June 5, 2024

Representative Ron Mariano, Speaker
Massachusetts House of Representatives
State House, Room 356
Boston, MA 02133

Representative Aaron Michlewitz, Chair
House Committee on Ways and Means
State House, Room 243
Boston, MA 02133

Dear Speaker Mariano and Chair Michlewitz,

On behalf of the Greater Boston Chamber of Commerce and our 1,200 members, I write to applaud the House for crafting H.4707, *The Affordable Homes Act*, legislation that will provide historic investments in housing and a menu of policy tools to promote necessary housing development across the Commonwealth. Housing affordability is a key piece of the state's competitiveness for businesses and employees alike. With soaring housing prices, elevated borrowing costs, and decades of underproduction, H.4707 provides critical investments for housing programs to urgently grow supply and preserve existing public housing stock. The approach taken by the House Ways & Means Committee will make a meaningful difference in improving affordability and retaining the talent and workforce essential to a local thriving economy.

H.4707 builds on the Governor's Housing Bond Bill by doubling down on the investments needed to preserve our existing public housing stock and tap into initiatives that incentivize the development of new housing units. Importantly, H.4707 avoids cost-raising measures such as transfer taxes that would only work to disincentivize the level of housing production that would drive down housing costs and exacerbate stubbornly high prices. This is not the moment to add unnecessary costs, particularly when those costs do not translate to a meaningful increase in the availability of housing in the Commonwealth.

As the House begins debate on the legislation, the Chamber respectfully offers the following comments for your consideration.

The Chamber Supports Critical Investments in Housing Production and Affordability

H.4707 provides a historic level of capital resources to boost housing production, maintain existing affordable housing units, and provide incentives to build both public and private housing developments for individuals of all incomes. In particular, the bill recommits state support for public housing by dedicating a full $2 billion is essential grants to public housing authorities targeting low-income housing needs, an essential public resource to address the housing shortage that should be maximized. The Chamber strongly supports these initiatives and encourages the House to adopt programs that will spur both public and private housing development. These include:

- The Affordable Housing Trust Fund (7004-0072 - $800 million)
- The Housing Stabilization and Investment Fund (7004-0073 - $425 million)
- HousingWorks (7004-0083 - $175 million)
- Middle Income Housing Fund (7004-0080 - $100 million)
- Sustainable and Green Housing Initiatives (7004-0078 - $275 million)
- Public Housing Grants (7004-0074 - $2 billion)
- Smart Growth Housing Trust Fund (7004-0079 - $20 million)
- Housing Choice Capital Projects (7004-0077 - $50 million)
- Expanding Homeownership Opportunities for First Time Buyers and Socially and Economically Disadvantaged Individuals Reserve (7004-0081 - $100 million)

SUPPORT - Comprehensive Housing Plan (SECTION 3)

The Chamber supports Section 3 of H.4707 that requires the establishment of a statewide comprehensive housing plan, anchored by supply and demand data and a comprehensive analysis of the housing challenges faced by all regions in the state. H.4707 provides an immense amount of capital and resources to address the housing affordability problem in Massachusetts. A clear strategy for deploying these resources that develops metrics, housing production goals, and outlining necessary tools to achieve those goal will help the Commonwealth avoid future housing shortages and direct available resources to mitigate our current high costs. Comprehensive housing data also provides the state with a clear direction for where the state must deploy housing resources and will help guide stakeholders in housing production, municipalities and the state address our housing challenges.

SUPPORT - Accessory Dwelling Units (SECTIONS 7 and 8)

The Chamber supports the inclusion of Section 8 of H.4707, which would allow for the building of accessory dwelling units (ADUs) in municipal single-family zoning districts. ADUs, because of their unique characteristics as smaller residential units adjacent to existing units, offer a unique and cost-effective way to grow our housing supply with a diverse pool of housing options for residents. ADUs are another innovative tool to allow for increased inventory of lower cost housing without high capital costs.

SUPPORT – Commercial Property Conversion Tax Credit (SECTION 14)

The Chamber supports the establishment of an income tax credit for qualified commercial property that would convert commercial space into residential units. The pandemic shifted many workplaces to a hybrid work environment, changing the demand for in-office space for the foreseeable future. As many office spaces are unused, the need for more residential housing remains higher than ever.

