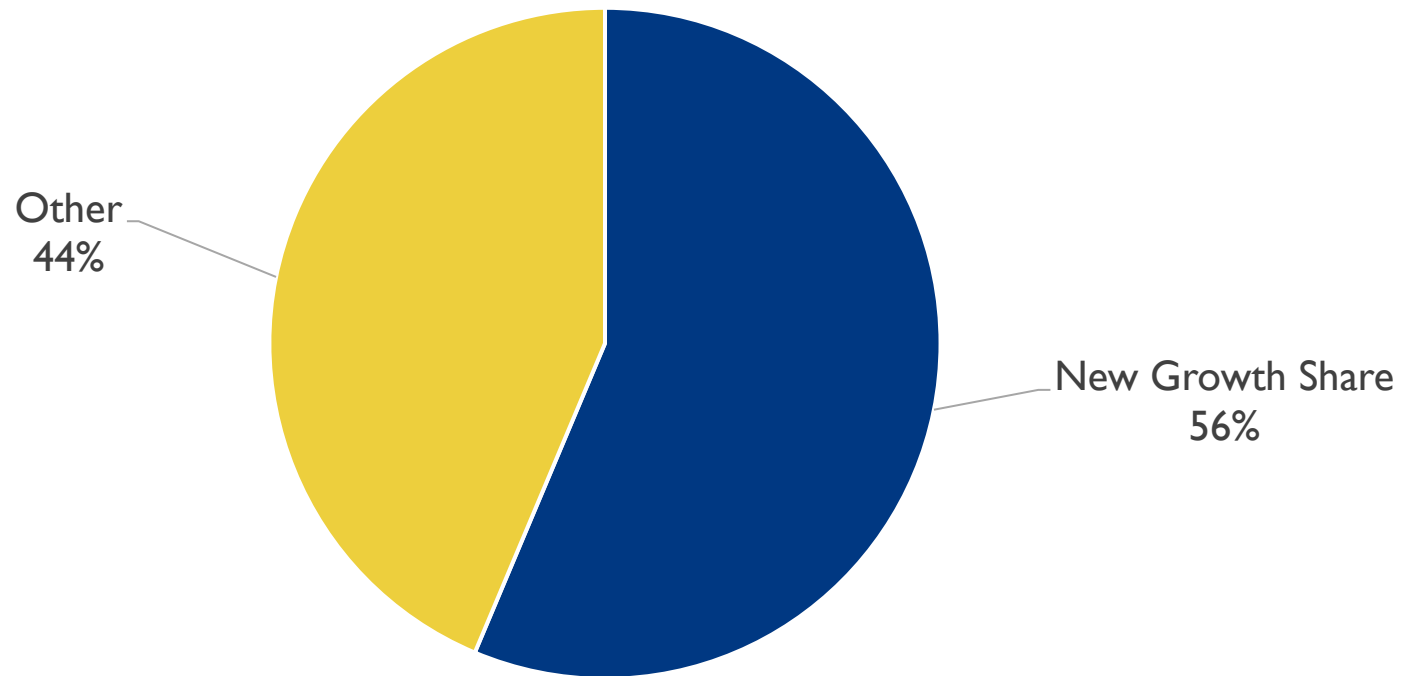
Change in Revenue, FY 2009 to FY 2024





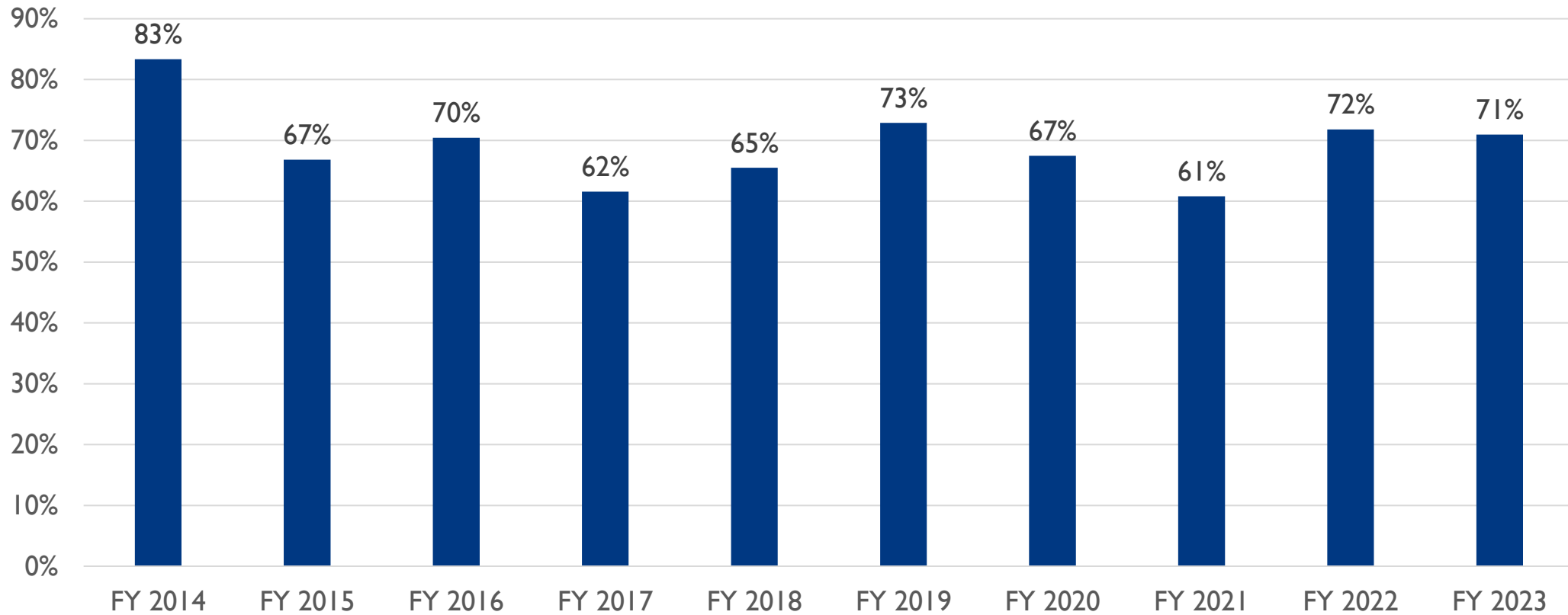
# The Majority of Property Tax Increase is New Growth

Property Tax Levy Growth Since FY 2009



# Non-Residential Makes Up 70% of New Growth

## Non-Residential Share of New Growth



A panoramic view of the Boston skyline at dusk. The city's lights are on, reflecting in the water of the harbor. The sky is a deep blue with some light clouds. The buildings are of various heights and styles, including several prominent skyscrapers. A bridge is visible on the left side of the image.

**Thankfully, Boston Has  
Many Strengths**

# Boston Ranks 11<sup>th</sup> in The Oxford Economics Global Cities Index in 2024

## Strengths:

- Boston is a global powerhouse in the Economics and Human Capital categories. Bostonians have among the highest levels of educational attainment in the world.
- The city ranks 10th globally in Human Capital in large part because it is home to some of the best universities in the world, attracting talented students, academics, and researchers from around the globe.
- The city's universities foster a culture of innovation and cutting-edge research, bolstered by the many companies, particularly those in the healthcare and tech sectors—that are headquartered in Boston.
- Boston's Quality of Life score receives a boost from the number of recreational and cultural sites in the city, many of which are related to Boston's role in the founding of the United States.

## Weaknesses:

- Boston's R&D-based sectors make up such an important share of the city's output that its economy is less diverse than nearly every other city in North America.
- Boston has very high levels of income inequality. The disparities facing the city's residents extend to housing and educational opportunities as well.
- In the Environment category, Boston's score takes a hit because the city is prone to natural disasters, particularly flooding. And new research shows that many neighborhoods in Boston that were initially built on marshlands are sinking into the ground, compounding the issue of sea level rise already facing the city. Each centimeter the land sinks can make floods significantly worse.

