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PUBLIC HEARING/WORKING SESSION II MEMORANDUM

DATE: December 7, 2018

MEETING DATE: December 11, 2018

TO: Land Use Committee of the City Council

FROM: Barney Heath, Director of Planning and Development
Michael Gleba, Senior Planner

CC: Petitioner

In response to questions raised at the City Council public hearing, the Planning Department is providing the following information for the upcoming public hearing/working session. This information is supplemental to staff analysis previously provided at the Land Use Committee public hearing.

PETITIONS #425-18 & #426-18 156 Oak St., 275-281 Needham St. &., 55 Tower Rd.

Petition #425-18- for a change of zone to BUSINESS USE 4 for land located at 156 Oak Street (Section 51 Block 28 Lot 5A), 275-281 Needham Street (Section 51, Block 28, Lot 6) and 55 Tower Road (Section 51 Block 28 Lot 5), currently zoned MU1

Petition #426-18- for SPECIAL PERMIT/SITE PLAN APPROVAL to allow a mixed-use development greater than 20,000 sq. ft. with building heights of up to 96' consisting of 822 residential units, with ground floor residential units, with restaurants with more than 50 seats, for-profit schools and educational uses, stand-alone ATMs drive-in businesses, open air businesses, hotels, accessory multi-level parking facilities, non-accessory single-level parking facilities, non-accessory multi-level parking facilities, places of amusement, radio or TV broadcasting studios, and lab and research facilities, to allow a waiver of 1,600 parking stalls, to allow a reduction in the overall parking requirement to not less than 1900 stalls, to waive dimensional requirements for parking stalls, to waive end stall maneuvering requirements, to allow driveway entrances and exits in excess of 25', to waive perimeter landscaping requirements, to waive interior landscaping requirements, to waive lighting requirements for parking lots, to waive general lighting, surfacing and maintenance requirements, to waive off-street loading facilities requirements, to waive sign requirements relative to number, size, location or design, to waive the number of signs allowed.

The Land Use Committee (the "Committee") held a public hearing on September 25, 2018 and a working session on November 13, 2018 on these petitions. This memo reflects additional information addressed to the Planning Department as of December 4, 2018.

As indicated by the tentative schedule for Land Use Committee public hearings (**Attachment A)** pursuant to the above-referenced petitions, this memorandum is focused on the housing and economic impact aspects of the so-called "Northland Newton Development" proposed for the subject parcels.

Background

As proposed, and subject to the requested zoning change of the three subject parcels from Mixed Use 3 (MU3) to Business 4 (BU4) and the granting of requested special permit, the project involves the construction of a 1,924,273 gross square foot, 13 building mixed-use development on 22.6 acres of land. The proposal includes 822 residential units comprising 1,089,080 square feet of residential space, (including apartments and several townhouse type units), 193,200 square feet of office space, 237,097 square feet of retail space and 4,000 square feet of community space. The project would have 1,408 on-site parking stalls within garages and surface parking as well as accommodations for 1,106 bicycles.

The project is designed as an urban center with active streetscapes, street level retail, public spaces and "on-street" parking, all arranged within a modified gridded street system. The project's 13 structures range from two to eight stories in height, with the tallest measuring 95.6 feet high. The site would be accessed by four driveways: one located off Tower Road, two off Needham Street (one to the proposed "Main Street," the other to the proposed westerly extension of Charlemont Street), and one on Oak Street serving the proposed "Pettee Lane." All internal roadways, including the proposed "Main Street," Charlemont Street extension and Pettee Lane referenced above are considered internal driveways (i.e., not as accepted public or private ways).

Needham Street Area Vision Plan

In August 2018 the City Council voted to adopt the Needham Street Area Vision Plan. In December 2017, the Planning Department kicked off a six-month community engagement process to develop a holistic vision for the Needham Street area. The Planning Department assembled a twenty-one-member engagement committee including City Councilors Crossley and Kalis as well as residents, commercial property owners, topic-area experts, and representatives from neighborhood and citywide organizations. The engagement group met regularly between December and April to advise the Planning Department in the preparation of the vision document.

The adopted vision for the Needham Street area strives to produce a prosperous mixed-use district designed for all ages. It includes goals such as continuing to reflect the industrial history of the area and the current commercial strength while adding diverse residential options and modern innovation industries and incorporating cultural and recreational opportunities as well as environmentally sustainable technologies and design. The plan includes tailored visions for Environmental Health, Transportation, Land Use, Design and Implementation. The proposed project will be analyzed as each meeting topic relates to the vision document. The housing and economic development proposals for the project relate to the following action items in the vision plan:

a. *Amend zoning along Needham Street to encourage mixed uses, including housing, community uses, smaller commercial uses, and compatible manufacturing/production uses (e.g. breweries, artisans, R&D lab space, etc.). (Vision for Land Use)*

The project site is currently zoned Mixed Use 1 (MU1), which is the predominant zone along Needham Street. Despite the name, the MU1 zone does not allow a very diverse mix of uses and disincentivizes residential uses due to the minimum lot area per unit of 10,000 square feet (as compared to 1,000 to 1,200 square feet in other commercial or multi-family residential zones). The MU1 zone also prohibits retail uses with less than 5,000 square feet. While this action item is directed towards the City updating zoning along this corridor to encourage a true mix of uses, the petition to rezone the site to Business 4 (BU4) will allow a broader range of uses including residential units and smaller retailers.

b. *Attract employers and support employees by encouraging housing and transportation options, as well as amenity uses, such as restaurants, retail, and entertainment. (Vision for Land Use)*

The proposed project includes a range of housing options, transportation options (to be discussed in further detail at a future date) and amenities. The exact mix of commercial uses is not yet known, but with approximately 185,000 square feet of commercial space the petitioner anticipates a variety of restaurants, retailers, and personal service uses.

c. *Encourage a range of housing unit types and sizes to accommodate all ages and incomes. (Vision for Land Use)*

The project includes a range of units from studios to three bedrooms and includes typical apartments as well as townhomes and live-work units. As currently proposed, 123 of the 822 units, or 15%, would be deed-restricted at an average Area Median Income (AMI) of 65%. As discussed in more detail below, Planning Staff recommends that the petitioner meet the requirements of the proposed Inclusionary Zoning Ordinance, presently in draft form. The updates to the ordinance would increase the requirement for a project of this size from 15% to 17.5% and would require a mix of units at 50%, 80% and 110% AMI.

d. *Reduce minimum lot area per unit in the zoning ordinance to encourage the production of a range of housing types. (Vision for Land Use)*

While the City is currently updating the zoning for the entire city, including Needham Street, through the Zoning Redesign process, in the interim the petitioner has proposed a rezoning to the BU4 zone. The BU4 zone reduces the minimum lot area per unit from 10,000 square feet to 1,200 square feet thereby allowing for more residential units at a range of sizes.

e. *Locate neighborhood-scale retail and service uses on the ground floor of new developments. (Vision for Land Use)*

The project proposes ground floor commercial uses for most buildings. The petitioner has stated the uses will vary from neighborhood-scale to medium-scale retailers with more of a regional draw. The petitioner has also committed to providing 10,000 square feet of commercial space at reduced rents for local retailers. Planning Staff recommends

the petitioner provide additional details on this proposal.

f. Consider the Needham Street area as a potential site for future public investments in community centers or civic institutions. (Vision for Land Use)

The petitioner has proposed a community building with an adjacent playground in the northwest corner of the site. Planning Staff recommends continued discussions with the petitioner regarding the proposed community uses.

g. Incorporate universal design and/or accessibility in development. (Vision for Implementation)

As proposed, 45 of the 822 residential units would be designed and constructed as accessible units, meeting the Massachusetts Architectural Access Board 521 CMR 9.4, Group 2A Dwelling Unit requirements. At least 5%, or 41 units, must meet the Group 2A requirements. As analyzed by RKG and discussed further below, the units are proportionally distributed according to number of bedrooms, size, quality, price, and location. The exception is Building 13, where the petitioner has several options for providing an accessible unit in a building with townhomes. Of the 45 accessible units, 7 are identified as both affordable and accessible. While this meets the distribution requirements, given the need for affordable accessible units, Planning Staff recommends that half of the accessible units also be deed-restricted affordable units.

h. Encourage new development to include deed-restricted middle-income housing in addition to housing in the lower affordable housing price range. (Vision for Implementation)

The petitioner has proposed 123 units, or 15% of the 822 residential units, to be deed-restricted for occupants with an average AMI of 65%. As discussed further below, Planning Staff recommends the petitioner comply with the draft changes proposed for the Inclusionary Zoning ordinance, which would require 17.5% of the units be made affordable at the 50%, 80%, and 110% AMI levels. The proposed changes to the ordinance reflect the need for housing across a broader range of income levels, including middle-income.

i. Explore ways to support affordable business space for new and established small and family-run businesses. (Vision for Implementation)

The petitioner has proposed dedicating 10,000 square feet of commercial space to small and local businesses with some level of reduced rent. Planning Staff recommend the petitioner provide additional details for this proposal.

Analysis and Peer Review

As requested by the Land Use Committee and the Planning Department, RKG Associates, Inc. (RKG) submitted an initial analysis (**Attachment B**) of the housing and economic impacts of the project, including a peer review of the Fiscal Impact Analysis and Economic Impact Analysis submitted by the petitioner, both dated August 31, 2018 and prepared by Fougere Planning and Development Inc. and Landwise Advisors, respectively.

The analysis and reviews conducted by RKG include a series of memos addressing the following topics:

- Housing Accessibility Assessment
- Market Assessment for Residential, Office, and Retail Development
- Peer Review of Northland's Economic Impact Analysis
- Peer Review of Northland's Fiscal Impact Analysis

Please note that the petitioner has submitted a response to the RKG memorandum, attached hereto as **Attachment C**.

Housing and Accessibility

The petitioner is proposing a total of 822 residential units, including a mix of unit types from studios, one-bedroom, two-bedroom, and three-bedroom apartments to live/work units and three-story townhomes. This mix is comprised of 10% studios, 45% one-bedrooms, 40% two-bedrooms, and 5% three-bedrooms, spread across ten of the thirteen proposed buildings on site.

The Multi-Family Residential Market Assessment included in RKG Associates' Peer Review detailed the need for market-rate and affordable housing in Newton and discussed the proposed project's potential impact on these needs. In general, RKG highlighted the housing challenges that Newton and the Greater Boston region continue to face – housing production has not kept pace with the population and employment growth, driving up housing prices and limiting availability to only those households that can afford it.

RKG's review also called attention to Newton's 2016 Housing Needs Analysis, which showed a strong demand for smaller, more affordable rental units to support seniors looking to downsize and to help attract younger residents ages twenty-five to forty-five. These populations look for similar product types in fully-managed and amenitized buildings in a location close to shopping, dining and transportation options. The report states that the demand from these two cohorts has created a marketplace for smaller units from studios to two-bedrooms.

At the same time, the Peer Review points to Newton's strong need for more affordable housing and housing for residents with disabilities. Estimates from the Housing Needs Analysis showed a demand in the city for over 5,000 housing units priced at or below 80% of the area median income (AMI) and a very constrained supply of housing options for residents with disabilities, many of which are in need of income-restricted affordable units due to their limited income.

In 2016, the Housing Needs Analysis showed that Newton would need to add between 1,900 and 3,300 additional housing units by 2030 to keep pace with population growth and household size / formation trends. Yet between 2000 and 2013, there were only 683 net new housing units constructed in Newton, most of which were priced for households at or above 200% of AMI.

RKG's report reiterates that in addition to smaller market-rate rental units, there will continue to be substantial demand for affordable housing that is priced to meet the needs of households at a variety of income thresholds, and the need for affordable housing will only grow as a constrained regional housing market drives up housing prices and limits availability to only those households that can afford it.

