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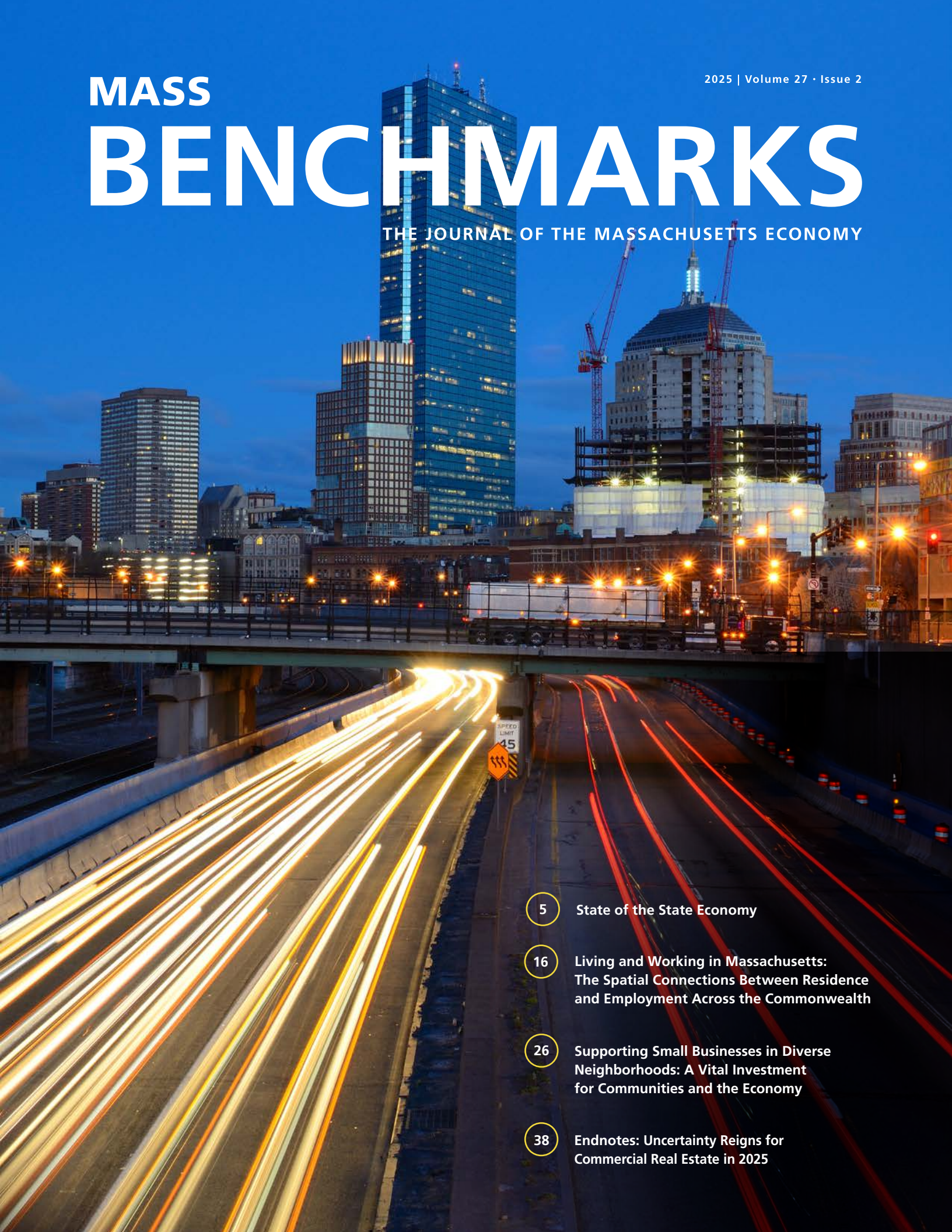
MASS BENCHMARKS

THE JOURNAL OF THE MASSACHUSETTS ECONOMY



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Thank You, Katharine Bradbury

We wish to thank Katharine Bradbury, who retired this fall from the MassBenchmarks Editorial Board. Kathy served on the Board—and assumed the co-editorship of this journal—during her time as senior economist and policy advisor at the Federal Reserve Bank of Boston, and she has remained a great friend and colleague to Board members past and present. Her research has focused on income inequality and mobility, labor force participation (and other areas of labor economics), state aid to local governments, local and state public finance, and the New England regional economy. We extend our deep appreciation and gratitude to Kathy for her many years of engagement and wish her all the best in her retirement.

MassBenchmarks provides timely information about the Massachusetts economy, including reports, commentary, and data about the state's regions and the industry sectors that comprise them.

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CONTRIBUTE

The editors invite queries and articles on current topics involving the Massachusetts economy, regional economic development, and key growth industries from researchers, academic or professional economists, and others. A description of the topic and brief biography of the author should be sent to massbenchmarks@donahue.umass.edu.

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A complete list of past issues, latest news, updates, and additional research on the Massachusetts economy can be found at massbenchmarks.org.

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LETTER FROM THE CHANCELLOR

This issue of *MassBenchmarks* arrives at a time of economic uncertainty for the Commonwealth of Massachusetts. The analyses presented here reveal significant concerns about the trajectory of our state economy as dramatic shifts in federal policy take effect. The research and insights contained in these pages provide essential context for understanding both the immediate pressures and long-term structural challenges facing the Commonwealth.

The issue opens with an assessment of the state economy. Mark Melnik, director of economic and public policy research at the UMass Donahue Institute, highlights current economic conditions and emerging threats to our economic performance. Employment growth has stalled, unemployment is rising, and industries long considered recession-resistant—including higher education and scientific research and development—face unprecedented vulnerability due to shifting federal policies and funding priorities.

The first feature article, authored by Hope Bodenschatz, Eli Inkelas, and Jeffrey Thompson, offers a comprehensive examination of commuting patterns across Massachusetts. Their spatial analysis of where residents live and work illuminates the intricate connections between our communities and reveals how housing availability, transportation infrastructure, and proximity to employment centers shape the economic geography of the Commonwealth.

The second feature article by Kerry Spitzer examines the vital role of small businesses in diverse urban neighborhoods. Through research conducted in four Boston neighborhoods—Dorchester, East Boston, Mattapan, and Roxbury—Spitzer documents the persistent barriers facing entrepreneurs of color, particularly regarding access to capital and technical assistance. The article makes clear that supporting diverse small businesses is not simply an equity imperative but also a wise economic development strategy that can help improve neighborhood vitality, promote wealth creation, and extend economic opportunity to underrepresented communities.

This issue's "Endnotes" by Tamara Small provides a sobering assessment of commercial real estate challenges across all major sectors. From record-high office vacancy rates to significant oversupply in life-sciences research and laboratory space, Small documents an industry grappling with fundamental disruption compounded by federal policy uncertainty that is putting serious pressure on the Commonwealth's vaunted life-sciences sector.

Taken together, these articles reveal a Commonwealth at a critical juncture and underscore the importance of research, innovation, and entrepreneurship in advancing economic growth and prosperity across our communities. As a public research university, the University of Massachusetts plays an integral role in finding solutions to the challenges before us and helping to drive the Massachusetts innovation economy during periods of uncertainty. I commend the authors who contributed to this issue for their important work, and I hope this information is useful to policymakers, business leaders, and community stakeholders as they navigate a challenging economic and political environment.

Javier A. Reyes
Chancellor of the University of
Massachusetts Amherst

Narrow Growth and Broad Risk: Massachusetts' Economy at an Inflection Point

AI-Driven and Other Productivity Improvements Are Powering Massachusetts Economic Output and Revenues Even as Jobs, Wages, and Household Resilience Lag.

The MassBenchmarks Board's most recent discussion painted a picture of a Massachusetts economy that is uneven. It has selective strengths in high-end, AI-driven activity and financial receipts but also shows flat overall payrolls, adverse sectoral shifts, and growing vulnerability if the artificial intelligence-led investment cycle weakens.

PAYROLLS AND GDP

Payroll employment in the state has been essentially flat for roughly 20 months, with a net payroll loss in the third quarter of 2025. The broader national data also show a slowdown in hiring. Beneath that flat aggregate are clear winners and losers. "Other services" has posted relatively strong growth recently, much of it concentrated in repair services—automotive repair in particular—suggesting households are repairing rather than replacing vehicles amid weakening auto sales. By contrast, professional and business services (a foundation of the state economy), especially tech-related industries that surged during the COVID-19 recovery, have weakened. The current pattern appears indicative of over-hiring during the rebound followed by a retrenchment. Emblematic of this trend, construction employment rose earlier as life-sciences lab and office projects were built out, notably in metropolitan Boston, which has been leading the country in office construction through much of the post-COVID-19 period. However, many of those projects begun during the early stages of the recovery are now completing, leaving a rise-then-plateau dynamic. Education and healthcare, consistent engines for driving job growth in Massachusetts, also appear to be slowing.

Despite the flatlining of jobs, Massachusetts has experienced robust growth in GDP in 2025 through the third quarter. GDP growth, 4.5 % in the second quarter and 3.2 % in the third quarter, has been on par or higher than U.S. growth. The combination of no growth in payroll jobs and relatively high growth in GDP points to overall productivity gains that allow the Massachusetts economy to grow with fewer workers. The GDP gains are likely the result of applying labor-saving AI technologies in industries like advertising (e.g., digital advertising sales that require minimal labor inputs) combined with investments in other technologies like semiconductors and web services. The result is that the Massachusetts economy appears to be bifurcating, with AI and other technologies propelling economic growth and wealth at the top levels, while other sectors lag and consumers experiencing a weak jobs market are becoming increasingly uneasy.

UNEMPLOYMENT AND OTHER LABOR MARKET INDICATORS

Massachusetts' unemployment dynamics are ambiguous. The state's unemployment rate has ticked up and presently stands higher than the U.S. rate—an inversion of the historic pattern where Massachusetts, with its high education and skill levels, has had lower unemployment rates than the nation's. Massachusetts' workers who are "part-time for economic reasons" (i.e., people involuntarily working part-

time but want to work full-time) have increased, signaling underemployment in the state. At the same time, "marginally attached workers" (i.e., individuals not in the labor force who want a job but are not actively seeking work) remain relatively low in Massachusetts. On the positive side, the size of the Massachusetts labor force appears to be growing, although the reasons for that growth are not obvious given the weak hiring environment, and measurement challenges related to immigration mean that the margins of error around labor force estimates are elevated. First-week unemployment claims (initial applications for benefits) in Massachusetts remain historically low, indicating that broad layoffs have not been pervasive, but the rise in the unemployment rate and underemployment measures suggest softening beneath the surface.

EARNINGS, TAX RECEIPTS, AND INCOME VOLATILITY

National measures show continued healthy wage and salary growth, but Massachusetts presents a more mixed picture. Withholding tax collections—a timely indicator of wage payments—were weak in the third quarter of 2025. However, capital gains and millionaire/surtax receipts have surged in Massachusetts, signaling concentrated income gains among affluent households. The discrepancy between sluggish wage and salary growth and more robust capital gains signals a widening gap between top earners and people with middle/lower incomes. In this vein, the Board noted other signs of consumer uncertainty in Massachusetts. For instance, new motor vehicle sales have been declining, while jobs in repair services have been rising, indicating that people may be choosing to hold onto their vehicles rather than replace them.

POPULATION AND LABOR SUPPLY

Massachusetts population growth depends on international immigration, which counterbalances consistent year-over-year net outflows of Massachusetts residents to other states, notably to the Sunbelt. However, with the onset of federal policy changes (e.g., enhanced vetting and screening of visa applicants, increased enforcement activities, etc.), net new immigration in 2025 has ceased growing and recently shows slight declines. Massachusetts ranks among the leading destination states for international migration, which makes these policy changes especially impactful for the state and its economic competitiveness. Immigrants are typically active participants in the labor market, and this slowdown reduces labor supply in Massachusetts. This is particularly concerning because immigrants work in all aspects of the Massachusetts economy, including in areas of innovation and entrepreneurship as well as in areas like healthcare services and construction.

RISKS, OUTLOOK, AND POLICY IMPLICATIONS

Board members highlighted structural concerns that are becoming widespread in the Massachusetts economy. A high-end, AI- and finance-driven upswing is benefiting the state's higher income households but is taking place alongside persistent weakness in the job market for many workers. The Board also sees AI-related economic activity creating upside potential for continued growth through increased productivity and investment but carrying a substantial downside risk if the AI investment boom falters. Additionally, a commercial construction boom is coming to an end. Overbuilding in life-sciences and office space may result in making state-of-the-art spaces more affordable but will take time to absorb. The erosion in some competitive positions relative to other U.S. states (e.g., Massachusetts slowly losing its share of national scientific research and development employment) and state budgetary pressures tied to the cut-off or decline in federal supports for social programs and research and development funding are also raising concerns.

Policy questions raised by the Board include how to assist workers displaced or struggling to find jobs (including recent college graduates), how to backstop SNAP, childcare, and healthcare, and how to target Massachusetts' economic development strategies given shifting federal funding priorities.

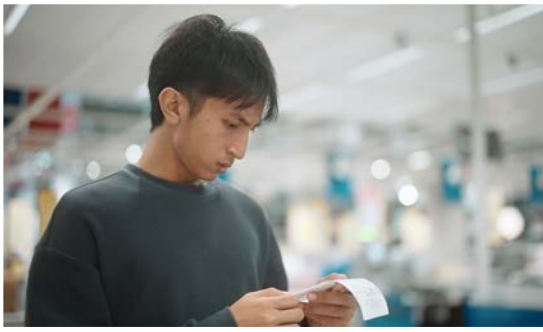
In sum, the discussion emphasized a mixed picture of the Massachusetts economy and considerable uncertainty about its future. Income is growing in the state, but wealth is increasingly concentrated. Job growth has essentially flatlined and may be leaning toward decline. The state's share in key innovation industries is eroding, and the halt in foreign immigration threatens the state's supply of workers.

This summary reflects the discussion of the members of the Editorial Board of MassBenchmarks at its fall meeting on October 31, 2025, and it reflects the economic data available up to that date. It was prepared by Branner Stewart, senior research manager at the UMass Donahue Institute, and was reviewed and edited by the members of the Editorial Board. While discussion among the Board members was spirited and individual Board members hold a wide variety of views on current economic conditions, this summary reflects the broad consensus of the Board regarding the current state of the Massachusetts economy.

PREPARED BY BRANNER STEWART, CONTRIBUTING EDITOR

State of the State Economy

BY MARK MELNIK



Although the Massachusetts economy remained steady during the first half of 2025, the economic forecast remains uncertain at best. Job growth has stalled, and industries once considered "recession-resilient" are now vulnerable to shifting federal funding priorities. Consumer, homeowner, and business sentiment is marked by increased anxiety as federal budget cuts, immigration enforcement, tariff policies, and other directives threaten to weaken the state economy. Significant efforts by Governor Healey to spur housing and clean-energy production notwithstanding, current trends point to a slowing economy overall, with more uncertainty on the horizon as the federal policy landscape continues to take shape.

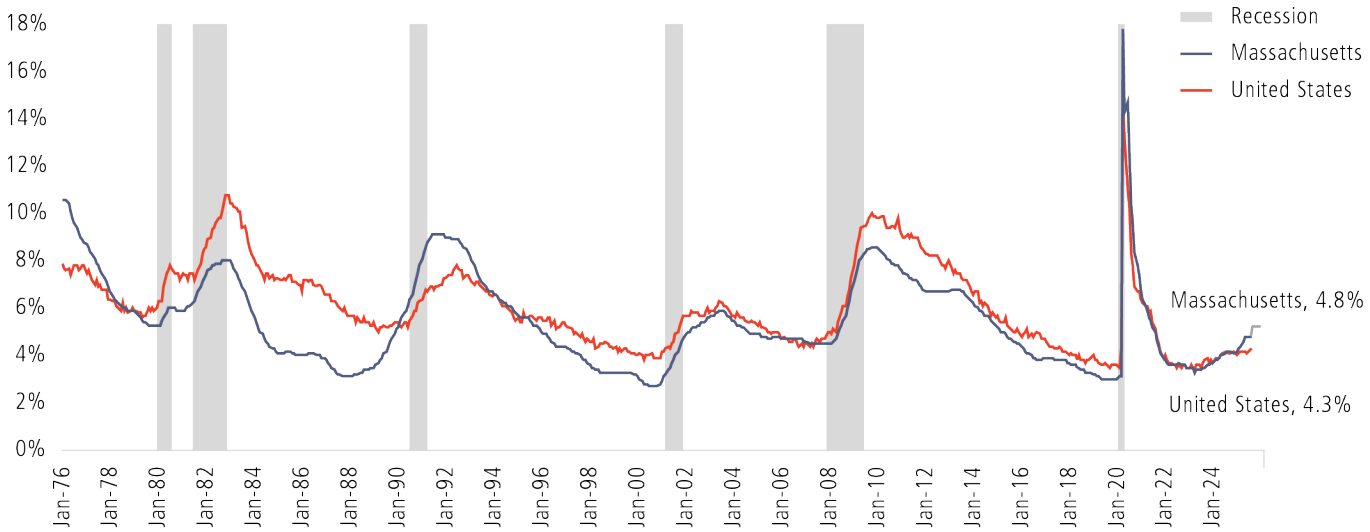
Introduction

The first two quarters of 2025 proved to be a complicated and volatile time for the Massachusetts and U.S. economies. If 2024 was marked by relatively steady economic performance in the state (albeit with low employment growth), 2025 has delivered more of the same, though with heightened anxiety in households and the business community due to the shifting policy priorities of the incoming Trump Administration. The combination of federal budget cuts, immigration enforcement, and tariff policies has created significant uncertainty in the state, national, and global economies. Moreover, many of the changes in federal policy currently proposed by the Trump Administration and Congress have the potential to weaken the Massachusetts economy. For example, industries long considered strengths, such as higher education and research and development, are vulnerable to the negative impacts of changes in federal funding priorities. Because many of the policy and budget directives from the federal government are still developing and because much of the data typically used to describe state economic trends are lagged, the impacts of federal policy changes may not be fully understood for some time. That said, current trends certainly point to a slowing economy, with important concerns on the horizon.

