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December 5, 2018

Jennifer Caira  
Director of Current Planning  
City of Newton  
1000 Commonwealth Avenue  
Newton, MA 02459

Re: Northland Newton Development – RKG Associates, Inc. Report

Dear Jen:

Thank you for sharing the RKG Associates draft report of November, 2018. We understand that certain additional data is needed from the School Department to complete the report and perhaps there could be editing or other revisions, but we would like to take the opportunity to respond to at least some of the “Conclusions/Questions” in each of the sections. We understand that the draft we received is a draft so we expect there may be revisions, but we do want to comment in a timely manner for your review.

Section B – Multi Family Housing Market Analysis

Northland certainly agrees that “...the Northland project will provide a much-needed infusion of units into Newton’s multi-family market” (p 9) and that “...the addition of the affordable units will help current and future residents of the city.” (p 10). As to the questions raised:

- Rent projections are not available. Numbers used for the project pro forma are not yet to the level of rent projections for units which could be 5-7 years out. RKG is correct to anticipate that monthly rents will be competitive with other market rate properties.
- Northland will comply with Zoning Ordinance Section 5.11.4 by providing an average of 65% AMI.
- Northland expects the number of residential units to be capped at 822. In a general sense it will be important that the special permit conditions allow for some flexibility within spaces as the development is likely to evolve over time.

Section C – Office Market Assessment

- We note the RKG conclusion that “...the 180,000 square feet could be absorbed over a two-to four-year period.” Northland has made the point that

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the recent history of office uses on Needham Street is not positive, but we believe that the Class A office space in the context of this exciting new mixed use development will make it leaseable when it comes on the market.

- No. Northland has had very preliminary discussions with various tenants, but there are no outstanding commitments.
- Yes. The Saco Pettee Mill building is expected to be Class A office, and Northland is anticipating locating its corporate office there.
- It seems that the market for this space is likely to be for multiple smaller tenants, and the history of the past few years has been for trophy tenants to be on Route 128. No one or no size of use has been ruled out.

For purposes of the office space market assessment and to take into account the specifics of the Needham Street market which may be different from the Route 128 market generally Northland commissioned a report from Newmark Knight Frank dated November 30, 2018 a copy of which is attached hereto. The Newmark Knight Frank report provides more detail on the Needham Street market for a very local market view.

#### D. Retail Market Assessment

The RKG model is interesting and provides data from a different viewpoint. We understand the insightful presentation but respectfully view it a little differently. Our assumption is that not all the stores on Needham Street have been or will in the future be “neighborhood” stores, and Needham Street having evolved slowly from the former Route 128 is not a typical village center. In fact over the past 30 years Needham Street has attracted a series of medium sized spaces in a particular niche market - the home furnishings/home supply industries including such stores as National Lumber, Splash, Poirier Appliance, Boston Fine Home, Home Goods, PetSmart, Lakeshore Learning and Michael’s. The RKG data shows that those spaces and Modell’s are “importers”, that is people come from outside the radius to shop. We do not know whether these stores will be on Needham Street in the future, but we do know that in all those cases the customer radius is more than a 5 minute drive, and Needham Street has had historic success with retail in this niche market.

- Northland is comfortable relying on its experience in the retail business, particularly on Needham Street, on the mix of uses in the development and the attractiveness of the new site to allow for the program. As we look at it there are currently +/- 70,000 s.f. of retail on the site to be replaced. We anticipate 50,000 new s.f. of restaurant = 120,000, 10,000 new s.f. of “neighborhood” retail with reduced rents = 130,000, 20,000 new s.f. of health club = 150,000, and 10,000 new s.f. of medical office = 160,000 so the net increase of new retail is +/- 20,000 which is a fair and reasonable goal.
- No. Northland has no specifics on tenants who might be interested.

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- We anticipate that the ground floors could contain services which could also mean professional offices as indicated in the proposed use breakdown. Our goal would be to maintain the street front glazing and transparency of the spaces to have the same street-side effect as retail.
- Northland does not have any such plans.

#### Fiscal Impact Analysis

We find RKG to be in general agreement with the fiscal impact analysis with some differences which are not fundamental on where the number will fall. Northland believes that the per unit valuation of its residential uses will be higher than Avalon at Newton Highlands, not lower, and we can only hope the Assessors consider the RKG report as to the valuation of the office space. RKG projects \$230,353 less revenue than Fougere Planning projected, and we consider that difference to be within the range of relatively minor differences.

RKG agreed that the “average” and “marginal” approaches are both acceptable, so the estimate of municipal costs is satisfactory. RKG also confirms the estimate of 140 school age children of which 120 will be in the public schools, although we note that the School Department is in the process of reviewing its methods of projections.

#### Economic Impact

RKG acknowledges that the IMPLAN model is “widely used in economic analyses” (fn 26), but they question the use of a 50% factor as applicable for construction wages. The 50% figure is imbedded in IMPLAN model and is specific to Newton/Boston Metro. For comparison the same figure can be as low as 30% for other domestic markets, and in the 40% range for other Massachusetts location. The IMPLAN model we ran has been set up for Newton specifically. While the 1<sup>st</sup> level impacts or “direct employment” figures are regional, the 2<sup>nd</sup> and 3<sup>rd</sup> level impacts (the “spin-off” impacts are specific to Newton. We do understand that (i) if a different projection model is used the estimate of construction jobs will vary and (ii) we would not venture any projection as to how many employees or what percentage of employees would be Newton residents. We are concerned that a local hiring preference could be seen as discriminatory.

- The direct employment impacts are on a regional level. The sample size of the population of Newton relative to the region is too small to make accurate projections of whether x carpenters or electricians will be in Newton. We also do not have a projection for the office tenancy which might account for a significant portion of the jobs ultimately filled by Newton residents.
- For these purposes we are treating the jobs as lost and then as new. Parts of the existing plaza are already vacant and more will be as the process unfolds. In the same manner as 156 Oak Street is considered vacant and the jobs that

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fill it will be “new” we think it is consistent to treat all the existing facilities in that manner. RKG may want to view this as jobs lost/jobs gained.

