INTRODUCTION

Boston, first incorporated as a town in 1630, and as a city in 1822, is one of America’s oldest cities, with a rich economic and social history. What began as a homesteading community eventually evolved into a center for social and political change. Boston has since become the economic and cultural hub of New England.

As the region’s hub, Boston is home to nearly 590,000 residents, many institutions of higher education, some of the world’s finest inpatient hospitals, and numerous professional sports and cultural organizations. Boston-based jobs, primarily within the finance, health care, educational, and service areas, numbered more than 630,000 in 2004. Millions of people visit Boston to take in its historic neighborhoods, attend cultural or sporting events, and conduct business.

The City provides a wide range of programs and services to meet the diverse needs of its many residents and visitors. Under the direction of Mayor Thomas M. Menino, the City is also aggressively pursuing new economic opportunities to ensure Boston will emerge as a global leader in the twenty-first-century economy.

Boston’s Changing Population

Over the thirty years between 1950 and 1980 Boston’s population declined from 801,444 to 562,994. This decline can largely be attributed to families with children fleeing to the suburbs based on a perception of better schools and less crime. Since 1980, however, the City’s population has stabilized and grown slightly. The 2000 U.S. Census records the City’s population at 589,141, representing a 2.6% increase over the 1990 population and a 4.6% increase over 1980.

A wide range of ethnic backgrounds and countries of origin can be found in Boston’s population. The most recent census results confirm that people of color now make up the majority of Boston’s population for the first time in its history. Boston’s rich cultural heritage is also reflected in the diversity of its neighborhoods. In recognition of the fact that many of the people who move to Boston each year come from different cultural backgrounds and have a first language other than English, the Mayor has created the Office of New Bostonians. The mission of this office is to strengthen the ability of residents from diverse cultural and linguistic communities to play an active role in the economic, civic, social, and cultural life of the City of Boston.

Boston’s Role in the Regional Economy

The City of Boston is the 24th largest city in the United States. The U.S. Bureau of the Census reported Boston’s population as 574,283 in 1990 and as 569,165 in 2004. Boston is the center of the 8th largest Combined Statistical Area (CSA) in the nation. The Boston CSA had a total population of 5.8 million in 2004.
In addition to having one of the largest population concentrations, Boston also ranks among the highest in concentrations of employment and income in the U.S. In 2004, Boston supplied 631,851 jobs, or approximately one out of every six jobs in Massachusetts or one out of every fourteen jobs in New England. Boston provides employment opportunities for many people who live outside of the City. In 2004, total Boston-based jobs outnumbered the employed resident population by more than two times. The City had 9.3% of the state’s population in 2000, but measured in terms of jobs, Boston’s economy accounted for approximately 16% of the Massachusetts economy in 2003.

In terms of income, Suffolk County, which is comprised of the City of Boston and the towns of Chelsea, Revere, and Winthrop, ranked 52nd in per capita personal income out of three thousand counties in the U.S. in 2003. Suffolk County was the 82nd largest county in the United States by population in mid-2004.

The attributes that make Boston such a great city in which to conduct business also make it a great destination for tourists. According to the Greater Boston Convention and Visitors Bureau, an estimated 17.2 million people visited Boston in 2005, up from 15.1 million in 2004. While the events of September 11th and a national recession had reduced visitors to Boston and other tourism and business centers, the City is once again experiencing a steady increase in visitors.

Boston is an attractive destination for conventions, meetings, and gate shows. The Boston Convention and Exhibition Center (BCEC), designed to accommodate larger conventions, opened in June 2004. The BCEC is located on a 60-acre site in South Boston. The facility contains 516,000 square feet of contiguous exhibition space. This facility, along with new hotel projects in the City, has given a significant boost to the local economy and helped to position Boston as a world-class convention city of the future.

Boston also has three sites for small and medium size conventions: the John B. Hynes Veterans Memorial Convention Center, the World Trade Center, and the Bayside Exposition Center.

With high occupancy rates and room rates, and with the opening of the new BCEC, Boston continues to attract new hotel construction. Seven new hotels representing 2,417 new rooms were under construction as of March 2006. Four additional hotel projects have received approval from the Boston Redevelopment Authority with three more seeking approval.

In July 2004, the City hosted its first-ever political convention, the Democratic National Convention, bringing more than 35,000 delegates, media and staff to the City and metropolitan area.

