

Boston's Boom Spikes Property Values

The first in a five-part series

Part 1: Overview of Property Value Trends FY13-FY19

Boston's total taxable property value hit a high of \$164B in FY19, growing by \$72.3B, or 78.4% since FY13. Part I of this five-part series provides an overview of trends in Boston over the last six years. How has economic growth and renewed interest in city living impacted Boston's assessed property values? Which neighborhoods have seen the most dramatic property value increases? What is the role of property value increases in Boston's financial picture?

Boston's Boom Spikes Property Values: A five-part series providing a look into Boston's property values over the past six years, with insights and observations to keep in mind as the City prepares to release 2020 property value data. Included in this series:

Part I: Overview of Trends

Part II: Residential & Business
Summary

Part III: Housing Values up in
Neighborhoods

Part IV: Business Property Values in
Detail

Part V: Impact on Boston's Finances

Report Objectives

Part I in this series looks at:

- Overall trends in property values
- Impact on Boston's finances
- Importance of prudent fiscal stewardship

A special thank you to the Research Bureau's Cabinet Members for their generous support.

Arlington Advisory Partners | Beacon Capital Partners | Blue Cross Blue Shield of MA | Citizens Bank | Comcast | Eastern Bank | Fidelity Investments | John Hancock | Liberty Mutual Insurance | P&G Gillette | State Street Corporation | Verizon

Background

Unprecedented economic growth and renewed interest in city living

The City of Boston continues to experience significant economic growth. The city's annual unemployment rate decreased from 6.1% in 2013 to 3.0% in 2018, the most recent year with available data for this measure.¹ Strong employment growth is projected to continue over the next decade. The Boston Planning and Development Agency (BPDA) predicts an increase of between 107,000 and 150,000 new jobs in Boston by 2026. In addition to new job creation, the City has experienced wage growth exceeding state and national rates. From 2013 to 2017, Suffolk County residents' per capita personal income (in fixed 2018 dollars) increased 13.7%, from \$66,582 to \$75,711, outpacing both Massachusetts and the United States.² The City's commercial real estate market has remained tight: occupancy of Class A properties in Boston's downtown business district makes Boston second only to San Francisco in terms of vacancy, with a core vacancy rate of 6.7% compared to San Francisco's 5.3%.^{3,4}

Meanwhile, Boston has experienced a resurgence in city living and significant growth in population. From 2013 to 2017, the City added 39,976 residents, or 6.4%, to a total population of 669,158.⁵ In 2014, Boston released its housing plan, *Housing Boston 2030*, which projected that the city's population will reach 709,400 by the year 2030. In 2018, the City revised the projection upwards to 759,727.

Favorable economic conditions and renewed interest in city living have been significant drivers of property value increases and, in turn, a critical source of revenue increases for the City through a growing property tax base.

Report Findings

Rapid Growth in Property Values across Boston: 2013 to 2019

Boston's total taxable property value increased by \$72.3 billion, or 78.4%, to more than \$164.5 billion from FY13 through FY19,⁶ a six-year period of robust commercial and residential development in the City. Property value increases in Boston can be attributed to both the increasing value of existing properties and the new development occurring across the City.

All of Boston's neighborhoods saw a substantial increase in property values over the six years from FY13 to FY19. Increases ranged from 42.0% in West Roxbury and Roslindale (Ward 20) to 110.0% in Mission Hill (Ward 10) to 181.0% in the rapidly developing Seaport (Ward 6). The map on the next page illustrates these increases.

