



The Research Bureau

Benchmarking Economic Development in Worcester: 2012

Report 12-01
March 2012

MassDevelopment and The Worcester Regional Research Bureau

Close relationships with nonprofit, private, and public partners comprise a unique aspect of work at MassDevelopment, the Commonwealth's quasi-public finance and development arm. On behalf of MassDevelopment, I want to thank the people and organizations who make greater Worcester such an attractive place to live and do business. MassDevelopment has enjoyed a productive partnership with the Worcester Regional Research Bureau and appreciates the opportunity to continue its support of the Research Bureau's incisive research and exciting programs.

Both the Research Bureau and MassDevelopment provide a variety of offerings to reflect the breadth and complexity of greater Worcester's businesses and institutions. A handful of highlights over the past nine months shows how MassDevelopment helps these entities capitalize on their competitive advantages that make greater Worcester a center for commerce, culture, and education.

For example, since my tenure at MassDevelopment began in late May, we have closed two major Emerging Technology Fund (ETF) deals with greater Worcester companies. Advanced MicroSensors in Shrewsbury received an ETF loan to upgrade its manufacturing equipment that makes products that end up in cars, cell phones, and medical devices. ECI Biotech of Worcester used its ETF support to help to commercialize its products, which aid in detecting pathogens.

These two deals demonstrate that the Worcester economy features the best of a traditional sector like manufacturing but does so to develop cutting-edge products. To help to expand manufacturing not only in Worcester but throughout the Commonwealth, MassDevelopment has partnered with the Worcester-based Massachusetts Manufacturing Extension Partnership (MMEP).

Thanks to this support, the MMEP will provide two new programs, the ISO Collaborative and the Value Opportunity Profile. The former will subsidize the cost for companies to attend ISO collaborative workshops, a series of one-day workshops over the course of several months followed by consulting days at each participating company. The latter will provide more than 25 companies with an assessment of their intrinsic value and a roadmap to maximize that value.

In addition to working with MMEP, MassDevelopment has continued its productive partnership with Worcester's Massachusetts Biomedical Initiatives (MBI). MBI recently received a \$680,000 loan from MassDevelopment to help it refurbish lab space and buy equipment for its newest incubator laboratory at 55-57 Union Street. MassDevelopment had previously financed two of MBI's other Worcester facilities.

The Research Bureau

MBI thrives thanks in part to the well-educated scientists and technicians who work out of its space. Fortunately, Worcester has a strong system of higher-education institutions, and MassDevelopment has worked with most of them. Earlier this year, for instance, MassDevelopment issued a \$19 million bond to Clark University to help it renovate and expand four buildings.

Greater Worcester has strong medical institutions and cultural facilities to complement its higher education sector. Through the Cultural Facilities Fund (CFF), which MassDevelopment administers along with the Massachusetts Cultural Council, area organizations that have received CFF support for capital projects include Apple Tree Arts in Grafton; Tower Hill Botanic Garden in Boylston; and the Hanover Theatre for the Performing Arts, the Massachusetts Symphony Orchestra, and the Worcester Art Museum in Worcester.

Finally, the real estate arm of MassDevelopment looks forward to working with the City of Worcester on a spring site tour of priority development sites that will provide an opportunity for development professionals from outside the region to see parcels with growth potential.

Greater Worcester offers so much for young people, college students, and high-tech workers. To find out more about how MassDevelopment can help your organization, please contact our Worcester staff – Roy Angel, Kelly Arvidson, Shyla Matthews, Mike Mitchell, and Bob Seega – at 508-363-2799.

MassDevelopment looks forward to working with the Research Bureau and all of you to build on Worcester's strengths in the years to come.

Sincerely,

Marty Jones
MassDevelopment President and CEO

EXECUTIVE SUMMARY

This is the eleventh installment of the Research Bureau's *Benchmarking Economic Development in Worcester* series. The report examines the economic health in the city and region from a variety of angles such as the tax base, labor market trends, and the housing market. Here are some highlights:

- There are several major projects planned and underway in downtown Worcester, producing strong hopes for the local economy in 2012.
- Worcester is a bedroom community. About 80% of the city's tax base is residential. This figure has steadily increased since the early 1980s, as home values have outpaced growth in commercial and industrial property values.
- In recent decades, more of the changes in Worcester's tax base have been due to changing market appreciations of existing properties than new construction.
- 21% of Worcester's tax base consists of tax-exempt properties. Though higher than the state average (13%), and those of most of the other large cities in Massachusetts, this should not be interpreted as a sign of fiscal or economic weakness. The two fiscally-strongest cities in Massachusetts, Boston and Cambridge, have tax bases that are close to 30% tax-exempt.
- The average single-family tax bill has risen almost every year during the past decade.
- 90% of the jobs in the city and 85% of the jobs in Worcester County are in the service sector. "Education and health services" is by far the biggest job market, employing almost half of all workers in the city and almost a third in the county.
- Over the past decade, the unemployment rate in Worcester has generally been lower than the national average but higher than the state average. During this same period, total job numbers were down in Worcester, Worcester County, and Massachusetts.
- The office vacancy rate in downtown Worcester has increased in the last ten years.
- Worcester's housing market remains challenged due to elevated levels of foreclosures and vacant and abandoned properties. However, low home prices offer attractive value to many buyers.