Given this substantial need, RKG states that the Northland Newton project will provide a much-needed infusion of units into Newton's multi-family market. With a mix of unit sizes and unit types (apartments, live/work, townhouses), including market-rate and affordable units and forty-five fully accessible

Group 2A units for residents with disabilities, the addition of these units will help to chip away at the city's housing needs for current and future residents.

RKG found that 45 (5.4%) of the project's 822 proposed units (located in ten buildings) would qualify as so-called "Group 2A Dwelling Units." As 521 CMR 9.4 requires that at least 5% of the total number residential units in buildings that contain twenty or more dwelling units meet Group 2A accessibility standards, the project would exceed by four the 41 of such units that would be required. Of these accessible units, 37 would be market rate and seven (one studio, three one-bedroom, two two-bedroom and one three-bedroom units would be affordable. None of the accessible units would be a townhouse dwelling (located along the western boundary of the site), and, as the RKG report notes (see p. 31), the petitioner has not yet identified how it intends to satisfy applicable state accessibility regulations regarding townhouses. While the seven affordable and accessible units meet the distribution requirements, given the strong need for affordable and accessible units, Planning Staff would like to see half of the 45 accessible units also be identified as deed-restricted affordable units.

Under the City's current Inclusionary Zoning ordinance, 15% of the total units (123 units) will be set aside as affordable. However, if the Inclusionary Zoning proposal that is currently before the Council passes, the project will be required to provide a total of 145 deed-restricted affordable units, ranging between 50% AMI to 110% AMI.

Staff Recommendations

Staff recommends that Northland comply with the proposed Inclusionary Zoning ordinance requirements that are currently before Council, which would provide for a total of 145 deed-restricted affordable units, broken down by the following income tiers:

- Tier 1 (up to 50% AMI): 21 units
- Tier 2 (51%-80% AMI): 103 units
- Tier 3 (81%-110% AMI): 21 units
- Total = 145 units

Staff also recommends that 23 of the accessible units be included in the Tier 1 and Tier 2 affordable units. In addition, related to the community benefits / mitigation fees discussion that may take place throughout the planning approval process, we recommend that Northland consider a one-time contribution to the City's Inclusionary Zoning Fund, to be targeted for the creation of new affordable Tier 1 units.

Economic Development

The project envisions 180,000 square feet of "Class A" office space within the existing "mill building" (a.k.a. "Building 1") along Oak Street on the south end of the site. An additional 185,200 square feet of commercial space will be located within the ground floor of Buildings 2 through 8. While the petitioner has not yet identified tenants for the proposed commercial space, they have stated that they anticipate a mix of retail (including "neighborhood" retail), restaurants, health club, and medical office.

<u>Office Development</u>

The Office Market Assessment included in the RKG Peer Review found that the renovated Class A office space proposed for the Mill Building, if positioned with amenities and aesthetics similar to competing

office space in the area, could be rented out in two to four years, and perhaps more quickly if it attracts one or more large anchor tenants. Toward that end, the petitioner has noted that it intends to occupy much of the building as its headquarters. The RKG assessment found the Route 128 West submarket continues to attract life science and pharmaceutical tenants with strong leasing activity.

Additionally, Camoin Associates (Camoin) is working with the City of Newton to develop an Economic Development Action Plan for the City of Newton, which is presently before the City Council. In the draft dated November 26, 2018, Camoin acknowledges the limited potential for new Class A office space within the City as tenants typically demand direct highway or public transit access and ideally both. However, the report specifically identifies the Northland site (as well as Riverside) as an opportunity site due to the site's proximity to I-95/128. The draft Action Plan also identifies the Needham Street Corridor as having high potential for retail and multifamily uses and some potential for lab, medical office, industrial and hotel uses. While hotel use is considered limited due to increased supply in neighboring suburbs, Camoin states differentiated boutique hotels are considered viable. The report also identifies an urgent need for smaller, affordable workforce units to house the talent required to attract commercial development. According to the draft Action Plan, two of the keys to supporting commercial development are transportation improvements and increasing the number and type of residential units. Transportation improvements proposed as part of this petition will be discussed at a future meeting, however the proposed number of housing units and mix would support City goals for attracting commercial development.

The petitioner's response to the RKG Peer Review includes an assessment of the office space market by Newmark Knight Frank, dated November 30, 2016. This assessment makes the argument that while there is a strong market for office space in the Route 128 West market, these spaces typically have visibility from 128/I-95 and that office developments typically do not commence without significant preleasing. The assessment also states that office space along Needham Street has shifted to other uses over the past 30 years, despite being primarily zoned for office use. The study cites the departure of Trip Advisor and Clarks as well as higher vacancy rates for office uses along Needham Street as further evidence of the limited potential for new office space.

Retail Development

As proposed the project would include 237,097 square feet of retail space (185,200 usable). As detailed in the attached report, RKG has concerns about this the amount of retail space as It perceives a "mismatch" between the scale of this space and what RKG estimates is the amount of new retail that could supported at this location as it "believes that the amount of retail proposed exceeds the spending within a reasonable drive time of the site."

First, RKG states that if the proposed retail cannot be supported by households within a 5-minute drive, the activity needed to fill the proposed retail space might, rather than representing new activity, merely be transferred from other locations and businesses in Newton which in turn could have an impact on existing merchants and could create vacancies in other parts of the city. Further, in the event possible sales are not high enough to support the proposed retail some amount of first floor retail space could possibly remain vacant for some time. These possible outcomes, which would likely have some impacts on assessments and property taxes, are not contemplated by the petitioner's economic impact report.

The petitioner has responded to this analysis by stating Needham Street has become a destination for home furnishings/home supply industries and attracts a number of medium sized tenants including

National Lumber, Splash, Poirier Appliance, Boston Fine Home, Home Goods, PetSmart, and Michael's. The petitioner's response also states that the proposed commercial space will include approximately 70,000 square feet of retail on the site to be replaced, approximately 50,000 square feet of new restaurant space, approximately 10,000 square feet of neighborhood retail with reduced rents, approximately 20,000 square feet of new health club space, and approximately 10,000 square feet of new medical office space.

Staff Recommendations

Planning Staff acknowledges that there is likely limited potential for additional significant office space at the proposed site, beyond the 180,000 square feet proposed. However, given the analysis from RKG and Camoin, staff recommends the petitioner explore diversifying the proposed commercial space and evaluating the potential for additional small office space, coworking space, lab space, or unique hotel models.

Economic Impact Analysis

In its memo on the economic impacts of the proposal, RKG reviewed the project impact projections submitted by the petitioner. While RKG generally concurs with the petitioner that the project can be expected to have positive economic impacts, its analysis differs in that it estimates lower net new employment levels.

Short Term (Construction) employment

The petitioner's economic impact analysis asserts that the project's estimated construction cost is $504 million, of which half ($252 million) would represent labor costs (salaries and benefits). At average annual salaries of approximately $76,000, this would translate into the employment of 3,310 construction workers. In its review RKG noted that based on its experience in Massachusetts, it typically assumes labor costs represent 35 percent of construction. As such, total construction wages would then be expected to be lower, $176.4 million and result in employment of 2,317 construction sector jobs, approximately 1,000 fewer than the what is estimated by the petitioner. Further, the project would involve approximately $29 million in construction-related business-to-business spending.

As noted by RKG, these construction labor projections for the project do not necessarily represent employment of Newton contactors and construction workers, although some local employment might occur.

Ongoing employment

The petitioner's economic impact analysis estimates the project would create ongoing post-construction employment for 977 office workers (175 square feet/employee), 494 retail employees (337 square feet/FTE employee) and 24 residential property personnel (one per 35 units). This would translate into $152 million in salaries and benefits for those employed at the site when the project was completed. The petitioner also estimates that the project would spur approximately $33 million in ongoing business to business spending.

While RKG considers the office estimates and metrics to be reasonable, it does take a different approach than that taken by the petitioner regarding retail employment. This difference stems from

differing approaches to the retail jobs that currently exist at the site. As noted in RKG's memo, the petitioner's estimate is for total retail employment while RKG instead calculates the net new retail employment that would be created by the approximately 111,400 square feet of net new retail space. That amount of new space would, at 90% occupancy and at 337 square feet/FTE employee, result in approximately 297 new retail employees (197 fewer than the total estimated by the petitioner).

As with the construction employment levels discussed above, RKG cautions that the ongoing employment projected for the site is not necessarily employment for Newton residents (while it is likely that some of the jobs would be held by Newton residents).

Staff Recommendations

As discussed above, the Planning Department recommends that the petitioner consider include additional uses to the project, such as hotel space, co-working space, and other possible uses to further diversify the economic activity at the site and increase the project's resiliency for shifting economic conditions.

Fiscal Impact Analysis

The petitioner's fiscal impact analysis estimates that the project would have an annual net positive impact ranging from $1.41 to $1.98 million annually, dependent on education costs. This analysis is based on projected property tax revenue and other revenue, such as that derived from excise, local meal and personal property taxes as well as any CPA surcharge, as measured against expected increased municipal costs, including those related to public safety and health protection, as well as education costs.

RKG concurs that the petitioner's approach is reasonable and that the project would likely result in a positive annual net fiscal benefit to the City upon its completion and occupancy. That said, RKG does differ with the petitioner as to the extent of the annual net fiscal benefit. RKG projects the fiscal benefit to be lower, ranging from $721,617 to $1.39 million (again depending on education costs). This difference is largely the product of the RKG projection that about $255,000 less in property taxes would be realized by the City than what the petitioner estimates and the projection from Newton Public Schools that there would be approximately 142 students entering Newton Public Schools as a result of the project, as compared to the petitioner's estimate of 120 students. As such, RKG's projections of the size of the positive net impact are approximately $590,000 to $693,000 lower than those provided by the petitioner.

Student Generation Rate and Impacts to Schools

Newton Public Schools (NPS) recently completed an updated school enrollment forecast model which was used to generate an updated student generate estimate for the proposed project. The updated interim student generation rate is the result of research by NPS and City staff as well as input from Carson Bise, who is presently working on a fiscal impact model for the City through a grant from MassHousing. The interim model takes an average of three approaches, the previous NPS student generation rate, a method where all unit types have an equal weight, and a method where the students generated from each unit type is weighted based on Census data. The average of the three methods results in 170 students generated with 12% assumed to attend private school and another 5% assumed to be out of assigned district, resulting in a net of 142 new students. The petitioner's plans indicate

approximately half of the units will be built in Phase 1 and half in Phase 2. The fiscal analysis by Fougere states the buildout will occur over a five to seven-year period beginning in FY 2020. Planning Staff assumes students are unlikely to affect Newton Public Schools prior to 2023 at the earliest but requests the petitioner provide additional details as to when units will come on-line. The Planning Department will continue to work closely with staff from NPS to further understand the implications of these new students.

As identified in the tentative schedule for the Land Use Committee's review of the rezoning and special permit petitions, the next public hearing session, scheduled for January 15, 2019, will be focused on issues related to the transportation impacts of the project.