¹ MA Executive Office of Labor and Workforce Development (EOLWD)

² City of Boston Official Statement, 2019; BMRB analysis

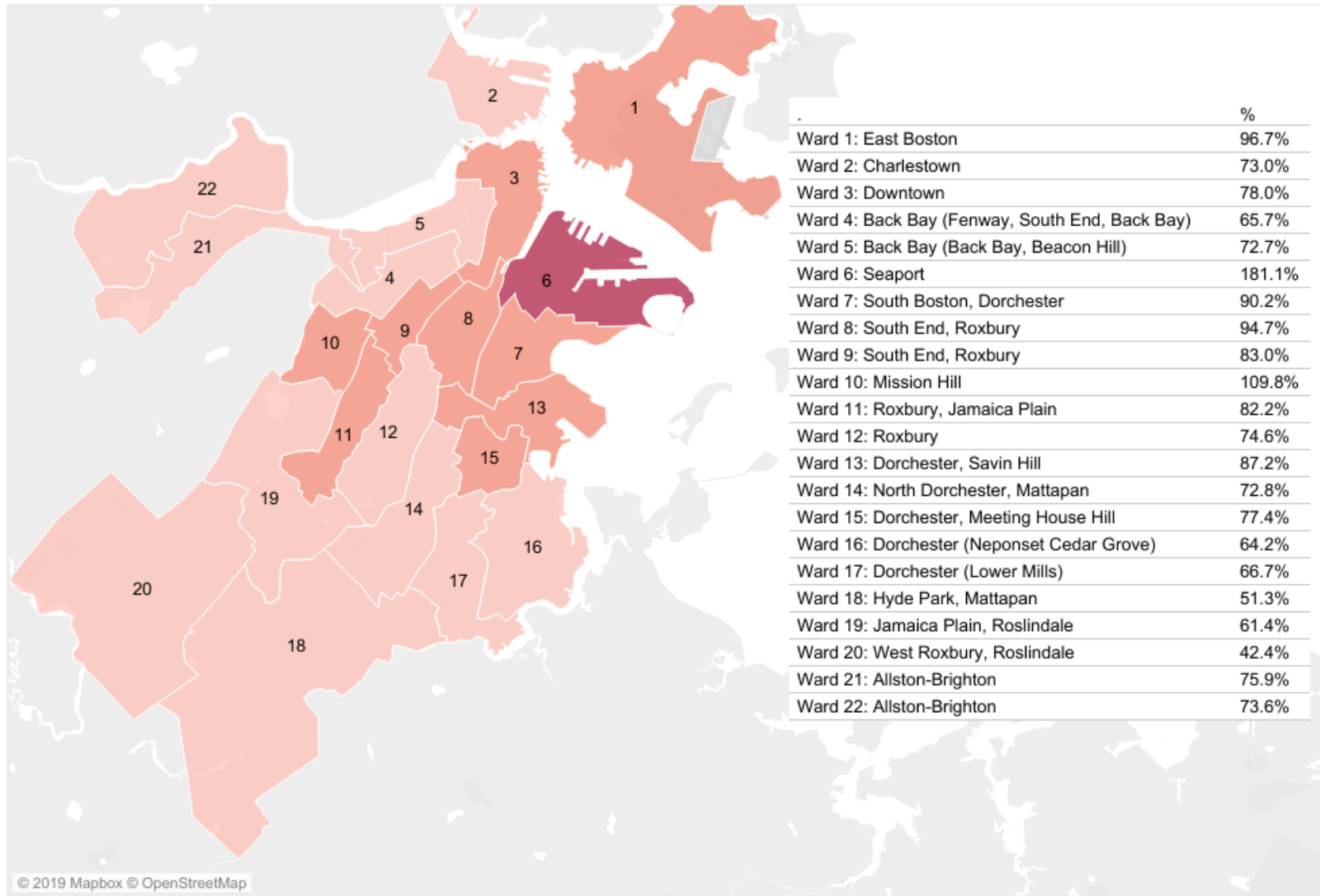
³ Jones Lang LaSalle Research, "10 Big Bets for Boston's Future", 2019

⁴ Class A properties are generally higher quality and have a above average rents relative to other office space types.

⁵ U.S. Census Bureau American Community Survey (ACS) 5-Year Estimate

⁶ Under state property tax law, fiscal 2013 values were determined as of January 1, 2012, reflecting market conditions in 2011. Fiscal 2019 values were determined as of January 1, 2018, reflecting market conditions in 2017.

