RESEARCH UPDATE

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BOSTON MUNICIPAL
RESEARCH BUREAU

New Growth is Key to Boston's Fiscal Health

Unsettled office real estate market and rent stabilization could pose challenges

Boston's property values and the property tax revenue they generate (74% of General Fund revenue) are critical for the City's financial stability and capacity to deliver municipal services. Over the past decade, new development, both business and residential, has been key to Boston's fiscal health. Yet, the current increase in office vacancy rates, additional regulations on new development, and the prospect of rent stabilization could impact Boston's primary revenue source - the property tax. The office real estate market remains unsettled and, according to JLL, the total office vacancy rate in Boston's commercial business district has exceeded 15.0% for the first time in 20 years.*

Boston's Taxable Value

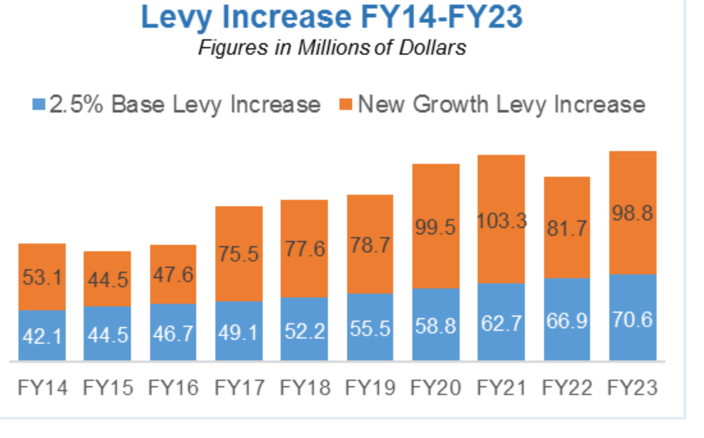
Figures in Billions

	FY22	FY23	Change	%	% of FY23 Total
CIP*	$65.9	$70.7	$4.7	7.2%	33.3%
R	$131.9	$141.5	$9.6	7.3%	66.7%
Total	**$197.8**	**$212.2**	**$14.4**	**7.3%**	**100.0%**

*CIP=Commercial, Industrial, Personal R=Residential

In FY23, total assessed property value is $212.2B, an increase of $14.4B (7.3%) from FY22. This includes $5.4B in "new growth," which is primarily value added from new development. It is split almost evenly between residential property value (48.5%) and business property value (51.5%). The valuation date was January 1, 2022, which captured 2021 market activity.

New Growth and the Tax Levy - Boston's property tax levy, the total revenue the City can raise through real and personal property taxes, increased by $169.8M (6.0%) from FY22 to $2.99B in FY23. Robust development has allowed Boston to increase the tax levy well beyond the automatic 2.5% increase for the past ten years. In FY23, property tax revenue from new growth of $98.8M accounts for 58.3% of the levy limit increase, enabling the levy to rise by 3.5% on top of the base increase. The tax levy is at its maximum legal level. New growth revenue increased 20.9% over FY22. It also surpassed the City's original FY23 projection of $60.0M because the City budgeted conservatively, especially due to economic uncertainty and lagged effects from the pandemic. The increase in new growth revenue demonstrates recovery after the city's two-month pause in non-essential construction in 2020.



Lower Tax Rates - Tax rates for residential and business properties both decreased slightly. The average single-family tax bill (with residential exemption) is $5,118, an increase of $428 (9.1%) over FY22. Business property represents 33.3% of total taxable value, but will pay 58.3% of property taxes, because of the City's application of classification. Residential property represents 66.7% of total taxable value, but will pay 41.7% of property taxes.

Boston's Tax Rates

Per Thousand $ of Value

	FY22	FY23	Change	%
CIP	$24.98	$24.68	-$0.30	-1.2%
R	$10.88	$10.74	-$0.14	-1.3%

*JLL Office Insight Q4 2022