ATTACHMENTS

Attachment A	Tentative schedule for Land Use Committee public hearings
Attachment B	RKG Associates' Analysis and Peer Review
Attachment C	Petitioner's response to RKG Associates' Analysis and Peer Review

ATTACHMENT A

TENTATIVE LAND USE COMMITTEE SCHEDULE

NORTHLAND NEEDHAM STREET/OAK STREET

Special Permit # 426-18 and Request to Rezone #425-18

Land Use Committee Date	Topic	Description
9/25/2018	Project Overview	Applicant to introduce project and committee to discuss schedule.
11/13/2018	Site Design and Open Space	Review of site plan, including placement of buildings, roads and open space as well as sight lines and shadows.
12/11/2018	Housing and Economic Impacts	Review of proposed residential and commercial program, including: analysis of the number of housing units, including affordability levels; the commercial mix; and the overall fiscal and economic impacts of the proposed project.
1/15/2018	Transportation	Review of the proposed internal street network and circulation including bicycle and pedestrian facilities, and analysis of the traffic impacts, shared parking proposal, and transportation demand management strategy.
1/29/2018	Sustainability and Stormwater	Review of the sustainability report and efforts to reduce impacts to natural resources as well as sustainability and conservation proposals.
2/12/2018	Architecture and Design Guidelines	Review of design guidelines that will regulate future detailed architectural design of the proposed buildings.
3/12/2018	Project Revisions/ Mitigation	Review of any revisions made to the project as well as updated analysis of those revisions and discussion of necessary mitigation measures.

ATTACHMENT B

December 2018

Newton Development Peer Review
Northland Newton Development

City of Newton, Massachusetts

RKG Associates, Inc.
76 Canal Street, Suite 401
Boston, MA 02114

RKG ASSOCIATES INC

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TECHNICAL MEMORANDUM

At the request of the City of Newton's Planning Department, RKG Associates (RKG) has completed a series of peer reviews and independent analyses with regard to the proposed Northland Newton development located at the corner of Oak Street and Needham Street. The reviews and analyses conducted by RKG include the following, all of which are discussed in a series of memos below:

- Market Assessment for Residential, Office, and Retail Development
- Peer Review of Northland's Fiscal Impact Analysis
- Peer Review of Northland's Economic Impact Analysis
- Housing Accessibility Assessment

INDEPENDENT MARKET ASSESSMENT

A. Introduction

RKG, as an independent consultant for the City of Newton, completed a market assessment of the proposed uses and scale of the Northland Newton development site. The Special Permit Application for the Northland Newton development dated August 10, 2018 identifies a development program consisting of the following components:

- 822 residential units, of which 123 units will be set aside as affordable housing to meet Newton's Inclusionary Zoning requirements. Residential units will be divided among studios, one-bedroom, two-bedroom, three-bedroom, live/work units, and townhomes.
- 193,200 square feet of office space (180,000 square feet useable).
- 237,097 square feet of retail space (185,200 square feet usable).
- 4,000 square feet of community space.

At full build-out, this project will add a substantial number of residential units to Newton's existing housing stock and bring over 360,000 square feet of new or rehabbed commercial space[1] onto the market. At the City's request, RKG has performed an assessment of the multi-family residential, office, and retail markets in and around the City of Newton to provide an understanding of how this project could fill unmet needs and space demands. This analysis is intended to help the City identify any potential challenges the project may face in the current marketplace.

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[1] The office component is proposed for Building 1, which is an existing 193,200 square foot largely vacant office building last renovated in 1996.

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B. Multi-Family Residential Market Assessment

The purpose of this multi-family residential review is to provide the City with an understanding of the need for both market rate and affordable housing in Newton and how the proposed project compares with other similar projects in the immediate area.

The Northland Newton project is proposing a total of 822 units, of which 123 units (15 percent) will be set aside as affordable.[2] The project includes a mix of unit types including studios, one-bedroom, two-bedroom, and three-bedroom apartments, live/work units, and three-story townhomes. Northland is proposing a mix of 10 percent studios, 45 percent one-bedrooms, 40 percent two-bedrooms, and 5 percent three-bedrooms. The residential uses will be spread across ten of the proposed thirteen buildings on site, with most of the residential development located in the upper stories of buildings leaving the first floor for commercial space and other ancillary uses. This project is unique in Newton both in its overall unit count and its mix of unit types on the same site.

ANALYSIS AND FINDINGS

Housing in Greater Boston has become a major focus of local, regional, and state government as costs continue to rise and residents are forced to look further out for housing options that match incomes. Housing challenges are magnified within the fifteen communities that comprise the MAPC's Metro Mayors Coalition[3], of which Newton is a member. Rent and sale prices in our region are among the highest of any metropolitan area in the country with many households having to dedicate more than 30 percent of their income to cover housing costs. This is problematic because households spending more on housing costs are forced to cut spending in other places including food, transportation, or education. One of the primary challenges facing the region is the continued population and economic growth at a time when new housing starts are not keeping pace with demand. Since 2010, Metro Mayors communities have added nearly 110,000 residents and 148,000 new jobs while permitting only 32,500 new housing units.[4] Population and employment growth is unlikely to slow in our region as businesses seek access to our talent pool and Baby Boomers retire freeing up thousands of additional job opportunities.

Local Housing Needs

In Newton, a similar story continues to unfold. The city's housing stock is dominated by single-family homes and condominiums (70 percent of all units), and duplexes and three-family units comprising another 21 percent. Multi-family units make up only 8 percent of

[2] If updates to the City's Inclusionary Zoning Ordinance pass, this project would be required to provide 145 units of affordable housing at a variety of AMI levels.
[3] Coalition includes Arlington, Boston, Braintree, Brookline, Cambridge, Chelsea, Everett, Malden, Medford, Melrose, Newton, Quincy, Revere, Somerville, and Winthrop.
[4] Housing Metro Boston, Metro Mayors Coalition Regional Housing Task Force. MAPC, 2018.

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the city's stock.[5] The limited diversity of housing options and price points has been noted as a constraint to supporting a growing senior population in Newton and attracting younger residents and workers.

Findings from Newton's 2016 Housing Needs Analysis showed strong demand for smaller, more affordable rental units to support smaller households particularly for seniors who are looking to downsize and to help attract and retain residents ages twenty-five to forty-five. Between the years 2000 and 2013, Newton gained close to 4,600 residents over the age of fifty-five while the city lost 4,100 residents between the ages of twenty-five and forty-five.[6] The loss of residents ages twenty-five to forty-five is problematic as these residents may work in Newton, have expendable income that supports local businesses, and add to the vibrancy and diversity of the community. These population cohorts tend to look for similar product types in fully-managed and amenitized buildings in a location that is close to shopping and dining destinations and transportation options. The demand from these two cohorts has created a marketplace for smaller units from studios to two-bedrooms.

The Housing Needs Analysis also pointed to the need for affordable housing and housing for residents with disabilities. Newton's rapidly rising housing prices (both ownership and rental) have created a situation where residents are either priced out of the community or must make the conscious choice to spend more than 30 percent of their household income on housing costs. Estimates from the Housing Needs Analysis showed a demand for over 5,000 housing units priced at or below 80 percent of the area median income (AMI). Yet, for housing priced at or above 100 percent of AMI there is an "oversupply" of nearly 6,400 units. The reason for this supply/demand imbalance in Newton is the mismatch between what households can afford at different AMI thresholds and the price of both ownership and rental housing units. The high cost of housing in Newton forces households at the lower income thresholds to set aside a larger share of their income to cover housing costs. This is by no means a Newton-specific challenge as housing supply/demand imbalance is common across many Metro Mayors communities, but Newton's high housing prices and lower multi-family rental supply exasperate the issue. The supply/demand imbalance will also continue to push lower-income households out of Newton and diminish diversity throughout the city.

Housing for residents with disabilities is also in demand across Newton. The Housing Needs Analysis pointed out that in 2013 there were 6,200 residents with disabilities living in Newton. More than half of those residents were over the age of sixty-five. To help meet the needs of disabled residents in Newton, the city has 542 units or rooms available to

[5] All data in this section is from the 2016 Housing Needs Analysis and Strategic Recommendations, City of Newton. RKG Associates, Inc. 2016. Unless otherwise noted.
[6] Ibid.

income-eligible people with special needs. This inventory only provides housing options for 8.6 percent of the city's population with disabilities. While it was not possible to determine what percentage of the city's disabled population needs housing assistance due to limited income, it was assumed the income restricted accessible units are not meeting the demand.

Future Housing Needs

The 2016 Housing Needs Analysis estimated that Newton would need to add between 1,900 and 3,300 additional housing units between now and 2030 to keep pace with population growth and household size/formation trends.[7] This estimate only takes into account population growth in the City of Newton and does not take into account the added demand coming from the larger Boston region. The Metro Mayors Coalition has established a target of 185,000 new housing units by the year 2030 to support continued population and economic growth. The challenge in Newton has been the approval and construction of housing in a timely manner to keep pace with demand. Between 2000 and 2013, there were only 683 net new housing units constructed in Newton most of which are priced for households at or above 200 percent of AMI. The relatively low level of development activity has not had a substantial impact on the diversity of housing types or price points. This has led to continued price escalation, reduced vacancy and availability, and continued reduction in naturally-occurring affordable housing across the city.

Looking forward, the growing senior population and desire to attract and retain younger residents in Newton speaks to the need for smaller units in buildings that are well-managed, include on-site amenities, and are conveniently located near transportation options and activity centers. The market for smaller rental units is prevalent across the Boston region with many developments similar to Northland Newton comprised of a typical mix of 5-10 percent studios, 40 percent one-bedrooms, 40 percent two-bedrooms, and 5-10 percent three bedrooms. The market for smaller units does not appear to be going away any time soon, as younger residents are attracted to the Boston area by job prospects and the desire to live closer to the urban core. Attracting and retaining younger residents is key to keeping Newton vibrant, supporting local business, and providing places for residents to live that are closer to where they work. Senior households continue to grow in number and are also attracted to communities closer to the urban core, particularly senior households with money from the recent sale of their single-family home.

In addition to smaller market-rate rental units, there will continue to be substantial demand for affordable housing that is priced to meet the needs of households at a variety of income thresholds. The need for affordable housing will only grow as a constrained

[7] Ibid. Housing unit range reflects MAPC's status quo versus stronger region population and household projections.

regional housing market drives up housing prices and limits availability to only those households that can afford it. The affordable housing need identified in the 2016 Housing Needs Assessment (a demand for over 5,000 housing units priced at or below 80% of AMI) continues to hold true as Newton has not made substantial progress in permitting additional affordable housing units. Similarly, the need for affordable housing that is also accessible to residents with disabilities continues to be a need that has gone largely unmet.

Northland Newton's Role

Given the substantial housing need for both market rate and affordable units identified in the 2016 Housing Needs Analysis, the Northland Newton project will provide a much-needed infusion of units into Newton's multi-family market. The project is anticipated to include a mix of unit sizes and unit types (apartments, live/work, townhouses), as well as market rate and affordable units. The sheer size of the project, at 822 total units, means Newton will get 15 percent of those units set aside for affordable housing unless changes to the Inclusionary Zoning Ordinance pass requiring additional units. Although this project will be phased in over several years, the addition of these units will help to chip away at the city's housing needs for current and future residents. The project will also include forty-five fully accessible Group 2A units for residents with disabilities, some market rate and some affordable.

