

Boston's People and Economy

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 over 596,000 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, are estimated at more than 650,000 in 2006. Millions of people visit Boston each year 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.

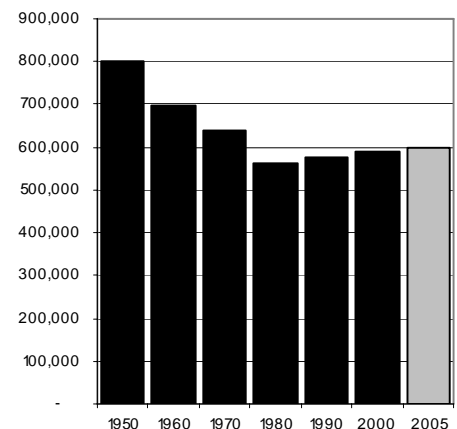
Boston's Changing Population

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 Population
1950 to 2000 Census, 2005 estimate

Figure 1

Boston's Role in the Regional Economy

The City of Boston is the 22nd largest city in the United States. The U.S. Bureau of the Census reported Boston's population as 574,283 in 1990 and issued a revised estimate of 596,638 in 2005. Boston is the center of the 5th largest Combined Statistical Area (CSA) in the nation. The Boston CSA had a total population of 7.4 million in 2005.

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 2005, Boston supplied an estimated 641,628 jobs, or approximately one out of every five jobs in Massachusetts or one out of every eleven jobs in New England. Boston provides employment opportunities for many people who live outside of the City. In 2005, total Boston-based jobs out-numbered 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 20% of the Massachusetts economy in 2005.

In terms of income, the City of Boston ranks 13th among U.S. cities in median household income. Boston's median household income in 2004 (in 2004 inflation-adjusted dollars) was \$45,892, up 7.8% from 2003.

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 17.6 million people visited Boston in 2005, up from 16.6 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) is located on a 60-acre site in South Boston and contains 516,000 square feet of contiguous exhibition space and is designed to accommodate larger conventions. This facility, along with new hotel projects in the City, has given a significant boost to the local economy. Fiscal 2006 was the second full year of operation for the BCEC. During fiscal 2006 the BCEC hosted 252,000 visitors (a 35% increase) who occupied 202,000 room nights (a 117% increase).

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.

In February 2007, the BCEC hosted the New England Boat Show, with over 50,000 attendees. The packed schedule for the remainder of the year includes North America's largest enterprise IT event, "AIM & On Demand," with an expected attendance of 35,000 in April, and four meetings (in May, August, October, and November) which each are expected to book in local hotels a total number of room nights exceeding 28,000.

With occupancy rates and room rates increasing since 2003, and with the filling up of the new

Key Indicators of Boston's Economy

		1970	1980	1990	2000	Recent Estimates
Population	Total Population	641,071	562,994	574,283	589,141	590,763 ('06)
	% Minority Population	18%	30%	37%	51%	51%
Income	Median Household Income	\$7,935	\$12,530	\$29,180	\$39,629	47,974 ('06)
Education	% High School Graduate	34%	35%	27%	24%	25% ('06)
	% Some College Completed	9%	13%	19%	19%	17% ('06)
	% College Graduate	10%	20%	30%	36%	42% ('06)
Employment	Unemployment Rate (resident)	12.8%('75)	7.8%('83)	8.6%('91)	2.7% ('00)	5.3%('06)
	Number of Jobs	576,125	572,078	622,433	688,077	641,628 ('05)
	% Blue Collar Jobs	45%	40%	33%	31%	34% ('06)
	% White Collar Jobs	55%	60%	67%	69%	66% ('06)
	% Manufacturing Jobs	11%	9%	5%	4%	5% ('06)
	% Trade Jobs	22%	16%	13%	12%	12% ('06)
	% Finance Jobs	13%	13%	15%	15%	10% ('06)
	% Service Jobs	25%	36%	42%	46%	45% ('06)
Real Estate	Office Market Vacancy Rate	2%	1%	15%	2%	8.2% (3Q'06)
Housing	Median Single Family House Price	na	\$71,700	\$174,100	\$329,500	\$388,000 (4Q'06)
	Housing Units	232,400	241,300	249,791	250,863	254,563 ('06)
	% Vacant	6%	10%	9%	1%	9.1% ('06)
	Condominium Units	na	4,500	33,029	36,254	41,208 ('04)
	% Condominium Units	na	2%	13%	14%	
	% Units Owner Occupied	27%	27%	31%	32%	
	Rental Vacancy (Boston Metro Area)	na	na	8%	3%	5.4% ('06)

