The High Cost of Beacon Hill Inaction: State Passivity Costs City of Boston $20 Million+ in Funds for Affordable Housing

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Key Findings

The failure of the General Court of Massachusetts to act on Boston’s home rule petition for a luxury real estate transfer tax is costing the city potential revenue it could deploy to solve its housing crisis.

- As of September 1, 2022, 654 out of a total of 841 units have been sold in six luxury buildings in Boston.

- A total of 731 transactions were completed for a total of $2.17 billion in sales revenue (this number is higher than 654 because of initial sales plus resales and transfers). Total sales are expected to increase since there are still 187 unsold units and purchased units can later be resold. 41 were resold or flipped for a total gain of $11.7 million.

- A third (34 percent) of all of the units are owned by LLCs or Trusts and they account for $929.2 million in sales. A subset of these are anonymous shell companies.

- A two percent transfer tax on all units sold above $2 million in these six luxury buildings in Boston would yield $19.8 million. A tax on two transfers on just one unit at One Dalton Place, Unit 2804, would have generated $35,000 in revenue.

- If Boston implemented a more progressive transfer tax on housing with a 2 percent transfer fee on units that sold above $2 million and a 4 percent transfer fee on units that sold above $4 million, the potential revenue raised would be much more substantial. This more progressive tax regime would raise a total of $29.8 million in these six luxury buildings.

- A Boston household of three needs an income 50 percent higher than the Area Median Income to be able to afford a home in the Boston metro area.

- 47 percent of renters and 29 percent of homeowners in Suffolk County are cost-burdened.

- 55 percent of renters in the Boston metropolitan area have reported that their rent payments increased within the past year.
Beacon Hill Inaction Costs Boston Tens of Millions

Boston is facing an extreme and acute affordable housing crisis, adversely touching tens of thousands of its residents. This problem affects both homeowners and renters. A significant number of renters in Massachusetts and Suffolk County are cost-burdened, making it very difficult to save money and purchase a home.

A report published this past April by Harvard University’s Joint Center for Housing Studies found that to afford a median priced home in 2022 in the Boston-Cambridge-Newton, MA-NH area, an annual income of $181,254 is required.¹ This is approximately 50 percent and 90 percent above the area median income (AMI) for a household of three or a single individual, respectively, in Boston.² In other words, there is a huge gap between the median income and the income needed to purchase a median priced home. An individual needs to earn $87.14 an hour to afford a home meanwhile the area median income earner is paid $47.19 an hour and the working minimum wage in Massachusetts is currently $14.25.³

We do not know how many residents in Boston or Massachusetts earn $181,000 or more a year, but we can roughly estimate how many people are locked out of homeownership. The latest available statistics from the Internal Revenue Service (IRS) demonstrates that 921,670 of the tax returns filed in Massachusetts in 2019 reported an income of $100,000 or more.⁴ This accounts for 26.4 percent of all tax returns filed. We can undoubtedly assert that about 73.6 percent of all Massachusetts residents who filed a tax return in 2019 would not be able to afford a median priced home in Boston, and safely assume that a higher percentage than that are locked out of homeownership.

It is fortunate that the City of Boston has led the Commonwealth in attempting to meet the housing needs of some of the most economically precarious and vulnerable residents in the region. The City has donated land, increased zoning density, and devoted considerable public resources to

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³ The Omni Calculator was used to calculate hourly wages. Salary to Hourly - Paycheck Calculator. Accessed on August 18, 2022: https://www.omnicalculator.com/finance/salary-to-hourly
support private developers and nonprofit community development organizations – as well as maintaining over 12,600 units owned by the Boston Housing Authority. Boston has over 55,000 units of income-restricted housing, including public housing, roughly 20 percent of the housing stock.⁵

Between 2011 and 2020, the City of Boston increased their housing stock by producing 35,962 new units.⁶ A total of 20 percent of new production is classified as income-restricted. But the continual price increases in both the home and rental markets make it difficult for anyone making less than $100,000 a year to just afford living in the City. This highlights the need for the City of Boston to curb real estate speculation and collect more revenues that can be invested towards the expansion of housing production that directly benefits middle-income households and the most economically vulnerable.

In December 2019, Boston’s City Council passed legislation to create a luxury real estate transfer tax that would generate revenue for affordable housing investment.⁷ They followed the example of other cities with high-priced housing like San Francisco by proposing a tax on luxury transfers. The City of Boston then initiated a home rule petition to request that the General Court grant Boston the right to levy this transfer fee. There the proposal has languished.