INTRODUCTION

Table 1: Major Developments Planned and Underway in Downtown Worcester, 2011

Project	Developer	Investment
City Square (Demolition of Worcester Common Outlets Mall; construction of new St. Vincent Hospital cancer center (66,000 sq. ft.); construction of new Unum building (214,000 sq. ft))	Leggat McCall and Opus Investment Management (real estate arm of Hanover Insurance Group); Vanguard Health Systems (owner of St. Vincent's Hospital)	Cancer center-\$21 million; Unum building-\$65 million; demolition and infrastructure work-\$46.4 million (state and local)
New optometry school building (six stories, 54,000 sq. ft.)	Massachusetts College of Pharmacy and Health Sciences	\$10 million
Gateway Park II (four stories, 100,000 sq. ft. of laboratory, academic and office space)	O'Connell Development Group of Holyoke	\$30 million (includes \$5.2 million grant from Massachusetts Life Sciences Center)
Rehabilitation of Worcester Vocational School complex (67 units of low-income and market-rate housing)	Worcester Business Development Corporation and Winn Development (67 units of mixed income)	\$31 million (includes \$400,000 from WBDC; \$400,000 from Mass Development; \$400,000 from EPA for brownfield remediation; \$3.3 million in Historic Tax Credits)
Rehabilitation of Former Bancroft Motors Building (81 units of market-rate housing)	Mayo Group	\$4 million
Rehabilitation of Telegram and Gazette Building	Worcester Business Development Corporation	\$300,000 purchase price, plus \$200,000 from City of Worcester's brownfield cleanup revolving loan fund
DCU Center renovation and expansion	City of Worcester	\$20 million
Slater Building purchase and renovation	Commerce Bank	\$4 million purchase price; \$1 million+ in near-term upgrades

Hopes are high about the local economy, due largely to the several major projects currently underway in downtown (**Table 1**). Worcester has also received outside notice for its economic performance. In November, *The Daily Beast* ranked Worcester #3 in a ranking of the "30 Best Cities for Jobs" in America.¹ *The Business Journals* also ranked Worcester #3 in its August, 2011 ranking of the nation's strongest metropolitan job markets.²

The purpose of the following report is to sort through the debate about Worcester's economy. Measured against itself and other communities, how has

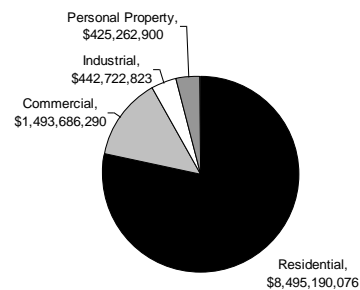
Worcester performed in recent years? What are the trends?

TRENDS IN WORCESTER'S TAX BASE

In Massachusetts, cities and towns are much more reliant on real estate taxes than in most other states. This is because other states give their municipalities greater freedom to tax other items such as income and sales receipts.³

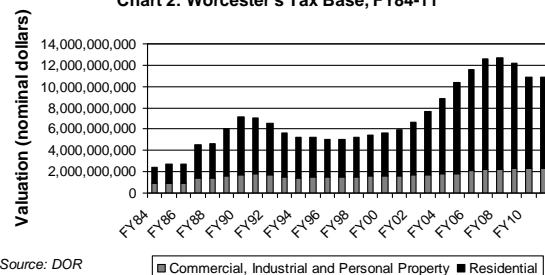
In FY11, property tax revenues composed 38% of Worcester's total general fund revenues; for all Massachusetts municipalities, the average figure is 63%.⁴ Worcester's tax base is predominantly residential, and has been some time (**Chart 1 and 2**).

Chart 1: Worcester's Tax Base, FY11



Source: Department of Revenue (DOR)

Chart 2: Worcester's Tax Base, FY84-11



Source: DOR

In FY84, Worcester’s tax base was 65% residential; now it is 78% residential. Since the early 1980s, commercial, industrial and personal property⁵ values have grown less than home values. Other former industrial communities in Massachusetts have had similar experiences with their tax bases in recent decades (**Appendix**).

Table 2 shows how property values in Worcester have performed over the past three decades, in nominal and real (inflation-adjusted) terms.

	Nominal Change	Real Change
Commercial	192.8%	25.7%
Industrial	86.7%	-19.8%
Personal Property	250.1%	50.3%
Commercial, Industrial and Personal Property	171.8%	16.7%
Residential	436.2%	130.2%
Total	342.6%	90.0%

Source: DOR and Research Bureau calculations

Even after two recessions and the housing market collapse, Worcester’s property tax base almost doubled in value over the past decade (**Table 3**).

	Average Annual Increase, FY01-11	Total Increase, FY01-11
Lowell	10.0%	122.8%
Cambridge	7.0%	90.2%
Worcester	6.6%	82.6%
Boston	5.7%	71.9%
Springfield	4.9%	57.6%

Source: DOR; values are nominal

During the 1990s, by contrast, the city’s total tax base declined by \$1.5 billion, or 21% (**Chart 2**). So this past decade was a better decade for property values than FY90-00. Measured against the four other largest cities in Massachusetts, Worcester ranks in the middle in terms of the total increase in property values (**Table 3**).

Since FY08, Worcester’s property tax base has been declining, although the trend has slowed (**Table 4**).

	Total Tax Base	Residential	Commercial, Industrial and Personal Property
FY08 to FY09	-4.6%	-6.2%	2.5%
FY09 to FY10	-10.1%	-12.5%	0.2%
FY10 to FY11	-0.5%	-1.0%	1.5%
	Commercial	Industrial	Personal Property
FY08 to FY09	0.4%	2.8%	11.2%
FY09 to FY10	0.4%	-4.8%	5.7%
FY10 to FY11	0.7%	2.0%	3.7%

Source: DOR

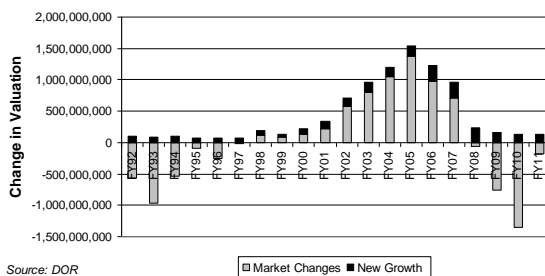
These figures on Worcester’s tax base could be affected by results from the

city’s Triennial Real Property Revaluation Process, reportedly the most comprehensive review of properties in Worcester in almost 30 years. Through this process, the Department of Revenue (DOR), and assessors from the city and independent appraisal companies triple-checked the values of Worcester’s almost 50,000 commercial, industrial and residential properties. New valuations are expected to come out sometime in the spring of 2012.