Very truly yours,



Alan J. Schlesinger

AJS:sjk

cc: Land Use Committee  
Planning Board



November 30, 2018

Peter M. Standish  
Senior Vice President  
Northland Investment Corporation  
2150 Washington St.  
Newton, MA 02462

RE: Consulting Assignment related to a proposed mixed-use property located at 55 Tower Road and 156 Oak Street, Newton, MA 02464

NKF Job No.: 704-2018-0187

Newmark Knight Frank Valuation & Advisory, LLC (herein "Firm" or "NKF") is pleased to present the following office assessment and supplemental data to address the viability of commercial office development at Northland Investment Corporation's Needham Street site in Newton Upper Falls.

This consulting assignment will focus on an assessment of the competitive position of Needham Street office space to office space at or very near to Route 128. This assessment will include the following:

- ❖ A market overview for the office submarket and summary of existing and proposed office developments.
- ❖ A discussion relating to speculative office development and if it is occurring without preleasing.
- ❖ A discussion of the most likely locations being sought after by large block tenants and the demand for primary Route 128 locations vs. secondary locations further from the highway.
- ❖ A general discussion relating absorption for Route 128 oriented locations vs. Needham Street and comparative differences in concessions.

The following highlights some of our observations that will be expanded on further in this assessment.

- ❖ The most highly sought after office locations in the Route 128 West market area are Park9 Office Park, Riverside Center, Wellesley Office Park, Founders Park, and multiple locations along Route 128 at Totten Pond Road in Waltham.
- ❖ Within the past 2 years there has been 882,000 square feet of office space added to the Route 128 West market, which included 260,000 square feet at 89 A Street in Needham and 150,000 square feet at Life Time Center in Newton. There is 523,000 square feet of office space under construction in Founders Park, The Gauge in Waltham, and Two Brookline Place in Brookline. In addition, there is 1,140,000 square feet planned/proposed office space in the submarket with only 350,000 square feet (30% of the total building area) committed to Aetna (owner-occupied) at 93 Worcester Street in Wellesley. In this market, office developments typically do not commence

construction without significant preleasing. Financing is typically unobtainable without preleasing.

- ❖ While significant expansion has been taking place in the Founders Park/Needham Crossing area, Needham Street has experienced a significant loss of office tenancy and a shift toward alternate uses. Needham Street has been zoned for office use for the past 30 years; however, there has been significant disinvestment in office space along this corridor. In 1988, the office inventory along the Needham Street corridor was approximately 500,000 square feet. Today the primary use along Needham Street is retail, and substantial properties have been converted from office to retail space or alternative uses. 141-173 Needham Street, a 163,000 square foot office park has been re-developed as a retail center. Newton Corporate Center, located at 320 Needham Street diagonally across Needham Street from the subject is a 2-story, 43,000 square foot office building converted from office use to day-care and educational use. 27 Christina Street, a 52,000 square foot office/flex building has been re-purposed as an institutional use for the Barry Price Rehabilitation Center.
- ❖ Class A office space on Needham Street is currently limited to Paragon Towers at 233 Needham Street, with 60,800 square feet, and 156 Oak Street, with 180,000 square feet. Paragon Towers was constructed in 1987 and is 97% leased to multiple tenants that average 5,000 square feet. Contract rents at the building generally range from \$30.00 - \$35.00 per square foot, modified gross.
- ❖ Northland's Needham Street site does not benefit from the high visibility and convenient access offered by office parks along the Route 128 corridor. The Needham Street corridor, lacking a large corporate presence, attracts smaller sized office tenants. TripAdvisor and Clarks Shoe Company, both large corporate office users, vacated Needham Street to relocate to Class A office buildings overlooking Route 128 in Needham and Waltham, respectively. Similarly, SharkNinja and NBC Boston, have relocated from Wells Avenue to Founders Park.
- ❖ The tenant profile on Needham Street will pose greater risk to a developer, as smaller tenants are likely to offer less credit support and longer pre-leasing timeframes required for financing.
- ❖ Office space along Needham Street typically stays vacant for longer periods of time than office space at the nearby office parks. In addition, concessions such as free rent are higher for office space along Needham Street as compared to nearby office parks. Newton Corporate Center sustained 77% vacancy for an extended period of time before leasing space to an educational user at rents substantially discounted to rents at Founders Park. According to a broker that was familiar with the marketing of the property, there was minimal interest from office users to lease the building and there was no demand from lab users.

The Needham Street corridor currently lacks strong fundamentals for significant new office development. A successful office development requires synergy from an office park setting and a relatively high parking ratio. In this market area, major tenants prefer exposure to Route 128, which Needham Street does not offer. While Northland's Needham Street site lacks these key tenant requirements for an office-centric development, we believe that 156 Oak Street, positioned as a first class creative office building integrated with a new mixed-use



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development, will compete favorably against Route 128 properties for small to mid-size office and technology tenants.

Respectfully,



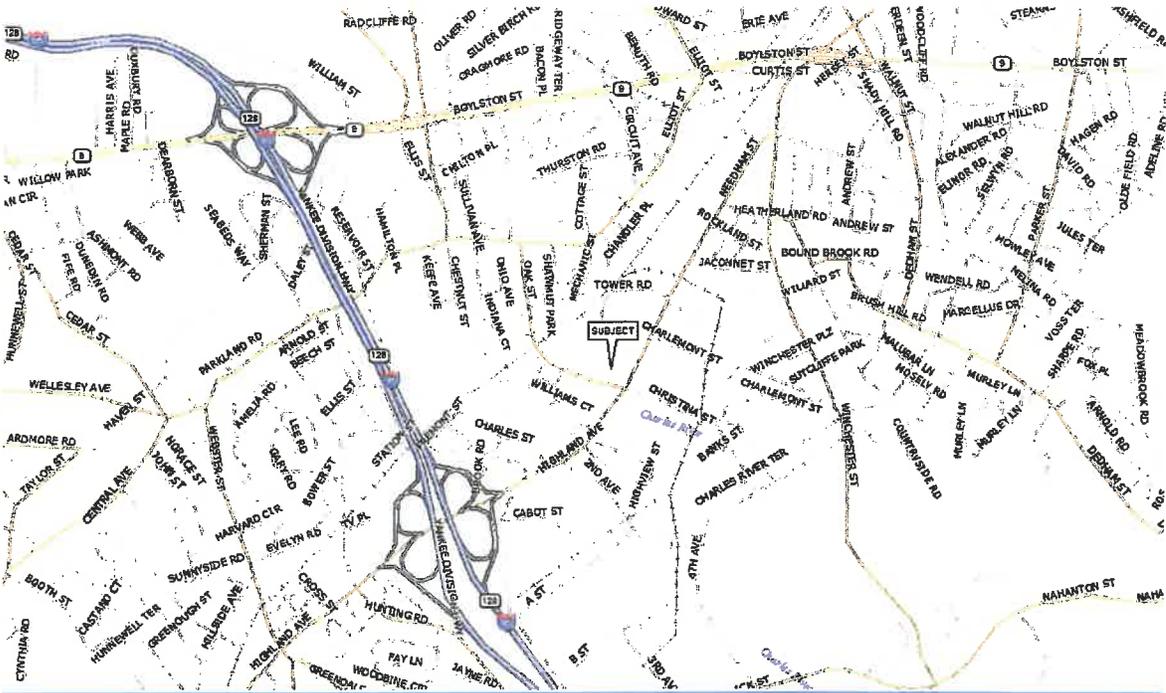
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## SURROUNDING AREA