In March of this year, Mayor Michelle Wu signed a renewed home rule petition to implement a transfer fee of up to two percent on real estate sales of $2 million or more in the City of Boston with the goal of raising $100 million.⁸ Three months later, she pushed for its passage, but to no avail.⁹ The proposal remains idle.

Beacon Hill inaction has cost the City of Boston tens of millions, perhaps hundreds of millions, of dollars of revenue that could have been deployed to help solve the city’s housing problems. Based on our analysis of real estate sales at six select luxury properties, focusing on dwelling units

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valued starting at $2 million, over $12.4 million that could have been deployed has been left on
the table since mid-December 2019. If we had levied a transfer tax on every sale in these six
buildings, $19.8 million would have been raised and invested towards affordable housing.

Cost-Burdened Households

The standard definition for affordability at the federal level is whether a household spends 30
percent or less of their income on housing expenses, most specifically on mortgage or rent
payments plus utilities. Any household who spends 30 percent or more of their income are cost-
burdened and those who spend 50 percent or more are severely cost-burdened.

According to the 2020 American Community Survey, 47 percent of renters\textsuperscript{10} and 29.1 percent of
homeowners\textsuperscript{11} in Suffolk County are cost-burdened. These are astoundingly high numbers, but
equally as alarming are the number of households in Suffolk County that are severely cost-
burdened, 25 percent of renters and 13 percent of homeowners. The rates of cost-burdened
households in Suffolk County are higher than what is seen at the state level.

When one takes a look at the Boston rental market, the high number of cost-burdened renters is,
unfortunately, not surprising. Rents in the City have increased 7.9 percent in the past year alone
(from August 2021 to August 2022) and an analysis by the Institute for Policy Studies of the latest
Household Pulse Survey conducted by the US Census Bureau found that 55 percent of renters
in the Boston metro area have reported that their rent payments increased within the past year.

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\textsuperscript{10} US Census Bureau. 2020 American Community Survey 5-Year Tables [Data Set]. “B25070, Gross Rent As a Percentage of
Household Income in the Past 12 Months.” Accessed on August 16, 2022:

\textsuperscript{11} US Census Bureau. 2020 American Community Survey 5-Year Tables [Data Set]. “B25091, Mortgage Status By Selected Monthly Owner Costs As a Percentage of Household Income in the Past 12 Months.” Accessed on August 16, 2022:

\textsuperscript{12} Apartment List. "Boston, MA Rental Market Trends: September 2022 Boston Rent Report." Accessed on September 6, 2022:
https://www.apartmentlist.com/rent-report/ma/boston
renters in the Boston metro area have reported that their rent payments increased within the past year.\textsuperscript{13}

The Cost Burden of Housing in Massachusetts
Percent of homes that are cost-burdened, by county (2022)

A recent poll conducted by MassINC found that 84 percent of likely voters this November want their state representatives to make tackling the cost of housing a priority.\textsuperscript{14} Legislative tools like a


transfer tax will help the City of Boston to raise revenue that can be invested in affordable housing and help discourage speculative behavior in the real estate market, thereby putting a downward pressure on housing and rental prices.

# Luxury Building Profiles

As of September 1, 2022, 654 of the 841 residential units in the six luxury buildings profiled in this report have been sold. According to our analysis of real estate records, total sales are currently over $2.1 billion. A third of the units are owned either by an LLC or Trust. Although 28 units were transferred to them at a very low cost, they account for over $929.2 million, or 43 percent, of total sales. The average sale price of a unit purchased by an LLC or Trust is $4.2 million while the median is $3.1 million. Nine of the ten most expensive units sold were purchased either by an LLC or a Trust.

Forty-one of the purchased condominiums in these complexes were later resold, usually flipped at a profit with financial gains ranging from $47,900 to $1.5 million. Property flipping raked in a total of $11.7 million in profits for the sellers. Unit 2804 at One Dalton Place was originally sold to Race One Dalton 2804 LLC, a limited liability company incorporated in Massachusetts, for $2.8 million on March 17, 2020. Fifteen months later, the condo was resold at a $150,000 profit to another Massachusetts incorporated company, Mannamaui LLC.

A two percent transfer tax on all residential units sold at $2 million or more would have generated $19.8 million in tax revenue. The two transactions at Unit 2804 One Dalton alone would have generated $35,000. A more progressive tax regime, with a 4 percent transfer fee on units sold at $4 million or more, would generate a whopping $29.8 million.