While it may seem intuitive to convert these unused spaces to residential units, practical and economic considerations make these projects difficult to accomplish. The physical components of office buildings do not lend to easy conversations, and significant structural changes are often necessary to allow for residential uses. Adding to the complexity are high construction and capital financing costs, inflation pressures, and labor shortages throughout the construction industry. The commercial property conversion tax credit would provide a credit to housing developers of up to 10% of development costs, which will go a long way to reduce the cost to complete potential conversion projects. We commend the House for its foresight and creativity in developing solutions such as the conversion tax credit that identifies all possible opportunities for growing housing stock.

OPPOSE – Real Estate Transfer Taxes – Amendments #135, #165, #247 and #326

The Chamber strongly supports the committee's removal of real estate transfer taxes from the Affordable Homes Act. Transfer taxes do not just raise costs for sellers, despite arguments to the contrary. Costs created by the new tax will be passed down to tenants, increasing rents for both residential and commercial renters, and particularly having an impact on renters and small businesses in smaller, generally more affordable properties. The unintended consequences of this tax can be seen in other jurisdictions, and the lack of oversight, reporting, and accountability on revenues raised by the proposed transfer tax raise questions about what housing, if any, will be built as a result.

Proponents of these measures suggest these new taxes will drive more affordable housing construction. However, jurisdictions that have adopted similar policies permitted less overall housing after the tax is implemented.[1] New York and New Jersey, two states that are both competitors of Massachusetts, each

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[1] U.S. Census, New Privately-Owned Housing Units Authorized by Building Permits in Permit-Issuing Places, Annual History by State, 1960-2022

have long-established real estate transfer taxes on properties. New York state's tax, implemented in 1989, levies an additional 1 percent tax on the sale price for properties sold for more than $1 million. New Jersey's tax, implemented in 2004, similarly levies an additional 1 percent tax on properties sold for more than $1 million.

New York state averaged more than 60,000 housing units permitted per year between 1960 and 1988, before the mansion tax was implemented. Beginning with its implementation in 1989 and through 2022, it averaged less than 40,000 permitted housing units annually. During the 29 years before implementation, a total of 1.78 million housing units were permitted compared to 1.35 million in the 34 years that followed. With the mansion tax in place, the state permitted 431,000 fewer housing units compared to a period five years shorter without the tax in place.[2]

New Jersey follows similar trends. In the 19 years prior to the tax taking effect, the state averaged a total of 31,600 housing units permitted annually. In the 19 years since the tax took effect, the state has permitted an average of less than 27,500 units annually. Since the mansion tax took effect in 2004 through 2022, the state permitted 522,325 total units. Compared tothe same length of time prior to the adoption – 1985 through 2003 – the state permitted 75,000 fewer housing units.[3] The negative impact that transfer taxes have on housing production are shown through these jurisdictions and are a clear reason why these taxes should not be included in the final Housing Bond Bill.

Furthermore, Massachusetts communities already have the Community Preservation Act (CPA), a local option property tax for which up to 80% of revenues can be used to fund affordable housing. A recent study shows that the CPA is significantly underused for affordable housing purposes and in many cases does not even meet the minimum spending threshold required by law.

Since 2000, over half of municipalities across Massachusetts have voluntarily opted to adopt the Community Preservation Act.[4] According to a study issued in June 2023, the CPA has resulted in 15,000 local projects and a total of $2.7 billion in community investment, but affordable housing development represents only small fraction of the spending. Despite a requirement that CPA communities must devote 10% of funding toward affordable housing, 70 municipalities fall short of this rule. Only 20 percent of total CPA revenues go towards affordable housing purposes and less than 5 percent of CPA projects involve the construction of new housing units. Communities should make use of the tools they have before the state opens another path to add a tax and further raise housing costs.

The House was correct in removing transfer fees from the bill and Members should oppose any effort to reinstate them into the final bill. The Healey Administration's own report[5] states that the implementation of a transfer fee could only yield only a fraction of the units the state needs to address the housing shortage.

OPPOSE – Efforts to Impede the Important Progress of the MBTA Communities Act - Amendments #29, #38, #41, #42, #55, #120, #123 and #129

The Chamber supported the Legislature's passage of the MBTA Communities Act that encourages new housing production around public transit nodes along the MBTA's rapid transit and commuter rail systems. Numerous proposed amendments aim to slow important progress on municipal compliance with section 3A of chapter 40A by delaying deadlines for compliance, allowing past construction to qualify, imposing unnecessary appeals processes for consideration outside normal local permitting functions, or repealing the law itself. These efforts undermine the modest requirements of the current law to develop greatly needed housing units throughout the Commonwealth.