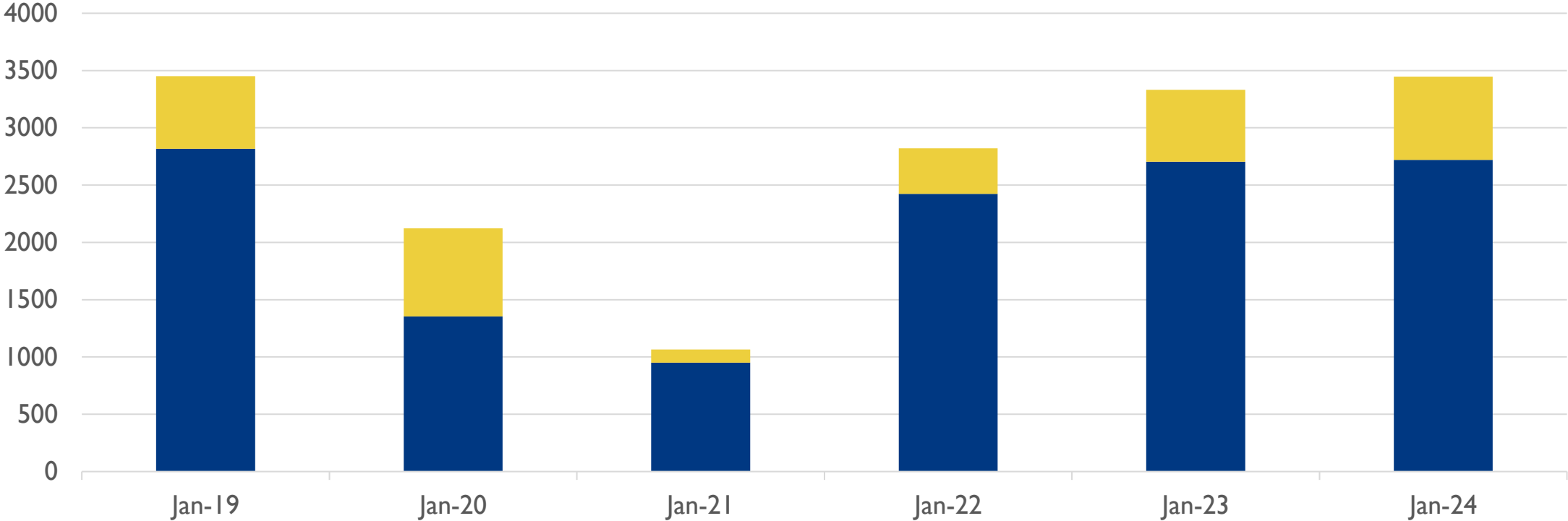
Source: Oxford Economics Global Cities Index, 2024 ([here](#))



