

Boston's \$200 million scam

Graham Lowry exposes how real-estate operators have drained tax revenue—a drain used to justify municipal budget cuts.

This article was researched by Mr. Lowry and by Stephen Parsons, both of whom have decades-long familiarity with the Boston area.

An EIR investigation of the current speculative boom in downtown Boston commercial real estate has determined that the same financial corporations that have forced that city into a major budget crisis have swindled it out of more than \$200 million in property tax revenues due for this year alone. The corporate beneficiaries of this looting of the city treasury are also the same Brahmin financial interests who have dictated the elimination of the “sunset” industries of the Northeast, bankrupting the region’s productive economic base.

Facing an estimated \$130 million budget deficit, Boston is threatened with school shutdowns, service reductions, and mass layoffs, and the Brahmin-controlled banks and insurance companies are demanding additional deep cuts in the city budget. Yet full payment of the actual property taxes owed by these companies’ downtown commercial office properties alone would wipe out Boston’s deficit, and still leave \$70 million in additional funds for the city.

There are two elements to the property tax scam run by the “New Boston” downtown building owners. The first, pioneered by Prudential Life Insurance Company, is the 121A law. Through this law, big downtown real-estate owners pocket over \$33 million, money they would have to pay the city were it not for this form of legalized tax fraud. The 121A law exempts a select group of commercial properties from taxation at value, and substitutes a fractional payment at a level secretly agreed upon with city officials.

The second form of legalized cheating which robs the city of another \$202 million, is connivance to rig property assessment at a small fraction—usually 20 to 25 percent—of its real value.

If these frauds were eliminated for the limited group of downtown office buildings alone, Boston could add a total of at least \$235 million to the city treasury in one year.

The perseverance of the insurance companies and banks in looting Boston is not a function of their greed

alone. It is part of a decades-long strategy to convert Boston into a postindustrial free enterprise zone, ripe for speculative looting and exploitation of unskilled, non-union labor in Hong Kong-style sweatshops.

The major beneficiaries of the sweetheart-deal tax swindle, major Boston banks, along with insurance giants like Prudential and Hancock, have played leading roles in shutting off capital for vital industries like steel, shipbuilding, and construction, and with it the infrastructure needed to maintain an industrial workforce.

Since World War II, Boston has been systematically transformed from a viable industrial center into a model victim of the “technetronic society.” With its basic industries and neighborhoods now lying near or in actual ruins, the downtown “New Boston” of high-rise, speculative enterprises has taken over the economy as well as the landscape. Perched quaintly on green lots along Boston’s suburban ring are the “information society” high-technology companies in computers and electronics, increasingly tooled to semiskilled, hand-assembly operations for maximum profit. Inbetween the financial “hub” and the suburban ring, the rest of Boston is

Downtown Boston office real estate values

Current rent level × no. sq. ft. × .65 × .85

Class A rental income

\$25/sq. ft. × 20 million sq. ft. × .65 × .85 = \$276.25 million

Class B rental income

\$17/sq. ft. × 10 million sq. ft. × .85 = \$108.38 million

Class C rental income

\$12/sq. ft. × 12 million sq. ft. × .80 × .85 = \$97.92 million

Total rental income for Class A, B, and C = \$482.55 million
(to deduct 11 percent for nonrentable waste space)

Total value downtown office property \$482.55 million × 7 = \$3,377.85 million.

increasingly left to collapse and abandonment, except for occasional pockets publicly described as suitable for "gentrification."

The 'Prudential law'

The transformation of downtown Boston dictated by the policy of eliminating "sunset industries" was launched by Prudential in the late 1950s. Summarizing the objective, Prudential President Carroll M. Shanks declared in 1957, "It simply means that businesses which belong somewhere else will go where it is most economical for them to operate, and those that belong in New England will stay there, or will come there and grow." Prudential then moved to extort a legislative license to dictate what "belonged."

In the initial phase of constructing its Boston skyscraper, Prudential demanded a legal guarantee of exemption from city property taxes. When objections were raised, Prudential ceased construction and flooded the site. They also flooded the state legislature with lobbyists, and proceeded, according to several State House figures from that time, to bribe and blackmail the legislators into passing a measure called the 121A law, commonly known as the "Prudential law."

Prudential made little pretense of fulfilling a "civic interest" in demanding an exemption from property taxes. Prudential lobbyists reportedly went through the State House sweet-talking legislators, tape-recorded their discussions, and threatened to expose them for being on the take if they refused to back 121A.

121A exempts buildings which enhance an ostensibly "blighted" area from property taxes. It substitutes a secret agreement to pay the city a certain percentage of the "take" from its operations. Each deal is individually rigged, and there is no fixed formula for determining the payments. A Boston real-estate insider described one example as an agreement to pay "10 percent of the first 'X' dollars."

Information on the substance of each agreement and the amount actually paid by holders of 121A exemptions is guarded like the secrets of organized crime. But knowledgeable Boston financial sources calculate the average payment at roughly 17 percent of what would be owed in property taxes, even under existing assessment practices.

Among commercial properties with 121A exemptions, the "Prudential law" benefits almost exclusively Prudential, which controls about 93 percent of the commercial office valuations exempted under 121A. If they were taxed at real value and current rates, Prudential would owe \$31 million more than they paid this year for their two biggest properties in downtown Boston.