TRENDS IN TAX BASE GROWTH

Two factors drive the tax base: 1) changing market views of existing properties and 2) new growth. “New growth” is a technical term used by the DOR to classify how much of a community’s tax base grew due to factors other than revaluation of existing properties. State law allows communities to use new growth to expand their levy limit for the coming fiscal year, thereby increasing their taxing capacity.⁶

Chart 3: Market Changes vs. New Growth, FY92- FY11



Source: DOR

What **Chart 3** shows is that, on an annual basis, from FY92-FY11, Worcester’s tax base has grown and declined more because of changing valuations on existing properties than on account of new construction.

TRENDS IN TAX-EXEMPT PROPERTIES

Like many other former industrial cities, Worcester’s economy is highly dependent on “Eds and Meds”: educational and health care institutions. A number of Worcester’s biggest employers, including the top three, do not pay property taxes (**Table 5**).

Table 5: Principal Employers in the City of Worcester, 2011

Organization	Employees	Tax-Exempt?
Umass Memorial Health Care	13,466	Yes
University of Massachusetts Medical School	5,914	Yes
City of Worcester	5,125	Yes
Hanover Insurance Group	1,850	No
Reliant Medical Group (formerly Fallon Clinic)	1,841	Yes
Saint Gobain	1,800	No
St. Vincent Hospital	1,728	No
Polar Beverages	1,400	No
Quinsigamond Community College	1,119	Yes

Source: Worcester Business Journal

It should be emphasized that these institutions contribute significantly to the local economy through their real-estate investments (two of the three biggest projects in downtown involve

non-profits), providing jobs, and patronizing local businesses. The City Manager has also negotiated payment-in-lieu-of-taxes (PILOT) deals with several local colleges and universities (Table 6).

Institution	Date Effective	Duration	Contribution	Purpose
MCPHS	November, 2008	25 years	Total: \$1.25-1.5 million	Worcester Public Library
Clark University	September, 2010	20 years	Annual payment of \$262,000, increasing annually by 2.5% (20-year total: \$6.7 million)	Worcester Public Library and Main South neighborhood enhancements
Umass Medical	July, 2011	Indefinite	\$11,700, subject to 2.5% annual increase (100% of taxes on 72 Flagg St., Chancellor's house)	City's Division of Public Health
WPI	July, 2009	25 years	Annual payment of \$450,000 increasing by 2.5% annually (25-year total: \$9 million+)	Worcester Public Library and Institute Park

Source: City Manager's Office

State government also pays Worcester \$254,000 annually for the properties owned by UMass Medical School, and in March 2012, the College of the Holy Cross agreed to spend \$80,000 annually for the next five years to revive and support the Worcester Public Library's bookmobile.

At present, 21% of Worcester's property tax base is tax-exempt, which is above the state average for cities and towns (Table 7). However, a strong reliance on non-profits is not necessarily a sign of

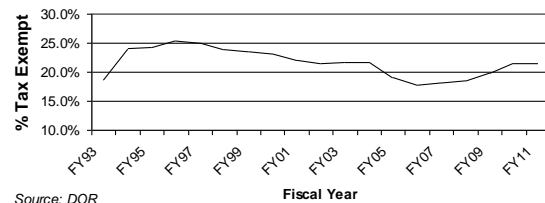
economic weakness. Of the ten communities in Table 7, the AAA-rated Boston and Cambridge are by far the fiscally-strongest, and each has a higher percentage of tax-exempt properties than Worcester.

City	% Tax-Exempt
Cambridge	28.4%
Boston	28.1%
Worcester	21.4%
Springfield	17.6%
Brockton	16.8%
Lowell	16.4%
New Bedford	15.9%
Fall River	15.0%
Quincy	12.5%
Lynn	9.7%
State Average	12.8%

Source: DOR

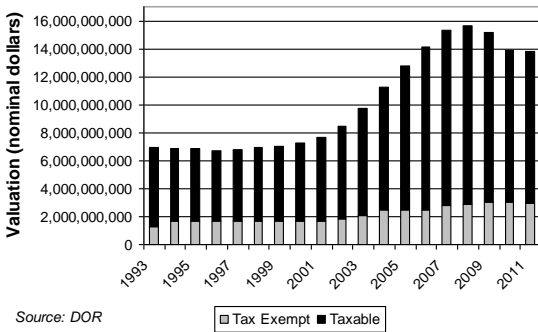
Tax-exempt properties' share of the city's total tax base declined between the mid-90s and the middle of the last decade, but has risen since FY06 (Chart 4).

Chart 4: Tax-Exempt Properties as % of Total Tax Base in Worcester, FY93-11



These changes are partly a function of the volatility in taxable values over the same period (Chart 5).

Chart 5: Tax Exempt, Taxable, and Total Property Valuation in Worcester, F93-FY11



TAX POLICY IN WORCESTER

The tax rate is the amount a property owner pays per \$1,000 of assessed value. In Massachusetts, cities and towns can only tax real estate and motor vehicles, although they can impose fees on hotel rooms and meals. The main driver of property tax bills is the cost of providing basic municipal services. City and town budgets consist mostly of personnel costs (salaries and benefits), which go up every year, applying pressure to municipal governments to increase tax revenues.⁷ Increases are limited by Proposition 2 ½, which voters mandated by referendum in 1980 and first went into effect in FY82. Prop 2 ½ restricts both the rate at which communities can raise property taxes each year, and the total tax levy.