# Boston is a Tourist Destination – And Tourism is Back

### Logan Passenger Traffic

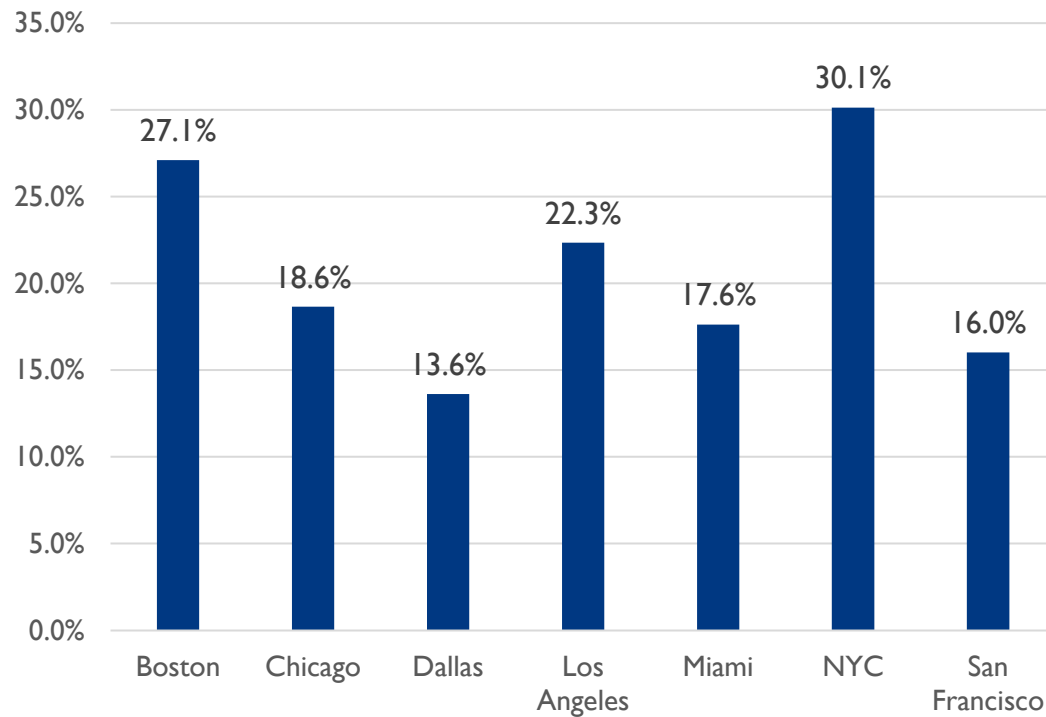
■ Domestic ■ International



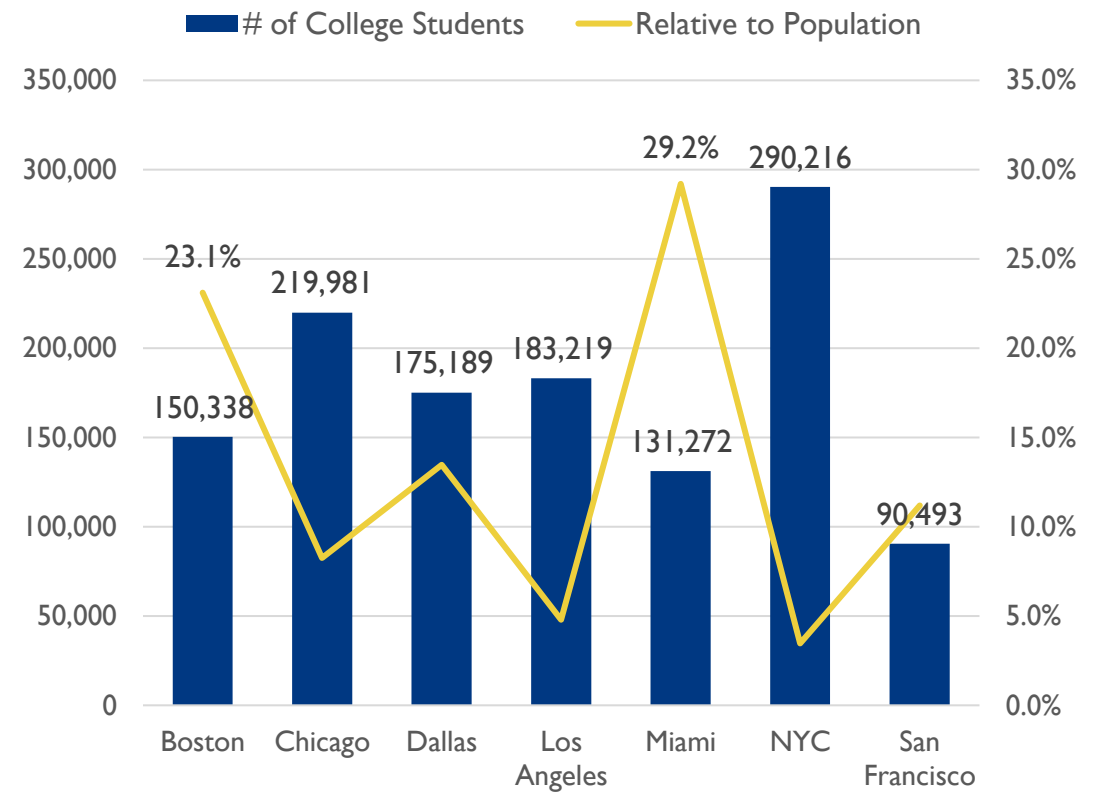


# Boston Has Marquee Economic Sectors that Require Physical Presence

## Education and Health Care Service Employment as a Percent of Total Private Employment in Seven Metro Areas

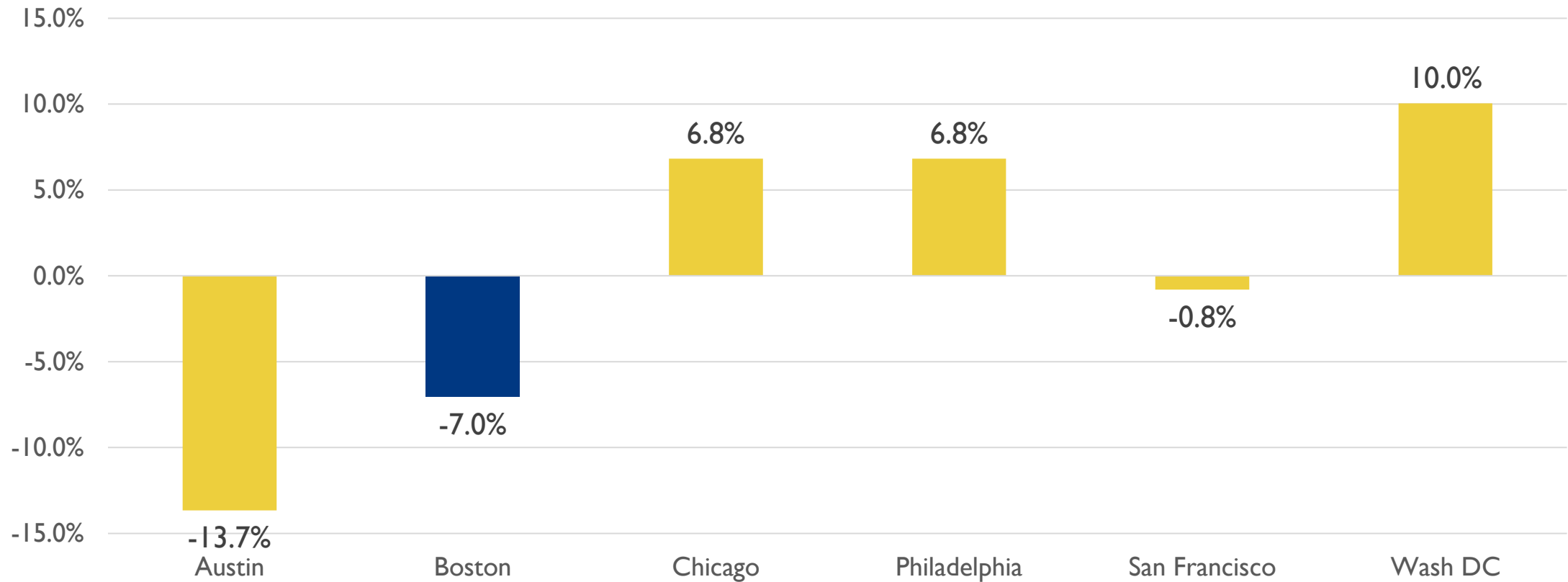


## Number of College Students and Relative Size to City's Population



# Boston is Safe

Percent Change in Crime, All Offenses, 2019 - 2023





**But Action is Required for  
Downtown to Survive & Succeed**

# The Challenge

**The strength of the downtown has been foundational to Boston's recent economic success.**

**But -**

- The demand for space in that area has been fundamentally altered by changing work habits and larger economic factors.
- A Central Business District that does not recover has seismic ramifications for Boston's finances, vibrancy and economic future.
- The policies under consideration today can make this challenge more manageable or make it worse.