Unemployment

Regarding unemployment, Massachusetts typically performs ahead of the United States. This was especially the case during and immediately following the Great Recession. The Commonwealth's mix of knowledge-based industries and a well-educated workforce led to high levels of labor force participation and low levels of unemployment in the state overall. During the post-pandemic recovery, the Massachusetts unemployment rate tended to follow historical trends, registering lower than the United States. This has recently changed, however, with the unemployment rate for Massachusetts in August 2025 exceeding that of the United States at 4.8%, up from 4.2% a year prior (Figure 1).

Figure 1: Unemployment Rates in Massachusetts and the United States as of August 2025 (Seasonally Adjusted)



■ Source: Massachusetts Executive Office of Labor and Workforce Development, Labor Force and Unemployment.
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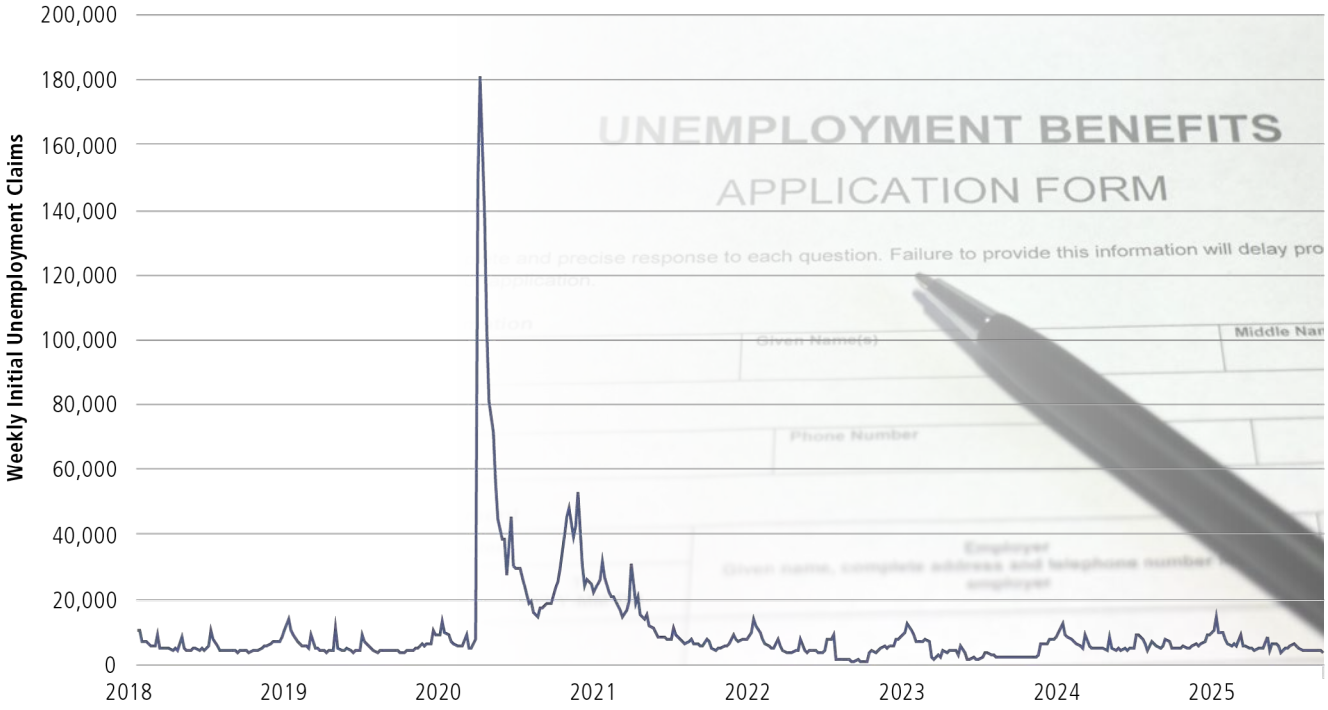
Figure 2: Massachusetts Weekly Initial Unemployment Claims, 2018–2025



■ Note. These claims figures are not seasonally adjusted.
Source: U.S. Department of Labor, Employment and Training Administration.
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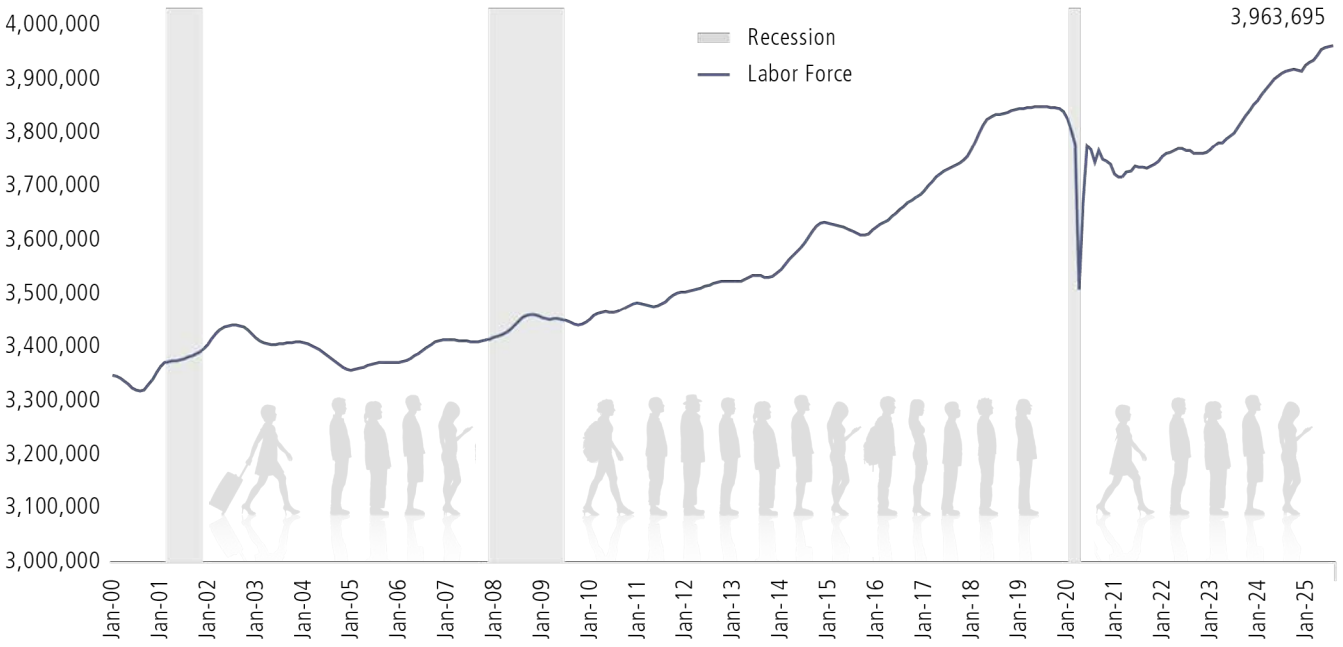
The rise in unemployment in Massachusetts does not appear to be due to an increase in layoffs, since, for example, first-time unemployment claims do not exhibit a consistent rising trend (Figure 2). Instead, unemployment has risen in tandem with increases in the labor force, which grew at an annual rate of 1.4% in the first quarter of 2025, following a rise of 0.3% from the fourth quarter of 2024. Given the small sample size of the Bureau of Labor Statistics (BLS) household survey for Massachusetts, which leads to "noisy" measures, it is difficult to determine the source of the increased number of persons looking for work. Recent state population estimates from the U.S. Census Bureau have suggested a significant increase in foreign-born Massachusetts residents in 2023 and 2024, as well as a reversal of the strong domestic outmigration trends in the state that occurred during the pandemic. New population estimates are due out at the end of December, but regardless, jobs are clearly becoming more difficult to find in the state economy.

The size of the labor force remained relatively stable from fall 2020 through early 2024 (Figure 3). Since August 2024, the labor force has increased by 48,791 workers, or 1.2%. At the same time, Massachusetts has consistently maintained higher rates of labor force participation than the United States, though the difference had narrowed considerably until the recent increase in the Massachusetts labor force. The labor force participation rate rose from 65.4% in August 2023 to 66.9% in August 2025, comparable to the rate a year earlier (August 2024) of 66.4%. The rate is currently up and close to the pre-pandemic level of 67.2% in August 2019. As of August 2025, jobs in Massachusetts have mostly recovered to their pre-pandemic levels, but the recovery has been slower than in many states. Overall, in the United States, employment across all non-farm industries is 4.6% above February 2020 levels, whereas in Massachusetts, overall employment is hovering just below pre-pandemic levels.

After an initial robust recovery period as COVID-19 restrictions were lifted, employment growth in the state has largely stalled during the last 2 years.

Figure 3: Massachusetts Labor Force, January 2000–August 2025 (Seasonally Adjusted)



Sources: Massachusetts Executive Office of Labor and Workforce Development, Local Area Unemployment (LAU) Statistics; UMDI analysis.
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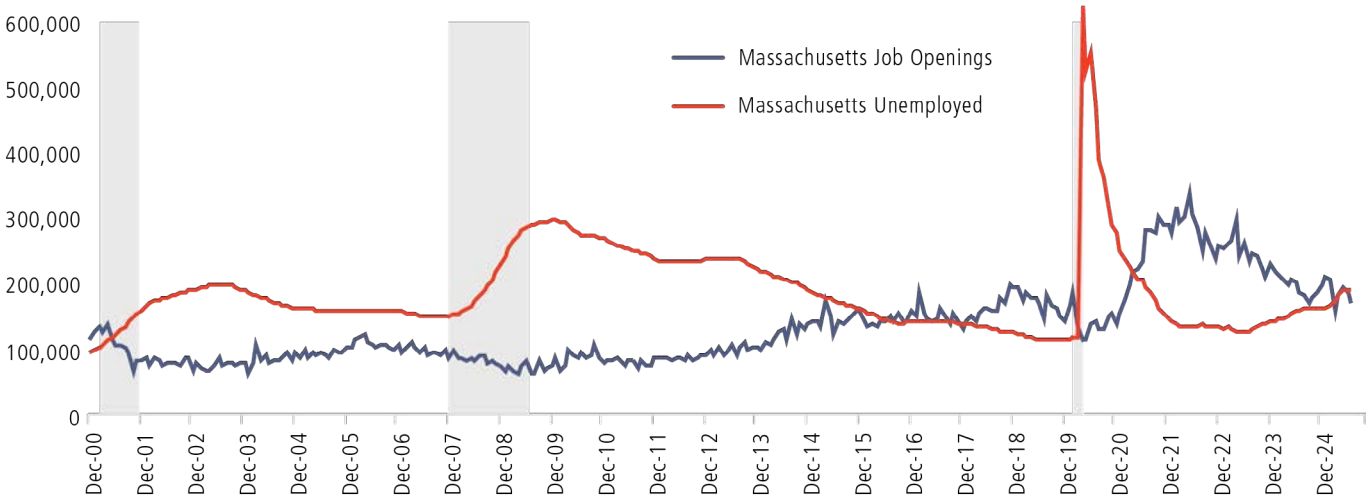
Jobs and Employment Trends

The labor market has changed considerably since the "Big Quit" post-pandemic era when a combination of uneven job losses and recovery and an overall decline in the total labor force led to hiring and staffing challenges for employers. The gap between Massachusetts job openings and unemployed workers has shrunk markedly from the immediate post-pandemic boom when multiple job opportunities were available per job seeker (Figure 4). The measures have since moved closer together as the number of unemployed has risen and job openings have consistently declined, suggesting that employers are regaining power in the labor market and that potential workers may have more difficulties finding work.

Figure 4: Massachusetts Job Openings Versus Unemployment, 2000–2025



■ Sources: Massachusetts Executive Office of Labor and Workforce Development; U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS).
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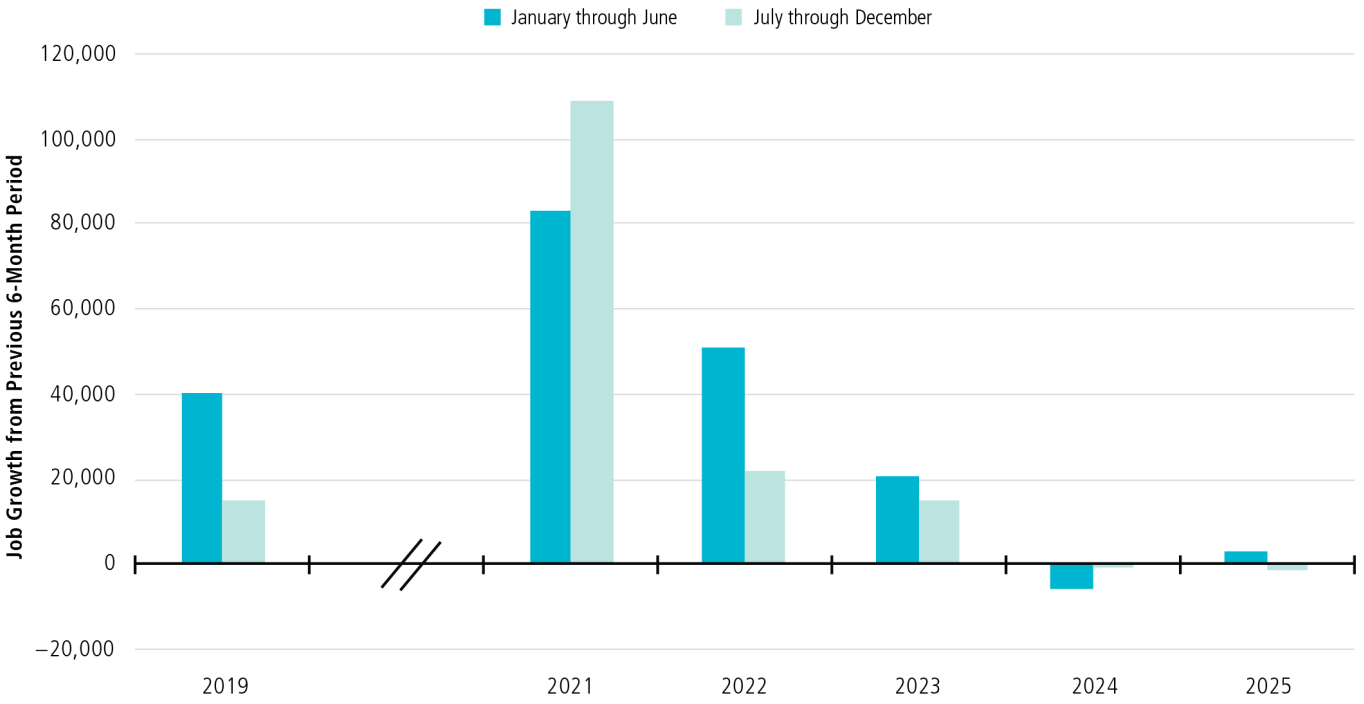
After an initial robust recovery period as COVID-19 restrictions were lifted, employment growth in the state has largely stalled during the last 2 years. Figure 5 shows employment growth by year, split in 6-month intervals. Job growth was most substantial in 2021 and during the first half of 2022 but slowed considerably from that point forward.

Figure 5: Massachusetts Job Creation by 6-Month Period, 2019, 2021–2025



■ Note: 2020 data omitted for scale. An estimated 545,000 jobs were lost in the Massachusetts economy in the first half of 2020.
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.
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Professional, Scientific, and Technical Services

The professional, scientific, and technical services sector of the economy serves as an informative case study of the Massachusetts economy's current trajectory. Workers in this sector provide expertise and specialized knowledge to clients, primarily in service areas such as legal, accounting, engineering, architectural, computer system design, consulting, and, perhaps most notably, scientific research and development. Key characteristics of the sector include a strong reliance on the skills and training of human capital, often requiring advanced education, with less emphasis on equipment and materials. The sector is the third largest in the state, behind only healthcare and social assistance and education, making up 10% of jobs in the Commonwealth (compared with 7% nationwide). The sector contributes significantly to the state's high per capita income, as the average annual salary for jobs in professional, scientific, and technical services is approaching $100,000.