MULTI-FAMILY MARKET TRENDS

The Brookline/Brighton submarket which contains all of Newton and parts of Brookline and Brighton[8] has seen steady inventory growth and rent growth, as well as a lower average vacancy rate than the larger Boston region.[9] The submarket has seen about a 1 percent average inventory growth over the last six years with a steadily increasing vacancy rate. Apartment vacancy in

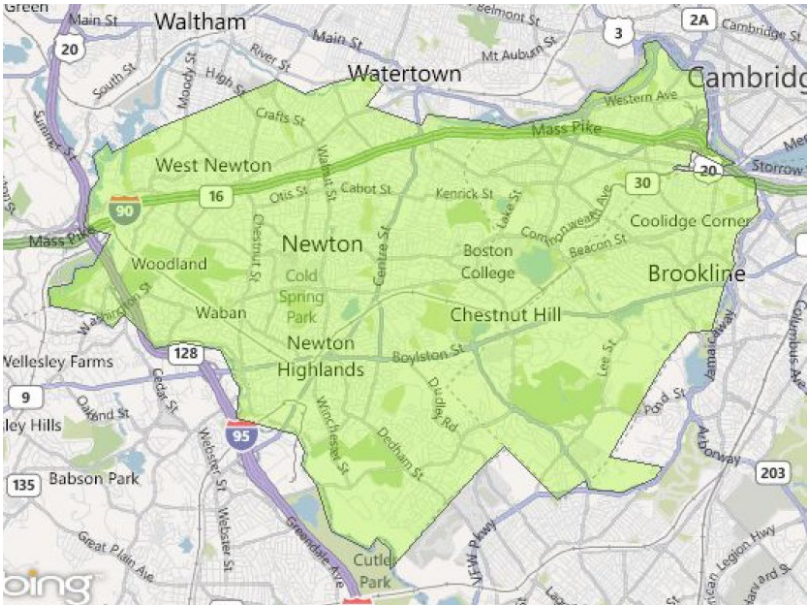

Figure 1 – Brookline/Brighton Submarket Map

[8] REIS data is broken out into submarkets for more detailed analyses. The City of Newton falls within the Brookline/Brighton submarket.

[9] The Boston region is generally defined by the communities along and within Interstate 495.

2014 was 2.3 percent (extremely low) and has risen to 5.8 percent in 2018. Apartment unit completions averaged 208 new units a year over the last six years, with an average net absorption of 115 units per year. Average asking rents continue to rise, with apartment units constructed after 2009 having an average asking rent of $3,735 a month. These units are also in buildings with the highest vacancy rates. Apartment buildings constructed after 2009 have an average vacancy rate of 14.2 percent.[10]

Despite this development, the Brookline/Brighton submarket suffers from a lack of new construction, with 72 percent of apartment units constructed before 1979. RKG assumes that the new multi-family units at Northland Needham will be Class A units and seek top of market rents. Submarket trends for the Class A apartment category show and average of 188 new apartment completions per year for the last three years, with an average net absorption of 116 units per year.[11] Class A vacancy has hovered between 5 and 6 percent over the last three years which is still within a reasonable range for apartment buildings, particularly those charging top of the market rents.[12] Not surprisingly, rents continue to escalate closing out at an all-time high of $3,026 per month at the end of Q3 2018.

Comparable Properties

Looking at possible comparable properties, RKG pulled four Class A multi-family rental developments built in the last ten to fifteen years each including more than 100 units all located within five miles of Northland Newton.[13]

Avalon at Newton Highlands

This development was completed in 2003 and includes a total of 178 units, which is nearly double the average property size in the Brookline/Brighton submarket. The property includes 11 percent studios, 23 percent one-bedrooms, 43 percent two-bedrooms, and 23 percent three-bedrooms. The current vacancy rate at this Avalon development is 1.7 percent, quite a bit below the average for the submarket. The average asking rent per square foot for this property is $3.44 for a studio (avg. size of 570 sqft.), $2.70 for a one-bedroom (avg. size of 1,039 sqft.), $3.78 for a two-bedroom (avg. size of 992 sqft.), and $2.59 for a three-bedroom (avg. size of 1.655 sqft.).

Figure 2 – Avalon at Newton Highlands

[10] Apartment market data provided by REIS for the Brookline/Brighton submarket. Quarter 3, 2018.
[11] Net Absorption is measured by deducting residential units vacated by tenants and made available on the market from the total number of residential units leased up over a period of time. REIS, Class A Submarket Class Cut, Quarter 3, 2018.
[12] A 5 percent vacancy rate is typically considered healthy, when supply and demand are close to equilibrium.
[13] Information on comparable properties comes from REIS Comparable Properties Reports, Quarter 3, 2018.

Avalon at Chestnut Hill

This development was completed in 2006 and renovated in 2016 and includes a total of 163 units. The property includes 3 percent studios, 31 percent one-bedrooms, 35 percent two-bedrooms, and 31 percent three-bedrooms. The current vacancy rate at this Avalon development is 3.7 percent, still below the average for the submarket. The average per square foot asking rent for this property is $5.75 for a studio (avg. size of 400 sqft.), $3.22 for a one-bedroom (avg. size of 900 sqft.), $3.04 for a two-bedroom (avg. size of 1,120 sqft.), and $2.66 for a three-bedroom (avg. size of 1,850 sqft.).

Charles River Landing

Located less than a half-mile from the Northland Newton site is the Charles River Landing development. This development was completed in 2010 and renovated in 2016 and includes a total of 280 units. The property includes 48 percent one-bedrooms, 52 percent two-bedrooms. The current vacancy rate at this development is 3.2 percent, which is lower than the average for the submarket. The average per square foot asking rents for this property are $2.93 for one-bedrooms (avg. size of 961 sqft.) and $3.52 for two-bedrooms (avg. size of 1,220 sqft). Prices are quite a bit higher at this development due to larger average unit sizes, on-site amenities (pool, clubhouse, fitness center, outdoor spaces, etc.), location on the river, interior unit design, finishes, and appliances.

Avalon Station 250

Avalon Station 250 in nearby Dedham is located adjacent to the Legacy Place lifestyle center and across Rustcraft Road from an MBTA Commuter Rail station. This development was completed in 2009 and includes a total of 228 units. The property includes 42 percent one-bedrooms, 54 percent two-bedrooms, and 3 percent three-bedrooms. The current vacancy rate at this Avalon development is 0.4 percent, substantially below the average for the submarket. The average per square foot asking rents for this property are $2.57 for one-bedrooms (avg. size of 849 sqft.), $1.90 for two-bedrooms (avg. size of 1,269 sqft.), and $1.97 for three-bedrooms (avg. size of 1,377 sqft.). The lower prices are likely due to the Dedham address versus a Newton address, but the price point and location are helping this property maintain a very low annualized vacancy rate.

Figure 3 – Avalon Station 250

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CONCLUSION/QUESTIONS

As rents continue to climb, vacancy rates do as well. This may be a result of the large number planned and permitting multi-family units coming into the market and price points pushing residents further from the Boston core. While 2018 is expected to see a record 7,157 apartments delivered in the Boston market, the number of units entering the market through 2022 is expected to slow. This may result in reduced vacancy at the Class A and B/C levels, potential price stabilization, and a balancing out of completions to absorption.

Given the substantial housing need for both market rate and affordable units identified in the 2016 Housing Needs Analysis, the Northland project will provide a much-needed infusion of units into Newton's multi-family market. The project is anticipated to include a mix of unit sizes and unit types (apartments, live/work, townhouses), as well as market rate and affordable units. The sheer size of the project, at 822 total units, means Newton will get 15 percent of those units set aside for affordable housing. Although this project will be phased in over several years, the addition of the affordable units will help current and future residents of the city. The project will also include forty-five fully accessible Group 2A units for residents with disabilities, some market rate and some affordable. The full build-out of the project is expected to take several years, thereby spacing out the entry of new housing units to the market and allowing for reasonable absorption and stabilization over a period of time. Unit sizes and bedroom mix are in line with other similar investment grade multi-family properties in and around Newton. RKG anticipates monthly rents to be competitive with other market-rate properties.

Considering the preceding analysis and findings, RKG offers the following:

- Does the proponent have rent projections for the housing units by size and type?
- What is the anticipated allocation of the affordable units by AMI?
- If first floor retail/commercial space remains vacant for a substantial period of time, does the proponent anticipate changing the use from commercial to residential through a change to the Special Permit?

C. Office Market Assessment

The purpose of this office review is to provide the City with an understanding of where the office market may be heading, industry sectors that are projected to grow, and a look at some comparable office properties in the area to understand vacancy, lease rates, and absorption.

The Northland Newton project is proposing a total of 180,000 leasable square feet of office space to be accommodated in an existing office building at 156 Oak Street. RKG's understanding is that this building is largely vacant with a ballet studio as a current tenant. Northland's plans are to refurbish the building and provide upgrades and modern amenities to be competitive with today's office spaces. For the purposes of this analysis,

RKG assumes Northland will upgrade the office building to be competitive with other similar Class A spaces in the region.[14] It is important to note that this property will not have an impact on current office space availability or vacancy rates since the office building already exists and is mostly vacant. Any improvements to the interior and exterior of the building will likely improve its competitiveness and marketability and place it on par with other office spaces in the N[2] corridor and broader regional market.

Analysis and Findings

For office market reporting, Newton is part of the Route 128 West office submarket as reported by CB Richard Ellis (CBRE). Over the past year, the Route 128 West submarket was the strongest performer in the Metro West region with just under 328,500 square feet in positive absorption and a year-to-date total of over 500,000 square feet.[15] The Route 128 West submarket continues to attract life science and pharmaceutical tenants with strong leasing activity leading to a 16 percent vacancy rate at the end of the third quarter of 2018 and a quarterly absorption of 90,106 square feet.[16] Over the last year, rents have continued to hover around the $34 per square foot mark. Overall, the Boston Suburban office market has seen a drop in overall vacancy, positive absorption, and a rise in average rents over the last year suggesting an improving office market.

In looking at possible comparable properties, there are five Class A office buildings built in the last ten to fifteen years with over 100,000 square feet located within five miles of Northland Newton. One of the most recent properties to enter the market is the 89 A Street Renovation at 89 A Street in Needham, located about a half-mile from the Northland site traveling southwest down Highland Avenue. This 260,000 square foot Class A multi-tenant office building was completed in 2017. Within a year of coming on the market, the building leased up and is currently listed as having a vacancy of 5.8 percent.[17] Asking rent at this location is $28.79 per square foot, which is below the submarket average.

Figure 4 – 89 A Street in Needham

[14] The Fiscal Impact Analysis completed by Fougere Planning & Development does not indicate what class of office space was analyzed in their comparable property analysis.
[15] CBRE Boston Suburban Office Market Report, Q3 2018.
[16] Ibid.
[17] REIS Office Comparable Report, November 2018.

The Cutler Lake Corporate Center, also located in Needham at 117 Kendrick Street, was constructed in 2000 as a multi-tenant Class A office building with 211,000 square feet of space. This property is located 0.83 miles from the Northland site and has a vacancy rate of 20.8 percent with an asking rent of $44.29 per square foot. While vacancy is high at this location currently, the property's five-year average is 11.5 percent which is in line with vacancy trends for the overall submarket.

A bit further from the Northland site is the Waltham Watch Factory, a renovated mill building located at 221 Crescent Street in Waltham on the Charles River. The building was renovated in 2009 and includes 161,790 square feet of Class A office space. The Watch Factory property is located approximately 4.25 miles from the Northland site. Although it's proximity to Route 128 is not as close as the properties in Needham or the Northland site, the Watch Factory building has a low vacancy rate at 7.9 percent and is commanding rents of $44.91 per square foot. On a five-year average, the property is performing similar to that of the broader submarket.

Figure 5 – Waltham Watch Factory in Waltham

Overall, the larger-scale Class A office buildings within a five-mile radius of the Northland site that have undergone recent construction or renovation efforts are currently outperforming the overall submarket from a vacancy and rent perspective. These properties are attracting biotech, pharma, high-tech and manufacturing businesses and can serve as a receiving ground for companies priced out of the Kendall Square area. This bodes well for Newton, where industry projections have the city adding close to 7,000 additional jobs over the next ten years.[18] Industry sectors expected to experience major job growth in Newton include Educational Services, Health Care, Professional, Scientific, and Technical Services, Administrative Services, Information Services, and Management of Companies. These industry sectors are projected to add close to 4,400 jobs over the next ten years and could serve as a source of office space demand.