Surrounding Area Map

### Boundaries

The subject is located in the southern part of the City of Newton, at the intersection of Oak Street with Needham Street. This area is part of the West/Mass Pike/Route 128 office submarket.

### Access and Linkages

Primary access to the market area is provided by State Route 128 / Interstate 95, which passes through the westernmost portion of Newton in a north/south direction. Additional access is provided by way of Interstate 90 / the Massachusetts Turnpike, which passes through the center of Newton in an east/west direction. Access to the subject from Route 128 is provided by Exit 19 to Needham Street, and travel time from the major arterial to the subject is less than 5 minutes depending on traffic conditions. Needham Street also provides access to Route 9 to the east. Traffic conditions along Needham Street near the intersection of Oak Street is typically heavily congested and at a standstill during the morning and afternoon rush hour commutes.



Public transportation is provided by the MBTA’s Green Line subway and trolley system and provides access to the City of Boston and outlying points. The subject is located 1 mile southwest of the MBTA’s Green Line Eliot station.

The Logan International Airport is located approximately 12 miles east of the subject; travel time is about 30 minutes, depending on traffic conditions. The Boston CBD, the economic and cultural center of the region, is approximately 10 miles from the market area.

**Land Use**

The subject’s neighborhood has been essentially fully developed for many years. Originally an industrial neighborhood, most of the buildings along Needham Street have been converted to retail uses over the past 20 or 30 years. There is approximately 600,000 square feet of retail space along Needham Street and the major retailers include Petco, Staples, Marshall’s, T.J. Maxx, and EMS. In 2016 CrossPoint redeveloped a former office property that was leased to TripAdvisor at 141-165 Needham Street and constructed a 143,000 square foot office/retail development that is leased to Stop & Shop, TJ Maxx, Boston Ballet School, Sierra Trading Post, Citizens Bank, and Boston Ski and Tennis. Also, in 2017 Bierbier Development constructed a 19,200 square foot retail plaza known as Needham Street Village Shops at 55 Needham Street. In 2002 Avalon constructed a 294 unit apartment complex at 89-99 Needham Street.

The subject encompasses approximately 22.7 acres and is proposed to be redeveloped with 822 apartments and condominiums and 365,200 square feet of retail and office space in a 13-building complex totaling 1.5 million square feet.

In the immediate vicinity of the subject, land uses along Needham Street are primarily retail. Connecting streets to Needham Street are primarily improved with residential uses. Other land use characteristics are summarized in the following table:

Subject’s Immediate Surroundings	
North	Residential
South	Retail
East	Industrial
West	Residential

**Services and Amenities**

The nearest commercial area with restaurants, convenience stores and support services is located along Needham Street immediately east and west of the subject property. The closest lodging facilities are located within five minutes of the property and include the Sheraton Needham Hotel, Residence Inn by Marriott and Homewood Suites, which are all located in the N<sup>2</sup> Innovation District. The nearest fire and police stations are within two miles of the property.



## Demographic Factors

Surrounding Area Demographics						
2017 Estimates	1-Mile Drive Distance	3-Mile Drive Distance	5-Mile Drive Distance	Middlesex County	Boston MSA	Commonwealth of Massachusetts
Population 2010	11,209	101,401	341,118	1,503,085	4,552,402	6,547,629
Population 2017	12,483	106,312	361,610	1,611,839	4,866,556	6,925,129
Population 2022	13,289	109,672	374,347	1,679,592	5,060,254	7,150,549
Compound % Change 2010-2017	1.5%	0.7%	0.8%	1.0%	1.0%	0.8%
Compound % Change 2017-2022	1.3%	0.6%	0.7%	0.8%	0.8%	0.6%
Households 2010	4,378	35,729	133,788	580,688	1,760,584	2,547,075
Households 2017	4,850	37,012	140,177	615,494	1,865,098	2,666,993
Households 2022	5,160	38,080	144,674	638,981	1,935,007	2,746,090
Compound % Change 2010-2017	1.5%	0.5%	0.7%	0.8%	0.8%	0.7%
Compound % Change 2017-2022	1.2%	0.6%	0.6%	0.8%	0.7%	0.6%
Median Household Income 2017	\$117,645	\$144,770	\$103,116	\$95,634	\$84,040	\$77,518
Average Household Size	2.5	2.6	2.4	2.5	2.5	2.5
College Graduate %	75%	80%	70%	55%	48%	44%
Median Age	43	42	37	40	39	40
Owner Occupied %	59%	69%	52%	57%	56%	56%
Renter Occupied %	31%	25%	43%	38%	38%	35%
Median Owner Occupied Housing Value	\$746,178	\$881,383	\$678,320	\$481,839	\$432,366	\$394,012
Median Year Structure Built	1950	1948	1945	1958	1959	1959

Source: ESRI

As shown above, the current population within a 3-mile drive distance of the subject is 106,312, and the average household size is 2.6. Population in the area has grown since the 2010 census, and this trend is projected to continue over the next five years. Compared to Middlesex County overall, the population within a 3-mile drive distance is projected to grow at a slower rate.

Median household income is \$144,770, which is higher than the household income for Middlesex County. Residents within a 3-mile drive distance have a considerably higher level of educational attainment than those of Middlesex County, while median owner-occupied home values are considerably higher.