Professional, scientific, and technical services have been critical to the state's strong economic performance over the last 2 decades and was a driving force in the post-pandemic jobs recovery. Between August 2019 and August 2023, the sector grew at an annualized rate of 2%. During the same period, scientific research and development grew at an annualized rate of 7.2%. Since the middle of 2023, however, the sector has contracted slightly, losing roughly 12,600 jobs between mid-2023 and mid-2025. Employment in scientific research and development stalled completely during that period as well (Figure 6).

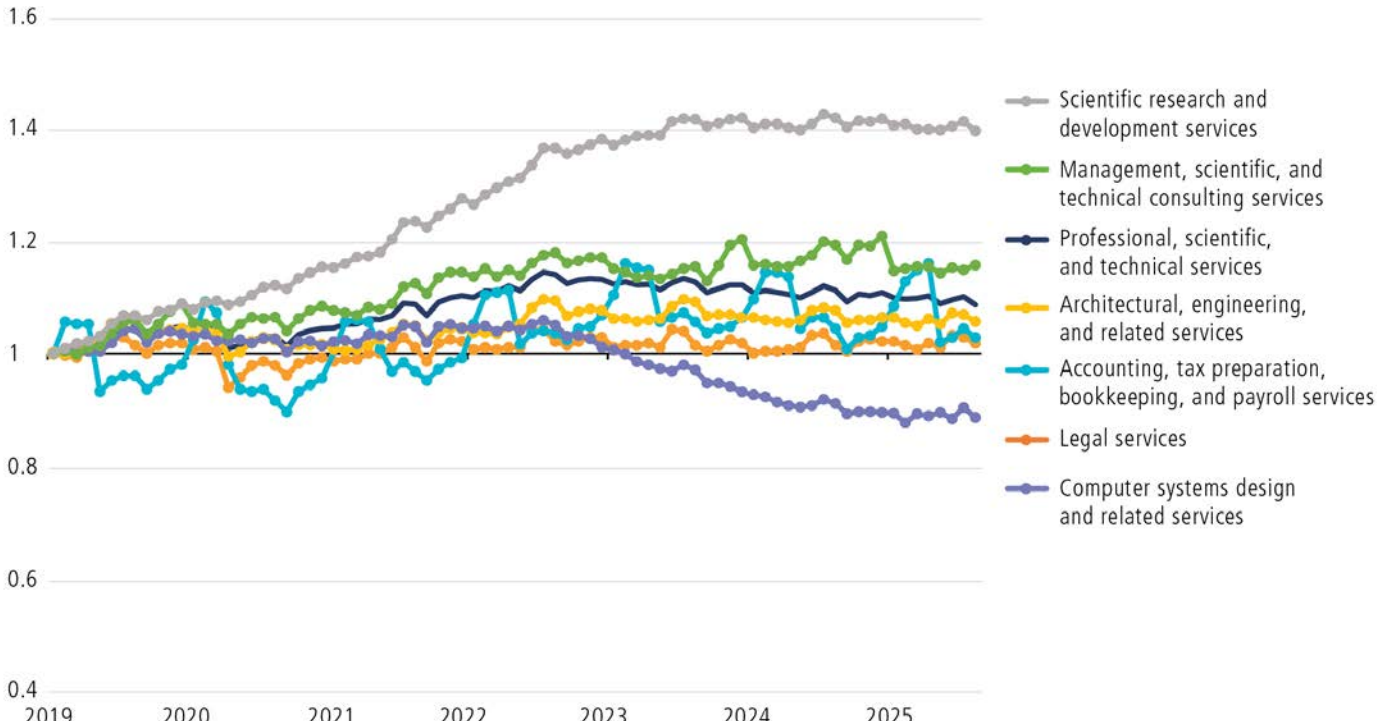
Looking more closely at this sector, Figure 7 shows the relative strength and resiliency of scientific research and development during the COVID-19 pandemic and the immediate recovery period, followed by a significant slowdown in recent job growth. Job declines in the sector are most notable in computer systems design and related services, as well as accounting and bookkeeping and architectural services.

Figure 6: Annualized Job Growth for Professional, Scientific, and Technical Services Subsectors in Massachusetts, 2019–2023 and 2023–2025

Subsector	August 2019 Jobs (1,000s)	August 2023 Jobs (1,000s)	August 2025 Jobs (1,000s)	July 2019 July 2023 Anualized Growth Rate	July 2023 July 2025 Anualized Growth Rate
Professional, scientific, and technical services	346.3	374.4	361.8	2.0%	–1.7%
Legal services	28.8	28.8	28.9	0.0%	0.2%
Accounting, tax preparation, bookkeeping, and payroll services	24.3	26.7	26	2.4%	–1.3%
Architectural, engineering, and related services	43.3	44.7	43.3	0.8%	–1.6%
Computer systems design and related services	86.4	80.4	73.5	–1.8%	–4.4%
Management, scientific, and technical consulting services	53.4	58.1	58.2	2.1%	0.1%
Scientific research and development services	79.9	105.7	104.2	7.2%	–0.7%

■ Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.

Figure 7: Professional, Technical, and Scientific Services Subsector Employment, Indexed to January 2019



■ Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.
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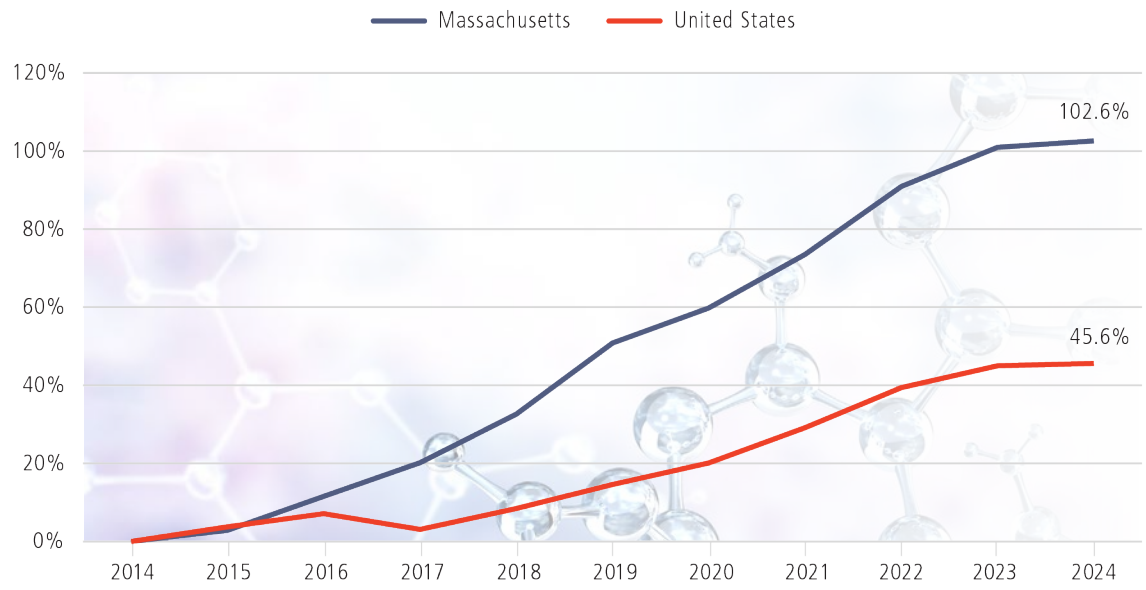
Research and Development

Scientific research and development (R&D) is intensely clustered in Massachusetts compared with the United States and has become more concentrated over the past decade. The Commonwealth is regularly among the top three states receiving National Institutes of Health (NIH) and National Science Foundation (NSF) funding and typically the top recipient in the country per capita. The concentration of research universities and institutes, hospitals, and private companies pursuing advances in biomedical research, life sciences, and other areas of R&D has contributed to the competitiveness of this industry. Over the past decade, employment in this area has nearly doubled in the Commonwealth, with roughly 105,000 individuals working in scientific R&D (Figure 8). While these numbers are meaningfully large, they likely understate the significance of the industry to the Massachusetts economy relative to employment in other industries that support R&D. Research and development activity in the state also constitutes a large portion of national scientific activity: In 2024, roughly one in every nine scientific R&D jobs in the nation were in Massachusetts—despite the state being home to only one in every 40 jobs nationally (Figure 8). In addition, jobs in scientific R&D pay notably higher wages than average for both Massachusetts and the United States.

Figure 8: Employment Growth in Scientific Research and Development, 2014–2024



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.
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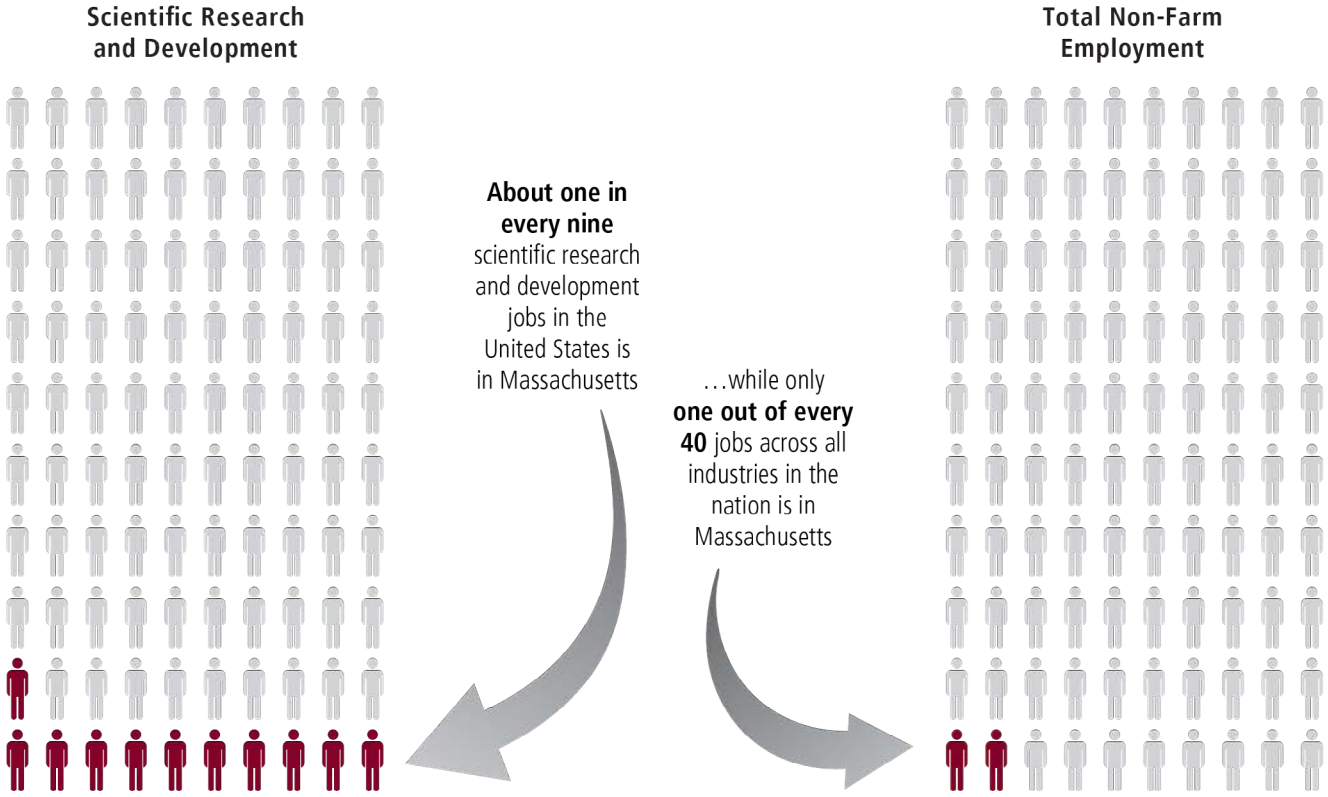
Figure 9: Concentration of Scientific Research and Development Employment in Massachusetts, 2024



Note: NAICS Code 5417, Scientific Research and Development Activities.
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.
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In the early months of 2025, the Trump Administration took a series of steps to begin changing funding priorities and requirements for how dollars are spent by recipient organizations (e.g., capping the institutional overhead rate). While these potential policy changes remain unresolved at the time of this publication, proposed and actual changes in federal funding and support for R&D have created uncertainty around future economic outcomes in Massachusetts. A recent study by the UMass Donahue Institute found that research funding supports a total of 81,300 jobs, $7.8 billion in income, and more than $16 billion in total economic activity. Research and development funding creates and supports jobs beyond those in research occupations and research organizations, with thousands more blue-collar and service jobs generated in sectors that support the industry, including construction, food services, healthcare, retail, and administrative support. Two of every five jobs created by research funding are created outside sectors that directly receive that funding. In short, research funding is essential to the Massachusetts economy, and maintenance of ongoing and reliable funding is critical for supporting jobs, economic activity, and state and local revenues.

Current and Lead Indices

In the second quarter of 2025, Massachusetts real gross domestic product (GDP) increased at an annual rate of 2.6%, according to MassBenchmarks, while U.S. GDP increased at an annual rate of 3.0%, according to the U.S. Bureau of Economic Analysis (BEA). In the first quarter of 2025, Massachusetts GDP and U.S. GDP decreased at annual rates of 0.9% and 0.5%, respectively, according to the BEA.

Anxiety and uncertainty surrounding the economy during the first quarter of the year diminished somewhat during the second quarter as the Trump Administration softened its tariff stance, negotiations with trading partners seemed to be making progress in forestalling a trade war, and consumers were spared the worst of the feared tariff hikes on prices—at least for now. Although tariff policy announcements have continued to be sharp and unpredictable, businesses and investors have settled on interpreting this as a bargaining strategy by the administration and seem to be anticipating a new normal of moderately high—but not extreme—tariff rates. By the end of the second quarter, most headline economic indicators appeared unremarkable and essentially normal.

While the current economy is marked by uncertainty, MassBenchmarks projects that the growth rate for the Massachusetts GDP will continue to be moderate over the rest of the year, with annualized growth rates of 2.0% in the third quarter and 1.9% in the fourth quarter. By comparison, results from the *Wall Street Journal's* survey of economists from early July 2025 project rates of U.S. GDP growth of 0.9% in the third quarter and 1.1% in the fourth quarter.

Research funding is essential to the Massachusetts economy, and maintenance of ongoing and reliable funding is critical for supporting jobs, economic activity, and state and local revenues.