**Most importantly, a clear vision and strategy is necessary to support a vibrant downtown that mixes workers, residents, and tourists.**

**Understanding our current challenges is the first step in building that strategy.**



# Boston's Downtown Revitalization Plan: Six Goals



**ENSURE THE  
VIBRANCY OF  
OFFICE SPACE  
DOWNTOWN**



**EXPAND HOUSING  
DOWNTOWN**



**EXPAND DAILY USE  
OF DOWNTOWN  
BEYOND WORK**



**SUPPORT  
CONNECTIVITY  
AND MOBILITY  
DOWNTOWN**



**ENHANCE  
ECONOMIC  
OPPORTUNITY  
DOWNTOWN**



**GROW BOSTON'S  
FOOTPRINT AS A  
GLOBAL TOURISM  
HUB**



# MTF Principles for Action

- 1 Recognize that many aspects of policy directly affect the future of commercial real estate
  - Tax
  - Housing
  - Climate
- 2 Don't fixate on one solution or one vision of the future
- 3 Balance short-term needs with long-term implications
- 4 Reduce barriers/costs to development & innovative solutions
- 5 Don't make things worse



# What Can We Learn from Other Areas?

# Most Major Cities Have Recovery Plans

Seattle's Downtown  
Activation Plan

Downtown is → you

Plan  
**DETROIT**  
MASTER PLAN UPDATE KICK-OFF



LOS ANGELES  
CITY PLANNING

PHILADELPHIA  
2035

 HOUSING  
ACCELERATOR  


★ CHICAGO  
Central Area Plan Update

*A 20-year vision for equitable downtown growth*

ROADMAP TO DOWNTOWN  
SAN FRANCISCO'S FUTURE

# Common Goals

- 1 Maintain (and ultimately increase) occupancy and effective uses of downtown real estate
- 2 Encourage conversion of building uses when it makes sense
- 3 Increase residency
- 4 Increase tourism and other non-work daily uses of the area
- 5 Incentivize investment related to new and emerging areas of economic growth



# Common Elements of Economic Revitalization Strategies

- **Diversify** beyond office and tech jobs; attract businesses that work in person, targeting industries like energy, construction, and transportation
- **Relax** downtown zoning rules to allow for mixed-use spaces, with offices and services on upper floors and entertainment /pop-up shops on the ground floor
- **Not just offices**, convert old power stations, factories, retail centers and other unused infrastructure as well
- **Make downtowns children friendly.** People don't feel that CBDs are places to raise children or to start a family
- **Focus** on housing, cultural events, transportation and mobility, public parks and spaces, and safety and security concerns
- **Coordinate** actions and incentives impacting public & private sectors, as well as higher education, philanthropy, and other major actors





# Common Challenges

- **Lack of Collaboration:** ineffective coordination among government agencies, community organizations, and private entities impedes progress
- **Community Resistance and Opposition:** resistance from local residents, businesses, or community organizations poses a significant barrier
- **Regulatory and Legal Hurdles:** projects may encounter obstacles from zoning regulations, land use restrictions, and environmental compliance
- **Infrastructure and Environmental Challenges:** projects can involve existing infrastructure challenges, environmental remediation, and brownfield redevelopment
- **Financial Constraints:** limited funding and financial resources pose a barrier to the successful implementation of revitalization projects
- **Remember, a plan is just a plan** without strong marketing and customer support to work people and businesses through the process

# Incentive Programs in Other Cities



**London** – Tax Grant Program grants back to property owners a portion of tax increase associated with rehab/renovation projects for a period of 10 years



**Edmonton** – Projects commencing after 2021 will have no municipal tax increases for 5 years



**Atlanta** – Special zoning district covering downtown which relaxes requirements in some areas and creates new incentives



**Washington DC** – Creation of a Vitality Fund to attract and retain businesses in downtown and creation of new funds to attract tourists and families to downtown



**Philadelphia** – Expansion of residential tax abatements for new/expanded residential properties



**Baltimore** – Vacant residential development tax credit



# Considering Current Proposals & Opportunities

# Tax Classification Shift

## Mayor Wu Proposal

***Increase the shift in property tax levy to commercial and industrial property (CIP).***

- Currently, CIP rate can generate 175% of the amount that would be generated with a single rate for both CIP & Residential
- Mayor Wu's proposal would adopt a 5-year shift:
  - Up to 200% in year one
  - Stepping back to 175% in year 5
- The city would have the option to increase the shift starting in FY 2025, 2026 or 2027.