Convention guests are estimated to have filled more than 20,000 hotel rooms and spent over $43 million on hospitality, retail and transportation

<table>
<thead>
<tr>
<th>Key Indicators of Boston’s Economy</th>
<th>1970</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>Recent</th>
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</thead>
<tbody>
<tr>
<td>Population</td>
<td>Total Population</td>
<td>641,071</td>
<td>662,994</td>
<td>574,283</td>
<td>580,171</td>
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<tr>
<td>% Minority Population</td>
<td>18%</td>
<td>30%</td>
<td>37%</td>
<td>51%</td>
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<tr>
<td>Income</td>
<td>Median Household Income</td>
<td>$7,935</td>
<td>$12,530</td>
<td>$29,180</td>
<td>$39,629</td>
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<tr>
<td>Education</td>
<td>% High School Graduate</td>
<td>34%</td>
<td>35%</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>% Some College Completed</td>
<td>9%</td>
<td>13%</td>
<td>19%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>% College Graduate</td>
<td>10%</td>
<td>25%</td>
<td>35%</td>
<td>36%</td>
<td></td>
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<tr>
<td>Employment</td>
<td>Unemployment Rate (resident)</td>
<td>12.8% (75)</td>
<td>7.8% (83)</td>
<td>8.6% (91)</td>
<td>2.7% (70)</td>
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<tr>
<td>Number of Jobs</td>
<td>578,125</td>
<td>572,078</td>
<td>622,433</td>
<td>688,077</td>
<td>631,851 (04)</td>
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<td>% Blue Collar Jobs</td>
<td>45%</td>
<td>40%</td>
<td>33%</td>
<td>31%</td>
<td></td>
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<tr>
<td>% White Collar Jobs</td>
<td>55%</td>
<td>60%</td>
<td>67%</td>
<td>69%</td>
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<tr>
<td>% Manufacturing Jobs</td>
<td>11%</td>
<td>9%</td>
<td>5%</td>
<td>4%</td>
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<tr>
<td>% Trade Jobs</td>
<td>22%</td>
<td>16%</td>
<td>13%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>% Finance Jobs</td>
<td>13%</td>
<td>13%</td>
<td>15%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>% Service Jobs</td>
<td>25%</td>
<td>36%</td>
<td>42%</td>
<td>46%</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>Office Market Vacancy Rate</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
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<tr>
<td>Housing</td>
<td>Median Single Family House Price</td>
<td>na</td>
<td>$71,700</td>
<td>$174,100</td>
<td>$329,500</td>
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<tr>
<td>Housing Units</td>
<td>232,400</td>
<td>241,300</td>
<td>249,791</td>
<td>250,863</td>
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<tr>
<td>% Vacant</td>
<td>6%</td>
<td>10%</td>
<td>9%</td>
<td>1%</td>
<td></td>
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<tr>
<td>Condominium Units</td>
<td>na</td>
<td>4,500</td>
<td>33,029</td>
<td>36,254</td>
<td>41,208 (04)</td>
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<tr>
<td>% Condominium Units</td>
<td>na</td>
<td>2%</td>
<td>13%</td>
<td>14%</td>
<td></td>
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<tr>
<td>% Units Owner Occupied</td>
<td>27%</td>
<td>27%</td>
<td>31%</td>
<td>32%</td>
<td></td>
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<tr>
<td>Rental Vacancy (Boston Metro Area)</td>
<td>na</td>
<td>na</td>
<td>8%</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>

Sources:
Boston Redevelopment Authority, U.S. Census Bureau,
Massachusetts Division of Employment and Training.

Table 1

138 Boston’s People and Economy
purchases during their average 6.9 day length of stay. This spending, combined with spending by the Boston 2004 Host Committee, the Democratic National Convention Committee and privately hosted parties and events, generated an estimated economic impact of $163.3 million in the five-county area that includes Boston.

This total is net of costs associated with displaced events, tourism and commuter traffic to the region. None of the predicted commuting chaos occurred as residents adapted well to road closures and heightened security measures in place for the week. In addition, public safety organizations from across the state and across levels of government joined together cooperatively to oversee an incident-free convention. The City received both tremendous publicity and praise for its efforts as host.