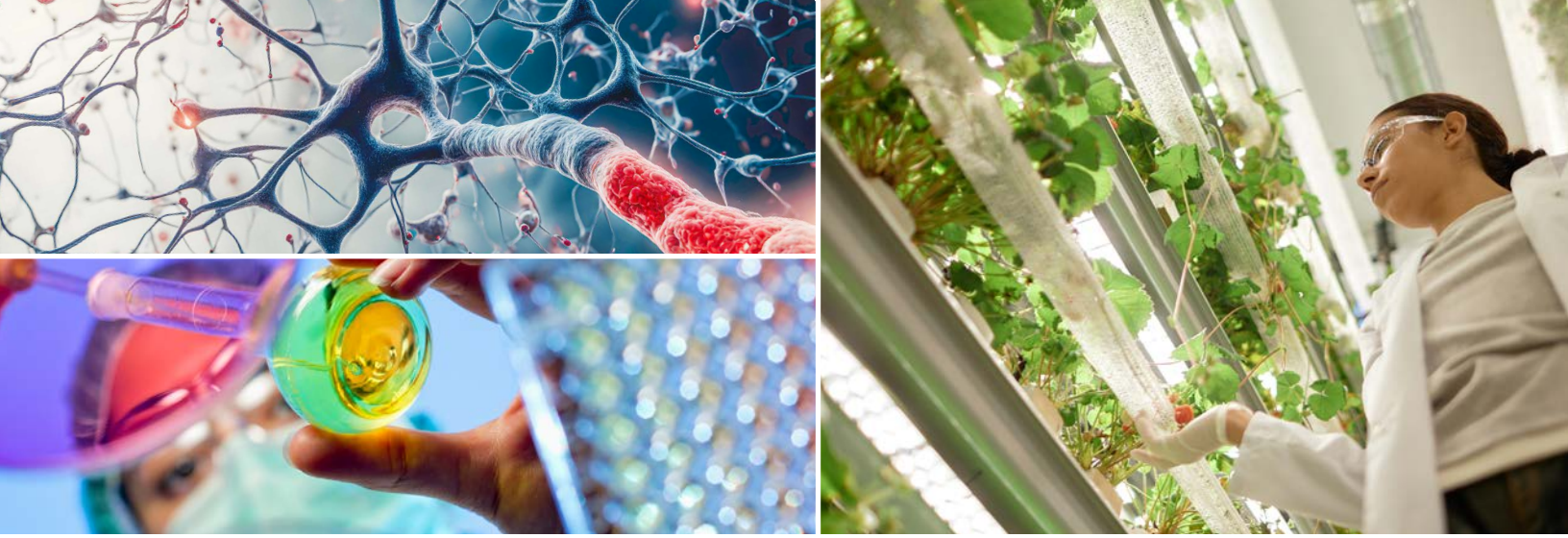
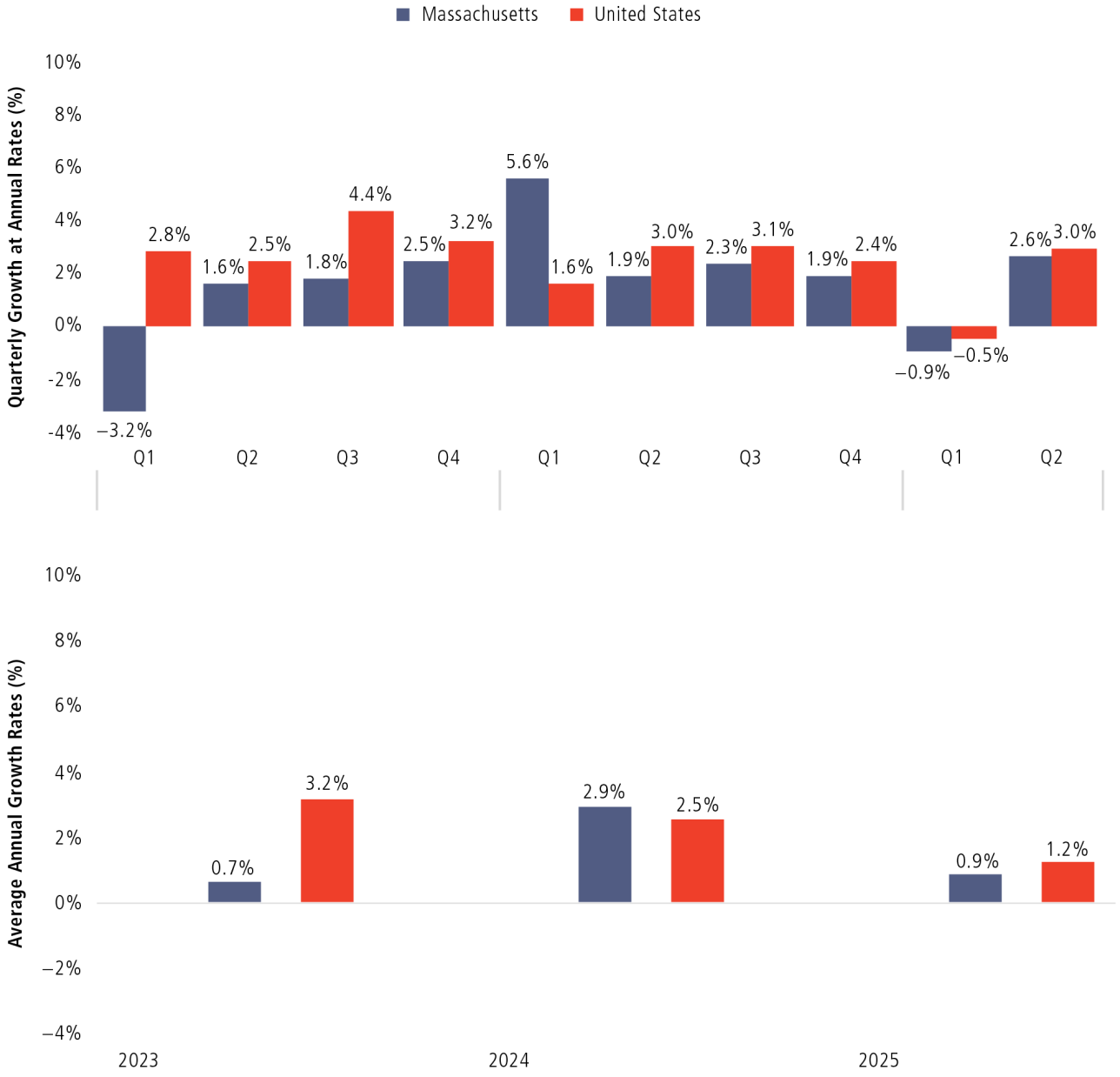


Figure 10: Recent Growth in Real GDP, Massachusetts and the United States



■ Note: Average annual growth is calculated by averaging the four quarters of annual growth rates for the calendar year. 2025 annual averages consist of only Quarters 1 and 2.
Sources: U.S. Bureau of Economic Analysis; MassBenchmarks calculations by Dr. Alan Clayton-Matthews.

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Conclusion

Though much remains uncertain in the state and national economies as policy priorities and directives continue to crystalize for the Trump Administration, there are significant concerns for the Massachusetts economy at the present moment. Job growth has stalled, and some of the core elements of the state economy, namely higher education and scientific R&D, are in a more precarious position than is typical for these more "recession-resilient" segments of the economy. Similarly, the Healey-Driscoll Administration has placed significant emphasis on increasing housing production and strategically placing the Commonwealth at the forefront of a clean-energy transition. These are important and worthy strategy directions for the state, but both rely on, or are at least sensitive to, federal policy. Likewise, Massachusetts has long relied on immigration to drive population and labor force growth. With an aging population, growing the labor force was already a chief concern for the economy in the coming years. Any significant changes in immigration policy will likely restrict labor force growth in the state. In short, although the Massachusetts economy is holding steady, the future is murkier than it has been in quite some time. Initiatives like Governor Healey's recently announced Discovery, Research, and Innovation for a Vibrant Economy (DRIVE)—$400 million of state resources earmarked for replacing potential lost research funding—exemplifies proactive thinking in support of the state during uncertain economic times. More forward thinking like this will be necessary as the federal policy landscape develops in the coming years.

Endnotes

1) To better account for the increase in migration in the United States following the pandemic, the U.S. Census Bureau attempted to bring in more administrative data (e.g., from Homeland Security) to estimate foreign-born residents in the country and opted to distribute that population proportionately to states based on their current foreign-born population. This led to a significant increase in the estimate of foreign-born residents in Massachusetts. These population estimates are higher than and inconsistent with the labor force estimates developed by the BLS. Given the simple approach taken by the Census Bureau to distribute foreign-born residents, it is likely the annual estimate for Massachusetts was higher than the actual population.

2) https://donahue.umass.edu/documents/Massachusetts_R_D_Funding_EI_-_073125.pdf

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Living and Working in Massachusetts: The Spatial Connections Between Residence and Employment Across the Commonwealth

HOPE BODENSCHATZ, ELI INKELAS, AND JEFFREY THOMPSON

Most Massachusetts residents work in communities other than the ones where they live, creating travel patterns informed by the Commonwealth's job opportunities, housing markets, and transportation options. This feature article, based on an exploratory study of state and regional employer and household data, highlights trends in the flow of resident workers between municipalities and discusses how these reliable patterns reveal the characteristics of important employment hubs across Massachusetts.

In Massachusetts, residents' commutes to work are shaped by economic and geographic opportunities and constraints, creating intricate exchanges across the Commonwealth. Some of these patterns conform to expectations—such as the magnetism of metropolitan employment hubs—but other flows are more nuanced, even surprising. One common thread is that most Massachusetts residents work in cities or towns other than the ones where they live. Analyzing where Massachusetts workers travel to and from provides insights into the job opportunities, housing markets, and transportation options that inform their decisions.

We analyzed current commuting patterns using 2022 Massachusetts and New England data primarily. Although the COVID-19 pandemic significantly disrupted commuting behavior, the spatial relationships between home and work addresses that we observed in the 2022 data are remarkably similar to those of 2019, suggesting that the trends are fairly stable over the short term and that the effects of hybrid and remote work arrangements are subtle (Bodenschatz et al., 2025). Recent research has also indicated that existing "flexible work" arrangements are overwhelmingly hybrid, requiring considerable "onsite" presence, and that fully remote work arrangements have grown increasingly rare since the height of the pandemic, accounting for less than 12% of workers employed by firms as of 2022 (Barrero et al., 2023).

We found that small and mid-sized communities near large employment hubs tend to export more of their workforce, while the Commonwealth's largest employer communities—Boston, Cambridge, Worcester, and Springfield—have low out-commuting shares. Most municipalities send more workers to other places than they receive, and communities with physical geography constraints and low surrounding population density

exhibit lower in- and out-commuting. The Commonwealth's largest employment hubs and its Gateway Cities pull in substantial numbers of nearby workers and ground their local economies. There is substantial two-way commuting flow between many cities and towns and considerable variation in the extent to which municipalities attract local workers. In addition, we found that transportation options and housing access play major roles in determining the number and destination of commuters.

Our analysis relied primarily on data from the U.S. Census Bureau's Longitudinal Employer–Household Dynamics (LEHD) program, which publishes public-use data on employers and households, linking home and work addresses. These data, known as LEHD Origin-Destination Employment Statistics (LODES), use administrative records to produce counts of flows between census blocks, which can be aggregated into larger units. We examined data for all 351 cities and towns in Massachusetts. We also calculated New England-wide rankings of Massachusetts cities and towns with the full set of 1,567 county subdivisions from across the region.[2]

Nearly Every Worker in Massachusetts Commutes

Among Massachusetts municipalities, the median share of resident workers who are employed in another city or town (out-commuters) is 92%. The median town in Massachusetts is home to 4,640 residents who work, and, on average, 4,160 of them are out-commuters. In nine very small Massachusetts towns, 100% of resident workers are out-commuters, though those communities are home to just 185 working individuals on average.[3]

The cities of Revere and Brookline, adjacent to Boston, have the region's highest out-commuter percentages (95%) among municipalities with at least 25,000 resident workers. Many communities exporting a higher-than-average share of their residents are home to fewer than 1,000 employed residents; however, some surpass 5,000 employed residents. The towns of Hanson, Holbrook, Sharon, Whitman, and Wayland (modestly sized communities in close proximity to major employment hubs) each export more than 95% of their 5,000-plus employed residents.

The median city/town sources 86% of its workers from outside communities. This statistic, referred to as the "commute share," is remarkably consistent across the Commonwealth: Except for Nantucket, all municipalities have a commute share of at least 55%.

Towns with lower export shares tend to also have lower commute shares; geographic constraints that limit the outflow of commuters also affect the inflow. For example, due to physical geography constraints, Nantucket has an export share of 33% and a commute share of 27%, and Provincetown has an export share of 43% and a commute share of 55%.[4] The rural employment hub of Pittsfield is also a low-side outlier for shares of out-commuters (46%) and in-commuters (57%).

Table 1: Workforce and Commuting Characteristics of Major Employment Hubs in Massachusetts, 2022

City	Local Employment	(New England Ranking)	Net Inflow	(New England Ranking)	Commute Share %	Export Share (%)
Boston	611,521	(1)	312,172	(1)	75	47
Cambridge	152,570	(2)	101,195	(2)	89	68
Worcester	90,184	(5)	12,493	(22)	68	62
Springfield	70,274	(7)	10,617	(30)	68	62
Waltham	64,351	(11)	35,667	(5)	92	82
Newton	49,294	(12)	12,201	(24)	91	88
Burlington	45,600	(15)	32,375	(7)	96	87
Quincy	45,384	(16)	–3,135	(1,454)	86	87
Woburn	42,792	(17)	22,732	(10)	94	87
Framingham	37,658	(18)	7,457	(38)	89	85
Andover	34,807	(21)	20,111	(12)	93	84
Marlborough	34,516	(24)	16,915	(13)	92	84
Fall River	33,255	(26)	–4,209	(1,501)	67	70
Brockton	32, 311	(27)	–15,433	(1,566)	71	80
Somerville	31,280	(29)	–10,142	(1,556)	91	93
Lowell	30,306	(32)	–17,602	(1,569)	73	83
New Bedford	29,985	(33)	–11,460	(1,561)	58	69
Braintree	26,202	(39)	7,325	(40)	92	89
Lawrence	24,615	(46)	–12,905	(1,563)	67	78
Beverly	24,063	(50)	–5,615	(55)	85	81

■ Notes: The 20 cities with the highest local employment in Massachusetts are included. Net inflow is defined as the difference between jobs at employers in a city ("local employment") and the number of working residents of that city. Regional rankings for local employment and net inflow are calculated from the 1,576 county subdivisions in New England. Commute share is calculated as the percentage of a county subdivision's local employment with a home address in another county subdivision. Export share is calculated as the percentage of a county subdivision's working residents whose work addresses are in another county subdivision.
Source: LEHD LODES, 2022.

Five Massachusetts cities are within New England's top 10 net receivers of workforce (net inflows). Boston has by far the largest employment level and the largest net inflow in the region. Major employment hubs tend to be low resident-worker exporters; Boston exports only 47% of its employed residents, a result of its exceptionally strong job market. Cambridge, Worcester, and Springfield, the next largest cities regarding jobs, have export shares of 68% or less.

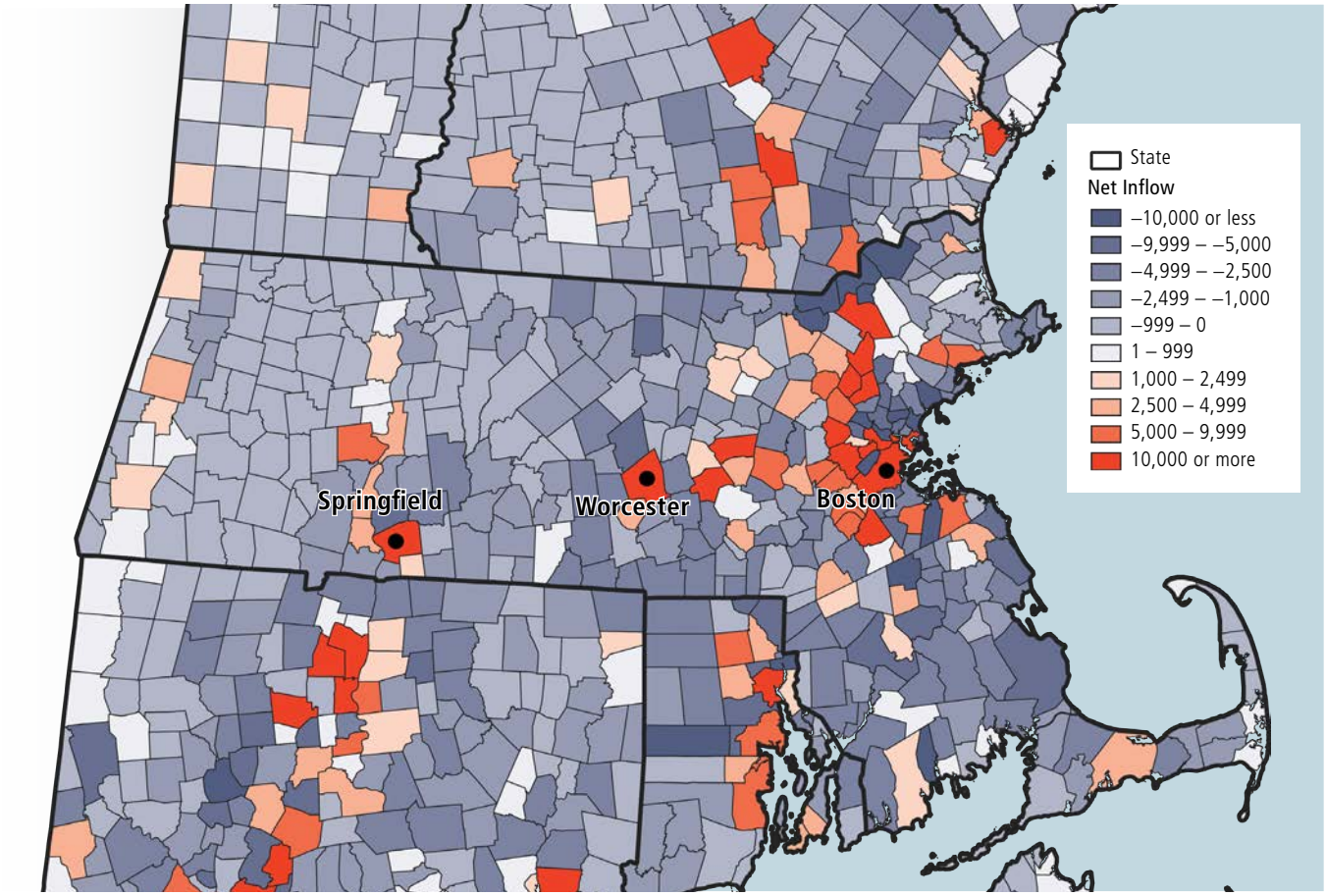
Low-commute-share outliers among the largest employment centers include Worcester (68%), Fall River (67%), and New Bedford (58%). Worcester's low reliance on in-commuters is particularly noteworthy given that its local employment is the fifth highest in New England. It has only the 22nd highest net inflow of workers—largely due to the Greater Boston job market's pull, a measure discussed later in this article.