## The Goal & the History

- The purpose of the proposal is to smooth a likely spike in residential property taxes due to declines in CIP value.
  - By allowing CIP to generate more than 175% of the single rate amount, less is required of residential property taxes.
- In 2004, the state allowed cities and towns to implement a similar shift adjustment.
  - However, the pressures on commercial real estate at the time were seen as temporary.

# Applying Principles & Alternatives

**Does it recognize that property tax policy directly affects commercial real estate development?**

**No.** *Shifting a greater share of the tax levy to commercial properties will add additional cost to building owners and make investment in properties less attractive.*

**Does it balance short-term needs with long-term implications?**

**No.** *This proposal smooths volatility in residential/commercial property taxes over the next several years, but adds to medium and long-term challenges.*

**Does it reduce barriers to development/innovation?**

**No.** *In fact, the lack of certainty in when and how the proposal will be implemented and the additional cost it will create for investment will increase those barriers.*

**Does it make things worse?**

**Yes.** *This adds significant additional cost to the property sector facing the gravest long-term challenges.*

## Other Considerations & Alternatives

### Goals

- Smoothing residential property taxes
- Avoiding future tax spikes

### Possible alternatives

- Not taxing to the levy limit in FY 2025
- Reducing spending growth
- Diversifying ongoing revenues
  - Local revenues
  - State support
- Mitigating some property tax increases with limited use of reserves





# Transfer Tax Proposals

## Mayor Wu Proposal (H.2793)

- 2% fee on property sales over \$2M
- According to Boston:
  - Would have applied to 700 transactions in 2021 (0.7%)
  - Would have generated ~\$100M with 2021 transaction levels
- Bill was extended by the Joint Committee on Revenue

## Governor Healey Proposal (H.4138)

- Local option transfer tax of between 0.5 and 2%
- Minimum transaction value is \$1M
- All proceeds to be dedicated to Affordable Housing Trust
- No administration data on revenue or uptake

# Assessing the Transfer Tax

**Does it recognize that housing production policy directly affects commercial real estate development?**

**No.** *The proposal increases taxes on commercial and most residential transactions at a time when pandemic challenges, interest rates, and costs have already significantly slowed real estate investment.*

**Does it make things worse?**

**Yes.** *This would add yet another cost to real estate development that investors would not face in many other markets.*

**Does it balance short-term needs with long-term implications?**

**No.** *It seeks to generate investment for affordable housing, but does so by making the problems facing the city's real estate sector worse.*

**Does it reduce barriers to development/innovation?**

**No.** *It increases cost barriers.*



# Federal and State Resources are Available and are Indispensable in an Increasingly Competitive Landscape

ARPA-H: Federal government named Cambridge as one of three sites for a new federal agency, the Advanced Research Projects Agency for Health

- Principal focus is to accelerate the development of innovations in health care
- Collaboration: Application supported by the Coalition for Health Advances & Research in Massachusetts

State Initiatives Coordinated with the Massachusetts Business Community

- Life Sciences extension - reauthorizes the state's successful life sciences initiative that has made Boston the global leader
- Climatetech – supported by 81 signatories including Takeda, Mass General Brigham, Associated Industries of MA, Eastern Bank, Blue Cross Blue Shield of MA, Mass. Business Roundtable, and Siemens USA,
- AI Hub – focused on support for key economic sectors including life sciences, health care, financial services, manufacturing, robotics, and education sectors



# Federal Programs to Build On



20% tax credit for rehab of historic buildings



\$35B in transit funds to support office to residential conversions within 0.5 miles of transit



\$250B in Department of Energy loans for energy saving rehab projects



**This is a Race: What's the  
Timeline and How Do We  
Measure Progress?**



# Timeline for Action

## ***Near-Term***

- Don't make things worse
- Focus on tourism and foot traffic
- Take advantage of current legislative opportunities
- Begin revenue diversification analysis/discussion
- Understand models from other states/regions