# Echelon Seaport

The luxury Echelon Seaport is a mixed-use property that features two condominium towers. A third tower, the Alyx, are rental units. The design is intended to make the complex resemble an urban resort. All three towers either share or have similar amenities: indoor and outdoor pools; an

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15 Out of the 41 units that were resold, 8 resulted in a financial loss. The most significant was Unit 4302 at One Dalton Place where the LLC incurred a loss of $705,000. Two units yielded no profit since they were sold at the price it was purchased.
indoor basketball court and fitness center with a yoga studio; a spa and a wine-tasting room; and a multitude of lounges, some designed for quiet leisure and others with an explicit purpose to network. A British hospitality firm that specializes in providing luxury service, Regent Hotels and Resorts, was hired to ensure that residents and visitors get a five-star experience.

Towers at 133 Seaport Boulevard and 135 Seaport Boulevard have a total of 447 units. As of September 1st, 364 have been sold, ranging in price from $150,700 to $5.8 million. Compared to the other buildings surveyed in this report, the number of LLCs and Trusts that purchased property at the two Echelon towers is relatively low, with only 19 percent of the units owned by shell entities.

The total sales from these two towers is $658.7 million. A two percent transfer tax on units sold above $2 million would have generated more than $1.8 million in revenue for the City of Boston. If we included a more progressive tax regime with a four percent transfer tax on apartments sold above $4 million, a total of 16 units in these two towers, it would generate an additional $291,412 bringing the total tax collected at $2.1 million.

83 units remain unsold. The average ($1.7 million) and median ($1.5 million) sale prices at Echelon are below the two percent tax threshold and, in theory at least, this would suggest that no additional revenue could be raised. However, this is unlikely since many of the available units are located on floors where the sale price of the majority of the units are greater than $2 million, including 8 unsold penthouses.

**Pier 4**

Across the street from Echelon is Pier 4, another luxury apartment complex in the Seaport District. Pier 4 is very attractive to residents, visitors and potential buyers due to its proximity to the Boston Harbor, providing an excellent opportunity for dining by the waterfront with just a two-minute walk. It is adjacent to a plethora of restaurants, bars and cultural institutions like the Institute for Contemporary Art. The complex also boasts scenic views of the Financial District, a rooftop sun deck and pool, and a twenty-four hour white glove concierge service.

Of the six buildings surveyed in this report, Pier 4 is the only one complex where every unit is sold. The price range for the 106 units are a bit more impressive compared to the Echelon, spanning
between $1.29 million for a one-bedroom apartment to a $15.2 million penthouse. Nearly half of the units, 45 percent, are currently owned by an LLC or a Trust, including six out of the ten penthouses the luxury complex houses.

The total sales generated by this building is a little more than $460 million. There were 106 transactions/transfer, out of a total of 136, where the sale price was at least $2 million or more. A two percent transfer tax on those 106 transactions would have yielded $4.28 million in tax revenue. Thirty-six units sold for $4 million or higher, so a 4 percent transfer surcharge would generate an additional $1.7 million for a total of $5.9 million in revenue.

One Dalton Place

Located in the heart of Boston’s Back Bay, the private residences of One Dalton Place are marketed as a peak luxury experience. The extravagance of One Dalton is intended to catapult Boston into a world-class city that attracts global capital. The luxury branded apartments are conspicuous in Boston’s skyline. Condominiums sit on top of a five-star hotel and residents have access to the concierge trained by the Four Seasons Hotel. The amenities include a private theater with surround sound, a golf simulator, private yoga and pilates studio, and a handful of in-residence restaurants. One Dalton is next door to the Prudential Center, a mixed-use complex that includes a popular shopping center, and a couple of blocks away from the storied Newbury Street, making it an ideal place to live.

There has been a total of 161 transfers since One Dalton came on the market in 2019. This has resulted in $893.6 million in sales as of September 1st. If the remaining 34 unsold units are purchased at its current average ($5.5 million) or even median ($4.8 million) price, One Dalton will become a billion-dollar building.

A two-floor penthouse was sold for $34 million in January of 2020, making it the second most expensive condo ever purchased in Massachusetts.16 It was rumored that billionaire Michael Dell

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made the extravagant pick up, but this could not be confirmed. The penthouse is currently owned by a nominee trust, a legal instrument used to ensure a layer of anonymity for the true owner or beneficiary. Interestingly, a little over two-thirds of the units in the building are owned by LLCs or Trusts, calling attention to the fact that the more expensive the units, the higher degree of real estate trust or LLC ownership.