FY13-FY19 Taxable Property Value % Increase by Ward



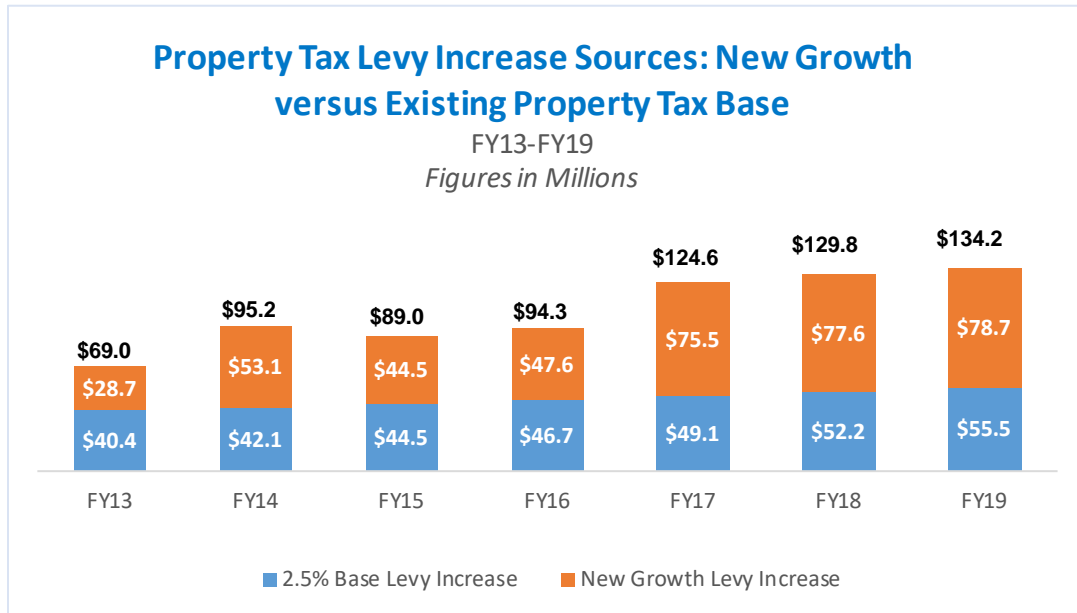
© 2019 Mapbox © OpenStreetMap

% Increase



Revenue from new growth outpaces revenue from existing properties

In FY19, for the fourth year in a row, tax revenue from new growth exceeded the annual property tax levy increase on all existing properties. Of the \$134.2 million in additional property tax revenue in FY19, nearly 60.0% of it came from new growth. This unprecedented increase in value added \$78.7 million in new property tax revenue for the City in FY19 alone. Property tax revenue accounts for 70.0% of the City's FY19 budget.



What is New Growth?

New growth is the additional taxable property value generated by new construction, renovations, exempt properties moving to the tax rolls, or the expiration of tax agreements. Boston is experiencing especially strong new growth in recent years as the City's economy expands. The property value increase in Boston from FY13-FY19 can be attributed to both this new growth and to the increasing value of existing properties.

Recommendations

Maintaining prudent fiscal stewardship in this period of extraordinary development is essential to Boston's resiliency through the ups and downs of economic cycles. Strong new growth, particularly over the last six years, is not a new normal, but rather a sign of Boston's recent economic boom. Of the \$134.2 million in additional property tax revenue in FY19, nearly 60.0% (\$78.7 million) came from new growth.

Boston's new growth decelerates during an economic downturn, which limits the City's revenue growth. As the City notes in its FY20 budget, "new growth revenue is volatile, and depends on the development cycle and the local, state and national economies." Boston should keep a close eye on spending to ensure it has the ability to sustain quality city services and infrastructure, including commitments to address challenges around housing, transportation, education and equity, when the current pace of economic development slows.

Boston's Boom Spikes Property Values: A five-part series providing a look into Boston's property values over the past six years, with insights and observations to keep in mind as the City prepares to release 2020 property value data.

Up next in this series, Part II: a summary of property value trends for residential and business property in Boston.