## ***Medium/Long-Term***

- Launch meaningful incentives for building re-use
- Reduce barriers to housing production
- Partner with state on emerging innovation sectors (climatetech & AI)
- Build Boston as a destination to live, work & invest

# And Let's Start with Housing

**A focus on housing production has to be at the heart of the near-term and medium-term strategies.**

- **Near-Term**

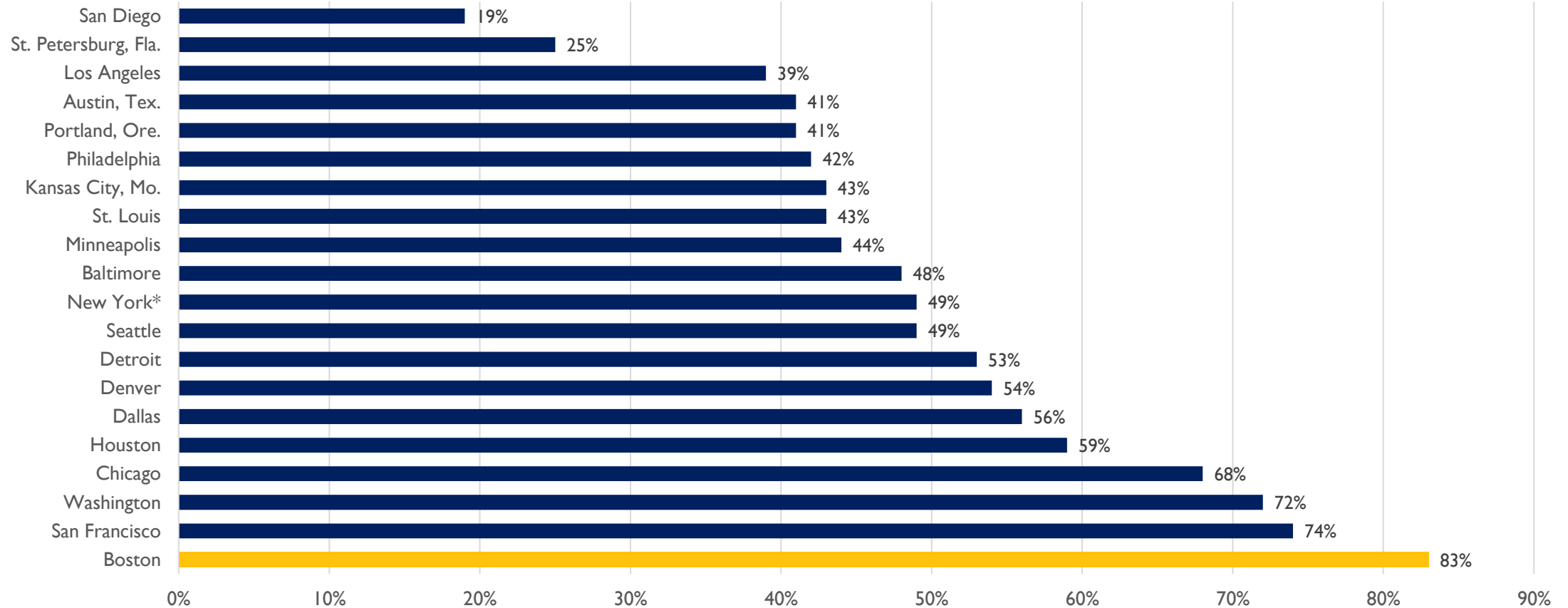
- Affordable Homes Act is active vehicle to increase state investment in housing production.
- Permitted development projects on sideline have to be an early area of focus.

- **Medium-Term**

- Changing the residential mix creates positive feedback loop for Downtown:
  - Higher RTO
  - Greater Vibrancy
  - Increase Labor Force

# Downtown Housing Is Key: Boston Has the Highest Office Space Density in SF (and Lowest Residential) in its Downtown

Percent of Office Square Footage in CBDs



Source: [The Downtown Office District Was Vulnerable. Even Before Covid](#). New York Times, July 7, 2021.