Commuting is essential to the functioning of Massachusetts' local labor markets. Though commute share varies, virtually every city and town sources a large majority of its workforce from outside its boundaries.

Most Massachusetts Communities Are "Net Senders"

Massachusetts communities generally have a greater workforce outflow than inflow; that is, they are net senders. The median Massachusetts community is a net sender of 730 workers, as shown in Figure 1. Net senders, shown in **blue**, account for 77% of Massachusetts cities and towns (269 in total).

Figure 1: Net Sending and Receiving of Commuters in Massachusetts, 2022



■ Note: Net inflow is calculated as the difference between the number of individuals who work in a city and the number of working individuals who reside in that city.
Source: LEHD LODES, 2022.

Access link to the text-based description of this figure on Google Docs.

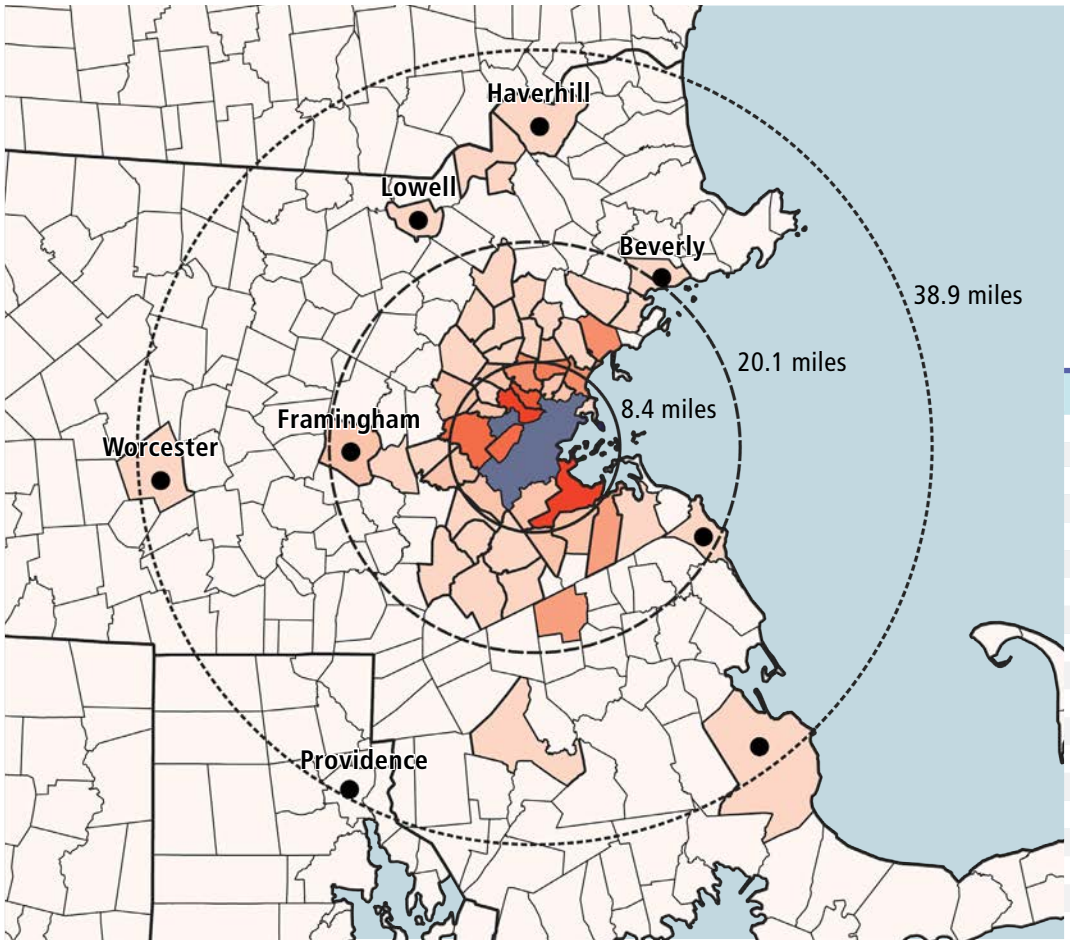
Although the median net sender is small, these communities are not necessarily small towns with weak labor markets. Notable net senders include Quincy, which employs the state's eighth largest workforce, as well as Brockton, Fall River, Lowell, and Somerville. Each of these cities has employment of at least 30,000 and is located near Boston. Quincy sends 36% of its resident workers—more than twice the number who work locally—to Boston.

Massachusetts' Major Employment Hubs Have Large Footprints

Major employment hubs—most notably Boston, Worcester, and Springfield—are a key component of the commuting structure in Massachusetts. Figure 1 depicts the footprints of these hubs (in **red**), indicating high net inflows of commuters from surrounding communities. Springfield is the primary hub in western Massachusetts, surrounded mostly by net-sender communities (depicted in **pale blue**). There is a higher concentration of net receivers in eastern Massachusetts. Though the overall picture is complex, proximity is a key determinant of where a city sources its workers.

Figure 2 illustrates where the region's largest employment center, Boston, sources its workforce, highlighting the 66 cities and towns that contribute 75% of Boston's employment. The non-highlighted communities also contribute to the Boston workforce but send fewer workers than those marked in shades of red. The three rings overlaid on the map represent the 50th (8.4 miles), 75th (20.1 miles), and 90th (38.9 miles) percentile commute distances for Boston employees. Commute distances are straight-line distances between commuters' home- and work-census blocks, not actual distances traveled via roads and rails.

Figure 2: Sources of Boston's Workforce, 2022



Source City	In-Commuters
Cambridge	17,681
Quincy	17,395
Somerville	14,197
Brookline	13,106
Newton	12,935
Maiden	10,063
Revere	9,720
Medford	8,933
Lynn	8,286
Weymouth	7,761
Brockton	7,450
Everett	5,942
Waltham	5,914
Arlington	5,864
Chelsea	5,711
Braintree	5,450
Randolph	5,373
Watertown	5,032
Framingham	5,027

■ County subdivisions are ranked according to the number of workers they contribute to Boston's workforce, in descending order; their workforce contributions are summed until 75% of Boston's workforce is met. These county subdivisions are shaded according to the number of workers they send to Boston, with top contributors shown in the inset table.
Source: LEHD LODES, 2022.
Access link to the text-based description of this figure on Google Docs.

The communities from which Boston sources most of its workers only loosely follow the pattern of the concentric rings. Some relatively distant communities, including Worcester and Plymouth, are important sources of workers due to their large populations and their road and railway networks. Other communities much closer to Boston contribute too few workers to be highlighted on the map.

Boston sources many workers from within its own borders and is surrounded by densely populated communities; half of the workers employed in Boston reside less than 8.4 miles from their workplace. This radius includes the cities of Cambridge, Somerville, Brookline, and Quincy, among other major contributors. An additional 25% of the city's workforce commutes from communities more than twice as far, or 20.1 miles, such as Framingham and Brockton. The substantial increase in distance between the median commute and the 75th percentile commute is above average for New England. The ratio of Boston's 75th percentile commute distance to its 50th

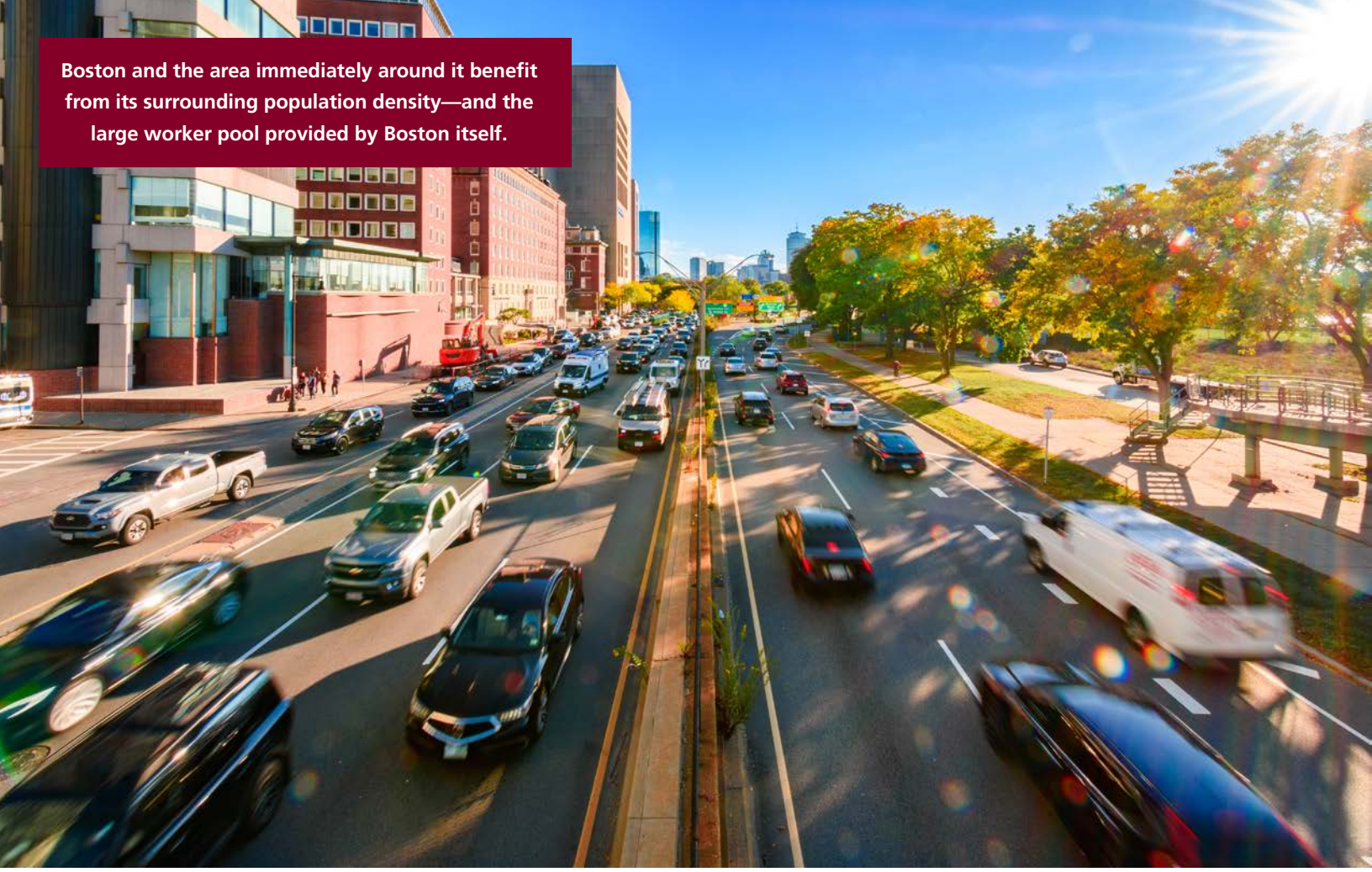
percentile commute distance is 2.4, whereas the median ratio for New England is 2.0. This difference results from the Boston job market's significant pull (discussed later in this section) and the housing and transportation options that make lengthy commutes desirable for some workers.

Typical commutes to and from major employment hubs vary substantially in the Commonwealth. Table 2 shows municipalities with local employment of at least 15,000 and the highest median commute "pull"—that is, the ratio of the number of people who work in a city to all employed people living within its median commute, which indicates the portion of the nearby workforce that is drawn to the city. A city with strong pull (a higher number) captures a relatively large percentage of the available workforce within that range, while a city with weak pull (a lower number) captures a small percentage of available workers. Median commutes vary by city, so a city with a higher pull statistic is not necessarily a stronger center of industry relative to a city with weaker pull, but the statistic does approximate how dominant a city is within its local context. For instance, a low pull statistic may indicate that a city either lacks a competitive job market or faces competition from stronger job markets nearby.

Table 2: Commute Distances and Pull

City	Local Employment	Median Commute Distance	(New England Percentile)	75th Percentile Commute Distance	(New England Percentile)	Distance Ratio	Pull Within Median Commute Radius	Pull Within 75th Percentile Commute Radius	Pull Ratio
Pittsfield	22,318	5.4	(2)	19.5	(27)	3.6	0.97	0.46	0.48
Boston	611,521	8.4	(17)	20.1	(31)	2.4	0.84	0.42	0.51
Barnstable	22,328	8.8	(21)	23.7	(51)	2.7	0.60	0.21	0.35
Springfield	70,274	5.9	(3)	14.9	(8)	2.5	0.59	0.27	0.47
Worcester	90,184	9.9	(32)	25	(58)	2.5	0.57	0.16	0.28
New Bedford	29,985	4.7	(1)	16.6	(13)	3.5	0.47	0.17	0.37
Fall River	33,255	9.1	(23)	18.2	(20)	2.0	0.35	0.07	0.20
Northampton	18,305	12.2	(57)	22.3	(44)	1.8	0.24	0.07	0.29
Cambridge	152,570	6.9	(7)	19	(25)	2.7	0.23	0.11	0.48
Lawrence	24,615	6	(3)	16.6	(13)	2.8	0.23	0.04	0.20
Plymouth	21,580	13.9	(69)	27.8	(67)	2.0	0.23	0.04	0.18
Holyoke	18,111	7.1	(8)	13.5	(5)	1.9	0.17	0.08	0.47
Brockton	32,311	9.7	(29)	21.1	(36)	2.2	0.16	0.03	0.20
Leominster	17,648	13.3	(65)	27.6	(66)	2.1	0.16	0.02	0.16
Lowell	30,306	9.3	(25)	20.7	(35)	2.2	0.15	0.03	0.21
Chicopee	17,358	6.3	(4)	14.1	(6)	2.2	0.15	0.07	0.47
Beverly	24,063	10.3	(36)	20.4	(33)	2.0	0.13	0.02	0.19
Haverhill	16,588	7.4	(10)	19.2	(25)	2.6	0.13	0.03	0.25
Lynn	21,676	5.7	(3)	16.4	(13)	2.9	0.12	0.02	0.17
West Springfield	15,414	6.9	(7)	21.9	(41)	3.2	0.12	0.04	0.37

■ Notes: County subdivisions are ranked by their pull within their median commute distance. Median and 75th percentile commute distances are calculated from the straight-line distance between the centroids of origin and destination census blocks, for workers whose workplaces are in the county subdivision in question. Regional percentiles are calculated out of the 1,532 county subdivisions in New England that host at least one job in the LODES data. The "Distance Ratio" is calculated as the 75th percentile commute distance divided by the median commute distance. "Pull" is calculated as the number of people employed in the county subdivision in question divided by the number of workers who reside within the commuting radius in question. The "Pull Ratio" is calculated as the 75th percentile commute pull divided by the median commute pull. Statistics are shown for the 20 cities and towns in Massachusetts with the highest median commute pull, among county subdivisions with local employment of at least 15,000.
Source: LEHD LODES, 2022.



Boston and the area immediately around it benefit from its surrounding population density—and the large worker pool provided by Boston itself.

Unsurprisingly, the largest employment hubs in Massachusetts (i.e., Boston, Cambridge, Worcester, and Springfield) are on the list of cities with high pull. Despite the large population residing within its median commute distance, Boston has the second highest pull statistic among the Massachusetts cities included in Table 2. Pittsfield has the highest pull statistic, indicating that it punches above its weight in regional importance as an economic hub, as does Barnstable (ranked third).

There is striking overlap (14 out of 20) of the cities with greatest median commute pull and those defined by the Massachusetts legislature as Gateway Cities. This reinforces the importance and promise of these cities as economic powerhouses in their local areas.

Regarding commute distance, Boston and the area immediately around it benefit from its surrounding population density—and the large worker pool provided by Boston itself; the median commute to Boston from the adjacent communities of Brookline, Cambridge, Somerville, and Revere each is among the shortest (6%–8%) in the region. However, the duration of a commute is often more relevant to commuters than the straight-line distance between home and work, particularly in the notoriously congested Boston metropolitan area.

Pittsfield, followed closely by New Bedford, has the largest divergence in median and 75th percentile commute distances (measured as the distance ratio). Cities with large distance ratios typically source many workers from within their own borders and from adjacent communities due to a lack of competition from other employment centers. However, sparse populations in rural areas or natural features (e.g., oceans and mountains) increase the average commute length for workers living beyond the immediate vicinity of their workplaces. This divergence from the median to the 75th percentile commute distance represents not only the abundance of nearby workers relative to distant workers but also the willingness of in-commuters to spend substantial time traveling to and from work.

Commuting Flows Can Be Complex

TWO-WAY FLOWS

Although some commuting patterns are consistent across Massachusetts, many include nuances that would complicate a simple model in which workers flow from a residential community to the nearest and largest business district. Two-way commuter flows between cities are one such complication.

Major employment centers tend to host large resident populations and therefore can be strong contributors of workers to nearby communities. These "reverse commuters" are commonplace, as shown in Table 3, which lists the top pairs of cities ranked by a weighted combination of their exchange of workers. We calculate this measure as the product of the two flows divided by their average, a formula that rewards symmetric exchanges of workers over one-sided flows.