In Worcester, over the past ten years, values rose and declined, the tax rate declined and rose, but one constant has

been a steady increase in tax bills (Table 8).

Table 8: Home Values, Tax Rates and Tax Bills in Worcester, FY00-11

FY	Average Value of a Single-Family Home	Average Single Family Tax Bill	Residential Tax Rate	Commercial and Industrial Tax Rate
2000	\$109,545	\$2,023	18.47	36.34
2001	\$117,769	\$2,175	18.47	34.24
2002	\$134,485	\$2,401	17.85	31.46
2003	\$156,420	\$2,528	16.16	31.44
2004	\$180,193	\$2,658	14.75	29.60
2005	\$211,038	\$2,781	13.18	27.60
2006	\$229,800	\$2,879	12.53	25.20
2007	\$247,529	\$2,995	12.10	25.32
2008	\$248,144	\$3,112	12.54	26.20
2009	\$234,201	\$3,162	13.50	28.72
2010	\$206,517	\$3,129	15.15	33.28
2011	\$205,937	\$3,307	16.06	34.65

Source: DOR

Worcester’s property tax policy is distinctive in two ways. First, Worcester has an unusually large excess-levy capacity, which the city built up over many years of not taxing to its Proposition 2 ½-mandated limit. According to the state Department of Revenue, Worcester’s \$10 million in excess levy capacity is lower than those of only three other communities: Quincy (\$17 million), Marlborough (\$20 million), and Cambridge (\$99 million). Accessing these tax revenues would not require a Proposition 2 ½ override, but only a majority vote by the City Council.

Second, Worcester has a high commercial and industrial tax rate. Massachusetts General Laws Chapter 59 allows cities and towns to tax residential and commercial and industrial

properties at different rates. This allows communities to shift some of their tax burden from homeowners to businesses.⁸ About 100, or 30%, of Massachusetts municipalities tax commercial and industrial properties at a higher rate than residential properties, including all of its biggest cities (Table 9).

Table 9: FY11 Tax Rates in Massachusetts' Ten Biggest Cities

	Residential Tax Rate	Commercial and Industrial Tax Rate	Commercial and Industrial Tax Rate Ranking Among All Massachusetts Communities
Boston	12.79	31.04	12
Worcester	16.06	34.65	5
Springfield	19.49	38.97	2
Lowell	14.27	29.73	21
Cambridge	8.16	19.90	75
New Bedford	12.88	27.14	35
Brockton	15.29	29.55	22
Quincy	13.42	27.85	30
Lynn	16.22	32.41	8
Fall River	10.23	21.47	69

Source: DOR

Relative to neighboring communities in Central Massachusetts, Worcester has the highest commercial-industrial rates as well as one of the highest residential rates (Table 10).

Table 10: FY11 Tax Rates in Central Massachusetts Communities

	Residential		Commercial and Industrial
Shrewsbury	\$10.67	Shrewsbury	\$10.67
Leicester	\$12.44	Leicester	\$12.44
Grafton	\$13.63	Grafton	\$13.63
Berlin	\$13.89	Millbury	\$14.55
Marlborough	\$13.94	Upton	\$14.64
Clinton	\$14.13	Berlin	\$14.84
Hudson	\$14.16	Northborough	\$15.11
Millbury	\$14.55	Holden	\$15.65
Upton	\$14.64	Westborough	\$18.24
Northborough	\$15.11	Auburn	\$24.33
Milford	\$15.22	Milford	\$26.05
Auburn	\$15.38	Hudson	\$26.19
Holden	\$15.65	Clinton	\$27.36
Worcester	\$16.06	Marlborough	\$27.55
Westborough	\$18.24	Worcester	\$34.65

Source: DOR

TRENDS IN UNEMPLOYMENT AND LABOR MARKET COMPOSITION

Far more people are employed providing services than in producing goods, both in the city of Worcester (90% vs. 10%) and in Worcester County (85% vs. 15%). In both areas, the education and health-care sectors provide the most jobs and have grown the most over the past ten years (Table 11 and 12).

Table 11: Employment by Industry, City of Worcester

	2001	% of Total (2001)	2011 (2Q)	% of Total (2011)	% Change 01-11	Total Change
Goods				10.1%		
Manufacturing	10,626	10.5%	6,803	7.1%	-36.0%	-3,823
Construction	4,025	4.0%	2,936	3.1%	-27.1%	-1,089
Other	23	0.0%	n/a			
Services				89.9%		
Education and Health Services	36,186	35.8%	43,219	44.9%	19.4%	7,033
Trade, Transportation and Utilities	13,452	13.3%	12,142	12.6%	-9.7%	-1,310
Professional and Business Services	12,765	12.6%	8,755	9.1%	-31.4%	-4,010
Leisure and Hospitality	6,712	6.6%	6,930	7.2%	3.2%	218
Financial Activities	7,999	7.9%	6,483	6.7%	-19.0%	-1,516
Other Services	4,108	4.1%	4,229	4.4%	2.9%	121
Public Administration	3,285	3.3%	3,097	3.2%	-5.7%	-188
Information	1,796	1.8%	1,589	1.7%	-11.5%	-207
Total	100,977		96,183		-4.7%	-4,794

Source: Massachusetts Dept. of Labor and Workforce Development (MA DLWD)

