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Accounting: Low interest rates drive high interest in Boston market

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Winter may be coming, but the Boston real estate market is as hot as August, fueled by low interest rates, and both institutional and foreign capital flooding the market.

With the Massachusetts economy strengthening and interest rates likely to remain near historic lows at least through next summer, developers are scrambling to take advantage of the economic recovery while rates are low. They are also benefiting from a competitive lending market.

Meanwhile, demand is driving prices to record levels. One reason is that Boston remains one of the top markets for attracting foreign capital, which is funding some large-scale commercial development, but is especially fueling development of luxury condominiums. About a half dozen luxury condominium projects are in the works, and they are seeing plenty of pre-sales.

Foreign investors need to understand, though, that there are tax consequences to these purchases. Internal Revenue Code section 897, as enacted by the Foreign Investment in Real Property Tax Act (FIRPTA), subjects the gain on the disposition of an interest in U.S. real property as connected income subject to federal income tax.

To ensure collection from foreign taxpayers, FIRPTA requires buyers of U.S. real property interests to withhold 10% of the sales price. The pain of FIRPTA can be eased with tax guidance from an experienced professional.

Looking Ahead

These concerns aside, the large volume of capital flooding into Boston is unlikely to abate anytime soon, according to experts at a recent "Capital Markets" conference held by Bisnow. Boston's growth in recent years and its "solid fundamentals" will continue to be a draw, according to CCRE co-founder Peter Scola, who called debt capital "hyper aggressive."

Aside from the fundamentals that work in Boston's favor, another factor could spur development here for years to come.

That is "Housing a Changing City: Boston 2030," an initiative from Boston Mayor Martin J. Walsh's that calls for the creation of 53,000 new units of housing over the next 15 years.

The mayor's plan includes incentives to drive down development costs, including zoning relief, permitting reform, tax incentives, modifications to the Inclusionary Development Policy, and use of land owned by the city. The project plan would generate an estimated $21 billion in new development.