Table 3: Two-Way Commuter Flows for the 20 Largest City Pairs (by Size of Flow) in Massachusetts

City 1	City 2	Inflow (from 2 into 1)	Outflow (from 1 into 2)	New England Ranking
Cambridge	**Boston**	23,317	17,681	1
Boston	**Newton**	12,935	8,222	2
Boston	**Quincy**	17,395	5,290	3
Boston	**Somerville**	14,197	5,559	4
Boston	**Brookline**	13,106	4,396	5
Waltham	**Boston**	7,101	5,914	6
Springfield	**Chicopee**	5,057	3,504	10
Boston	**Braintree**	5,450	2,989	11
Boston	**Watertown**	5,032	2,720	16
Boston	**Medford**	8,933	2,166	17
Boston	**Needham**	4,824	2,510	20
Boston	**Dedham**	4,020	2,551	23
Boston	**Framingham**	5,027	2,237	24
Boston	**Woburn**	3,475	2,578	26
Dartmouth	**New Bedford**	3,671	2,382	27
West Springfield	**Springfield**	3,054	2,589	28
Holyoke	**Springfield**	3,294	2,200	30
Burlington	**Boston**	3,252	2,184	31
Boston	**Norwood**	3,685	1,954	34
Boston	**Canton**	3,460	1,991	37

■ Notes: Inflow is defined as the number of workers whose workplace is in City 1 and whose place of residence is in City 2. Outflow is the reverse. The regional ranking is calculated from the 1,532 county subdivisions in New England that host at least one job. A city's ranking is based on the product of its inflow and outflow divided by the average of those two factors. This formula rewards symmetric flows over one-sided relationships. For instance, Boston–Newton ranks higher than Boston–Quincy, despite having a smaller sum.
Source: LEHD LODES, 2022.

Sixteen of the 20 largest two-way commuter flows in Massachusetts involve Boston. The six largest flows in New England are Boston to/from the cities of Cambridge, Newton, Quincy, Somerville, Brookline, and Waltham. In each case, Boston contributes a sizeable number of workers to the other city—in fact, the number of Boston residents who work in Cambridge exceeds the number of Cambridge-to-Boston commuters. Three of the other largest flows involve Springfield, reinforcing the importance of Massachusetts' third largest city as a provider of both jobs and residences.

Most of the largest two-way flows occur between adjacent cities and towns, but some are sizeable distances apart. Boston and Framingham share one of the largest two-way flows in the region, exchanging nearly 7,300 workers, about 5,000 of whom live in Framingham. This exchange is notable in that, while Framingham is in Greater Boston, it is separated from the city proper by several sizeable cities and towns—including Natick, Wellesley, and Newton—through which commuters must travel. Each of these communities boasts a robust job market, particularly Newton, which has New England's 12th largest labor market, larger than Framingham's. Thus, the substantial flow in both directions speaks to the strong pull of both Boston and Framingham as well as the advantageous position of each along Interstate 90 and the Worcester/Framingham commuter rail.

Rail infrastructure plays an important role in Greater Boston, but across the region, roads are often the sole connectors for cities.

Individuals may choose to live in one of these cities while working in the other for any number of reasons, including lower home prices in Framingham, greater availability of amenities in Boston, and the allure of a position at one of the major employers based in either city; for example, Bose, TJX, and Staples are headquartered in Framingham.

WHERE COMMUNITIES SEND THEIR WORKERS

Many Massachusetts communities are located within a relatively short commuting distance of several employment centers. Working individuals can choose their place of residence as well as their place of work, creating a spatial marketplace for both housing and labor.

Though many communities export large shares of their resident workers to one major hub—as Lynn and Malden do with Boston, for instance—it is equally common for communities' resident workers to branch out in all directions. Methuen, which abuts New Hampshire, sends more than 1,000 workers to five separate communities: the adjacent cities of Lawrence, Andover, and Haverhill as well as Boston (nearly 30 miles away) and Salem, New Hampshire (just across the Massachusetts border).

Housing and Transportation Are Crucial for Accessing Workforce and Employment Opportunities

As noted, many factors other than proximity to a major employment center influence commuting behavior, including the availability, cost, and convenience of housing and transportation options. These forces can oppose one another in ways that are difficult to untangle in an exploratory analysis.

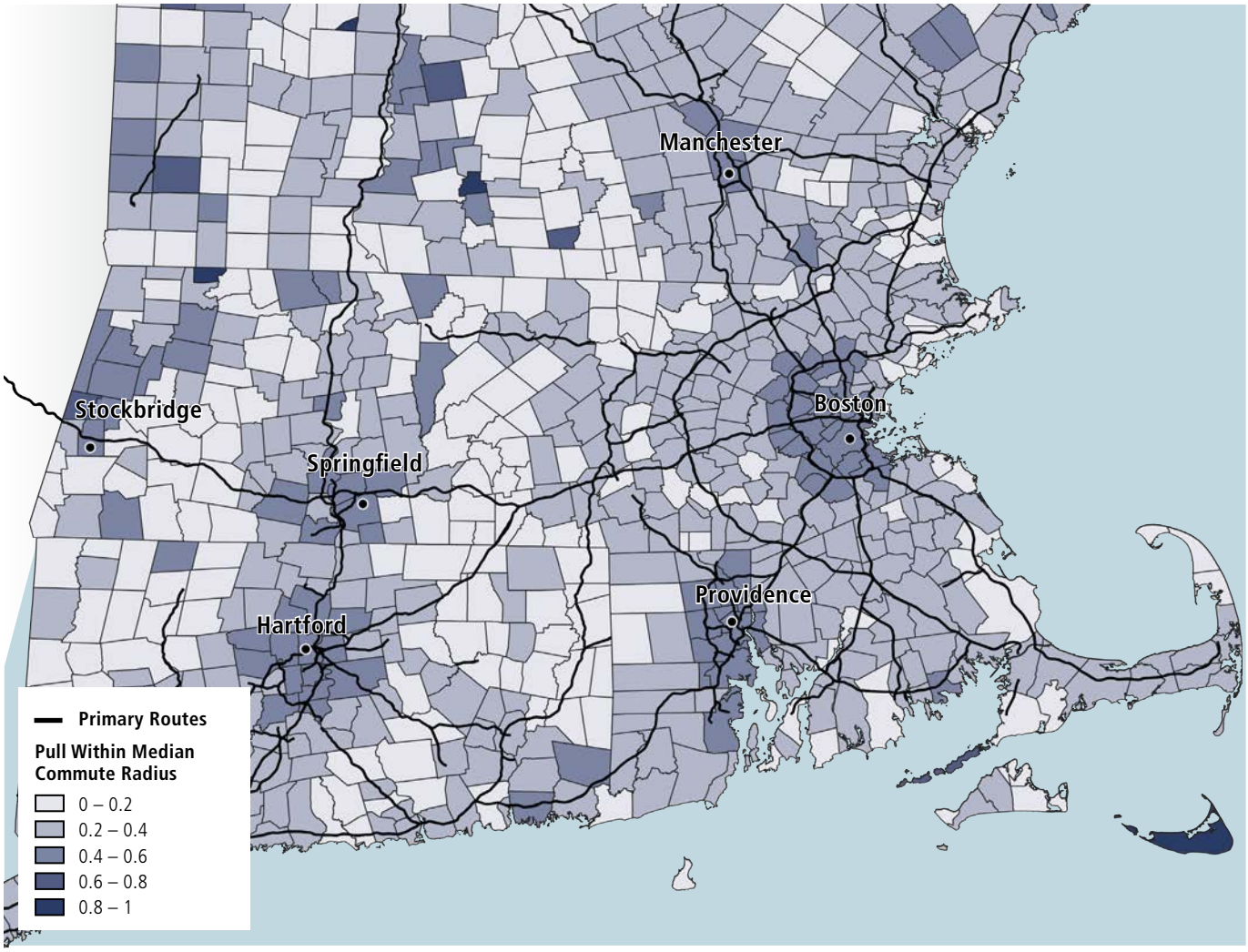
Workers of all income levels may choose to live far from where they work and spend time and money commuting. For some workers, the only affordable housing options are located far from their workplace; other workers prefer to live away from urban areas. On the other hand, a lower-earning worker may need to live near their work—or take a job close to where they live—for lack of affordable transportation options, whereas a high-earning worker may pay a premium to live close to their workplace to minimize commuting time.

High home prices near Boston clearly complicate this optimization problem and influence location decisions. As Table 2 shows, Boston's median in-commuter, according to the LODES data, travels only 8.4 miles to their place of work, but the 75th percentile commuter travels 20 miles.

Transportation infrastructure is central to a viable commute. For example, 2018 commuter rail statistics published by the Massachusetts Bay Transportation Authority (MBTA) tally more than 1,000 individuals boarding the commuter rail in Lowell during morning hours and disembarking at North Station in Boston nearly 30 miles away. This is a sizeable total compared with the gross number of roughly 2,500 Lowell-to-Boston commuters in the LODES data from 2019.

Rail infrastructure plays an important role in Greater Boston, but across the region, roads are often the sole connectors for cities. Figure 3 illustrates the importance of roads in shaping workforce access to job opportunities by displaying pull ratios (described in Table 2) for Massachusetts cities and towns along with the major road networks.

Figure 3: Pull Ratios Within Median Commute Distance, 2022

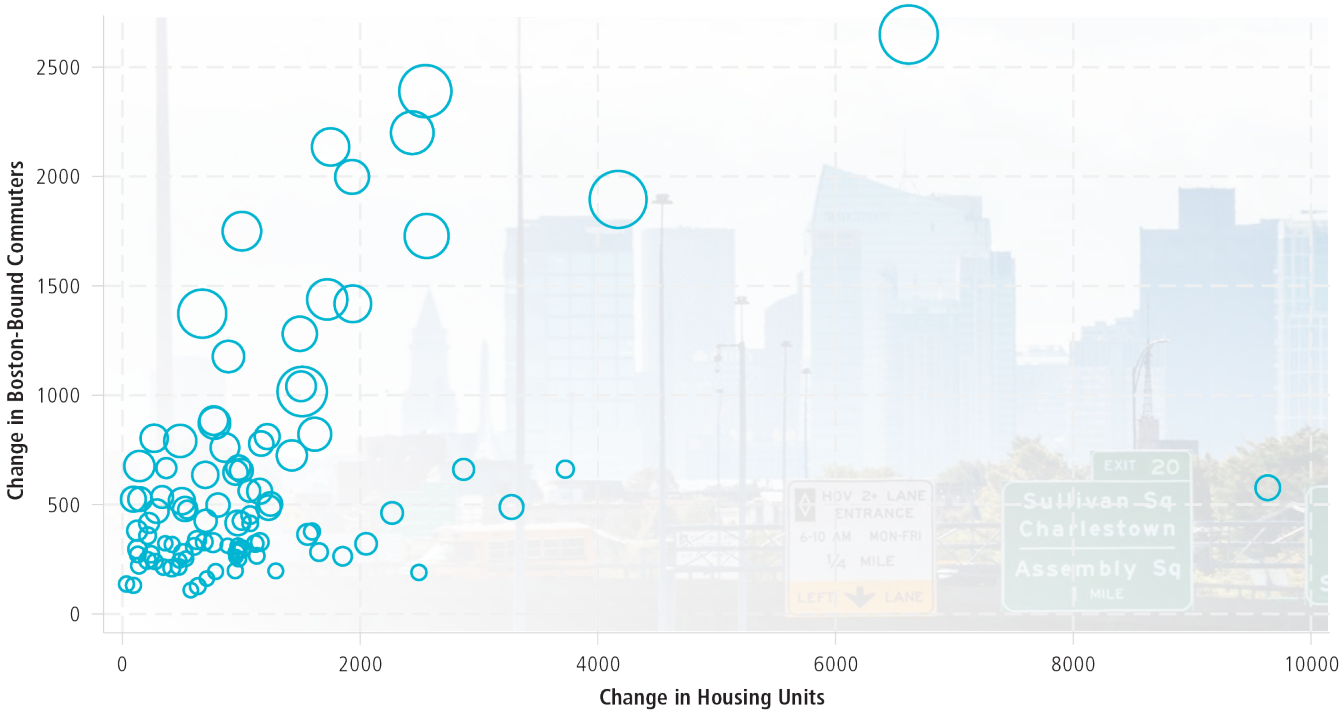


■ Note: "Primary Routes" are identified as such by the U.S. Census Bureau.
Source: LEHD LODES, 2022, U.S. Census Bureau.
Access link to the text-based description of this figure on Google Docs.

Here, we do see a pattern of concentric rings in the municipalities surrounding Boston: Places with middling pull statistics are clustered around and within I-95, and a secondary ring of places with slightly lower pull exists around and within I-495. Perhaps the most evident connection between roads and places with higher pull is north and south of Springfield along I-91. A well-connected road network may shorten median commutes by allowing for more direct routes or lengthen them by allowing for faster travel, so its effect on the number of workers swept in by the median commute radius is unclear. What is clear is that individuals choose to stay for work in these places at higher rates than elsewhere in the Commonwealth. This may indicate a self-reinforcing cycle of economic opportunity and population density leading to transportation investment, and transportation investment in turn cementing these municipalities as important economic hubs.

Communities with the highest pull in the Commonwealth are unreached by major roads: the island of Nantucket, Monroe in northwest Massachusetts near the Vermont border, and Richmond to the west bordering New York. For some particularly isolated places, where population is more sparse and travel is limited by natural barriers and/or a lack of road connectivity, people may be more likely to seek jobs near their residences. This highlights the flipside of the pull statistic: Even places with relatively small populations and employment can have a strong pull within their local context. It is more common, however, for places without access to major roads to have the lowest pull. In the preceding figure, this is evident in the broad

Figure 4: Housing and In-Commuters to Boston, 2011–2019



■ Notes: The difference in the number of Boston-bound commuters is calculated for all county subdivisions in New England except for Boston, for visual clarity. Because LODES data are available for Massachusetts only from 2011 onward, we calculate the change in the number of Boston-bound commuters from 2011 to 2019. We calculate the change in the number of housing units using data from the 2010 and 2020 decennial censuses. Points are scaled according to the number of workers who contributed to Boston's workforce in 2019.
Sources: LEHD LODES, 2011 and 2019, Decennial Census.

Access link to the text-based description of this figure on Google Docs.

stretch of white-shaded communities in central Massachusetts located north of I-90 and south of Route 2 and the western Massachusetts towns north of the throughway but relatively far from I-91.

The availability of housing in nearby communities also plays a key role in an employment center's ability to source workers. Figure 4 shows the correlation between the change in number of housing units and the change in commuter inflow to Boston among communities that sent at least 1,000 workers to Boston in 2019.

Each community saw increases in both housing units (from 2010 to 2020) and commuters who traveled to Boston (from 2011 to 2019); the median increases were 952 housing units and 426 workers. The relationship between housing units and workers who traveled to Boston is overwhelmingly positive, a testament to the demand for workers that has long outpaced the supply of housing in the area. Given the important interplay of housing and transportation, Massachusetts has emphasized adding housing near public transit; the MBTA Communities Act, passed in 2021, requires communities served by the MBTA to add multifamily zoning districts near transit stops.[6]

The roles that housing and transportation play in the vitality of downtown business areas are complex and cannot be fully explored in this article. However, this exploratory analysis shows how commuting is essential to the Massachusetts economy and that these patterns persist despite pandemic disruptions. Communities still rely on their neighbors both as sources of and destinations for workers, and many people still cover substantial distances to reach their workplaces. In the post-pandemic economy, access to transportation infrastructure and the availability of housing both continue to play significant—if nuanced—roles in the structure of commutes in Massachusetts.

Communities rely on their neighbors both as sources of and destinations for workers, and many people still cover substantial distances to reach their workplaces.

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1) The views expressed herein are solely those of the authors and should not be reported as representing the views of the Federal Reserve Bank of Boston, the principals of the Board of Governors, or the Federal Reserve System.

2) In much of New England, the county subdivisions are synonymous with cities and towns; however, in more sparsely populated areas of northern New England, they include townships, gores, and census-designated places. Our analysis includes only county subdivisions containing identifiable places of employment. Some remote county subdivisions have no employers, and some have no population. Only about 1,500 county subdivisions have sufficient commuting details to calculate commute shares, export shares, and median commute distances.

3) These include the towns of Aquinnah, Florida, Gosnold, Heath, Mount Washington, New Ashford, Row, Tolland, and Warwick.

4) The reference period for inclusion in the LODES data is the second calendar quarter of the year, so peak summer employment in winter or summer vacation destinations has little if any impact on measured workforce commuting volumes and patterns (Graham et al., 2014).

5) See https://www.mass.gov/doc/lowell-line-2018-0/download. To the best of our knowledge, 2018 is the last time the MBTA published such statistics.

6) The law applies to 177 communities, and as of January 29, 2025, more than 30 had missed the deadline to comply with it. Some of those communities have challenged the legality of the act.