Population growth in the surrounding area has been strong with income levels increasing. This has a positive effect on retail and services related real estate demand. This trend is projected to continue into the foreseeable future.

## N<sup>2</sup> Innovation District

The subject is located within Needham and Newton's N<sup>2</sup> Innovation District, which comprises approximately 500 acres along the Newton-Needham line. The N<sup>2</sup> Innovation District is home to a vibrant collage of "innovation economy" businesses. Users in the District include a roster of major international corporations and growing start-ups that are drawn to the area for its prime location offering a variety of suburban conveniences – including relatively affordable rental rates, less traffic congestion and proximity to residential housing and retail amenities – combined with convenient access to Downtown Boston.



A partnership between the City of Newton, Town of Needham, Newton-Needham Regional Chamber, area real estate holders and local businesses, the N<sup>2</sup> Innovation District is constantly evolving. Currently, the N<sup>2</sup> Innovation District’s stakeholders are developing plans to improve its transportation infrastructure with more pedestrian- and bicycle-friendly pathways.

The following represent major employers in the N<sup>2</sup> Innovation District.



Many of the above noted businesses are located in or adjacent to Needham’s Founders Park, which consists of approximately 41 acres along A Street, B Street, and First Avenue. The mixed-use campus is located along Route 128 / Interstate 95 and is anchored by TripAdvisor’s 281,000 square foot LEED Gold 6-story office building that overlooks the highway. 89 A Street is a former industrial building that was completely renovated into Class A office space and is primarily leased to Shark Ninja and Steward Healthcare. NBCUniversal is in the process of constructing their 165,000 square foot media center that is anticipated to be complete in 2019. Also in Founders Park is The Kendrick, which is a Class A apartment building totaling 390 units that was recently constructed along Second Avenue. A 128-key Hyatt Place hotel is proposed along A Street to the east of the newly constructed 128-key Residence Inn. There are also 3 undeveloped pad sites that are permitted for 3 office buildings (145,000 SF, 200,000 SF, and 110,000 SF); however, there has been no preleasing and no construction start date is scheduled.

The subject is located outside of an office park setting and recently lost Clark’s as a tenant, which relocated to a prominent office building along Route 128 in Waltham. In addition, Needham Street is primarily improved with retail uses and has very few office buildings.



### Needham Street Corridor

Within the immediate area along Needham Street, several properties have been converted from office use to retail or alternative uses. 141-173 Needham Street, a 163,000 square foot office building that was formerly the home of TripAdvisor and Polaroid was re-developed in 2016 into a retail center known as Newton Nexus. 320 Needham Street, a 43,000 square foot office building is occupied by a Bright Horizons Children's Center and a private educational facility. The adjacent 52,000 square foot property at 27 Christina Street was acquired by the Barry Price Center and converted from office and flex space into a user-occupied institutional use. 19-33 Needham Street is a 76,000 square foot Class B office building occupied by several small tenants, including National Tire and Battery and New TV, and has 25,000 square feet of vacancy. 233 Needham Street, adjacent to the subject site, is a 60,800 square foot office building constructed in 1987 with structured parking. The building is currently 97% leased, with office tenants ranging from 1,000 - 5,000 square feet and a small office business center. The subject site, 156 Oak Street, is a 180,000 square foot renovated mill office building. The building was formerly occupied by Clarks Shoe Company for its North American headquarters. Clarks vacated the building in 2016 to relocate to an office building on Route 128 in Waltham, and the subject remains vacant today. As part of its development plan, Northland intends to fully renovate the mill building to accommodate small and mid-size tenants and offer amenities integrated with the adjoining residential and retail development.



## OFFICE MARKET ANALYSIS

### West/MassPike/Route 128 Submarket Overview

The subject is located in the West/MassPike/Route 128 submarket. In order to evaluate the market appeal of the subject's submarket in comparison to others in the Boston metro area, key supply and demand indicators for all space types are compared in the ensuing table.

#### Boston Office Submarket Comparison

Submarket	Inventory (Buildings)	Inventory (SF)	Asking Rent (\$/SF)	Vacancy (%)	Free Rent (mos)	Tenant Improvements (\$)
N Shore/Rt 128 N	242	22,700,000	\$25.62	19.50%	2.00	\$33.24
S Shore/S Suburban	180	10,800,000	\$23.96	15.70%	0.70	\$19.73
Framingham/W Subm	101	5,441,000	\$25.03	17.40%	1.80	\$32.23
Northwest/Rt 2	147	12,500,000	\$33.78	19.20%	2.60	\$36.33
CBD	166	33,200,000	\$62.64	8.10%	1.20	\$43.11
Back Bay/Fenway	50	14,100,000	\$57.35	7.90%	2.20	\$45.57
South Station	52	9,501,000	\$46.78	6.90%	0.90	\$44.86
Cambridge	120	15,300,000	\$51.60	9.10%	1.60	\$30.14
West/MassPike	143	9,375,000	\$36.83	11.30%	0.70	\$41.16
Market Averages/Totals	1,201	132,917,000	\$40.40	12.32%	1.52	\$36.26

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According to Newmarket Knight Frank's 2Q 2018 Boston Office Market report, while the relocation of tenants into more urban locations continues to grab headlines, suburban submarkets are still seeing tenants satisfy their growth requirements through build-to-suits, whole-building commitments and the leasing of newly built or renovated projects in select locations. Alkermes recently affirmed plans for a build-to-suit in Waltham for its expansion, while Boston Properties signed ZoomInfo at its new building at 170 Tracer Lane along Route 128, also in Waltham. Simpson Gumpertz & Heger has leased 110,000 square feet in a new office building at Boston's Properties City Point, which is located just off Route 128 in Waltham. Other notable new construction leasing included the Post at 200 Smith Street, located at the Trapelo Road exit of Route 128, which secured its first tenant in Deciphera Pharmaceuticals. Hilco Real Estate's renovation of 152 Grove Street in Waltham reached completion and also secured its first tenant this quarter, Panasonic. ClearMotion's lease for a 122,300 square foot building in Billerica rounded out a second quarter of leasing activity that only reiterates the demand for new construction but also the fact that the well-located suburban properties remain attractive to an increasingly diverse tenant base.