The vast majority of Boston's commercial office buildings were not constructed under 121A exemptions. But the "Prudential law" was critically significant as the

The 121A tax ripoff

121A office rental income (all class A)	
\$25/sq. ft. × 3.75 million sq. ft.	
× .65 × .85	\$ 51.79 million
121A office total real market value	
\$51.79 million × 7	\$367.60 million
Projected tax revenue	
at current effective tax rate of 11.2%	\$ 40.60 million
Actual taxes paid	\$ 6.90 million
121A ripoff	\$ 33.70 million
Prudential's share of ripoff	\$ 31.25 million

official declaration of the policy which has been unofficially applied to other insurance companies, banks, and real-estate, and financial corporations. While they have worked to flatten capital-intensive industries in the Northeast, they have systematically robbed Boston's city treasury by getting their property assessed at levels four and five times below real market value.

The huge John Hancock Building, for example, worth \$350 million in real market value, carries a current assessment of \$25 million, or about \$63 million at 100 percent valuation. At Boston's current assessment and taxation rates, a \$350 million property would owe more than \$35 million in taxes this year. John Hancock is being billed instead for \$6.9 million.

Thus the Boston Brahmins have conducted their speculative, ground-rent orgy while enjoying huge subsidies from the city. Rents for prime office space have doubled in the last 24 months, and are projected to rise another 150 percent in the next two years, while wall-to-wall rent gouging proceeds at a 99.7 percent occupancy rate.

The property assessment scam

These skyrocketing rental incomes for downtown office properties translate, of course, into much higher market values for the buildings, which supposedly have been reassessed to reflect that rise. But exhaustive cross-checking of current office space and classifications, rent and occupancy levels, average lengths of leases by types of property, and city tax and assessment rates conclusively established that the "New Boston" was built on massive tax fraud.

Realtors' and assessors' standard guidelines for calculating the market value of commercial rental properties are to take the gross rental income and multiply that by 7. The accompanying tables show that the resultant real market value of Boston's downtown office buildings alone translates into more than \$200 million in additional taxes owed this year. If the tax were extended to commercial properties exempted under

Boston real budget surplus

Total taxable office property, less 121A offices	\$3,015 million
Projected tax revenue at current effective commercial tax rate of 11.2% (.43 × .72)	\$337.68 million
121A tax ripoff	\$33.70 million
Full value downtown office property tax	\$371.38 million
Actual taxes paid	\$135.00 million
Total tax ripoff (\$371.38 million minus 135.00 million)	\$236.38 million
Expected Boston budget deficit	\$130.00 million
Actual Boston revenue surplus	\$106.38 million

121A, an additional \$33.7 million in property tax revenues would be owed, \$31.2 million of it by Prudential.

These estimates are based on a method which derives the identical figures for assessed valuation as those determined by the city assessor's office for properties exempted under 121A. Assessed valuations recorded on the 121A list of commercial office properties are *real market values*, since those properties won't pay taxes anyway, while office buildings which do are massively underassessed to cover the tax swindle.

Determining real market value

Take the example of a 121A property recently purchased by Prudential at 1 Beacon St. Boston realtors report a current average rent of \$13 per sq. ft. for the building, given the varying times that the leases took effect, against a going rate for new leases of \$20. Its gross rental income, for 1.02 million sq. ft., is thus \$13.26 million per year. Taking the standard rule of thumb and multiplying that by 7, the building's market value would be \$92.82 million. With a standard deduction of 15 percent for nonrentable space (hallways, elevators, etc.), the correct real market value for the building is \$78.9 million. On the 121A list, the city itself records an assessed valuation of \$79 million! According to Boston financial insiders, Prudential pays only \$2.9 million a year for 1 Beacon St., instead of a property tax of \$8.8 million at the current effective rate of 11.2 percent of assessed commercial valuation.

Applying this same method to the commercial properties which are taxable, the following picture of tax fraud can be established.

Under the *existing* commercial assessment level of market value (about 43 percent, but possibly as low as 37), and the current tax rate of \$272.90 per \$1,000 assessed valuation (or about 27 percent), Boston's effective tax rate of 11.2 percent of real market value should yield over \$337 million in property taxes for its *downtown commercial office properties alone*, even without those exempt under 121A, and without other commer-

cial properties like shopping malls and plazas elsewhere in the city. City Hall sources estimate the revenues from the downtown properties at about \$135 million, or about 75 percent of the total taxes collected on commercial properties. Deducting that figure from the total tax due from the downtown taxable office buildings still leaves over \$202 million owed this year.

There is no real Boston budget deficit; it can be wiped out by simply collecting the mandated payment fraction of actual market value on Boston's nonproductive jungle of downtown offices.

'A gold mine'

With the completion of 1 Beacon Street in 1973, the "New Boston's" prime or Class A office space reached 8.6 million square feet, with a construction drive effectively kicked off by the Prudential Building, which opened in 1965. Nearly 12 million square feet of Class A have been added since, so a solid majority of the Class A leases have been drawn since 1973 at steadily higher rents.

Even though major firms lease 68 percent of Boston's prime office space on a long-term basis (11 years and up), the eight-year-old 1 Beacon Street building is getting an average *now* of 65 percent (\$13 of \$20) of its current top rental level. Downtown Boston's *total* vacancy rate has been under 2 percent since late 1977, and new offices open up fully rented at top dollar, so taking 65 percent of top dollar to calculate Class A rental income should be a conservative estimate.

For Class B space, generally quality older buildings, rental income is calculated at 75 percent of current rent levels, since nearly half of this footage is renovated Class C space leased during the last two years.

Class C office rentals are also booming, as they cash in on the overall upvaluing of office space and the continuing tight market. As one Boston realtor put it, "Today a guy can buy a Class Z property—and I mean Z!—and turn it into a gold mine within a year." The accompanying table calculates Class C rental income at 80 percent of current top dollar, since much of it has been hustled onto the market during the last year or two, and 75 percent of it is leased for 5 years or less.

For all three classes of office space, the figures for calculating gross rental income are multiplied by .85, to include the standard 15 percent deduction for non-rentable space.