Looking forward, the City of Newton continues to pursue a strategy of revitalizing Needham Street through the shared vision of the N^2 Innovation District. Further

[18] EMSI Industry Employment Projections, 2017-2028.

investment by both public and private entities in this district will provide added amenities, housing options, upgraded retail and office space, public space, streetscape, and transportation options. These enhancements will only increase the competitiveness of the district and the properties that make up the district, with the hope of low vacancy, top of the market rents, and a cluster of innovative businesses, housing, and commercial space. The Northland property's location within the Innovation District should serve as a benefit and help with long-term recruitment and retention of office tenants.

CONCLUSION/QUESTIONS

RKG believes that if Northland upgrades the office space in Building 1 to Class A and provides amenities and aesthetics that are in line with regional competitors, the 180,000 square feet could be absorbed over a two- to four-year period. If Northland is successful in securing a lease(s) from major anchor tenants who have larger space requirements, the office space could lease up at a faster pace.

Considering the preceding analysis and findings, RKG offers the following:

- Request a market study and market plan for the 180,000 square feet of office space from Northland.
- Are there more specifics on the tenants being sought, or are there any letters of intent?
- Is the intent to create Class A office space with competitive spaces and amenities?
- Are there plans to divide up the building into a series of smaller spaces, or is Northland intending to secure one or two large leases with anchor tenants?

D. Retail Market Assessment

The purpose of this retail review is to offer the City an estimate of selected retail supply and demand indicators for the proposed development. Specifically, the proposed development indicates there will be approximately 185,200 square feet of ground-floor retail uses including 155,200 square feet of "small" retail uses and 30,000 square feet of "medium" retail uses. No further delineation of these uses, or a study indicating their market viability, has been shared with RKG or the City. It should also be noted that there is an existing retail shopping plaza on the Northland site today with approximately 73,800 square feet of retail space. RKG was not provided with any information for what will happen to the businesses that currently occupy that space when the building is demolished as part of the overall redevelopment program for this site. If those businesses are eventually relocated back to the Northland site, it would only result in a net new 111,400 square feet of retail development, as opposed to the indicated 185,200 square feet. It is also unclear as to what will happen to the current tenants of the shopping center (Marshall's, CVS, New England Books, etc.) during construction. Will they be permanently relocated to other commercial spaces in Newton and reintegrated into the Northland Newton development at a later date, or will the 185,200 square feet of retail space be occupied by all new retailers.

Analysis and Findings

RKG developed an analysis[19] of the retail spending and demand for a 3-, 5-, and 10-minute drive time around the intersection of Needham and Oak Streets in Newton Upper Falls (see Figure 3). Typically, retailers garner most of their sales from a relatively tight geography, which of course varies by the type of retailer, such as a grocery store or a card/gift shop. Northland's documentation indicates that most of the proposed retail will be smaller scale and located on the ground-floor of the mixed-use buildings. As such, RKG assumes that the proposed retail will primarily serve a "local" consumer base (as opposed to a destination retailer such as a general merchandiser) and offers spending and demand thresholds for the 5-minute drive time. Table 1 provides a summary of the analysis while we note the following:

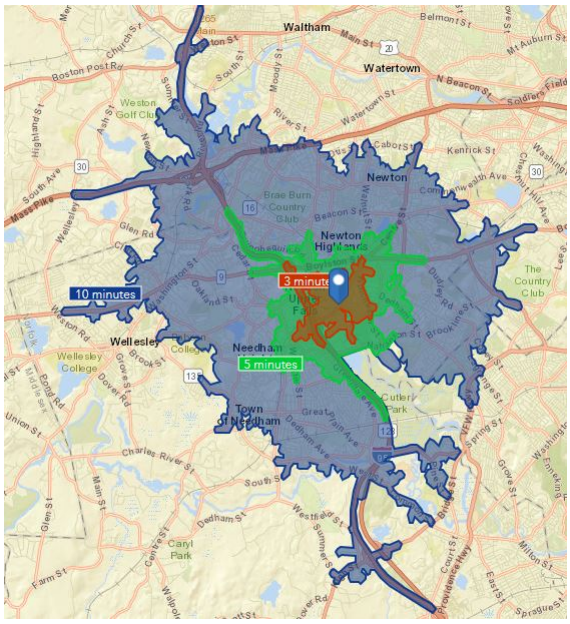

Figure 6 – Drive Times – Newton Northland

- Estimated annual household spending demand (at nearly $50,225/household) for selected retail goods and services equates to more than $318.1 million in 2017 dollars.
- Sales are estimated to be nearly $283.9 million indicating a net exportation of $34.2 million as totaled across all merchandise lines.[20]

[19] In cooperation with ESRI, a leading private supplier of geographic information systems software and proprietary modeling.

[20] This is a measure of sales leakage, where local spending demand is not being captured by the local stores.

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Table 1 – Retail Supply and Demand Indicators – Proposed Northland Development

Estimated Retail Demand and Sales, by NAICS Sector - Drive Times - Needham and Oak Streets	NAICS Code	5-Minute Drive Time			
		Demand/HH	Demand	Sales	(Export) /Import
Total		**$50,224**	**$318,118,959**	**$283,876,740**	**($34,242,219)**
Furniture & Home Furnishings Stores	**442**	**$1,913**	**$12,118,954**	**$18,440,121**	**$6,321,167**
Furniture Stores	4421	$1,013	$6,417,533	$5,152,988	($1,264,545)
Home Furnishings Stores	4422	$900.13	$5,701,421	$13,287,133	$7,585,712
Electronics & Appliance Stores	**443**	**$2,792**	**$17,687,188**	**$16,696,703**	**($990,485)**
Bldg Materials, Garden Equip. & Supply Stores	**444**	**$4,241**	**$26,860,300**	**$47,074,508**	**$20,214,208**
Bldg Material & Supplies Dealers	4441	$3,916	$24,801,689	$46,069,832	$21,268,143
Lawn & Garden Equip & Supply Stores	4442	$325	$2,058,611	$1,004,676	($1,053,935)
Food & Beverage Stores	**445**	**$12,172**	**$77,094,921**	**$46,843,614**	**($30,251,307)**
Grocery Stores	4451	$10,323	$65,386,517	$29,910,735	($35,475,782)
Specialty Food Stores	4452	$454	$2,874,548	$2,980,676	$106,128
Beer, Wine & Liquor Stores	4453	$1,395	$8,833,855	$13,952,203	$5,118,348
Health & Personal Care Stores	**446,4461**	**$4,045**	**$25,618,108**	**$21,605,811**	**($4,012,297)**
Clothing & Clothing Accessories Stores	**448**	**$4,850**	**$30,717,033**	**$28,798,994**	**($1,918,039)**
Clothing Stores	4481	$3,389	$21,465,587	$11,497,863	($9,967,724)
Shoe Stores	4482	$571	$3,618,468	$7,851,869	$4,233,401
Jewelry, Luggage & Leather Goods Stores	4483	$889	$5,632,979	$9,449,263	$3,816,284
Sporting Goods, Hobby, Book & Music Stores	**451**	**$2,525**	**$15,995,936**	**$28,090,981**	**$12,095,045**
Sporting Goods/Hobby/Musical Instr Stores	4511	$2,218	$14,049,090	$27,127,982	$13,078,892
Book, Periodical & Music Stores	4512	$307	$1,946,846	$962,999	($983,847)
General Merchandise Stores	**452**	**$7,848**	**$49,711,006**	**$19,356,852**	**($30,354,154)**
Department Stores Excluding Leased Depts.	4521	$5,634	$35,683,864	$18,484,949	($17,198,915)
Other General Merchandise Stores	4529	$2,215	$14,027,143	$871,903	($13,155,240)
Miscellaneous Store Retailers	**453**	**$2,538**	**$16,076,278**	**$21,816,918**	**$5,740,640**
Florists	4531	$223	$1,409,932	$1,154,109	($255,823)
Office Supplies, Stationery & Gift Stores	4532	$851	$5,390,072	$5,475,854	$85,782
Used Merchandise Stores	4533	$209	$1,321,328	$1,183,622	($137,706)
Other Miscellaneous Store Retailers	4539	$1,256	$7,954,945	$14,003,333	$6,048,388
Food Services & Drinking Places	**722**	**$7,300**	**$46,239,235**	**$35,152,238**	**($11,086,997)**
Restaurants	7221	$6,636	$42,032,893	$34,199,378	($7,833,515)
Special Food Services	7223	$258	$1,635,320	$640,788	($994,532)
Drinking Places - Alcoholic Beverages	7224	$406	$2,571,022	$312,072	($2,258,950)

Source: ESRI, Dun & Bradstreet, RKG Associates, Inc. (2018)

However, this sales leakage is not universal across all merchandise lines, but is highly concentrated in the grocery, apparel, general merchandise, and dine/drink categories. In contrast, the merchants in the 5-minute drive time are net importers of sales (sales exceed local demand) for sporting goods, building materials, and home furnishings.[21] Sales leakage is the result of many factors, often including a lack of convenient local retail options. There will always be some level of sales leakage in a market as consumers shop where they work and with the proliferation of online retailing some percentage of sales are taking place over the internet. The potential of developing additional retail, often targeted at those merchandise lines where sales leakage exists, presents an opportunity to

[21] ESRI indicates nearly 34,900 households and a population of 97,700 in the 5-minute drive time.

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re-capture some portion of that leakage and thereby support new development. Table 2 translates sales leakage into potential supportable square feet if future retailers at Northland were able to recapture a percentage of the leaked sales.

Table 2 – Estimated Supportable Retail Development – Proposed Northland

Estimated Retail Demand and Sales, by NAICS Sector - Drive Times - Needham and Oak Streets	NAICS Code	5-Minute Drive Time				
		Demand/HH	(Export) /Import	Store Count	Estimated SF of Retail	Supportable SF through Recapture
Total		**$50,224**	**($34,242,219)**	**223**	**797,324**	**67,453**
Furniture & Home Furnishings Stores	**442**	**$1,913**	**$6,321,167**	**17**	**85,316**	**1,265**
Furniture Stores	4421	$1,013	($1,264,545)	5	17,177	1,265
Home Furnishings Stores	4422	$900.13	$7,585,712	12	68,139	
Electronics & Appliance Stores	**443**	**$2,792**	**($990,485)**	**13**	**56,599**	**1,007**
Bldg Materials, Garden Equip. & Supply Stores	**444**	**$4,241**	**$20,214,208**	**15**	**119,959**	**1,506**
Bldg Material & Supplies Dealers	4441	$3,916	$21,268,143	13	115,175	
Lawn & Garden Equip & Supply Stores	4442	$325	($1,053,935)	2	4,784	1,506
Food & Beverage Stores	**445**	**$12,172**	**($30,251,307)**	**21**	**73,448**	**19,350**
Grocery Stores	4451	$10,323	($35,475,782)	10	54,383	19,350
Specialty Food Stores	4452	$454	$106,128	4	5,902	
Beer, Wine & Liquor Stores	4453	$1,395	$5,118,348	7	13,162	
Health & Personal Care Stores	**446,4461**	**$4,045**	**($4,012,297)**	**11**	**56,119**	**3,126**
Clothing & Clothing Accessories Stores	**448**	**$4,850**	**($1,918,039)**	**32**	**74,603**	**10,874**
Clothing Stores	4481	$3,389	($9,967,724)	16	41,810	10,874
Shoe Stores	4482	$571	$4,233,401	5	23,794	
Jewelry, Luggage & Leather Goods Stores	4483	$889	$3,816,284	11	8,999	
Sporting Goods, Hobby, Book & Music Stores	**451**	**$2,525**	**$12,095,045**	**20**	**123,833**	**1,001**
Sporting Goods/Hobby/Musical Instr Stores	4511	$2,218	$13,078,892	17	120,569	
Book, Periodical & Music Stores	4512	$307	($983,847)	3	3,264	1,001
General Merchandise Stores	**452**	**$7,848**	**($30,354,154)**	**4**	**38,960**	**20,884**
Department Stores Excluding Leased Depts.	4521	$5,634	($17,198,915)	2	36,604	10,217
Other General Merchandise Stores	4529	$2,215	($13,155,240)	2	2,356	10,666
Miscellaneous Store Retailers	**453**	**$2,538**	**$5,740,640**	**32**	**87,084**	**412**
Florists	4531	$223	($255,823)	2	3,847	256
Office Supplies, Stationery & Gift Stores	4532	$851	$85,782	7	24,890	
Used Merchandise Stores	4533	$209	($137,706)	8	4,466	156
Other Miscellaneous Store Retailers	4539	$1,256	$6,048,388	8	58,347	
Food Services & Drinking Places	**722**	**$7,300**	**($11,086,997)**	**58**	**81,402**	**8,029**
Restaurants	7221	$6,636	($7,833,515)	54	78,619	5,402
Special Food Services	7223	$258	($994,532)	3	2,002	932
Drinking Places - Alcoholic Beverages	7224	$406	($2,258,950)	1	780	1,694

Source: ESRI, Dun & Bradstreet, RKG Associates, Inc. (2018)

RKG conservatively estimates that a potential 30 percent recapture of sales leakage[22] could result in the potential to support an additional 67,500 square feet of retail development including more than 8,000 square feet of dine/drink establishments and 10,000 square feet of apparel stores.

