Chuck Collins & Emma De Geode, "Towering Excess: The Perils of the Luxury Real Estate Boom for Bostonians," Institute for Policy Studies, September 10, 2018.
https://inequality.org/great-divide/toweringexcess/

Key Findings and Executive Summary

Boston is experiencing a luxury real estate boom, with thousands of new luxury residential and rental units in different stages of development. A decade from now, Boston's skyline and population demographics will be fundamentally altered by decisions being made today.

This boom does have benefits, providing good jobs in the building trades and increasing property tax revenue for the city. But the boom is not helping address Boston's acute affordable housing crisis. Bostonians today have a median household income of $58,500. Average Bostonians cannot afford the new luxury condos. They will, unfortunately, feel their impact. Boston's luxury boom figures to accelerate Boston's already troubling disparities of income, wealth and opportunity.

Suffolk County, the jurisdiction where Boston resides, rates as the most unequal county in Massachusetts, our nation's sixth most unequal state in terms of the gap between the wealthiest 1 percent and everyone else. And Boston's racial wealth divide will only worsen if current trends continue. One marker of those trends: In 2015, not one single home mortgage loan was issued for African-American and Latino families in the Seaport District and the Fenway, two Boston neighborhoods with thousands of new luxury housing units.

City officials, meanwhile, are continuing to celebrate the construction of luxury properties such as the 61-story One Dalton Place. These towers, however, play a key role in the global hidden wealth infrastructure, a shadowy system that's hiding wealth and masking ownership, all for the purpose of helping the holders of private fortunes avoid taxes and oversight of illicit activities. Many Boston luxury properties are functioning, in effect, as wealth storage lockers for global capital.

With European countries now insisting on greater levels of transparency, illicit cash is now cascading into the United States. Many analysts now see our country as the world's second-biggest tax haven and secrecy jurisdiction after Switzerland. The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) has, in response to this trend, increased scrutiny over real estate markets in Miami, New York, and parts of California, Texas, and Hawaii. But Boston doesn't appear on the FinCEN network watchdog list, a status that may make the city particularly attractive for secret cash.

This report takes a preliminary look at the perils of Boston's luxury boom. These pages examine how Boston could better protect the public interest and, in the process, capture more of the current luxury real estate wealth flow to support affordable housing for Boston residents. We focus here on residential condominium ownership as a form of "wealth storage" and examine twelve of the highest-priced and presently occupied luxury housing developments constructed in Boston over the last decade.

- These twelve projects, totaling 1,805 units, have an average condominium price of $3.02 million, a price 50 times higher than Boston's median household income.

- Over 35 percent of these units are owned by limited liability companies (LLCs) or trusts that obscure the real owners and beneficiaries. Almost 40 percent of the LLCs owning Boston luxury properties have organized themselves in the state of Delaware, the premiere secrecy jurisdiction in the United States. This Delaware connection shields the owners from public detection.

- Of these 1,805 luxury units, 64 percent do not claim a residential exemption, a clear indication that the condo owners are not using their units as their primary residence.

- Some of Boston's new luxury buildings stand out as textbook "wealth storage" properties. The 51 condominium units above the Mandarin Oriental Hotel at the Prudential Center, for instance, sold for an average of $6.5 million. Over 56 percent of these units are owned by trusts, LLCs, and shell corporations, and fewer than 18 percent claim a residential exemption. The Millennium Tower has 443 units averaging $2.4 million in assessed value. Over 35 percent are owned by shell corporations and trusts, and almost 80 percent of the units do not claim the residential exemption. Half of the LLCs that own units at Millennium Towers are organized in Delaware.

- This report's authors have identified a number of "red flag" transactions that in other jurisdictions would likely trigger a Treasury Department FinCEN criminal investigation. These include a large number of properties purchased through cash transactions by shell corporations and international buyers. Cash transactions greatly increase the risk that the properties involved are being used to launder money from criminal activities and speed capital flight.

Boston's past and current city administrations have permitted an explosion in luxury real estate property construction that is reshaping the city's skyline and economic composition. With thousands of new luxury units either under construction or seeking permits, city officials ought to be seriously exploring the perils these units pose.