**Boston's Changing Economy**

The nature of Boston's economic base has changed dramatically over the past three decades. In 1970, manufacturing and trade jobs accounted for 33% of the total economy, while financial and service sector jobs totaled 38%. In 2000, manufacturing and trade jobs accounted for only 16% of the total economy while financial and service sector jobs totaled 62%. These trends mirror a national movement from an industrial-based economy to a service-based economy.

The City's resident workforce is undergoing a transformation as well. Of the 266,505 residents working in Boston in 1970, 45% held blue-collar jobs and 55% held white-collar jobs. In 2000, of 285,859 Boston resident workers, those holding blue-collar jobs fell to 31%, and those employed in white-collar occupations rose to 69% (Table 1.). The majority of these white-collar jobs are within finance, health care, education, and other broad-based service industries.

The changing needs of a service and information-based economy have increased the demand for a better educated and more highly skilled workforce. In 2000, 79% of the adults in Boston had completed high school, compared to 53% in 1970. A full 36% of adults in Boston had completed college in 2000, compared to only 10% in 1970.

**The Role of Higher Education, Health Care, and Financial Services**

Higher education, health care, and financial services play a major role in Boston's economy. An examination of Boston's 52 largest private employers in 2005, shows that 38 are involved in these growing sectors.

Many of the nation's finest research and teaching hospitals are located in Boston, including Massachusetts General Hospital, Brigham and Women's Hospital, Beth Israel/Deaconess Hospital, Boston Medical Center, New England Medical Center and Children's Hospital, as well as numerous community-based health centers. In total there are 20 inpatient hospitals in the City. The City is also home to the medical and dental schools of Harvard University, Tufts University and Boston University. In 2004, there were an estimated 106,630 people employed in health services in the City.

Boston also hosts 35 universities, colleges, and community colleges, with a combined enrollment of 137,190 students in the fall of 2003. Included among the City's colleges and universities are some of the finest educational institutions in the country, including Boston College, Boston University, and Northeastern University.

These institutions of higher education have a major impact on the City's economy. Because many of these students remain in Boston after graduation, Boston's educational institutions are a major source of new highly skilled professionals for the City's workforce. Boston's colleges and universities add to the economy in other ways as well. Since 1998, over 5,000 new dormitory beds were added to Boston-based campuses, and at the end of 2005, two more undergraduate dormitories were still under construction.

Many of the country's leading financial services firms are located in Boston, including Fidelity Investments, Putnam Investments, and State Street Bank & Trust Company. The City also has the distinction of being the birthplace of the mutual fund industry. In 2004, there were an estimated 94,000 people employed in the financial services, insurance, and real estate industries in the City.
Transportation

A key to Boston’s economic health is the City’s ability to transport residents, workers, and visitors efficiently and safely to their intended destinations, whether in the City or throughout the region.

The “Big Dig”, or Central Artery Tunnel, has recently opened, connecting the Massachusetts Turnpike to Logan Airport and burying the elevated interstate 93 under the City, reopening views of Boston Harbor not seen for half a century. The Mayor’s “Crossroads” project is reconnecting long disconnected city neighborhoods by rebuilding the roads that once ran between them. In addition, the Rose Kennedy Greenway design is nearing completion as the Mayor has announced a contest to develop ideas for an opening celebration. This large downtown swath of land will be an enormous benefit to residents, workers and visitors to the City of Boston for years to come.

The metropolitan Boston roadway system provides commuters access to the City through surface arteries and three limited access interstate highways that connect Boston to the national highway system. Interstate 90, the Massachusetts Turnpike, just recently extended as part of the Central Artery Project, leads westward from Logan Airport through downtown Boston to the New York State border. Interstate 95, the East Coast’s principal north-south highway, connects Boston to New Hampshire and Maine to the north and New York City and Washington D.C. to the south. Interstate 93, another north-south highway, extends from just south of the City to New Hampshire. Major industrial parks and high-technology companies line these transportation arteries.