Sources:

Boston Redevelopment Authority, U.S. Census Bureau

Table 1

BCEC's long-term schedule, Boston continues to attract new hotel construction. Two new hotels opened in Boston in 2006 – the InterContinental Hotel and the Westin Boston Waterfront – adding a total of 1,217 new rooms. Four additional hotels are under construction and when completed will add another 1,078 rooms to Boston's hotel inventory.

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. By 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 2006, shows that 36 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 2006, there were an estimated 110,884 people employed in health services in the City.

Boston also hosts 32 universities, colleges, and community colleges, with a combined enrollment of 139,784 students in the fall of 2004. 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 2000, over 6,700 new dormitory beds were added to Boston-based campuses, and from 2003 to 2006, three new higher education building projects were completed.

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 2006, there were an estimated 98,000 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 is nearing completion. 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 2005, Boston's Logan International Airport was the most active airport in New England, the 19th most active airport in the United States, serving over 27 million international and domestic passengers. Logan Airport is also very important to the economy as a center for processing air cargo.

In 2005, Logan ranked 18th in the nation in total air cargo volume, accommodating more than 356,000 metric tons of total cargo.

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 246,385 cruise ship passengers in FY06 – up 27.7% from FY05.

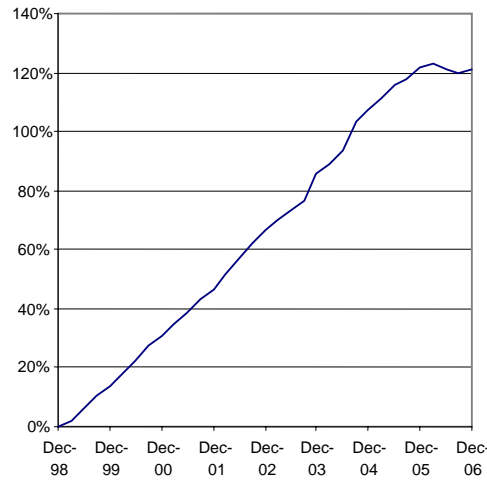
Economic Outlook

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 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 FY06, the City's construction activity level was estimated at \$3.08 billion, up 13.1% from FY05, and up 37.8% from the five year low point in FY02.

Housing

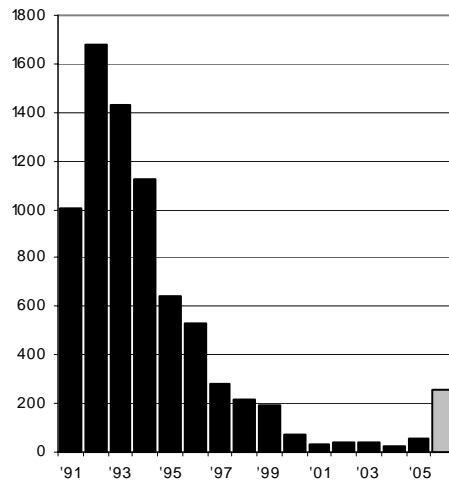
Across the nation the housing market experienced a price correction throughout 2006, as prices softened to reflect higher interest rates and remain in line with incomes. In Boston, the last two quarters of 2006 indicate prices have finally peaked and are starting to soften. According to the Federal Reserve Bank of Boston (FRBB), the fourth quarter 2006 median sales price of an existing home in the Boston metropolitan area



Cumulative Change in Conventional Mortgage Home Price Index
Quarterly, December 1998 to December 2006

Figure 2

decreased 2.4% from the same quarter of the prior year to \$388,000. Since the fourth quarter of 1997, however, the median sales price has increased an astounding 98% in the Boston metropolitan area . The FRBB Conventional Mortgage Home Price Index shows a decrease of -0.3% in the Boston metropolitan area for the fourth quarter 2006 over the same quarter 2005, and a -0.8% decline over first quarter 2006. The last negative quarterly growth seen in this index was first quarter 1995 (Figure 2). This trend is largely in line with the housing price corrections state and nation-



Boston's Foreclosures
1991-2006 (est.)