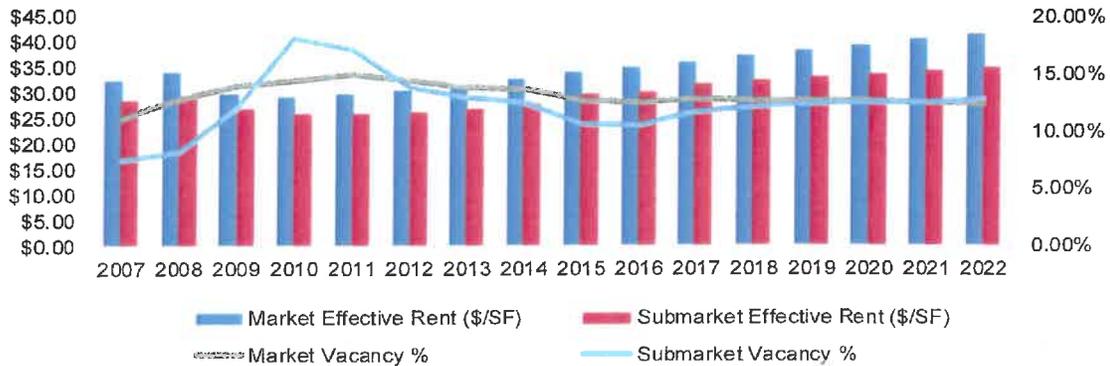
**West/MassPike/Route 128 Office Submarket Trends and Forecasts**

Year	Inventory (SF)	Occupied (SF)	Vacancy (SF)	Vacancy (%)	Completions (SF)	Absorption (SF)	Effective Rent (\$/SF)	Effective Rental Rate (% Change)	Gross Revenue (\$/SF)
2007	8,057,000	7,453,000	604,000	7.50%	0	65,000	\$28.45	4.40%	\$29.01
2008	7,931,000	7,289,000	642,000	8.10%	20,000	-164,000	\$28.94	1.70%	\$29.66
2009	7,866,000	6,922,000	944,000	12.00%	195,000	-367,000	\$26.79	-7.40%	\$27.45
2010	8,664,000	7,096,000	1,568,000	18.10%	356,000	174,000	\$25.81	-3.70%	\$24.75
2011	8,664,000	7,182,000	1,482,000	17.10%	0	86,000	\$25.80	0.00%	\$24.94
2012	8,664,000	7,477,000	1,187,000	13.70%	0	295,000	\$26.15	1.40%	\$26.28
2013	8,643,000	7,528,000	1,115,000	12.90%	0	51,000	\$26.86	2.70%	\$27.31
2014	8,643,000	7,571,000	1,072,000	12.40%	0	43,000	\$27.61	2.80%	\$28.21
2015	8,925,000	7,979,000	946,000	10.60%	282,000	408,000	\$29.54	7.00%	\$30.56
2016	8,925,000	7,988,000	937,000	10.50%	0	9,000	\$29.87	1.10%	\$30.87
2017	9,375,000	8,288,000	1,087,000	11.60%	450,000	300,000	\$31.61	5.80%	\$32.18
Q2 2018	9,375,000	8,316,000	1,059,000	11.30%	0	-28,000	\$31.98	0.60%	\$32.67
2018	9,738,000	8,567,000	1,171,000	12.00%	363,000	279,000	\$32.31	2.20%	\$32.88
2019	9,738,000	8,541,000	1,197,000	12.30%	0	-26,000	\$32.90	1.80%	\$33.58
2020	9,738,000	8,528,000	1,210,000	12.40%	0	-13,000	\$33.54	1.90%	\$34.40
2021	9,738,000	8,522,000	1,216,000	12.50%	0	-6,000	\$34.22	2.00%	\$35.29
2022	9,738,000	8,492,000	1,246,000	12.80%	0	-30,000	\$34.91	2.00%	\$36.07
2007 - 2017 Average	8,577,909	7,524,818	1,053,091	12.23%	118,455	81,818	\$27.95	1.44%	\$28.29

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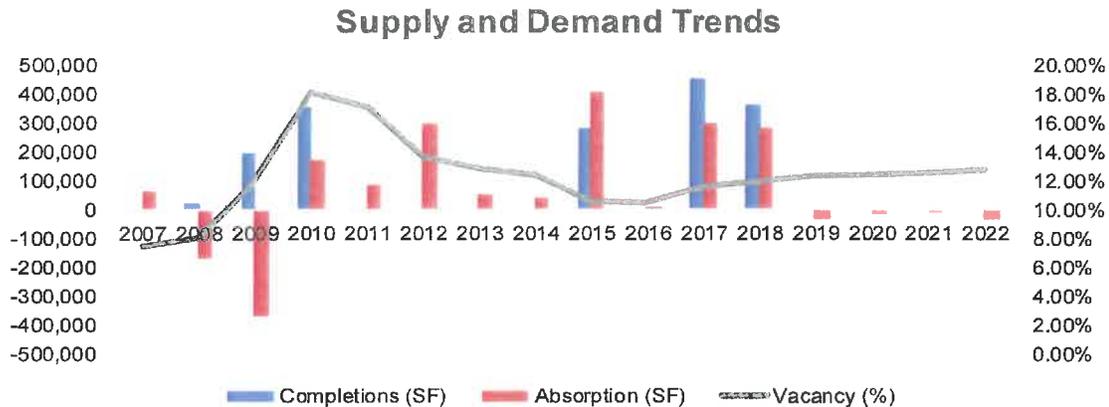
It is noted that in 2022 when Northland’s Needham Street development is anticipated to come on-line vacancy is projected by REIS to be 12.80%, which would be the highest vacancy rate since 2014.

**Vacancy Rate Vs Effective Rental Rate**



Source: REIS, Inc.; compiled by NKF Valuation & Advisory





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For the 9.4-million-square-foot West/MassPike/Route 128 submarket, Reis reports a second quarter 2018 vacancy rate of 11.3%. The average asking rent of \$36.83 per square foot is the highest suburban rent.