	2001	% of Total (2001)	2011 (2Q)	% of Total (2011)	% Change 01-11	Total Change
Goods				15.1%		
Manufacturing	52,059	16.2%	34,584	11.0%	-33.6%	-17,475
Construction	14,892	4.6%	12,286	3.9%	-17.5%	-2,606
Other	775	0.2%	752	0.2%	-3.0%	-23
Services				84.9%		
Education and Health Services	80,436	25.1%	97,657	31.0%	21.4%	17,221
Trade, Transportation and Utilities	64,136	20.0%	61,459	19.5%	-4.2%	-2,677
Professional and Business Services	36,678	11.4%	34,479	10.9%	-6.0%	-2,199
Leisure and Hospitality	25,823	8.0%	29,023	9.2%	12.4%	3,200
Financial Activities	16,385	5.1%	15,610	5.0%	-4.7%	-775
Other Services	10,724	3.3%	12,187	3.9%	13.6%	1,463
Public Administration	12,680	3.9%	12,136	3.9%	-4.3%	-544
Information	6,456	2.0%	4,940	1.5%	-25.0%	-1,616
Total	321,044		315,013		-1.9%	14,073

Source: MA DLWD

In terms of total job numbers, in both the city and the county, there are fewer jobs now than there were in 2001, right before the onset of the dotcom recession (Charts 6 and 7). However, job numbers are up since 2009.

Chart 6: Total Jobs in City of Worcester, 2001-11

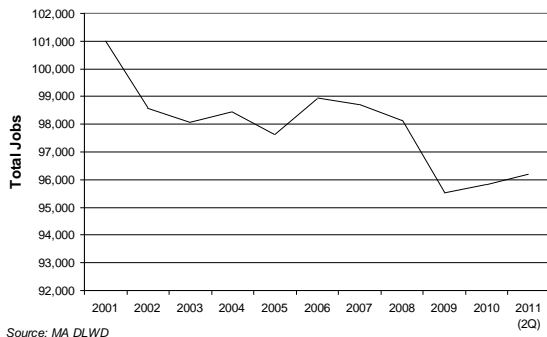
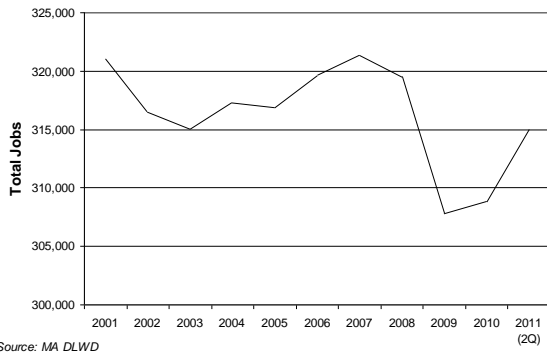


Chart 7: Total Jobs in Worcester County, 2001-11

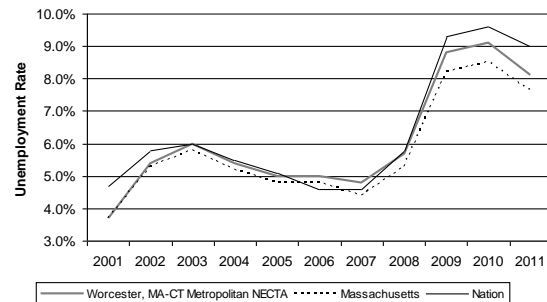


The state posted a mediocre job-creation record over the past decade. In

December 2011, the Boston-based think tank MassINC released a report arguing that the last ten years amounted to a “Lost Decade” for Massachusetts.⁹ The Commonwealth ended the decade with almost 150,000 fewer jobs than it began with. Only six states had worse job-creation records than Massachusetts between 2000-2010.¹⁰

Chart 8 benchmarks Worcester’s unemployment rate against the state and national rates over the past decade. With the exception of 2005-7, Worcester’s unemployment rate has generally been equal to or lower than the national rate, and only slightly higher than the state’s.

Chart 8: Unemployment Rate, 2001-2011



DOWNTOWN OFFICE OCCUPANCY RATE

Downtowns play an outsized role in shaping a city’s reputation, and the reputation of the local economy. In Worcester, downtown properties contribute relatively little to the city’s overall tax levy, primarily because there

is such a high concentration of properties owned by government and non-profits in downtown (Table 13).¹¹

Total tax revenues from downtown properties in FY11	\$12,130,120 (5.6% of total levy)
Total downtown valuation	\$807,653,900
How much is tax exempt?	\$398,620,100 (49.4%)
How much is taxable?	\$409,033,800 (50.6%)
How much of the taxable is residential?	\$47,043,400 (11.5%)
How much of the taxable is commercial and industrial?	\$361,990,400 (88.5%)
<i>Source: City of Worcester Assessor</i>	

Every year for the past ten years, the Research Bureau has surveyed occupancy rates of downtown office space. During the summer of 2011, Research Bureau staff gathered information from property owners, leasing agents, and online data sources to determine the total amount of office space in downtown Worcester and the proportion of that space that was occupied. For most of the 75 properties downtown identified as containing some amount of office space, the following information was collected: the total amount of office space in the building, the amount of office space that was vacant and/or available at the time of the survey, current rental rates, parking availability, and other details. The data include leased and owner-occupied office space for single- and multi-tenant properties for all classes of commercial office buildings.¹²

Downtown Worcester contains approximately 4.5 million square feet of office space. Of the 4 million square feet surveyed by The Research Bureau in 2011, 79% was occupied (Table 14).¹³

	Class A	Class B	Class C	Total
2006	91%	88%	89%	89%
2007	88%	87%	88%	87%
2008	89%	89%	87%	88%
2009	90%	76%	84%	82%
2010	88%	75%	84%	81%
2011	84%	74%	87%	79%
Change '06-'10	-8%	-16%	-2%	-11%

44, or about 64% of the buildings surveyed contain available vacant space; 21 buildings contain 10,000 or more vacant square feet (Table 15).