Boston’s public transportation system reaches into all of the City’s neighborhoods and is linked to the commuter rail and Amtrak systems, connecting millions of people to the central City. Several major rail initiatives are increasing access and reducing travel time. The Massachusetts Bay Transportation Authority (MBTA) is constructing the Silver Line in three phases to operate as part of its core downtown transit system. Phase 1 & 2 provides rapid transit bus services connecting the Seaport district to Downtown and the Chinatown and Roxbury neighborhoods. Phase 3, now in planning and design, will include connections between the first two phases, Logan Airport and South Station. Also, since 1991, Amtrak has spent $1.8 billion on a high-speed Boston to New York rail line called Acela. It is now possible to travel between these two cities in just over three hours. In addition, Amtrak added passenger service between Boston and Portland, Maine in 2001.

In 2003, Boston’s Logan International Airport was the most active airport in New England, the 18th most active airport in the United States, and the 35th most active airport in the world. In 2004, 26 million domestic and international passengers were served. Logan Airport is also very important to the economy as a center for processing air cargo. In 2003, Logan ranked 19th in the nation in total air cargo volume.

The Port of Boston provides New England businesses with excellent deep-water port facilities and access to world ports, as well as feeder service to Halifax, Nova Scotia, and New York. Since 1998, the Port of Boston ranked as the 12th largest Atlantic coast seaport by container volume shipped. The Port of Boston has also become a major cruise ship port, hosting 200,836 cruise ship passengers in FY04 – down 3.1% from FY03, but up 7.9% from FY02.

Economic Outlook

Currently, the City is emerging from an economic downturn that has affected the nation, region, and state. As with any economic entity, the City of Boston has seen good times and bad. During the 1960s, the economy thrived and unemployment was consistently below 6%. In the 1970s, Boston experienced the same pain felt across the country as a national recession took hold. The 1980s produced the “Massachusetts Miracle” and launched a Massachusetts Governor’s bid for the presidency. The early 1990s gave way to recession again with unemployment over 8% and a collapsing real estate market. The late nineties expansion led to invited low unemployment, commercial development and increased home values throughout the City and the region.

Since FY2000, building permit revenue has indicated a strong construction activity level in the City, exceeding an estimated $2 billion each year. In FY05, the City’s construction activity level was...
estimated at $2.73 billion, up 2.2% from FY04, and up 21.8% from the five year low point in FY02.

Across the nation the housing market remained strong throughout 2005 with Boston among the strongest, although the most recent data in the Greater Boston market indicate prices have finally peaked and are starting to soften. According to the Federal Reserve Bank of Boston (FRBB), the second quarter 2006 median sales price of an existing home in the Boston metropolitan area increased 0.6% from the same quarter of the prior year to $421,200. Since the fourth quarter of 1997, the median sales price has increased an astounding 115% in the Boston metropolitan area (Figure 2).

![Cumulative Change in Repeat Sales Home Price Index Quarterly, June 1998 to June 2006](image)

**Figure 3**

needed support to prices. And interest rates are beginning to rise, likely adding some temperance to price increases in the near future.

Apartment rents have softened as vacancy rates have risen with higher home ownership rates and unemployment. However, the market is still one of the tightest in the nation with median monthly advertised asking rents of about $1,450 for a two bedroom apartment in 2004, down 3.0% from $1,500 in 2003.

Demand for office space in Boston improved in 2006 with an overall office vacancy rate of 9.4% through the second quarter compared to 2005 with an annual vacancy rate of 11.9%. The rate has finally dipped to below the 9.7% in 2002, and is approaching the 5.2% in 2001 (Figure 4).

The FRBB Repeat-Sales Home Price Index shows an increase of 2.8% in the Boston metropolitan area for the second quarter 2006 over the same quarter 2005, and a -0.6% decline over first quarter 2006. The last negative quarterly growth seen in this index was first quarter 1995. With average quarterly growth of 2.3% since second quarter 1995, price appreciation has indeed been rapid (Figure 3).

Although house price appreciation has continued in recent quarters, the risks of Boston developing a speculative bubble in real estate is lessened by several other trends. Income growth is beginning to pace home price appreciation, lending much

**Greater Boston Median Existing Home Sales Price**
Quarterly, 1997Q4 to 2006Q2

**Figure 2**

Because office vacancy rates increased since 2001, rents have declined. The average asking rent per square foot for office space in the Boston Central Business District (CBD) in September 2005 was $34.49, down 3.3% from CBD asking rents the year before (Figure 5), adding to a cumulative drop of 58% since the 2000 peak.