There were 137 transactions of $2 million or more and 92 transfers of $4 million or more at One Dalton. A straightforward 2 percent transfer fee would have generated $12.1 million in revenue. But our more progressive recommended rate that adds a 4 percent transfer fee on units over $4 million would allow the City to collect $19.5 million. No small sum.

If we assume that the remaining 34 unsold units were purchased at its average sale price, they would generate an additional $2.4 million at the 2 percent rate or $3.4 million more with our more progressive rate. We’re looking at more than $14 million or $20 million in total potential revenue, respectively.

The Archer

Much less conspicuous but equally as lavish is The Archer, located a couple of minutes walking-distance from the Massachusetts State House in Beacon Hill. It is a new construction that is close to the Charles River and a number of restaurants and boutique shops. The building recently put its luxury units on the market. Its first transaction was completed on November 5, 2020 and sold for $3.4 million. The building carries all of the usual amenities expected from a luxury condominium complex: 24-hour concierge service that goes above and beyond, an abundance of social spaces that give residents the opportunity to interact with their neighbors, and a rooftop terrace.

The Archer has nearly sold half of its available 62 units for a total of $85.1 million in less than two years. While only 8 units have been purchased by an LLC or Trust, including a penthouse that sold for $8.75 million, they represent more than a quarter of the complex's sales. The other penthouse sold for $8 million. The transfer tax revenue from these two penthouses alone (the third remains unsold) would have raised a quarter of a million dollars in tax revenue.
Twenty of its 29 transactions have sold at $2 million or more. A two percent transfer fee would have raised $634,800 while a more progressive rate that kicks in on the five properties that sold at $4 million or more would have generated a total of $852,100.

If we assume that the remaining 33 units will be purchased at its average sale price of $2,837,920, the City could safely expect that it would raise an additional $553,027, making The Archer a building that would yield over a million dollars in revenue.

The Sudbury

Not too far from The Archer is The Sudbury Condominiums, an even newer construction located directly next to Boston’s most famous open-air market, the Haymarket. It is a prime location and within a short walking-distance to Faneuil Hall, the famous North End neighborhood, and the TD Garden. The amenities are truly exceptional: a Sky Deck Lounge with stunning views of Boston's waterfront and the whole city, a rooftop garden, pool, a state-of-the-art fitness center, a sports simulator, and a private dining room to entertain guests.

Its first apartment was purchased last June by an LLC incorporated in Massachusetts for $6.5 million. The next two units sold were also bought by an LLC, but incorporated in Delaware, a state famous for the registration and formation of anonymous limited liability companies.

While only 18 of its 55 units have been sold thus far, it has already acquired $82.3 million in sales. The average and median sale price at The Sudbury is nearly identical, $4.8 million and $4.58 million, making this luxury highrise a rival to One Dalton in terms of property value. Not one unit has sold for under $3 million thus far.

Nearly $1 million dollars could have been raised with a two percent transfer fee on 17 transactions here at The Sudbury. And considering the high market value of these flats, a more progressive rate brings the potential revenue to $1.3 million. If the remaining 37 units sold at its average sale price, it could easily bring in an additional $2.1 million in taxes.

17 Two units at Sudbury were purchased in one transaction.
Recommendations

Invisible forces are disrupting housing markets, including Boston, fueling the most intense housing crisis in a generation. At the national level, by one estimate, the US has a shortage of more than 5.5 million units of housing. Cities like Boston have stepped up to the challenge, encouraging and subsidizing the production of public housing, nonprofit-owned rental housing, and providing incentives to private developers. But these substantial investments, everyone acknowledges, fall short of the demand.

We have identified three invisible forces that are currently facing Boston. The first is an explosion in short-term rentals, which remove rental apartments and houses from the market. Second is the increasing shift towards corporate ownership of rental housing. Corporate entities purchased 8,990 single-to-three family homes in 2021, a 15 percent increase compared to 2020. And third is an increase of global billionaires seeking to park their assets in US real estate markets. These forces compound the existing problem of inequality-fueled gentrification, driving up the cost of

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land and housing, putting homeownership out of the reach of the working-class, and increasing housing insecurity for tenants.