[22] It should also be noted that some portion of sales leakage may be recaptured by existing merchants if they expand their merchandise lines, hours of operation or other business practices.

This estimate of 67,500 square feet of new supportable retail represents about 61 percent of the total retail space proposed as part of the Northland development (as measured against RKG's estimate of net new retail at 111,400 square feet). This also represents about a 14% increase above the 797,300 square feet of retail estimated to existing today within a 5-minute drive time of the subject property.

Recognizing the size and scale of the new residential development, RKG estimates the proposed 822 residential units at the Northland development would add another $40 million in annual household spending demand. RKG estimates that each new household will generally support about twenty-five square feet of new retail space, or about 21,500 total square feet. The remainder of the retail spending will go to support existing businesses. The office component of the development would also add some daytime spending to the area. RKG estimates the employees working in the 180,000 square feet of rehabbed office space could bring in little over $6.7 million in retail spending which translates to 5,170 square feet of new supportable retail space. It is important to note that office worker spending is typically limited to general merchandise, specialty retail, and dining/drinking.

Nonetheless, there appears to be a mismatch between the proposed retail square footage at Northland and RKG's estimated supportable new retail square footage. This suggests that some sales supporting Northland's proposed retail would be the result of sales transfer, as is always the case in retailing. Whether or not any potential sales transfer would have an impact on existing merchants, and possibly assessments and property taxes, is not addressed in any of Northland's documentation to date. It is important to note that if the proposed retail at Northland cannot be supported by households within the 5-minute drive time, it is possible that sales transfer will occur from other businesses across Newton and could create vacancies in other parts of the city. It is also possible that the first floor retail space could remain vacant at Northland if sales are not high enough to support the quantity of retail proposed.

CONCLUSIONS/QUESTIONS

RKG believes that the amount of retail proposed exceeds the spending within a reasonable drive time of the site. Without further documentation from the proponent, it is difficult to ascertain the types of retail being targeted, where the additional spending will come from to support the retailers, and whether or not the 185,200 square feet of proposed retail is all net new or if some will include existing tenants of the shopping plaza. Considering the preceding analysis and findings, RKG offers the following:

- Request a market study and marketing plan for the 185,200 square feet of ground floor space from the proponent. RKG's estimate of supportable retail is substantially less than what is proposed at Northland Newton. RKG has concerns

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that this space may sit vacant if built or result in sales transfer from other commercial activity centers across the City.

- Are there more specifics on the tenants being sought, or are there any letters of intent?
- Will the ground floor space include small offices for personal and professional services, or will the space be 100 percent occupied by retailers and restaurants?
- If ground floor occupancy is slow and vacancies remain, are there any plans to shift the use of that ground floor space?
- Were hotel uses considered for the site?

FISCAL IMPACT ANALYSIS – PEER REVIEW

A. Introduction

RKG, as an independent consultant for the City of Newton completed a review of the fiscal impact analysis prepared by Fougere Planning[23] (Fougere) and the economic impact analysis prepared by Landwise[24] (Landwise). Both analyses were submitted as part of the proposed Northland Newton Development, by Northland Development, LLC.[25] The purpose of this review is to offer the City an independent outside opinion as to the reasonableness of the methodology and conclusions drawn from each of the analyses in order to assist the City during the project's permitting process. The proposed development includes the repositioning of uses on a 22.6-acre site, to include:

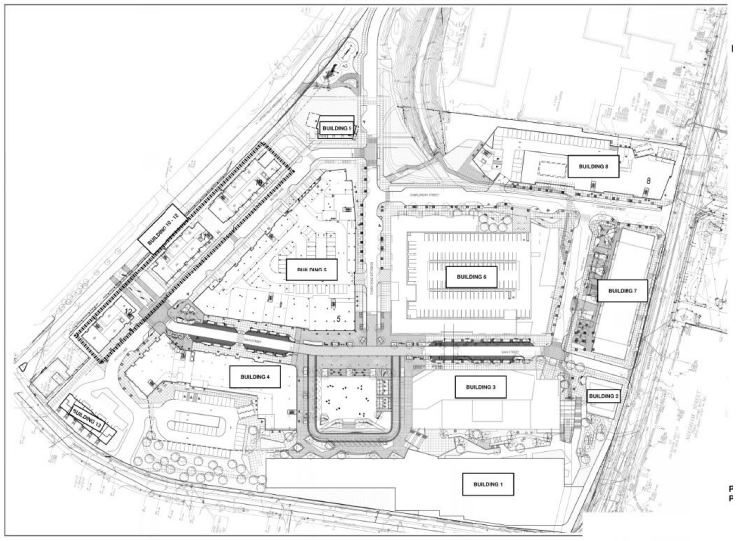

Figure 1 – Conceptual Rendering – Northland - Newton, MA

- Residential uses spread across ten buildings, including six mid-rise (three to seven stories) mixed-use buildings and several three-story buildings for townhomes. Total residential build-out includes 822 residential units ranging from studio to 3-bedroom units, live/work units, and townhomes. Approximately 15%, or 123 units, will be set aside as affordable.
- Retail uses (185,200 SF)[26] will occupy the first floor of many mixed-use buildings, as well as one small stand-alone retail building. Residential parking will be under the buildings and a centralized commercial parking structure is planned.
- The existing historic Saco Pettee Mill office (180,000 SF) building at 156 Oak Street will be restored and upgraded for office tenants.

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[23] As prepared by Fougere Planning & Development, Inc.
[24] As prepared by Landwise Advisors
[25] Fiscal Impact Analysis and Economic Impact Analysis, Northland Newton Development, Newton, MA, dated August 31, 2018
[26] As noted in the Retail Market section, RKG assumes that actual net new retail equates to 111,400 square feet.

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Development is anticipated to begin in FY 2020 and take place over a five- to seven-year period. Our review of the Fiscal Impact Analysis treats the development as if it is fully built and stabilized, and all revenues and costs are expressed in constant dollars.

In summary, RKG concurs that the proposed Northland Newton development will result in an annual net positive fiscal impact for the City of Newton. However, RKG offers an alternative analysis which results in a less positive impact than offered in the Fougere analysis and summarized in Table 1.

Table 1 – Comparative Fiscal Impact Analysis – Fougere Memo and RKG Alternative

		Estimated Values and Taxes		
	SF or Units	Fougere Memo	RKG Alternative	RKG vs Fougere
Commercial				
Small Retail	155,200	$ 41,128,000	$ 45,721,126	$ 4,593,126
Large Retail	30,000	$ 7,350,000	$ 8,837,847	$ 1,487,847
Office	180,000	$ 32,400,000	$ 27,729,412	$ (4,670,588)
subtotal	***365,200***	***$ 80,878,000***	***$ 82,288,385***	***$ 1,410,385***
Commercial Taxes		***$ 1,667,704***	***$ 1,696,787***	***$ 29,082***
Residential	822	$ 263,040,000	$ 239,273,410	$ (23,766,590)
Residential Taxes		***$ 2,846,093***	***$ 2,588,938***	***$ (257,155)***
Total Property Tax		**$ 4,513,797**	**$ 4,285,725**	**$ (228,073)**
Other Taxes				
Excise Tax		$ 178,075	$ 178,075	$ -
Local Meals Tax		$ 195,000	$ 195,000	$ -
Personal Property		$ 30,589	$ 30,589	$ -
CPA Surcharge /1		$ 45,138	$ 42,857	$ (2,281)
TOTAL TAXES		***$ 4,962,599***	***$ 4,732,246***	***$ (230,353)***
Municipal Costs				
Police		$ (56,502)	$ (56,502)	$ -
Fire		$ (100,000)	$ (100,000)	$ -
Health		$ (85,728)	$ (85,728)	$ -
Other		$ (25,000)	$ (25,000)	$ -
Total Municipal Costs		***$ (267,230)***	***$ (267,230)***	***$ -***
"As Is" Taxes		$ (990,898)	$ (990,898)	$ -
NET TAXES (prior to Education) /1		***$ 3,704,471***	***$ 3,431,261***	***$ (273,211)***
Students /2		***120***	***142***	***22***
Education Costs				
Low Estimate /3		$ (1,725,960)	$ (2,042,386)	$ (316,426)
NET FISCAL (low education)		***$ 1,978,511***	***$ 1,388,875***	***$ (589,637)***
High Estimate /4		$ (2,289,840)	$ (2,709,644)	$ (419,804)
NET FISCAL (high education)		***$ 1,414,631***	***$ 721,617***	***$ (693,015)***

Source : Fougere and RKG (2018)

/1 CPA Surcharge not a revenue to General Fund and are excluded from RKG (NET) Alternative(s)

/2 RKG reflects revisions from Newton Public Schools

/3 FY 2017 cost per pupil of $14,383

/4 FY 2017 cost per pupil of $19,082

B. Fiscal Impacts

The Fougere analysis considered both a per capita and marginal cost approach to measuring fiscal impacts, or "costs" associated with the proposed development. A per capita approach considers that costs are proportionately distributed and incremental with changes in population, housing or employment, as in an "average cost per person". These costs often represent a fixed review of City costs and budget items. A marginal approach considers a more nuanced analysis whereby costs may reflect budget items but are also refined through interviews with City officials to note needs or surpluses on a department by department basis.[27] Under the marginal approach, the Fougere analysis identified the following variable costs which are likely to fluctuate with increased population or new development:

- Police Department - $56,502
- Fire Department - $100,000
- Health Department - $85,728
- Other - $25,000

RKG accepts both methodologies as reasonable approaches, depending on the soundness of the input variables and assumptions utilized in their derivation. The Fougere analysis results in estimated municipal service costs (exclusive of education) of approximately $267,230. These costs are then deducted from the estimated property tax revenues generated by the Northland Newton development.

School Age Children Estimates

The Fougere analysis estimates that the proposed development may result in an additional 140 students, with 20 enrolled in private schools. These estimates reflect school age children (SAC) ratios by bedroom type, differences in market and affordable units, and overall unit count. The net estimate of 120 students for the Newton Public Schools also assumes that there is a lower propensity for families with children to live in mid- to high-rise mixed-use rental properties priced at the top of the market. The Fougere analysis was informed by several discussions with representatives of the Newton School Department to further refine these estimates and better understand the Department's capacities to absorb additional students in the schools that will serve this development. The Fougere analysis (which excludes capital costs)[28] concluded the following:

[27] As an example, the Fougere analysis completed interviews with representatives of the Police Department to establish estimates of the likely calls for service(s) generated at the development and the average cost per response to that call.