Amount of Vacant Space (Square Feet)	Number of Buildings with Vacancies	Amount of Vacant Space (Square Feet)	Number of Buildings with Vacancies
Class A		Class C	
1-10,000	3	1-10,000	5
10,001 - 25,000	3	10,001 - 25,000	3
>25,000	3	>25,000	1
Total	9	Total	9
Class B		Total (A, B, C)	
1-10,000	15	1-10,000	23
10,001 - 25,000	5	10,001 - 25,000	11
>25,000	6	>25,000	10
Total	26	Total	44

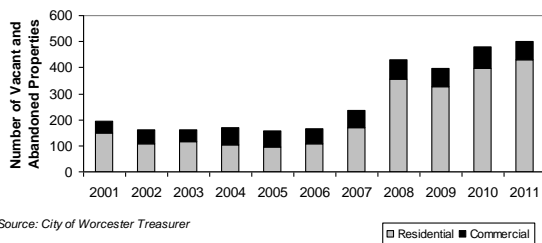
Downtown Worcester's vacancy rate does not appear to be high relative to other markets elsewhere in Massachusetts and other American cities.¹⁴ And the several major projects currently under way downtown (Table 1) demonstrate a degree of confidence

that several institutions and businesses possess about downtown Worcester’s prospects. On the other hand, the fact that downtown Worcester’s vacancy rate has been rising is obviously a cause for concern. Much of downtown’s building stock dates back to the first decades of the 20th century and some of the largest properties have suffered from inadequate reinvestment over the years.¹⁵

TRENDS IN VACANT AND ABANDONED BUILDINGS AND FORECLOSURES

Housing values in Worcester have declined since the beginning of the recession (**Table 4**) and one important reason for this is the rise in vacant and abandoned properties in the city (**Chart 9**).

Chart 9: Vacant and Abandoned Properties in Worcester, 2001-2011

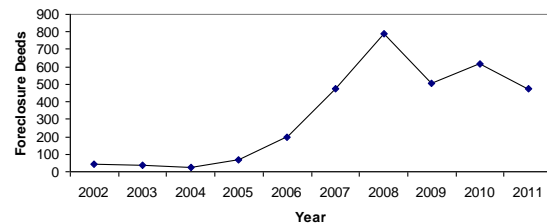


These properties destabilize neighborhoods by decreasing the value of surrounding properties, posing fire-safety hazards, and attracting various types of criminal activity.¹⁶ To its credit, city government acted early and aggressively to address the issue of

problem properties, with its “SAVE our Neighborhoods” action plan. Produced in early 2008, the plan reorganized city departments, created a database through which various departments may share information on Worcester’s problem properties, and a public campaign to encourage neighborhoods, tenants and homeowners to notify city government early about emerging dangers.¹⁷

Foreclosure numbers are down from their 2008 peak, but remain elevated (**Chart 10**).

Chart 10: Foreclosure Deeds on Worcester Properties, by Year



Source: Registry of Deeds

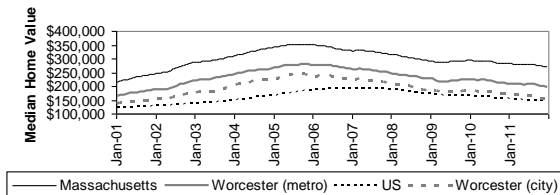
Chart 10 accounts for only the number of properties that have reached the end of the process. There are thousands more at some stage in the foreclosure process, which also contribute to the continuing uncertainty in the Worcester housing market.¹⁸

Foreclosure figures have been artificially low since the fall of 2010. At that time, due to lawsuits over alleged flaws in how they were processing foreclosures, many banks froze or significantly slowed down their foreclosure activity. In October 2010, the attorneys general of

all 50 states began a joint investigation into the issue. This was resolved in January 2012, as the attorneys general and the nation's five largest mortgage lenders reached an agreement whereby the banks will pay \$26 billion and receive some liability relief over many foreclosure-related claims. The resolution of this issue could lead to increased foreclosure activity.

Over the past decade, housing prices in the city and region have generally followed the course of that of Massachusetts and the nation as a whole (Chart 11).¹⁹

Chart 11: Home Prices in Worcester, Massachusetts, and the Nation, 2001-2011



Source: Zillow.com

Housing in Worcester and Massachusetts remains more expensive than in the US, although home prices within the city limits are now relatively

close to national median prices (Table 16).

Table 16: Benchmarking the Worcester Housing Bubble

Area	Peak Price	Date of Peak	Jan 2011 Price (Decade Low)	% Rise (from Jan 2001)	Dec 2011 Median Home Price	% Decline
Massachusetts	\$353,300	Sep-05	\$216,000	63.6%	\$272,400	22.9%
Worcester (metro)	\$279,400	Oct-05	\$164,100	70.3%	\$196,000	29.8%
US	\$193,800	May-07	\$118,800	63.1%	\$146,900	24.2%
Worcester (city)	\$243,400	Sep-05	\$137,800	76.6%	\$154,500	36.5%

Source: Zillow.com

A weak housing market is a problem for Worcester because the city's tax base is so heavily residential. The rate of decline seems to have slowed, but until housing comes back, the near-term prospects for growth in the city's overall tax base will remain weak.