#### West/MassPike/Route 128 Submarket Class A Trends

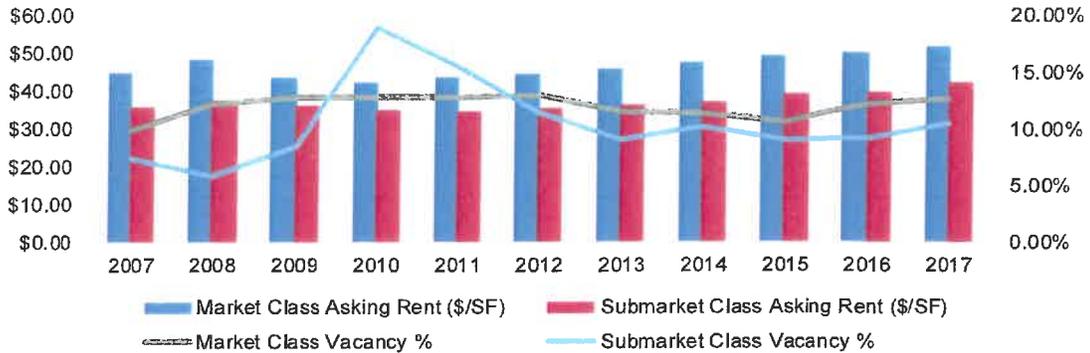
Supply and demand indicators, including inventory levels, absorption, vacancy, and rental rates for Class A space in the submarket are presented in the ensuing table.

West/MassPike/Route 128 Office Class A Submarket Trends									
Year	Inventory (SF)	Occupied (SF)	Vacancy (SF)	Vacancy (%)	Completions (SF)	Absorption (SF)	Asking Rent (\$/SF)	Asking Rental Rate (% Change)	Gross Revenue (\$/SF)
2007	3,417,000	3,164,000	253,000	7.40%	0	-54,000	\$35.78	4.00%	\$33.13
2008	3,417,000	3,215,000	202,000	5.90%	0	52,000	\$37.47	4.70%	\$35.25
2009	3,291,000	3,015,000	276,000	8.40%	20,000	-200,000	\$36.02	-3.90%	\$33.00
2010	4,089,000	3,317,000	772,000	18.90%	356,000	302,000	\$34.62	-3.90%	\$28.08
2011	4,089,000	3,454,000	635,000	15.50%	0	137,000	\$34.50	-0.30%	\$29.14
2012	4,089,000	3,624,000	465,000	11.40%	0	170,000	\$35.05	1.60%	\$31.06
2013	4,089,000	3,721,000	368,000	9.00%	0	97,000	\$36.06	2.90%	\$32.81
2014	4,089,000	3,672,000	417,000	10.20%	0	-49,000	\$37.06	2.80%	\$33.28
2015	4,371,000	3,977,000	394,000	9.00%	282,000	305,000	\$39.26	5.90%	\$35.72
2016	4,371,000	3,968,000	403,000	9.20%	0	-9,000	\$39.65	1.00%	\$35.99
2017	4,561,000	4,082,000	479,000	10.50%	190,000	114,000	\$41.97	5.90%	\$37.56
Q2 2018	4,561,000	4,115,000	446,000	9.80%	0	-12,000	\$42.47	0.50%	\$38.32
2007 - 2017 Average	3,988,455	3,564,455	424,000	10.49%	77,091	78,636	\$37.04	1.88%	\$33.18

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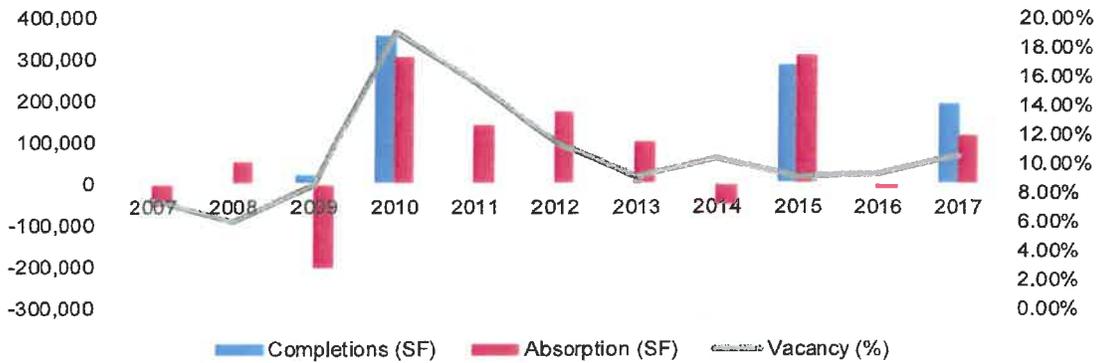
REIS does not publish forecasted statistics for the Class A submarket. Only historical trends are available for Class A office space.

### Vacancy Rate Vs Asking Rental Rate



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### Supply and Demand Trends



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### Supply Additions

The following table summarizes properties that are under construction, planned, and/or proposed in the subject's metro area.

Office Subproperty Type	Under Construction		Planned Construction		Proposed Construction	
	Properties	Sq. Ft.	Properties	Sq. Ft.	Properties	Sq. Ft.
Office	13	2,425,250	50	13,039,606	24	6,240,000
Medical Office	0	0	3	158,000	3	500,000
Office—Owner Occ.	3	149,754	4	1,294,000	1	415,000
Office Condominiums	0	0	0	0	0	0
<b>Totals</b>	<b>16</b>	<b>2,575,004</b>	<b>57</b>	<b>14,491,606</b>	<b>28</b>	<b>7,155,000</b>