[28] Interviews by Fougere with School Department representatives noted these costs were not applicable costs for consideration.

- Potential marginal costs of $1,209,000 (or $10,075 per student) with:
  - Costs for teachers at $375,000
  - Costs for special education at $542,880
  - Costs for transportation at $279,000
  - Costs for supplies at $12,120

- Potential average costs of $2,289,840 (or $19,082 per student).
  RKG notes that these costs may potentially be overstated as they reflect a "total" cost per student as opposed to a marginal cost per student, but nonetheless represent a high range estimate. RKG updated Fougere's original average student cost to reflect new numbers provided by Newton Public Schools for Fiscal Year 2017 in order to accurately compare Fougere's and RKG's student generation estimates and associated costs.

Newton Public Schools recently completed an updated school enrollment forecast model which was used by the School Department to generate an updated student generation estimate for the Northland Newton development. As of November 28, 2018, the School Department anticipates a total of 170 students to be generated by the Northland Newton development at completion and stabilization of which 142 students are anticipated to attend Newton's public schools. The new total is twenty-two students more than was estimated in the Fougere Fiscal Impact Analysis. The School Department's enrollment model accounts for bedroom type and the differences in both market rate and affordable units. At the time of Fougere's analysis, the enrollment model was not available and the estimate of 120 students was made with the best information available at the time.

The School Department also provided RKG with updated cost estimates for both the average cost (high estimate) and marginal cost (low estimate) of educating a student in Newton. Using a marginal cost approach, the School Department estimates a cost of $14,383 per student; and using the average cost approach the School Department estimates a cost of $19,082. In order to compare the impact of the twenty-two additional students to Fougere's original analysis, RKG updated Fougere's per pupil cost figures to FY 17. RKG has updated the student projection numbers and the new FY 17 per pupil expenditure costs which are reflected in Table 1.

REVENUE ESTIMATES

The primary source of City revenues for the proposed development are municipal tax receipts. The Fougere analysis indicates that thirteen comparable properties were analyzed to develop estimated assessment values for the commercial component of the project, as well as three multi-family apartment comparables for the residential component. These assessed values were then applied to the Northland Newton development to estimate future tax revenues. The Fougere analysis notes these assessed values were confirmed through meetings with the Board of Assessors. Using these comparable properties and approach, the Fougere analysis resulted in the following estimated assessed values on a per square foot basis:

- Large retail at $245/square foot with smaller retail at $265/square foot
- Office space at $180/square foot
- Residential at $320,000 per unit

After a review of Fougere's assessed values, RKG conducted an independent analysis of these comparable properties by taking the current assessed value of each property by use type and averaging their assessed values on a per square foot basis. RKG used the same set of comparable properties as Fougere, but our estimates of assessed value differ from the Fougere analysis in the following ways:

- *Retail space at $295/square foot (regardless of large or small)*
- *Office space at $155/square foot*
- *Residential at $291,100 per unit*[29]

RKG's retail space estimate is higher than Fougere, and our office and residential estimates are lower. These are the primary drivers of the differences in tax revenue and overall fiscal impact as noted in Table 1. The Fougere analysis offers no explanation for how the estimates of assessed values were calculated based on the comparable properties used. To err on the side of caution, RKG used our assessed value per square foot estimates from Fougere's comparable properties in our alternative approach as presented in Table 1. The Fougere analysis concludes property tax receipts of $4.52 million prior to any adjustment. The RKG alternative indicates property tax receipts of $4.29 million prior to any adjustments.

C. Reconciliation

The net fiscal impacts from the Fougere analysis (reflecting all revenues and costs) is a net positive in the range of $1.41 to $1.98 million annually, varying with the range in estimated education costs. This net benefit represents the estimated property taxes and other taxes less the existing property taxes, as well as the municipal and education costs.

RKG concurs that this approach is reasonable, and results in a positive annual net fiscal benefit to the City. However, using the assessed value estimates calculated by RKG from the comparables in the Fougere report, updated school numbers, and excluding the CPA surcharge; RKG's alternative approach results in a positive net fiscal impact ranging from $721,617 to $1.39 million, depending on school/educations costs. This difference is less than that indicated in the Fougere analysis, and the Northland Newton development is still expected to produce a net fiscal benefit to the City at full build out and stabilization.

[29] Does not discount for differences in value between market rate and affordable units.

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ECONOMIC IMPACT ANALYSIS – PEER REVIEW

A. Introduction

This memo reviews the employment and economic output modeling impacts presented by Landwise Advisors (Landwise). While RKG generally concurs with Landwise that there will be positive impacts, our review offers a somewhat lower estimate of net new employment, although positive in both instances.

B. Economic Impacts

The Landwise analysis considers the short-term (construction) and long-term (ongoing) economic activities associated with the proposed development, utilizing IMPLAN.[30] The Landwise analysis considers the Northland Newton development to be completed in three phases each lasting approximately two years. This timeframe is also consistent with the five to seven years indicated in the Fougere fiscal impact analysis. The Landwise analysis considers the following employment and economic implications:

- **Short-Term** – Direct employment of 3,310 construction workers (average annual salary of nearly $76,000).

  RKG notes that the estimated construction costs are $504 million and the Landwise analysis indicates that 50 percent are applicable for construction wages. In RKG's other work throughout Massachusetts, and often in cooperation with the Massachusetts Department of Revenue, we typically consider 35 percent of construction costs to be generally applicable to construction labor costs. If so, construction wages are then reduced to $176.4 million and result in employment of 2,317 construction sector jobs. This is approximately 1,000 less employees than the Landwise model estimates. RKG further cautions that this represents construction employment for the project but does not necessarily represent employment of Newton contactors and construction workers, although some ***local employment*** *component may occur.*

- **Ongoing** – Direct employment of 977 office workers (175 square feet/employee), 494 retail employees (337 square feet/FTE employee) and 24 residential property personnel (one per 35 units).

[30] An impact assessment modeling software system widely used in economic analyses.

RKG considers the office estimates and metrics to be reasonable and consistent with other projects we have worked on throughout the Commonwealth. However, as noted in the Fiscal Impact Analysis review memo, RKG estimates that the actual net new retail is approximately 111,400 square feet assuming some existing retail current on the site will relocate back into the Northland Newton development at some point during the build out. If so, then 111,400 square feet of retail, stabilized at 90% occupancy and at 337 square feet/FTE employee, results in an estimate of 297retail employees. The primary difference is that the Landwise estimate is for total retail employment and the RKG alternative calculates net new retail employment.

*RKG also **cautions** that these represent office and retail employment located at this development project in Newton, which is not the same as the employment opportunities being filled by Newton residents. It is likely that some of these future employment opportunities will be filled by Newton residents, but certainly not all of them. As noted under the Short-Term section above, the Landwise summary memo is presented in a way that assumes all new employment opportunities will be filled by Newton residents.*

- **Economic Output** – In general, IMPLAN modeling offers the following economic outputs for the City of Newton:
  - $252 million of direct employment or the salaries and benefits of employees involved in the construction of the project and $152 million in ongoing employment.
  - $29 million in construction related business to business spending and $33 million related to ongoing employment.
  - $40 million in personal spending, or the concept of a "dollar spent re-circulating throughout the economy" for construction and $26 million in personal spending for the ongoing employment activity.

CONCLUSIONS/QUESTIONS

Considering the preceding analysis and findings, RKG offers the following:

- RKG understands that Landwise used the IMPLAN model to present Newton-specific economic impacts of the Northland proposal. Further explanation is needed from Landwise as to how they estimated IMPLAN economic impacts specific to Newton. Were Newton specific multipliers used or a factor that brings region/state level economic impacts down to the city level?
- Why was a factor of 50% used to estimate construction wages for the project? In RKG's experience, this figure is usually between 30%-35%.
- RKG understands that Landwise is considering the full 185,200 square feet of future retail space to all be net new to the project. There is a possibility that some portion of the proposed retail will be filled by tenants in the retail center that exists on the property today. RKG suggests the economic model offer a low and high

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estimate of impacts to reflect the possibility that not all the planned retail space will be net new.

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HOUSING ACCESSIBILITY ASSESSMENT

A. Introduction

RKG Associates was tasked by the City of Newton's Planning Department to assess the degree to which the proposed Northland Newton development meets current accessibility requirements based upon state regulations through the Massachusetts Architectural Access Board 521 CMR and HUD's Fair Housing Accessibility Guidelines. RKG used Northland's Inclusionary Plan Set dated August 6, 2018 to determine the number of accessible units by bedroom type and affordability restriction. The plan set was also used to determine the allocation of accessible units in each of the ten buildings proposed to contain residential dwelling units.

B. Findings

According to the Inclusionary Plan Set submitted by the proponent, 45 of the 822 proposed residential units are to be designed and constructed to meet the Massachusetts Architectural Access Board (MAAB) 521 CMR 9.4, Group 2A Dwelling Unit requirements. Under 521 CMR 9.4, any building containing twenty or more dwelling units for rent, hire, or lease (but not for sale) must have at least 5 percent of the total number residential units meet Group 2A accessibility standards.[31] Based upon the standards set in CMR 9.4, the Northland development proposal would be required to provide a total of 41 Group 2A accessible units. The current proposal sets aside a total of 45 units for Group 2A, or 5.4 percent of the total units. Table 1 shows the number of accessible units by market rate and affordable designation.

[31] See 521 CMR 9.5, Dwelling Unit Interiors; 521 CMR 44.00 Group 2 Bathrooms; 521 CMR 45.00 Group 2 Kitchens; and 521 CMR 47.00 Group 2 Bedrooms for specific design requirements.

Table 1 – Accessible Housing Matrix

November 20, 2018
Accessible Housing Matrix
Northland Newton Development Project

Unit Type	Market Rate	Affordable	Market Rate & Accessible	Affordable & Accessible	Accessible as % of Total Units
Studio	70	12	5	1	0.7%
One-Bed	315	56	15	3	2.2%
Two-Bed	280	49	16	2	2.2%
Three-Bed	34	6	1	1	0.2%
Totals	**699**	**123**	**37**	**7**	**5.4%**

Note: One Live/Work Unit is proposed to be accessible, not included in above calculations.
Source: Northland Newton Special Permit Application, Northland Newton Inclusionary Plans 08-06-18.

DISTRIBUTION OF UNITS

In addition to the 5 percent requirement, CMR 9.4.2 notes that Group 2A dwelling units shall be proportionally distributed across the total number of units in the project according to number of bedrooms, size, quality, price, and location.[32] Table 2 compares the distribution of total units by unit type to the distribution of Group 2A accessible units by unit type. While there are small differences in the studio, one-bedroom, and two-bedroom categories; the distribution of accessible units generally matches the distribution of the project's 822 units. RKG also notes that the developer is planning to make at least 5 percent of the units in each residential building accessible as well. The only exception is Building 13, where not accessible units have been designated. This is noted in the following section on Townhomes.

[32] MAAB CMR 521 9.4.2

Table 2 – Unit Distribution Comparison

November 20, 2018 **Unit Distribution Calculation** Northland Newton Development Project				
Unit Type	# of Units	Distribution of Units	# of Accessible Units	Distribution of Accessible Units
Studio	82	10%	6	14%
One-Bed	371	45%	18	41%
Two-Bed	329	40%	18	41%
Three-Bed	40	5%	2	5%
Totals	**822**	**100%**	**44**	**100%**
Note: One Live/Work Unit is proposed to be accessible, not included in above calculations. Source: Northland Newton Special Permit Application, Northland Newton Inclusionary Plans 08-06-18.				