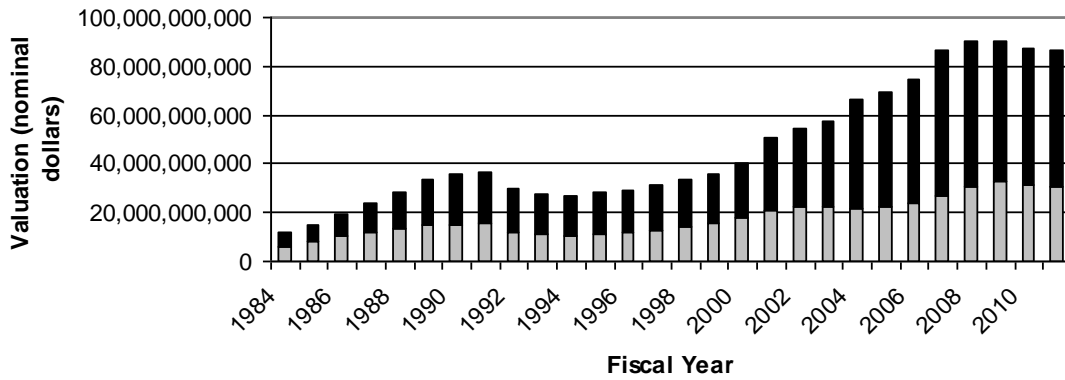
Which is not to say that low home values don't have their compensations. Homes in Worcester are cheaper than communities to the east, and the city has a vast and diverse supply which offers attractive value to buyers.

APPENDIX: THE RECENT HISTORY OF PROPERTY VALUES IN MASSACHUSETTS' FIVE BIGGEST CITIES

Over the last three decades, Lowell and Springfield have had similar experiences with their tax bases as Worcester. Values cratered during the 90s, revived in the 00s, and residential has far outpaced commercial.²⁰ The Lowell and Springfield charts below look like miniature versions of Worcester's. The tax bases of Boston and Cambridge also

declined during the 90s, grew in the last decade, and have been primarily shaped by residential growth. However, growth in commercial values in Boston and Cambridge has been much stronger than in the other three cities. (Note that the Worcester, Springfield, and Lowell charts use the same scale for the y-axis whereas Boston and Cambridge charts use larger scales. All data are from the Department of Revenue.)