Supporting Small Businesses in Diverse Neighborhoods: A Vital Investment for Communities and the Economy

Small businesses are central to the character and economic viability of urban communities, but in Massachusetts, historical disinvestment and segregation have limited access to capital and technical assistance for small-business owners. This feature article discusses the findings of a UMDI study focusing on four diverse Boston neighborhoods and identifies place-based strategies for supporting business owners. The author offers recommendations for creating and sustaining diverse small-business sectors, enhancing access to capital and technical assistance, addressing racial/ethnic wealth gaps, and revitalizing urban neighborhoods.

KERRY SPITZER PHOTOS BY CHRIS BELL

Introduction

Small businesses are important to the fabric of urban neighborhoods, but in cities and towns across Massachusetts, histories of segregation and disinvestment have led to inequities in access to capital and technical assistance for small business. Recognizing this, JP Morgan Chase funded research by the UMass Donahue Institute (UMDI) to identify place-based small-business strategies to support business owners in four diverse Boston neighborhoods: Dorchester, East Boston, Mattapan, and Roxbury. These neighborhoods were selected largely because they have been shaped by Boston's long and challenging history of racial and economic segregation. The four neighborhoods represent the residential core of the Black and Latino community in Boston,[1] with nearly two-thirds of the city's Black residents, over half of the city's Hispanic and Latino residents, and nearly half of the city's foreign-born residents living there. The data presented in this article reflect interviews and data analysis conducted primarily in 2023 and published in 2024.[2]

The City of Boston's 2024 small-business report, the first since 2016, identifies three goals of the City's small-business strategy:

1. creating a thriving, diverse, and accessible small-business sector in Boston and an ecosystem that centers small businesses;
2. contributing to the eventual elimination of the city's racial/ethnic wealth gap; and
3. stimulating the revitalization of the city's neighborhoods and major commercial hubs and corridors.[3]

Goals 2 and 3 identify outcomes the City hopes to achieve through its support of small businesses, highlighting why this support for underrepresented entrepreneurs and businesses in historically disinvested communities is so important.

Building wealth in diverse neighborhoods requires multifaceted, sustained efforts that include supporting small-business owners. At the same time, small businesses can help the broader community. Indeed, small businesses represent a component of wealth creation for individuals and communities. Locally owned businesses often source talent and resources from the local community rather than nationally or internationally, providing jobs for residents. In many cases, local small businesses offer entry points to the labor market for workers who may be overlooked by larger employers. For example, immigrants, those without formal education, or those who are formerly incarcerated may be more easily hired in construction or food-services industries. Small businesses are also central to creating vibrant main streets and neighborhoods.

Retail businesses and food services provide neighborhood essentials such as pharmacies and grocery stores. They also help foster community and social connection—coffee shops or restaurants that offer spaces for meeting friends or stores that sell unique goods reflecting local tastes and helping immigrants feel at home. Small businesses that serve immigrant communities also draw business from the larger region and bring visitors into Boston.

The economic impact of supporting diverse businesses is an important consideration. According to the 2020 Annual Business Survey, 83.2% of businesses in the Boston metro area were white-owned, 8.7% Asian-owned, 3.4% Hispanic- or Latino-owned, and 1.9% Black-owned. In total, only 15% of businesses were at least 50% owned by a person(s) of color. Estimates by the Brookings Institution suggest that increasing the number of Black-owned businesses could have a significant impact. There are 1,453 Black businesses in the Boston metro area; however, if the share of Black businesses were equivalent to the share of the population that identifies as Black, there would be 10,596 more Black-owned businesses, and if those businesses were as large as their counterparts, they would create an estimated 18,309 jobs.[4]

In this article, we outline UMDI's recommendations, developed through research in the four key neighborhoods, but these recommendations apply to small-business ecosystems across the Commonwealth, especially those in Gateway Cities.

Methods

UMDI used a mixed-methods approach to better understand the current challenges and opportunities facing small businesses in Dorchester, East Boston, Mattapan, and Roxbury. First, we examined secondary data sources to identify, at a high level, the demographic and business profiles of each neighborhood. In addition, we engaged with key stakeholders who work with small businesses, including City officials, lenders, technical assistance providers, community development corporations, and local Main Streets organizations.[5] Through interviews and meetings with these organizational representatives, we sought to understand the full ecosystem of services. The interviews and secondary data analysis informed the development of a small-business survey, which was shared through multiple channels with small-business owners in the four selected neighborhoods. In addition, we conducted focus groups with business owners. Interviews were transcribed and analyzed to identify key themes.

We organize our findings and recommendations into four broad areas: access to capital, displacement and gentrification, need for technical assistance, and neighborhood conditions.

Access to Capital

One of the most persistent barriers for small businesses in Boston's underserved neighborhoods is access to capital. Traditional lending models often exclude entrepreneurs who lack strong credit histories, collateral, or formal business documentation. This disproportionately affects Black, Indigenous, and people of color (BIPOC) and immigrant business owners, many of whom rely on personal savings, informal loans, or high-interest-rate credit cards to launch and sustain their ventures.

> **"One of the major barriers that I see is definitely access to capital, especially in BIPOC communities. The BIPOC communities have to give more paperwork. The structural racism that's in place, it's still there."**
> *—Technical assistance provider*

Business owners in the study neighborhoods wanted to expand their businesses. In fact, more than three-quarters of respondents to UMDI's business survey indicated they wanted to expand their business within the next year. Twenty-five percent of those who did not plan to expand their business indicated they would like to expand but did not have access to enough capital to do so.

Stakeholders described a financial landscape that is both fragmented and inaccessible. Study results revealed a perception that microloans and grants are scarce, and many business owners are unaware of existing programs or unable to meet

eligibility requirements. There is strong demand for culturally relevant financial institutions and flexible, low-barrier funding options that prioritize character-based lending and community trust over rigid financial metrics.

While small businesses often focus on having enough capital to start a business, our study found that access to capital was a concern at all stages. Business owners noted the need for working capital to take on larger clients and to meet larger orders. Moreover, lack of capital forced some to turn down opportunities. One florist described having to decline a large order from a potential customer because they did not have access to enough working capital.

> **"I know I have the potential. I know how to run a business. I've been doing this for 20 years [but] I can only qualify for five grand tops. So, with that being said, it's very hard for me now to have the working capital in order for me to get to the next step."**
> *—Small-business owner*

Stakeholders also referenced access to capital in relation to commercial real estate. Some small-business owners were forced to relocate due to changes in ownership of their properties or were unable to open new businesses due to the upfront costs of building out a commercial space. In response to these findings, we offer the following recommendations.

Expand access to microloans and support the development of loans that do not require traditional forms of collateral. Interviews and focus groups revealed that limited access to even modest funding, often under $15,000, prevented entrepreneurs from pursuing growth opportunities. Character-based loans, which rely on social capital rather than credit history or collateral, offer a potential solution. These low- or non-interest-bearing loans typically involve trusted community partners as guarantors and can help borrowers build credit through repayment. Programs such as Northeastern University's Impact Lending initiative, in partnership with Local Initiatives Support Corporation (LISC) Boston, have demonstrated strong demand among minority-, women-, and locally owned businesses.[6] Similarly, mission-driven investors like the Boston Impact Initiative incorporate character assessments into their lending criteria.

Capital access remains a barrier for businesses seeking contracts with anchor institutions and major retailers. An emerging alternative involves using purchase orders as collateral, enabling entrepreneurs to secure materials needed to fulfill large contracts. Organizations like the Local Enterprise Assistance Fund (LEAF)—a community development financial institution (CDFI)—are piloting such models, though challenges persist around lender due diligence and inflexible loan terms that may not meet small-business needs.

Increase the availability of targeted grants to support business owners. Supporting business owners who do not have personal wealth or collateral may require the City and philanthropic sources to support promising business models through grants or forgivable loans. For example, the Supporting Pandemic Affected Community Enterprises (SPACE) Grant Program assisted more than 90 businesses over three cycles of funding. This program leveraged American Rescue Plan Act (ARPA) funding to support small businesses with expenses related to new lease agreements and focused on storefronts and brick-and-mortar establishments. The program concluded with the end of ARPA funding. New efforts to support brick-and-mortar establishments include the recently announced expansion of the Capital Acquisition Assistance Program (CAAP), a public–private partnership that supports small businesses in purchasing commercial real estate. Grant-related efforts focused on commercial real estate also help small businesses address concerns around displacement and gentrification.

Displacement

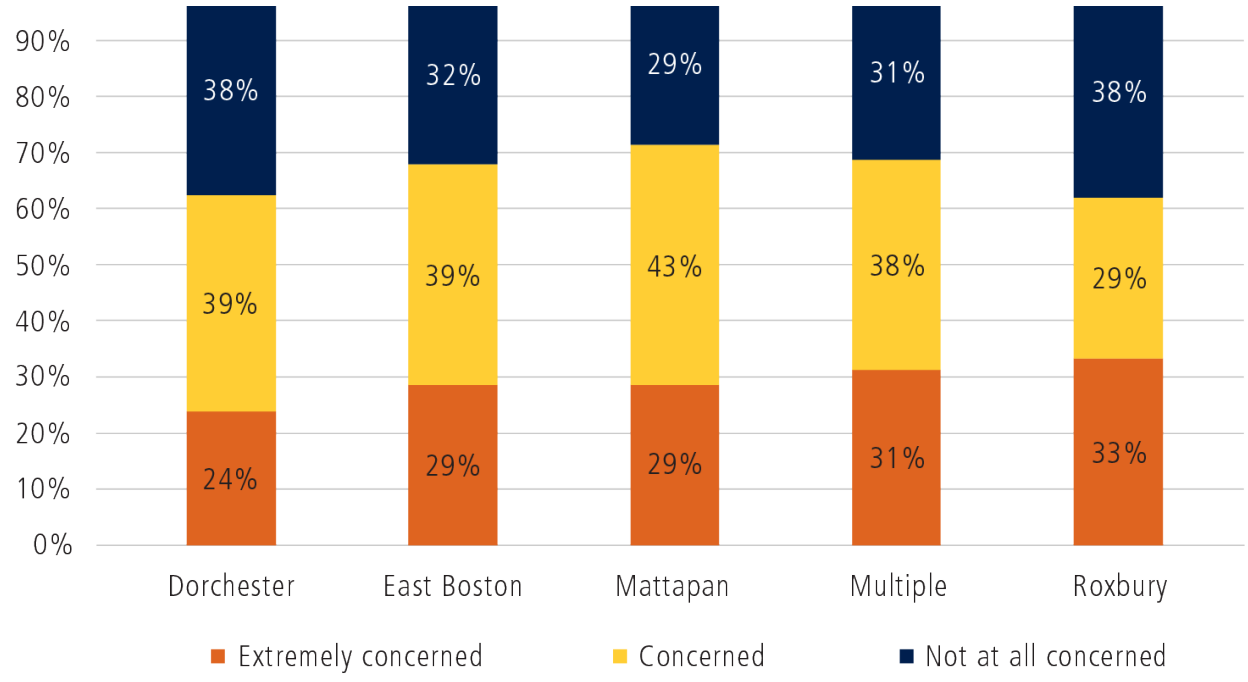
Commercial displacement was a common concern among study participants (Figure 1). Business owners reported difficulties related to securing long-term leases, absorbing rent hikes, and losing access to storefronts in the communities where they had built their businesses. Rising rents threaten the survival of individual businesses, and, in turn, the closure of key establishments erodes the cultural fabric of neighborhoods. The loss of Black-owned barbershops, Latinx restaurants, and immigrant-run grocery stores represents more than economic change—it can impact residents' sense of belonging.

Small-business owners in Boston's working-class neighborhoods face mounting pressure from rising commercial rents and inflation. Retail rents average $26 per square foot citywide, but in areas like Dorchester and East Boston, prices ranged from $25–$65, in 2023[7] often for spaces too large or costly for small businesses. Limited online listings and opaque leasing practices further complicate access to affordable space.

Neighborhood development groups could help connect businesses to available properties, but affordability remains a major barrier. One Dorchester entrepreneur noted that, even if space were available, cost would still prevent him from moving out of his home-based setup: "I am starting to think of where my first brick and mortar will be, and it is clear that I will no longer be able to stay in my neighborhood, let alone Boston. It's very sad and unfortunate."

New mixed-use developments pose additional challenges. A Federal Reserve Bank of Boston report highlights how financing models requiring anchor tenants years in advance exclude smaller community-focused businesses.[8] Our survey data support this: Nearly two-thirds of small-business owners feared displacement within 5 years, citing unaffordable rent and landlord decisions to sell or redevelop properties.

Figure 1: "How concerned are you that your business might lose its space in the next 5 years?"



Source: UMDI Small-Business Survey.
Access link to the text-based description of this figure on Google Docs.

This fear often leads to resistance against neighborhood improvements like beautification or crime reduction, which may drive up rents. As one participant said, "The people who reduce violence should benefit—but instead, they get displaced."

Gentrification also erodes the customer base. Business owners interviewed by UMDI—such as the owner of a soul-food restaurant in Dorchester or the owner of a daycare in East Boston—indicated that they rely on local residents, many of whom are being priced out. UMDI business survey results showed that 90% of owners value contributing to their neighborhood, and 85% identified location as vital to their business's survival.

Lack of legal knowledge compounds the issue. Many tenants do not know their rights or cannot afford legal help. One community group leader described winning a civil rights case against a developer who had purchased a commercial building and then immediately forced out small businesses, many of which were owned by immigrant entrepreneurs. Unfortunately, by the time the issue was resolved, many business owners had already left the building.

In addition to grants and loans to support brick-and-mortar establishments in adjusting to the high cost of real estate, addressing the challenges of operating in neighborhoods where real estate values are rapidly rising should include structural interventions such as community land trusts (CLTs) and cooperative ownership models.

Support collective ownership models for commercial real estate. Collective ownership of commercial property as an anti-displacement tool has grown in popularity in recent years, with strategies like community land trusts and community investment trusts finding success. Collective ownership models enable small businesses to pool resources to acquire commercial properties otherwise beyond their reach, with some initiatives also inviting community investment. While these models range from maintaining affordable rents to building wealth in historically excluded communities, the underlying goal is equitable access to property ownership. Successful worker-owned cooperatives, including East Boston's Cleaning Collective and Dorchester's CERO Cooperative, demonstrate the viability of community-driven enterprise models.

Explore the potential of community land trusts and community investment trusts to meet the needs of small-business owners. Boston has a long history of embracing community land trusts (CLTs) to combat residential displacement, with organizations such as Boston Neighborhood CLT, Chinatown Community Land Trust, and Dudley Neighbors, Inc. (DNI) forming the Greater Boston CLT Network. DNI, which manages land across Dorchester and Roxbury, was the first to integrate commercial property into its CLT and currently manages seven affordable commercial units reserved for local businesses. DNI recently expanded to Upham's Corner in Dorchester, where the organization is redeveloping a mixed-use affordable housing and affordable commercial space building. Codman Square Neighborhood Development Corporation (CSNDC) also holds several commercial units that it reserves for local small business. Expanding these efforts will require time, capital, and collaboration across sectors.

Technical Assistance

Boston boasts a robust ecosystem of small-business support organizations, yet many entrepreneurs struggle to access relevant, timely, and culturally competent assistance. The landscape is fragmented, with overlapping services, limited capacity, and inconsistent outreach. Business owners often lack guidance on navigating city programs, securing permits, adopting digital tools, or scaling operations.

The demand for technical assistance far exceeds supply, especially for one-on-one support tailored to specific industries and cultural contexts. Entrepreneurs need help with marketing, financial planning, compliance, and procurement, but they also need advisors who understand their lived realities. Investing in neighborhood-based technical assistance providers and improving coordination among organizations is essential to building a more inclusive support system. Nearly one in four business owners in our survey (23%) reported that they were not members of any business organizations. This is a potential barrier, as membership-based organizations provide many services.

ESTABLISHED BUSINESSES BENEFIT FROM FOCUSED TECHNICAL ASSISTANCE

For larger, more well-established small businesses, service providers play a key role in connecting owners to procurement opportunities. Organizations like LEAF, BECMA, and CommonWealth Kitchen serve as trusted intermediaries, lending credibility to businesses seeking contracts in their local neighborhood and beyond.

The Pacesetters program, led by the Greater Boston Chamber of Commerce, promotes economic inclusion by encouraging companies to diversify their suppliers and increase spending with local and minority-owned businesses. Similarly, both the City of Boston and the Commonwealth have committed to expanding supplier diversity. Service providers help businesses navigate certification processes (e.g., Minority Business Enterprise/Women Business Enterprise) and position them to work with anchor institutions locally and regionally.

Support efforts to increase procurement opportunities for neighborhood-based businesses with anchor institutions to sustain and grow businesses that have moved beyond the initial startup phase. Neighborhood businesses are often concentrated in pandemic-impacted industries like food services, retail, and personal care, which are vital to community vibrancy but face ongoing challenges. Targeted support, as seen in models like CommonWealth Kitchen and Boston's industry-specific consulting for restaurants, are likely to have a larger impact on diverse neighborhoods.