In some jurisdictions, anonymous buyers are snatching up thousands of single-family homes and apartments, raising the question for policymakers: Who is buying our community? We recommend the following actions:

1. Pass Boston’s Home Rule Petition for a Transfer Tax
2. Add Progressive Transfer Tax Thresholds
3. Local Real Estate Ownership Disclosure
4. Higher Taxes on Anonymous Ownership (‘Secrecy Tax’)
5. Levy an Empty Homes Tax

I. PASS BOSTON’S HOME RULE PETITION FOR A TRANSFER TAX
The General Court of the Commonwealth of Massachusetts should act today to pass Boston’s home rule petition to enable the City the ability to levy a real estate transfer tax on all properties that sell for more than $2 million.

II. ADD PROGRESSIVE TRANSFER TAX THRESHOLDS
San Francisco added additional and higher transfer tax rates on super-luxury units. Boston could levy a 4 percent tax on units over $4 million, on top of the proposed 2 percent transfer tax levied on transfers over $2 million. This would generate a significant amount of revenue for the City. As this report demonstrates, a more progressive tax regime on the six luxury buildings profiled would generate nearly $10 million more in tax revenues for the City.
III. LOCAL REAL ESTATE OWNERSHIP DISCLOSURE

Ownership over the housing stock in recent years is slowly being concentrated in the hands of corporate landlords. They are pricing out middle-income and working-class buyers from the housing market. Corporate landlords are under pressure from investors and are more likely to aggressively increase rent payments and file for evictions. They often have a poor track record with maintenance and compliance with building codes, and use technology to automate property management and extract fees from tenants.\(^\text{19}\)

The increase of corporate entities purchasing real estate is also closely associated with a lack of transparency. The widespread use of legal instruments like LLCs to conceal the identity of a property owner has generated great concern since they not only fuel housing speculation, but can easily facilitate money laundering and other illegal activities.

The Treasury Department’s Financial Crimes Enforcement Network (FINCEN) has been working to monitor the use of illicit funds in real estate. It maintains a private database that is not available to local policymakers, tenants, organizers, or affordable housing advocates. To get a clearer picture of who is buying our communities, some cities and states are requiring ownership disclosure. They advocate for a public registry of what is called the true “beneficial owners.”

A number of countries in the European Union have a public registry with varying degrees of accessibility. Germany charges a small fee for access, France’s registry is free of charge, and Denmark provides both free access and the ability for the public to download all of the data in the

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The United States needs to follow their, particularly Denmark’s, example. Public disclosure could be implemented on a city, county, or state-by-state basis before a national registry is established. Local lawmakers in Washington, D.C. and Philadelphia have passed real estate disclosure laws. New York passed legislation in 2019 that required the disclosure of every individual that has an ownership interest in an LLC when purchasing a property. New York State would then allow the public access to this information via a Freedom of Information Law (FOIL) request. The real estate industry reacted swiftly and successfully curtailed many aspects of the bill, exempting condominiums from disclosure.

Our analysis of data from the Suffolk County Registry of Deeds demonstrates that 220 of the 654 units, or 34 percent, from six luxury condominium buildings are currently owned by LLCs or Trusts and they account for 43 percent of the total sales amount. The LLCs in these six complexes are incorporated in states like California, Delaware, Florida, Massachusetts, New York, South Dakota, Texas, and Utah. The beneficial owners behind all of these entities are not always clear and, for them to have legal standing, we should know who has membership interests in these legal structures.

IV. HIGHER TAXES ON ANONYMOUS OWNERSHIP (“SECRECY TAX”)

As an interim measure, prior to the creation of a fully accessible public registry, properties that are owned by anonymous trusts or limited liability companies should be required to pay an annual property surtax and a 1 percent higher transfer tax rate.

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V. LEVY AN EMPTY HOMES TAX

A number of jurisdictions have tried to address the problem of vacant properties and create incentives to use their housing stock to house people, not wealth. Vacancies are not an uncommon practice when corporate entities purchase homes. A number of jurisdictions have levied “empty home taxes,” generating funds for occupied rental housing and homeownership.

There is no universal definition for vacancy, but that has not stopped several jurisdictions from presenting their own interpretations of what constitutes a vacant property. They can range from over six months of unoccupancy in a calendar year to fewer than 90 days. Currently, Washington D.C. is one of the few cities to implement a tax on vacant properties. This is reflected in the owner’s property taxes. An occupied home pays 85 cents per $100 of assessed value. If the Department of Consumer and Regulatory Affairs in D.C. classifies the property as empty, the rate jumps to $5 per $100. If the condition of the housing unit is unacceptable or blighted, the rate doubles to $10 per $100 of assessed value. Political leaders in expensive cities like New York, San Francisco, and Los Angeles have indicated an interest in following suit, and Boston should as well.


Endnotes


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