Figure 3

wide.

The general trend in 2006 has been a slight correction to the soaring increases in home prices of the past five years. Fears of a speculative bubble, however, have been assuaged by the gradual nature of the correction. Income growth continues to outpace home price appreciation, and federal monetary policy seems to indicate steady interest rates in the near future.

One unfortunate side effect of the recent borrowing frenzy has been an increase in the number of foreclosures in Boston. In 2004, Boston saw 24 foreclosures – that number was up to 60 in 2005, and preliminary estimates for 2006 are for 260 foreclosures. Based on data from the first three months of the year, Boston is on pace to top 300 in 2007. While the rapid increase in 2006 and 2007 may seem daunting, it is important to note that Boston has not yet come close to the levels of foreclosures reached in the early 1990's (Figure 3). Adjustable rate mortgages, an increase in subprime lending and general economic environment are all factors in the rise in foreclosures.

Mayor Thomas M. Menino, along with the City of Boston's Department of Neighborhood Development, is working closely with several Boston banks to confront this serious problem. Mayor Menino called on lenders to join him in his effort to combat foreclosures by forming a \$25 million consortium of lending products and funding aimed at assisting homeowners in financial trouble. Partnering with lenders and nonprofit agencies, the Boston Home Center has rolled out a new foreclosure prevention campaign that focuses on raising awareness of predatory lending practices, preventing foreclosures through credit education, providing foreclosure intervention and counseling services, and urging legislative reform to hold mortgage companies to the same standards as banks. This coming year, the Department is expanding the foreclosure prevention program by adding a fifth provider of counseling services and concentrating on the hardest-hit neighborhoods of Dorchester, Roxbury, Mattapan and Hyde Park.

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 \$1,700 for a two bedroom apartment in 2005, up 17% from \$1,450 in 2004.

Office Space

Demand for office space in Boston improved in 2006 with an overall office vacancy rate of 8.2% through the third 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).

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.

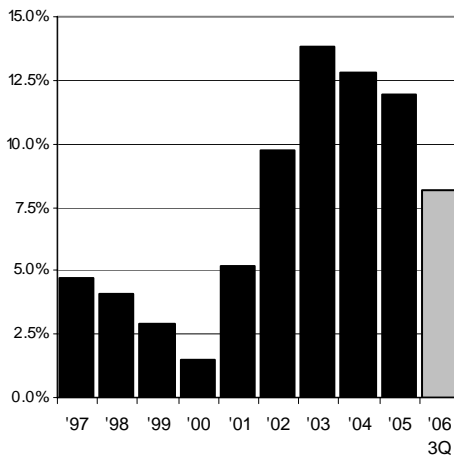
Hotels

With travel to Boston so popular in recent years, Boston's hotel market was one of the strongest in the nation. During 2000, Boston hotels had an average occupancy rate of nearly 80%, up from 70% in 1991. With high occupancy levels, prices for rooms rose steadily. During 2000, the average daily room rate (ADR) at Boston hotels was around \$200, compared to \$118 in 1991.

September 11th and the national recession brought challenges to the hotel market with occupancy rates falling to about 70% and ADR falling to around \$181 in 2001. By 2003, the hotel market was improving, but increased supply out-paced demand, keeping occupancy at a low 71.1% and forcing ADR down to \$155.52. From 2004 through 2006, room occupancy and ADR have steadily improved, peaking at 76.4% occupancy and \$196.61 ADR in 2006.

The decision to build the BCEC stimulated considerable new hotel development. Between July 1997 and December 2006, twenty-five new

hotels and five expansion projects were completed. Four more hotels are now under construction.



**Boston Office Space
Vacancy Rates (all classes)**

1997-2005

Figure 4

Economic 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. In late 2006, Mayor Menino announced his plan to build a new City Hall on South Boston's Waterfront. The new and improved City Hall will include a cultural center that will provide a much-needed civic center and the waterfront location will help to spur development in Boston's newest frontier. As a complement to the new building, the Mayor outlined plans for a new City services center in

Roxbury's Dudley Square.

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 FY06, this program has created 576 net new businesses and nearly 4,000 net new jobs, improved the marketability and business strategy of business districts, and preserved the character of surrounding residential areas. Through FY06, the Main Streets Program has leveraged more than \$9.8 million in private investment.

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.