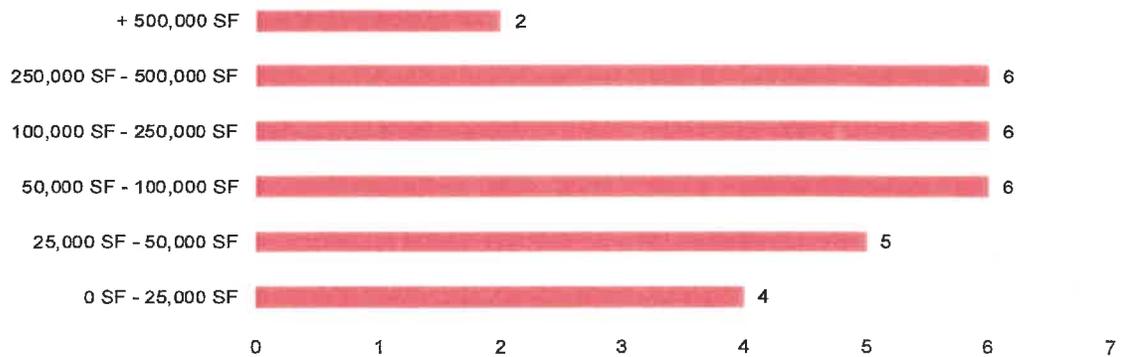
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<b>Boston Office Property Completions by Submarket</b>			
Submarket	Total (SF) Completed	Total Projects Completed	Avg. Project Size (SF)
Back Bay/Fenway	466,460	2	233,230
Cambridge/Charlestown/Somerville	2,118,045	5	423,609
Framingham/West Suburban	66,410	2	33,205
North Shore/Route 128 North	494,031	7	70,576
Northwest/Route 2	485,718	3	161,906
South Shore/South Suburban	95,000	2	47,500
South Station/Ft. Point Channel	580,274	3	193,425
West/MassPike/Route 128	882,000	4	220,500
Not in a Reis submarket	30,000	1	30,000
<b>Totals</b>	<b>5,217,938</b>	<b>29</b>	<b>157,106</b>

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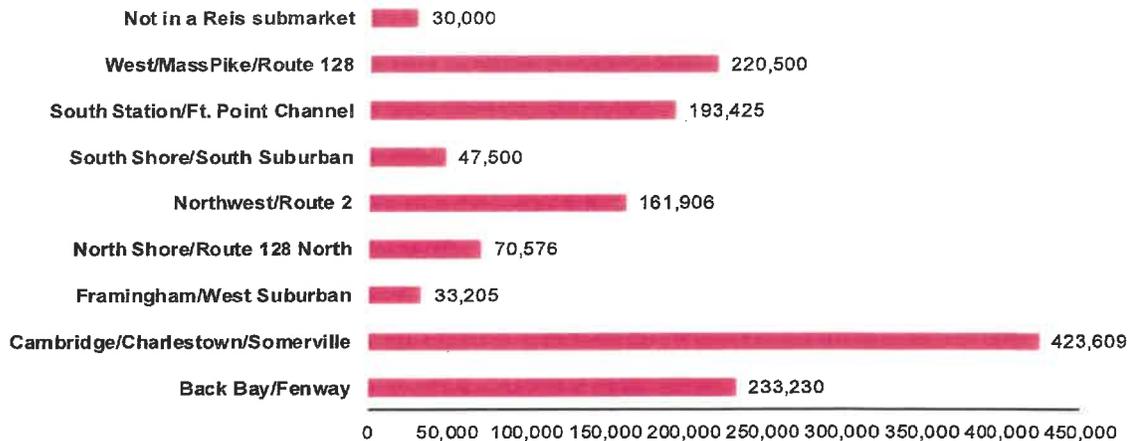
### Total Projects Completed by Building Size



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### Total Completions (SF) by Submarket



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The following table summarizes properties that are under construction, planned, and/or proposed in the subject's submarket.

#### West/MassPike/Route 128 Submarket Construction by Phase and Subtype

Office Subproperty Type	Under Construction		Planned Construction		Proposed Construction	
	Properties	Sq. Ft.	Properties	Sq. Ft.	Properties	Sq. Ft.
Office	3	523,000	3	750,000	0	0
Medical Office	0	0	0	0	1	40,000
Office—Owner Occ.	0	0	1	350,000	0	0
Office Condominiums	0	0	0	0	0	0
<b>Totals</b>	<b>3</b>	<b>523,000</b>	<b>4</b>	<b>1,100,000</b>	<b>1</b>	<b>40,000</b>

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Within the past 2 years there has been 882,000 square feet of office space added to the submarket, which consisted of 260,000 square feet at 89 A Street in Needham, 332,000 square feet at Boston Landing, and 290,000 square feet at Life Time Center (former Atrium Mall redevelopment) in Newton. There is 523,000 square feet of office space under construction at Needham Crossing Phase II, The Gauge in Waltham, and Two Brookline Place in Brookline.

New office construction in Newton has been limited during the past 20 years. Two Wells Avenue in Newton's Wells Avenue office park was a 1-story 67,800 square foot office building that was primarily owner-occupied. When the owner relocated, approximately 47,000 square feet of the building were razed to make way for the construction of a new 3-story section containing 101,223 square feet. The parking ratio at the building is 3.5 space per 1,000 square feet of rentable area. Construction was completed in 2Q 2017 and the revised rentable



area is 126,181 square feet. Cushman & Wakefield has been marketing the property since 2016 and has yet to find a tenant(s) for the building. The owner of the property has controlled the site for decades, so a low land cost allows for more competitive rental rates, but that still has not triggered any executed leases yet. According to the broker at Cushman & Wakefield there is at least one letter of intent in place for 100% of the building. Reported asking rental rates are approximately \$35.00 per square foot, triple net.

There are 3 pad ready development sites at Founders Park that are permitted for 3 office buildings (145,000 SF, 200,000 SF, and 110,000 SF). However, there has been no preleasing and no construction start date is scheduled.

In addition, there is 1,140,000 square feet planned/proposed office space in the submarket with only 350,000 square feet committed to Aetna (owner-occupied) at 93 Worcester Street in Wellesley at the Route 128 / Route 9 interchange. In this market, office developments typically do not commence construction without significant preleasing. Financing is typically unobtainable without preleasing.

The Post at 200 Smith Street, Waltham, was also a major office redevelopment this quarter as three new leases have been executed with the largest being Deciphera Therapeutics committing to 44,000 square feet. The other major lease this quarter was at 170 Tracer Lane, Waltham which landed ZoomInfo for 73,500 square feet. Both properties are located at the Trapelo Road exit of Route 128 and are visible from the highway.

## Major Tenant Leases

The following represents major leases that have occurred in the market in the recent past.