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[2] Ibid.
[3] Ibid.
[4] Missed Opportunities: Funding Housing Through the Community preservation Act," June 2023. The Center for State Policy Analysis at Tufts University
[5] https://www.mass.gov/doc/economic-impacts-of-the-affordable-homes-act-umdi/download

It is important to note the law does not actually require the construction of any new housing, but only to ease the zoning requirements in a small area of each municipality located near transit options. The MBTA Communities Act was supported by wide margins in the Legislature and Governor Charlie Baker in 2020, and we encourage the House to reject these amendments.

OPPOSE - Rent Control - #196 (Galvin)

The Chamber strongly opposes any amendment that institutes rent control in Massachusetts. The impact of imposing rent stabilization on housing production can be seen clearly in other cities that recently adopted rent control policies. St. Paul, Minnesota voters adopted rent stabilization policies in 2021 and in 2022, the first year of implementation, data show a stunning 50% drop in housing production. This depressed level of housing supply production has been sustained in 2023.[6]

Ultimately, less housing production creates scarcity and raises rents for units not covered by rent stabilization. New York and Los Angeles both maintain longstanding rent stabilization policies, however, even with decades-long policies that limit rent increases, the median rents in both cities rank among the highest in the country.

Rent control and stabilization policies also lead to less tenant mobility, making it harder for new residents to access affordable housing. As tenants remain in rent-controlled and rent-stabilized units, regardless of their income level or financial situation, residents looking to find new housing or potential new residents who wish to move into the municipality will find only higher rents in non-stabilized units.

These factors – less housing supply and reduced tenant mobility – are proven to create higher housing costs in rent control environments. A 2018 study evaluating San Francisco's rent control policies after a 1994 change of the law found that rent control reduced rental unit supply by 15% and limited tenants' mobility by 20%.[7] The report concluded "…while rent control prevents displacement of incumbent renters in the short run, the lost rental supply likely drove up market rents in the long run, ultimately undermining the goals of the laws."[8] The outcome is clear: as a whole, city-wide rents went up, not down.

Less housing supply and reduced tenant mobility are proven to create higher housing costs in rent control environments. The House has put forth an excellent proposal to address housing affordability in the state with H.4707 and rent control policies would only subtract from the progress made. We urge the House to oppose any effort to institute rent control into the final bill.

OPPOSE – Decreasing the Voting Threshold for Inclusionary Zoning – Amendments #321, #336

The Chamber urges the House to oppose Amendments #336 and #321, which would make it easier for municipalities to mandate inclusionary zoning ordinances. While well-intended, inclusionary zoning ordinances may have unintended negative consequences on housing production. When overly aggressive, such ordinances may have the opposite intended impact and drive down affordable housing production in a municipality, undermining the laudable goals of the Affordable Homes Act. As an example, Boston's inclusionary development policy increased substantially last year despite the city's own research that it would make many housing projects financially unfeasible.[9]

Combine these new requirements with high interest rates, high construction costs, and an increasingly uncertain economic environment, and the result is a decrease in housing production permitting. This is

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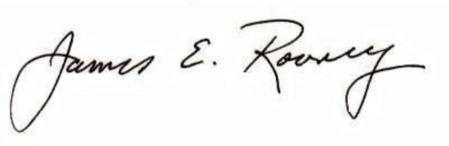
[6] U.S. Department of Housing and Urban Development, State of the Cities Data Systems Local Permitting Database
[7] Diamond, McQuade, Qian - *The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco*. American Economic Review 2019.
[8] Ibid.
[9] Boston's Inclusionary Development Policy (IDP) Analysis, RKG Associates, Inc

the opposite of what the state must do to address the severe housing shortage that is causing the housing affordability crisis we face. The Chamber appreciates language in amendment #321

that acknowledges the possibility that such ordinances, when overaggressive, can negatively impact housing production when we need it most. That concern is what drives the Chamber's opposition to the proposal in this legislation.

H.4707 makes significant investments to the Commonwealth's current and future housing needs. We thank the House for taking up this critically important piece of legislation. Thank you for your consideration and please reach out with any questions.

Sincerely,



James E. Rooney
President & CEO

CC: Members of the Massachusetts House of Representatives