Among the negative impacts the luxury boom invites:

Higher Land and Housing Costs. The luxury building boom is driving up the cost of land in central neighborhoods, with a ripple impact on the cost of housing throughout the city. Affluent, but not superrich, households in Boston find themselves pushed to outer neighborhoods, increasing competition for scarce affordable and moderately priced housing.

A More Unequal City. Bringing more millionaires and billionaires to Boston will exacerbate an already grotesque inequality of income, wealth, and opportunity.

New residents of these buildings will likely be wealthy white U.S. nationals and international buyers from European and Asian countries in the global 1 percent, compounding the extreme racial wealth divide that already exists in Boston. *The price of the $40 million penthouse at One Dalton Place is nearly 700 times the annual median income in the city of Boston.*

A Harboring of Criminal Activity. Boston's luxury buildings can be used for crimes ranging from international money laundering to tax avoidance.

Ecological Degradation. Luxury projects such as One Dalton Place are requiring the construction of a new fossil fuel energy infrastructure at a time when Boston should be moving aggressively to transition toward 100 percent renewable energy in order to meet our clean energy commitments.

A Less Independent Media. The media, constrained by diminished reporting resources and dependent on advertising revenue from the luxury real estate industry, may be constrained in informing the public about the potential downsides of Boston's luxury real estate boom.

An Unequal Immigration Welcome Mat. Destitute asylum seekers fleeing persecution and danger are currently facing family separation and deportation. But wealthy foreign investors are buying their citizenship through the EB-5 visa program by investing in luxury properties such as One Dalton Place in Back Bay and Pierce Boston in the Fenway. EB-5 recipients receive a two-year green card and a pathway to apply for full citizenship in exchange for their cash.

Neighborhood Apartheid. Boston's luxury buildings function as vertical gated communities, walling off their residents from surrounding neighborhoods and communities. Developers are even constructing privatized recreation facilities. As one *Architectural Digest* article featuring One Dalton Place puts it: "Who Needs a Neighborhood When You Can Have These Wild Amenities?"

A More Vulnerable Future. If the luxury real estate market crashes, will the people of Boston be stuck holding the bag? What will be the impact on Boston in the event of a global slowdown or depression in real estate? What will happen with these dozens of behemoth buildings that require extraordinary amounts of energy and maintenance? Boston taxpayers may end up subsidizing luxury white elephants long after the developers, profits in their pockets, have walked away.

Recommendations

1. **Levy a High-End Real Estate Transfer Tax**. Global capital is flowing into Boston because of our stable and appreciating market, public investments, and other public and cultural amenities. In exchange for providing a safe haven to global capital, Boston should tax real estate transactions on properties selling for over $2.5 million and dedicate revenue from that taxing to the city's affordable housing linkage fund. The city should also be working with other cities in the Commonwealth — and in other luxury real estate havens — to adopt parallel policies.

2. **Institute a Vacancy Tax and Ordinance**. Boston could discourage high-end vacant properties by taxing buildings that sit empty for more than six months a year. We can learn from other jurisdictions that have created incentives to use their city's housing stock to house people, not wealth.

3. **Stipulate Municipal Disclosure of Beneficial Ownership in Real Estate**. Boston should require property owners, as part of recording deeds, to disclose the actual human being who owns the property. Getting a Boston Public Library card — a task that requires full disclosure of identity and a real address — should not be harder than creating a Delaware-based shell company and using criminally obtained funds to purchase a luxury condo in Boston.

4. **Require New Buildings to be Carbon Emissions Neutral**. All future luxury properties should be state of the art "net zero carbon emissions" green construction, not requiring any additional fossil fuel inputs.

5. **Support State and National Transparency Policies**. Boston should be backing Massachusetts Attorney General Maura Healy's national partnership with other attorney generals around real estate ownership transparency as well as other national efforts to increase oversight of potential criminal activities. We should join national efforts to scrutinize the weak corporate transparency laws in Delaware.

6. **Enact Anti-Criminal Oversight.** City officials should move to make Boston a part of the Financial Crimes Enforcement Network, or FinCEN. Such a move would help city officials monitor attempts to use luxury real estate for money laundering and other illegal activities.