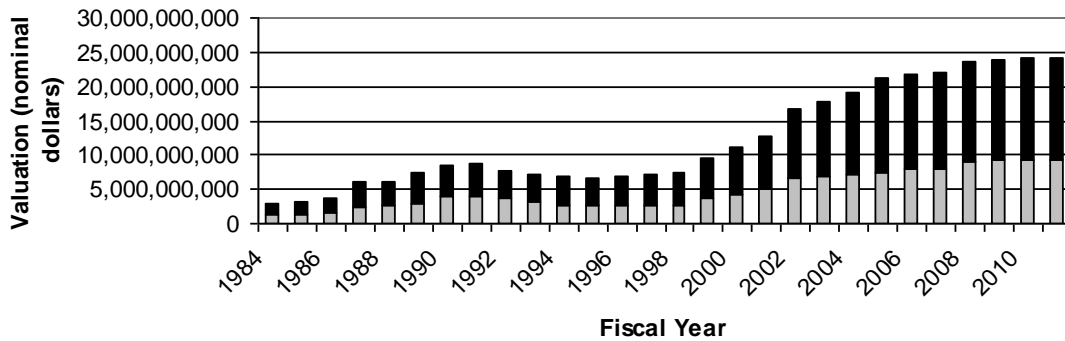
Boston Property Values, FY84-11



Boston 2010 Population: 617,594

Commercial, Industrial, and Personal Property Residential

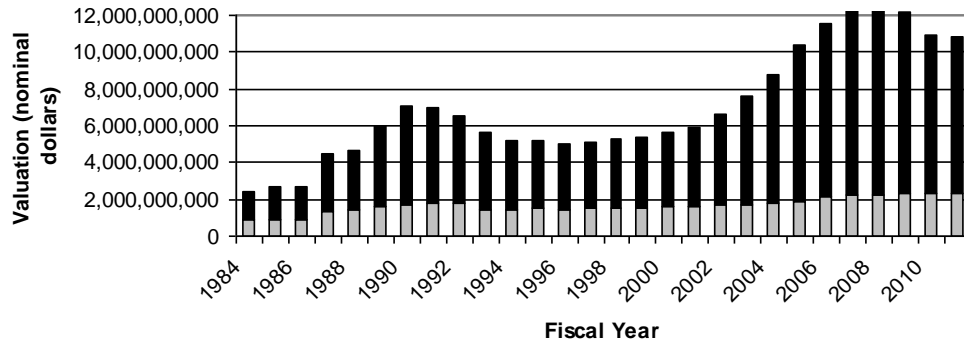
Cambridge Property Values, FY84-11



Cambridge 2010 Population: 105,162

Commercial, Industrial, and Personal Property Residential

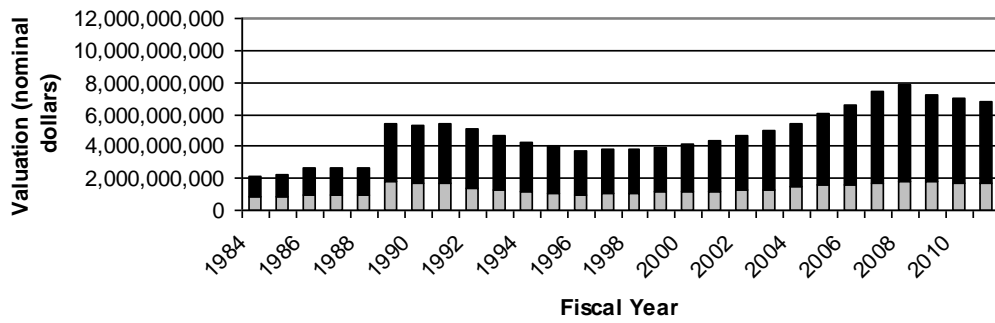
Worcester Property Values, FY84-11



Worcester 2010 Population: 181,045

Commercial, Industrial, and Personal Property Residential

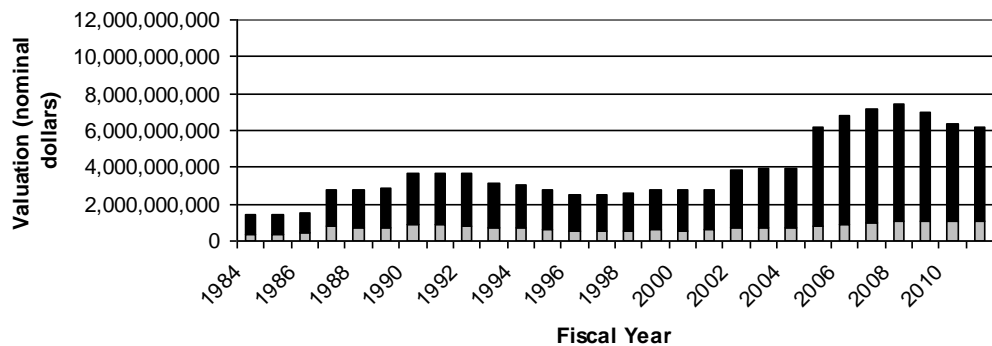
Springfield Property Values, FY84-11



Springfield 2010 Population: 153,060

Commercial, Industrial, and Personal Property Residential

Lowell Property Values, FY84-11



Lowell 2010 Population: 106,519

Commercial, Industrial, and Personal Property Residential

¹ “30 Best Cities for Jobs,” *The Daily Beast*, November 2011.

² G. Scott Thomas, “Boston tops quarterly job rankings; Fresno is dead last,” *The Business Journals*, August 8, 2011.

³ Gerald Frug and David Barron, *City Bound: How States Stifle Urban Innovation*, Cornell University Press 2008.

⁴ Source: Department of Revenue (DOR).

⁵ “Personal property” generally refers to all tangible properties not considered part of real estate (land and buildings), but it is hard to define in a concise manner because state law grants numerous exemptions. Household furnishings and effects are exempt, although only at a primary residence: furnishings and effects at second homes are taxable. Exemptions also apply to property that is subject to another tax, such as motor vehicles, and manufacturing firms’ machinery. Whether or not a business’ “personal” property is taxed can also depend on what type of corporation or partnership it is classified as. Wal-Mart recently changed the status of several of its stores in Massachusetts from limited partnerships to domestic corporations, in response to certain other changes in Massachusetts state law. This immediately made these stores’ inventories exempt from local personal property taxes, although these stores will now be subject to state excise taxes. (Ellie Oleson, “Walmart towns hurt by law change,” *Worcester Telegram & Gazette*, January 28, 2012.)

⁶ Under Proposition 2 ½, communities can only increase a given fiscal year’s tax levy by 2.5% over the prior year’s levy *plus* the value of new development times the prior year’s tax base.

⁷ “10 Questions about Worcester’s FY12 Budget,” Worcester Regional Research Bureau, Report 11-03, June 7, 2011.

⁸ State law limits the shift to 1.75 times the actual commercial share of the tax levy.

⁹ Andrew Sum et. al., “Recapturing the American Dream: Meeting the Challenges of the Bay State’s Lost Decade,” MassINC, December 2011.

¹⁰ “Recapturing the American Dream,” p. 70; only Connecticut, Mississippi, Indiana, Illinois, Ohio, and Michigan had worse job-creation records.

¹¹ The values in **Table 13** define “downtown” as south of Lincoln Square (Highland St.), north of Chandler and Madison, west of I-290 and east of Linden St.

¹² For the full results of the 2011 survey, see “Downtown Worcester Office Occupancy: 2011 Survey,” Worcester Regional Research Bureau, Report 11-06, October, 2011.

¹³ The vacancy rate represents the amount of space that is vacant and available for lease divided by the total square footage of office space. It should be emphasized that the data reported here are self-reported by property owners and leasing agents, point-in-time, and subject to change. Not all owners have responded to the survey and it has not been possible to compile data on every property for every year. Small changes over one year may not be statistically significant.

¹⁴ “Downtown Worcester Office Occupancy: 2011 Survey.”

¹⁵ “Downtown Worcester Office Occupancy: 2011 Survey”; Jeremy Shulkin, “The ups and downs of Main Street,” *Worcester Magazine*, November 22, 2011; Shaun Sutner, “Property problems,” *Worcester Telegram and Gazette*, September 25, 2011.

¹⁶ Jeremy Shulkin, “Vacant affair,” *Worcester Magazine*, February 1, 2012.

¹⁷ “S.A.V.E. Our Neighborhoods,” City of Worcester, January 2008.

¹⁸ For up-to-date information on the foreclosure issue in Worcester, see Tim Davis, “Foreclosure activity slow to resume,” Massachusetts Housing Partnership, Foreclosure Monitor 2.5, February 27, 2012.

¹⁹ The figures from Worcester in **Chart 11** differ from those in **Table 8** because the latter relied on DOR data for average single family homes. **Chart 11** uses data from Zillow.com on median home prices for all homes. Zillow includes information from short sales and foreclosures.

²⁰ In the charts for Worcester, Springfield, Lowell and Cambridge, commercial values make up 50-60% of the “commercial, industrial and personal property” bar. In Boston, the figure is over 80%.

Mission Statement:

The Research Bureau serves the public interest of the Greater Worcester region by conducting independent, non-partisan research and analysis of public policy issues to promote informed public debate and decision-making.



The Research Bureau

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