IMPORTANCE OF CULTURALLY RELEVANT TECHNICAL ASSISTANCE

Local stakeholders in our study emphasized that service providers must invest time and resources to understand the unique strengths, needs, and diversity of the neighborhoods where they operate.

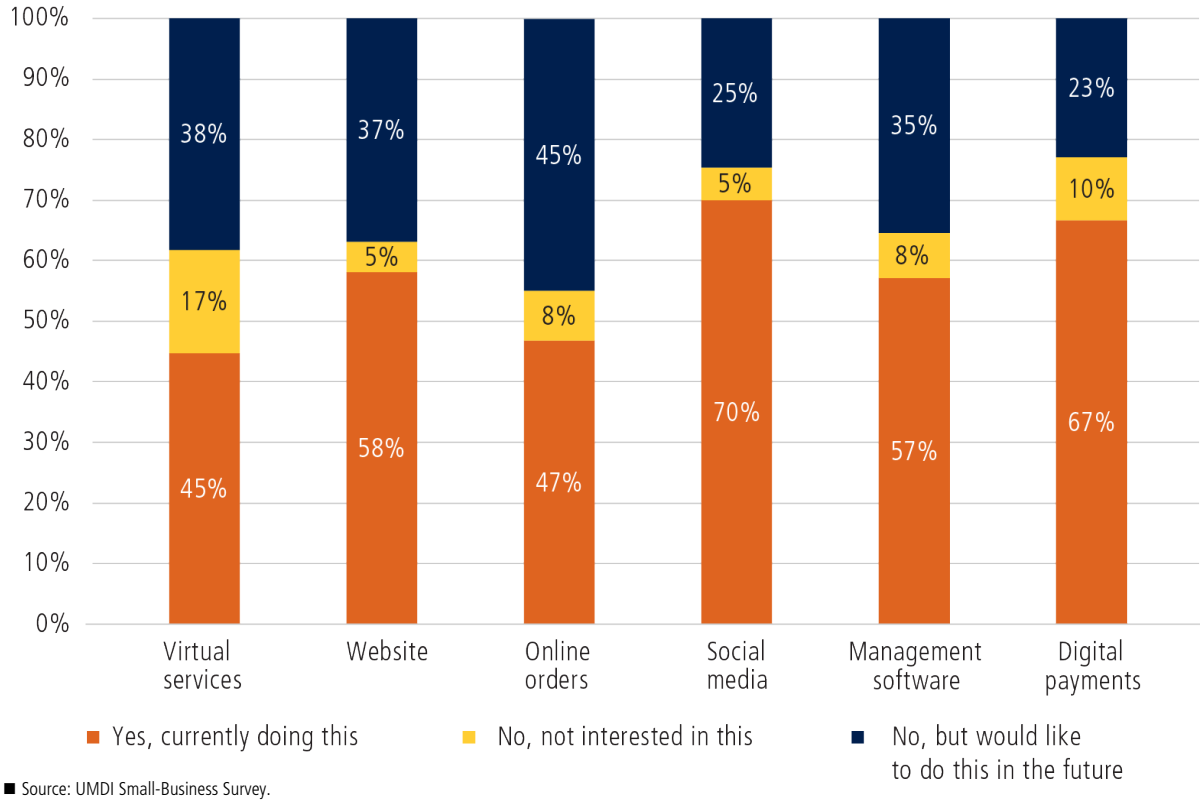
One key informant explained, "It's important to capture the subgroups because they vary significantly in terms of immigration and economic background. The Vietnamese community is a refugee community, and that's very different from the Chinese community."

Language access was a recurring theme among study participants, with many noting the importance of offering services in the native languages of immigrant communities. Equally vital is support for entrepreneurs who bring business practices from their home

countries that may be unfamiliar or even stigmatized in the United States. Organizations like ACEDONE and VietAid were highlighted as trusted providers that help bridge these cultural and operational gaps.

To increase the accessibility and effectiveness of small-business supports in Boston, UMDI recommends **supporting neighborhood-based and culturally relevant services**. Business owners appreciated the ability to connect with technical assistance providers who had a presence in the community and shared their language and culture. Depending on the size of the community, it may not be possible to have culturally relevant providers in every neighborhood; however, the ability to deliver services virtually has the potential to increase access to specialized services and providers who speak languages other than English. This also means that owners who can navigate technology can connect with culturally competent support beyond their immediate neighborhoods. Figure 2 shows data on technology use.

Figure 2: "Consider the following uses of technology and indicate whether your business does any of the following."



Source: UMDI Small-Business Survey.
Access link to the text-based description of this figure on Google Docs.

Need for Sustainable Coordination and Collaboration Among Technical Assistance Providers

The COVID-19 crisis and the Black Lives Matter movement galvanized collaboration across the City and the Commonwealth. Nationally, nearly half of businesses with one to nine employees closed early in the pandemic, compared with just 26% of larger firms.[9] In Boston, businesses with fewer than 20 employees declined by up to 17% in 2021.[10] While most small-business owners reported experiencing financial hardship during the pandemic, the highest rate was reported by Black business owners, at 92%, followed by 89% of Asian-owned firms, 85% of Latino- or Hispanic-owned firms, and 79% of white-owned firms. Black small-business owners were also the most likely to have trouble accessing credit. In one study, Black business owners reported the highest rates of financial hardship (92%) and difficulty accessing credit (53%).[11]

Although Black businesses were more likely to experience hardship during the pandemic, they also had more difficulty accessing assistance. The Paycheck Protection Program (PPP), the federal government's primary relief effort, disproportionately benefited larger, white-owned firms with existing bank relationships. Black-owned businesses, especially non-employer firms, faced longer delays due to structural barriers and late access to fintech lenders.

Massachusetts launched three key initiatives in response to the pandemic: Small Business Strong, which provided pro bono support with a focus on minority- and women-owned businesses; the Coalition for an Equitable Economy (CEE), focused on policy and coordination; and the Community Business Network (CBN), a peer network for technical assistance providers. These efforts centered on collaboration, culturally relevant services, and resource sharing. Small Business Strong is no longer active, but the other initiatives continue.

> **"And that's why Small Business Strong worked because it was not member-based. You know, basically if you had a need they'd help you….You know, [Small Business Strong] could be like a one-hit wonder."**
> *—Technical assistance provider*

Stakeholders emphasized translating existing materials and creating vetted lists of trusted organizations to improve access and efficiency. Sustaining this level of coordination will be essential in supporting micro-businesses and BIPOC entrepreneurs as the federal policy landscape shifts under the Trump Administration.

> **"But it doesn't make sense for somebody to create new material, or why don't we interpret or translate all the Interise[12] information into different languages, so everybody can use it?"**
> *—Service provider*

Increased coordination can improve the accessibility of resources for small-business owners. Therefore, UMDI recommends **increasing accessibility to technical assistance services for small-business owners and creating incentives for technical assistance providers to collaborate and share resources** to ensure that business owners are directed to the appropriate supports. In the summer of 2025, the Massachusetts Executive Office of Economic Development (EOED) launched Business Front Door, a new online platform designed to help businesses in Massachusetts navigate available grants, incentives, and programs and to provide assistance with permits, regulations, and other business-related questions. The program is too new to claim it has positively impacted the accessibility of small-business support for businesses in Boston, but the intention is to create a one-stop shop for small businesses. Collaboration should be incentivized because it is rare for one technical assistance provider to be equipped to address all the needs of a business. For example, a provider who can assist with marketing may not be suited to provide legal or accounting services.

Neighborhood Conditions

The physical and social environment plays a critical role in small-business success. Entrepreneurs in the study highlighted the need for safe, vibrant commercial districts with improved infrastructure, walkability, and public amenities. Poor streetscape design, inadequate lighting, limited transit access, and concerns about safety deter customers and constrain growth.

Business owners envision neighborhoods with clean sidewalks, attractive storefronts, community events, and accessible transportation. These improvements not only enhance the customer experience but also foster a sense of pride and ownership. Public investment in streetscape beautification, façade upgrades, and transit connectivity can catalyze economic activity and strengthen local ecosystems. These concerns informed the final recommendation: **Support the preservation, maintenance, and renovation of neighborhood sites and main streets.** Pursuing the goal of a desirable destination for customers will also be supported by efforts to increase ownership of commercial real estate by local businesses and to enable renters to lease and upgrade their establishments. The challenge is ensuring that improvements do not lead to the displacement of residents and businesses.

Conclusion

The bulk of the research for this report was conducted in 2023. Writing now in the second half of 2025, the landscape has changed in important ways. The Trump Administration has moved to eliminate diversity, equity, and inclusion policies and is using Immigration Customs Enforcement (ICE) to detain and deport immigrants. These policies have negative consequences for small businesses serving immigrant communities by injecting fear and uncertainty into the lives of residents and discouraging people from leaving their homes and visiting neighborhood establishments. In addition, the Trump Administration's imposition of higher tariffs directly impacts the cost of doing business for small businesses, especially retail establishments that sell imported goods to immigrant communities. While the City of Boston, under the leadership of Mayor Wu, has opposed the Trump Administration's focus on immigrant communities by adopting "sanctuary city" policies, federal policies will certainly impact the small businesses that operate in Boston's diverse neighborhoods.

The small-business leaders and entrepreneurs that our research team interviewed have been through challenging times before. Many of their businesses survived the COVID-19 pandemic. As new challenges emerge for small businesses, it will be even more important for policy leaders in the Commonwealth to support the establishments that make neighborhoods desirable places to live and visit by supporting the diverse small businesses that make neighborhoods feel like home.

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Endnotes

1) Throughout this article, we use the terms *Hispanic, Latino, Latinx,* and *Latine* interchangeably, depending on the context and data source.

2) The findings and recommendations in this article reflect interviews and data analysis conducted primarily in 2023 and published in Spitzer, K., et al. (2024). *Supporting diverse small business owners in Boston.* UMass Donahue Institute. Please see the full report for detailed methods and additional supporting data: https://donahue.umass.edu/documents/JPMC_Report_Final_043024.pdf

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5) Main Streets organizations are independent nonprofits that work to promote, maintain, and revitalize commercial corridors in their neighborhoods.

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11) Perry et al. (2022).

12) Interise is a Boston-based organization that aims to facilitate connections, knowledge sharing, and networking among established small businesses.

ENDNOTES

Uncertainty Reigns for Commercial Real Estate in 2025

TAMARA SMALL

Despite high hopes for 2025 in the commercial real estate industry, broad economic headwinds have slowed or halted investment and development planning across the Commonwealth. Geopolitical uncertainty, a shifting tariff landscape, inflation and recession fears, and a meager drop in interest rates have led to prolonged instability and accentuated the challenges facing the industry. Office vacancy rates are high, rents are being pushed lower, and once-reliable demand for lab and life-sciences space has fallen dramatically due to decreases in federal funding. Though the anticipated impacts of federal policy have tempered visions of rapid growth and expansion, there are some notes of optimism for commercial real estate in the year ahead.

Since 2022, the mantra guiding the commercial real estate industry has been "Survive Until 2025." This was the year that industry experts expected interest rates to drop significantly—unlocking deals and reinvigorating a stagnant market. Instead, uncertainty has plagued the broader economy, extending the pause on investment, stalling the project pipeline, and preventing major development decisions. Geopolitical uncertainty, an ever-changing tariff landscape, fears of inflation, whispers of a possible recession, and only a one-quarter-point drop in interest rates in September (as of this writing) have led to prolonged instability and exacerbated the challenges facing the commercial real estate industry.

To best understand where the Massachusetts commercial real estate industry now stands, it is helpful to think back to where it was in January 2020. Office vacancy rates were approaching record lows, while rents were at all-time highs. The demand for lab and life-sciences space was strong, with single-digit vacancy rates in markets like Cambridge and rapid expansion planned in the inner suburbs. Fast-paced growth of the industrial sector was expected. Nearly 6 years since then, however, much has changed.

OFFICE

First and foremost, the office sector has been forever changed post-pandemic. Trends showing companies shifting to smaller footprints and tenants demanding highly amenitized space are here to stay. Office vacancy rates in the Greater Boston region have hovered around 23% to 24% this year, double what they were pre-pandemic.

In a city where 85% of all buildings that will exist in 2050 are already standing today, the national trends threatening Class B and C properties—those with fewer or older amenities, in less-than-prime locations, and with lower rents and higher vacancy rates—have an outsized impact on the local economy. In Boston, neighborhoods like the Seaport District and Back Bay, which have seen new investment and new buildings at rates higher than the rest of the city for over a decade, have fared better than the Financial District and North Station, where, generally, older building stock dominates. Consistently, owners of older office towers with high vacancy rates are unable to compete with newer "A-plus" space without significant investments and upgrades.

As another cloud on the horizon, loans are coming due on many of these properties, which also face reduced property valuations and a higher interest rate environment, making it nearly impossible to fund the upgrades needed to turn these buildings around. Lenders, who have abided by the "blend and extend" mentality over the past few years, may soon start cutting their losses on underperforming properties. The Boston market has already started seeing owners hand keys back to the lender, and while only a handful of these transactions have occurred in 2025, more are expected in the coming months.

Yet, not all metrics spell the end of the office sector. Sublease space, which hit record highs in 2023, has continued to decrease. This year, employers mandated more days in the office, creating a slight uptick in the demand for office space. Repositioning these assets is a critical tool. The Commonwealth of Massachusetts recently launched the Commercial Conversion Tax Credit Initiative, which is expected to aid some office-to-residential conversions statewide. While conversions are incredibly complicated and expensive and typically only work on certain types of buildings with smaller floor plates, incentives like the tax credit may ensure that office buildings see new life. Finally, as office buildings continue to sell at deep discounts, new owners will have a greater ability to upgrade properties and create value.

LAB AND LIFE SCIENCES

This year has been particularly challenging for the life-sciences sector. Demand surged during the pandemic, and real estate developers responded. Unfortunately, as the projects permitted during this surge come online, supply now significantly exceeds demand in Boston, Cambridge, and the suburbs. Several high-profile buildings are completely vacant. A combination of factors caused the current oversupply, which can be illustrated by the astonishing 38% lab-vacancy rate in Boston. Venture capital funding, which was driving much of the growth in the earlier part of the decade, has plummeted. IPOs are down, layoffs are up, tenants are reducing their footprints to stay afloat, and the federal cuts to NIH and research institutions are only just beginning to show their impact on this sector.

Though development of most speculative lab space has come to a halt, millions of square feet now under construction will be hitting the market in the next 18 months. Much like the office sector, sales of distressed assets are beginning, with more expected. Some in the industry had hoped cleantech and climate tech would fill the void, but the impact of federal policy decisions affecting this sector do not bode well for the future. Given that medical and educational institutions (affectionately called meds and eds) have provided a cushion in Massachusetts during previous recessions, the impact of the decline of these sectors of the innovation economy is cause for serious concern statewide.

INDUSTRIAL

Industrial real estate, which experienced all-time low vacancies in 2021 and saw a significant jump in rents and development over the past 5 years, has begun to soften slightly. Once again, the uncertainty created by tariffs and trade decisions has forced tenants to pause expansion plans, and leasing has slowed. While some in the industry believe that the current tariff landscape could benefit American manufacturing and industrial space in the long term, this has yet to be seen.

RETAIL

Of all the commercial real estate sectors, retail offers perhaps the brightest picture. Boston remains one of the strongest retail markets in the United States, with a 2% vacancy rate. With very limited development in this space, vacancy rates are expected to remain strong. However, like all other sectors of commercial real estate, the impact of recent federal policies is cause for concern. International tourism and consumer confidence are both down, while inflation is up. It remains to be seen how consumer spending and the impact of tariffs will influence this sector in 2026.

MULTIFAMILY HOUSING

Massachusetts, like many states across the nation, is facing a housing crisis. Housing costs in Massachusetts increased dramatically from 2020–2025, and the median home price in Greater Boston exceeded $1 million for the first time this year. The Commonwealth's recently released first-ever comprehensive statewide housing plan identified that an additional 222,000 housing units are needed in Massachusetts over the next 10 years. This is an ambitious goal, but unfortunately, Massachusetts is well behind the pace needed to meet it. In 2024, at just 14,338 new housing units, Massachusetts had one of the lowest per capita rates of permitting for new homes in the nation.

This is why Governor Maura Healey is laser focused on advancing legislation and policies designed to address this production crisis and attract investment and development. Through expedited permitting, regulatory reform, and financial incentives, more developers are advancing projects in Massachusetts communities outside Boston. More housing development means more jobs and reduced housing costs for all residents of Massachusetts.

LOOKING AHEAD

Commercial real estate has faced headwinds before. While the future has never been more difficult to predict and uncertainty remains, optimism is key for survival. In 2026, we are likely to begin seeing the major impacts of the loss of international students, the decrease in federal funding, tariffs, immigration policies, and broader economic concerns.

However, market distress brings opportunity, including the potential for additional interest rate cuts, reduced construction costs, busier downtowns, and continued housing demand, all of which may prove to be heralds of a market ready to bounce back.

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