Major Tenant Leases								
No.	Address	Tenant	Square Feet	Lease Commencement	Starting Rent	TI Allowance	Parking Ratio	Amenities
1.	400 1st Avenue, Needham	TripAdvisor	280,000	Jul-15	\$33.00/SF NNN	\$60.00/SF	4.0/1,000 SF	Café + Pub, Fitness Center, Covered Parking, Roofdeck, Game Room, located in N2 Innovation District, overlooks Route 128.
2.	500 Totten Pond Road, Waltham	Wolverine	165,000	Jul-16	\$33.00/SF NNN	\$70.00/SF	3.5/1,000 SF	Café, Fitness Center, Covered Parking, Shared/Common Conference Rooms, restaurant on-site, office park setting, overlooks Route 128.
3.	60 Tower Road, Waltham	Clarks	120,000	Oct-16	\$33.50/SF NNN	\$75.00/SF	4.0/1,000 SF	Café, fitness center, covered parking, roof deck, three restaurants, overlooks Route 128.
4.	89 A Street	Needham	52,654	Aug-17	\$27.50/SF NNN	\$80.50/SF	3.5/1,000 SF	Café + Pub, Fitness Center, Surface and Garage Parking, located in N2 Innovation District.
5.	10/20 CityPoint 470-504 Totten Pond Road, Waltham	Simpson Gumpertz & Heger	110,000	Dec-17	\$35.00/SF NNN	\$80.00/SF	3.3/1,000 SF	Café, Fitness Center, Shared/Common Conference Rooms, office park setting just east of Route 128.

All of the above noted leases are located at office buildings that either have direct exposure to Route 128 or are located within 1 block of the highway. In addition, all of these buildings are in



office park settings. Tenants in this market tend to gravitate toward well-located office park locations or within large clusters of office buildings. In fact, TripAdvisor and Clark's both vacated Needham Street to relocate to Class A office buildings overlooking Route 128 in Needham and Waltham, respectively.

Rental rates for these Class A office buildings range from \$27.50 per square foot to \$35.00 per square foot, triple net. Tenant improvement allowances range from \$60.00 to \$80.50 per square foot. A stand-alone office building along Needham Street, without direct exposure and access to Route 128 would typically attract rental rates in the low to mid \$20s per square foot, triple net. Contract rents at 233 Needham Street generally range from \$30.00 - \$35.00 per square foot, modified gross.

Parametric Technology recently announced that in early 2019 they will vacate their 320,000 square foot office headquarters at 140 Kendirck Street in Needham and relocate to the Seaport District. Their office building overlooks Route 128 / Interstate 95. There has been no leasing activity for their Needham office space.

Two Wells Avenue in Newton's Wells Park Office Park consists of 129,510 square feet that was recently constructed. Besides a short term tenant, the building is vacant and available for lease.

Sun Life Park, which fronts to Route 128 at the intersection of Route 128 has 126,000 square feet of vacant office space. Reportedly 64,000 square feet is close to being leased for approximately \$50.00 per square foot, modified gross. The landlord will provide a tenant improvement allowance of \$60.00 per square foot.

Also, the Wellesley Office Park is approximately 35% vacant. This office park is located along Route 128 / Interstate 95 and owned by John Hancock. John Hancock plans on razing 40 and 50 Williams Street in the Wellesley Office Park and plans to redevelop the properties with a multifamily apartment community.

### Office Tenant Drivers

In this market, office tenants seeking upwards of 50,000 square feet are primarily focused on location and workplace environment. A preferred location has access to the labor pool and is an office building with top-tier amenities such as cafes, fitness centers and garage parking. In addition, tenants want to be located in an efficient office building that allows for high density (150 square feet per employee or less) for open concepts and high parking ratios. Large office users in the market today also want to lease office space where they can plan for future growth, whether it is through leasing other office space within the building or office park parking or with new construction on-site. In addition, large office users want ample on-site parking (3.0-5.0 spaces per 1,000 SF) and/or access to nearby public transportation access.



## Lab Market Overview

Outside of Cambridge there are a few lab clusters, which are primarily located in Lexington, Waltham and Bedford. South of the Massachusetts Turnpike there are only 2 lab users, which are Verastem at 117 Kendrick Street in Needham and Celldex Therapeutics at 119 Fourth Avenue in Needham. Both of these tenants have small labs and most of the space is built-out for office use. Lab tenants in greater Boston want to be located within an office park setting amongst other lab users. Lab tenants also prefer to lease masonry and steel buildings instead of wood frame buildings. As mentioned previously, Bullfinch was marketing their office building on Needham Street across from the subject for lab use and did not generate any demand from lab users. Bullfinch ended up leasing the vacant space to a charter school.

## Parking Ratios

The following represents parking ratios at office properties and multifamily properties in the market.

Parking Ratios Office vs. Multifamily Use		
Property	Use	Parking Ratio/SF
400 1st Avenue, Needham	Office	4.0/1,000 SF
500 Totten Pond Road, Waltham	Office	3.5/1,000 SF
60 Tower Road, Waltham	Office	4.0/1,000 SF
89 A Street, Needham	Office	3.5/1,000 SF
10/20 CityPoint, Waltham	Office	3.3/1,000 SF
Average	Office	3.66/1,000 SF
Charles River Landing, Needham	Multifamily	1.53/1,000 SF
Avalon at Newton Highlands, Newton	Multifamily	1.53/1,000 SF
Avalon Station 250, Dedham	Multifamily	1.62/1,000 SF
The Merc at Main and Moody, Waltham	Multifamily	1.11/1,000 SF
Modera, Needham	Multifamily	1.76/1,000 SF
The Kendrick, Needham	Multifamily	1.60/1,000 SF
Average	Multifamily	1.54/1,000 SF

Parking ratios for office buildings in the area average 3.66 parking spaces per 1,000 square feet of rentable area, which is significantly higher than the parking ratio for multifamily properties that average 1.54 parking spaces per 1,000 square feet of rentable area.

## Conclusions

The Needham Street corridor lacks the key fundamentals for office development. Paragon Towers is one of two office buildings on the street and attracts small tenants that average approximately 5,000 square feet. Needham Corporate Center, located across from the subject, has been unsuccessful finding an office or lab tenant to lease the property. The landlord instead has leased the building to a charter school and a day care center. Direct exposure to Route 128 and convenient highway access are primary drivers for many Class A tenants. Northland's Needham Street property does not offer exposure to Route 128 and is

located approximately two-thirds of a mile northeast of the highway. A successful office development requires synergy from an office park setting and 3.5 to 4.0 parking spaces per 1,000 square feet of rentable area. In this market, as tenants seek to have more efficient office space with more employees per square foot, the parking requirements have increased considerably. Northland's Needham Street site lacks most of these tenant requirements and therefore is at a competitive disadvantage for office use.