Despite a fairly high vacancy rate, Boston remains one of the top office markets in the country with over 66 million square feet of office space. Boston is the sixth ranked market by vacancy rate.
was improving, but increased supply out-paced demand, keeping occupancy at a low 71.1% and forcing ADR down to $155.52. In 2004, at the same time that 4.6% more rooms became available, ADR and occupancy increased to $167.49 and 74.4%, the highest for both measures since 2000. Preliminary 2005 data states that occupancy remained steady at 74.4%, and ADR had increased to $174.70.

The decision to build the BVEC stimulated considerable new hotel development. Between July 1997 and December 2005, twenty-five new hotels and five expansion projects were completed. Seven more hotels are now under construction.

**Economic Development**

Recent trends indicate that Boston's economy was growing steadily prior to the 2001-2002 recession, and is returning to growth along with the nation and state. With the election of Thomas M. Menino as the Mayor of Boston, a new cabinet form of government was established to create greater efficiency and improve the delivery of city services. Within this new structure, a Chief Economic Development Officer (CEDO) cabinet position was created. The CEDO is charged with developing a successful strategy for promoting the economic viability of the City. Two of the major agencies responsible for economic development under this cabinet, the Boston Redevelopment Authority and the Economic Development and Industrial Corporation, have consolidated services to allow for a more coordinated, comprehensive approach to planning and development.

Recent public sector projects impacting the Boston economy include the Central Artery/Third Harbor Tunnel project and the Boston Convention and Exhibition Center. The federal government funded nearly half of the first project with the Commonwealth covering the rest of the cost, and the second project was a combined City/State effort, with the City covering approximately one-quarter and the Commonwealth three-quarters of the cost. The Central Artery/Third Harbor Tunnel project was the largest public works project in the country, with an estimated cost of $14.6 billion. It is estimated that this project employed 15,000 workers during the peak years of construction (1998 to 2001).
The Boston Convention and Exhibition Center (BCEC) Project was developed on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the Boston Redevelopment Authority (BRA) and the Massachusetts Convention Center Authority (MCCA). The facility includes over 516,000 square feet of contiguous exhibition space. The BRA acquired the site, relocated the tenants, and did site preparation which included demolition and environmental remediation, with costs totaling $237.6 million through March 2006. (The Commonwealth has reimbursed the BRA for $63.5 million of these costs.) The design and construction was funded by the Commonwealth and carried out by the MCCA which is now responsible for its operation. The BCEC began operations in June 2004.

In order to support the funding for the convention center, the City and the Commonwealth drew upon revenue sources which have a strong relationship to the new convention generated business, including an increase in the hotel excise tax rate in Boston and Cambridge, the full hotel excise tax for new hotels in Boston and Cambridge, the earmarking of certain state taxes in a convention center district, a car and truck rental fee in Boston, and the sale of additional taxi medallions in Boston. In spite of the increased rate, the hotel tax remains competitive with other major U.S. cities.

There are many other economic development projects proceeding in Boston. These include plans to develop the East Boston and South Boston waterfront districts, further enhancements to Boston’s neighborhoods through the Empowerment Zone and Main Streets initiatives, and continuing development of retail and business districts citywide. As mentioned earlier, improvements are planned to parks and neighborhoods to connect residents to the waterfront areas. In place of the old elevated central artery roadway, will be the new Rose Kennedy Greenway, which will reunite neighborhoods separated long ago with new open spaces and the restoration of original streets. In South Boston, in addition to the new convention center, there are also plans for hotel, retail, and residential housing development to attract new workers and visitors to the area.

Partnerships have and will continue to play an important role in revitalizing Boston’s neighborhoods. In January 1999, the City of Boston was designated an Empowerment Zone community by the U.S. Department of Housing and Urban Development. The ten-year Empowerment Zone designation brings with it $130 million in tax-exempt bonding authority and $100 million in grants to finance sweeping revitalization and job creation programs.

There are currently 19 Boston business districts participating in the Main Streets Program, a partnership between the City and the National Trust for Historic Preservation to improve the local business climate in neighborhoods. As of the end of December 2004, this program has created 540 net new businesses and over 3,600 net new jobs, improved the marketability and business strategy of business districts, and preserved the character of surrounding residential areas.

With a diverse economic base, support for local businesses, an educated work force, and strong tourism lure, Boston is a world-class city building for the future.