Townhouse Exception

As noted in 521 CMR 9.4.2, when 5 percent of the total number of units required as accessible includes townhouses, the development shall comply by any of the following means:

1. Substitute a fully accessible flat of comparable size, amenities, etc.;
2. Provide space for the future installation of a wheelchair lift to access either upper or lower level of the townhouse;
3. Provide space for the future installation of a residential elevator to access either the upper or lower level of the townhouse.

The current Inclusionary Plan set for Northland Newton does include six townhouse three-story townhouse units in Building 13. The plan set does not identify any of those units to be accessible for Group 2A, nor does it specify how the requirement in CMR 9.4.2 will be met.

Accommodations for Persons Who are Deaf or Hard of Hearing

In addition to the 5 percent set aside for Group 2A units, 521 CMR 9.7 requires that 2 percent of the total number of dwelling units in the project provide sleeping accommodations for persons who are deaf or hard of hearing.[33] These accommodations include visual notifications for smoke/fire/safety alarms, visual signal devices, phones, televisions, alarm clocks, and climate controls. The current Inclusionary Plan set does not specify where or how accommodations for persons who are deaf or hard of hearing will be provided.

[33] See 521 CMR 9.7.1 – 9.7.4 for further details on these requirements.

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INTERIOR DESIGN FOR ACCESSIBILITY

While interior plans for the residential units at Northland Newton are not yet available, it will be important for the City's Planning Department, Building Department, and ADA Coordinator to pay close attention to accessibility requirements to ensure units are meeting the standards set by the MAAB and HUD's Fair Housing Guidelines. A project of this size will provide opportunities for residents with disabilities to move into a fully accessible home that may not be as readily available to them today in Newton.

C. Outstanding Questions

Based on RKG's review of the Northland Newton development proposal with regard to accessibility requirements, the following questions should be posed to the project proponent:

1. Since none of the townhouses in Building 13 are proposed to be accessible to Group 2A, how does the proposed project meet the Townhouse exception noted in 521 CMR 9.4.2? Is the Group 2A accessible live/work unit in Building 5 intended to serve as a substitute flat of comparable size and amenities? Will one of the townhouse units provide space for the future installation of a wheelchair lift for upper story access? Will one of the townhouse units provide space for the future installation of a residential elevator for upper story access?

2. How will the proposed project meet the accessibility requirements for persons who are deaf or hard of hearing as stated in 521 CMR 9.7? Which of the 822 total units will be set aside to fulfill the 2 percent requirement?

3. Under the current Inclusionary Plan Set, 82 percent of the Group 2A accessible units will be located in market rate apartments and only 16 percent will be located in the affordable units. Would the developer be amenable to shifting more of the accessible units to the affordable side rather than the market rate side? It is plausible that there may be a greater demand for units that are both accessible and affordable compared to accessible at market rate price.

ATTACHMENT C

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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 ta two-to four-year period." Northland has made the point that

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.

- 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 an 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 1st level impacts or "direct employment" figures are regional, the 2nd and 3rd 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

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

Newmark
Knight Frank

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

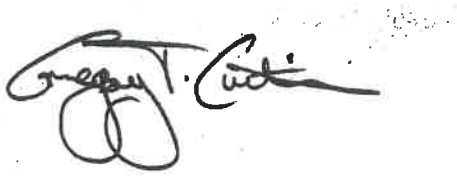
construction without significant preleasing. Financing is typically unobtainable without preleasing.

- 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

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

Respectfully,



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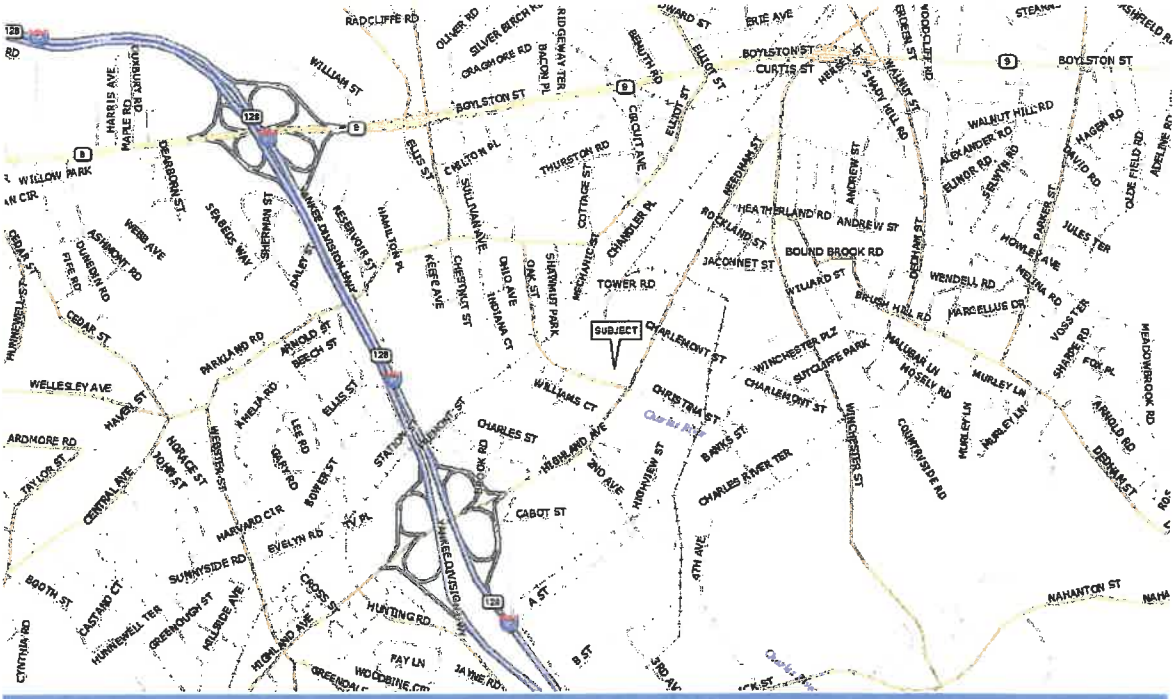
SURROUNDING AREA



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 N² 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.

N² Innovation District

The subject is located within Needham and Newton's N² Innovation District, which comprises approximately 500 acres along the Newton-Needham line. The N² 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 N² Innovation District is constantly evolving. Currently, the N² 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 N² 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 165,0000 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 Subrn	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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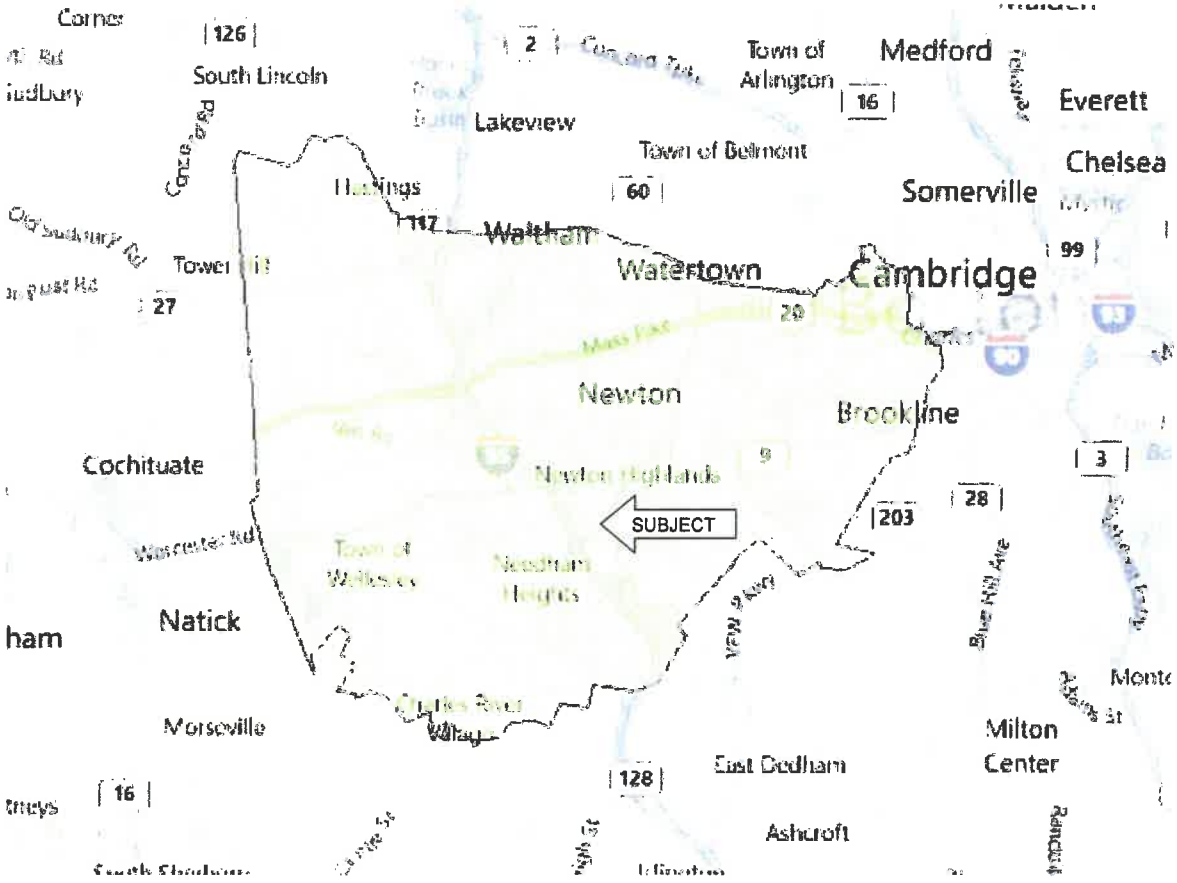
According to Newmarket Knight Frank's 2Q 2018 Boston Office Market report, while the relocation of tenants into more urban locations continues to grab headlines, suburban submarkets are still seeing tenants satisfy their growth requirements through build-to-suits, whole-building commitments and the leasing 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 Submarket Map



West/MassPike/Route 128 Submarket Analysis

Supply and demand indicators for all classes of space in the West/MassPike/Route 128 submarket are displayed in the following table.

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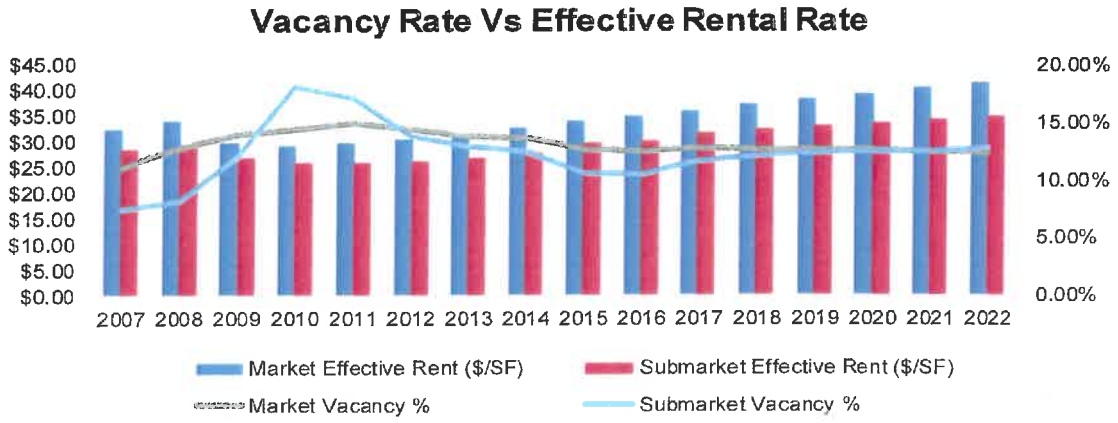
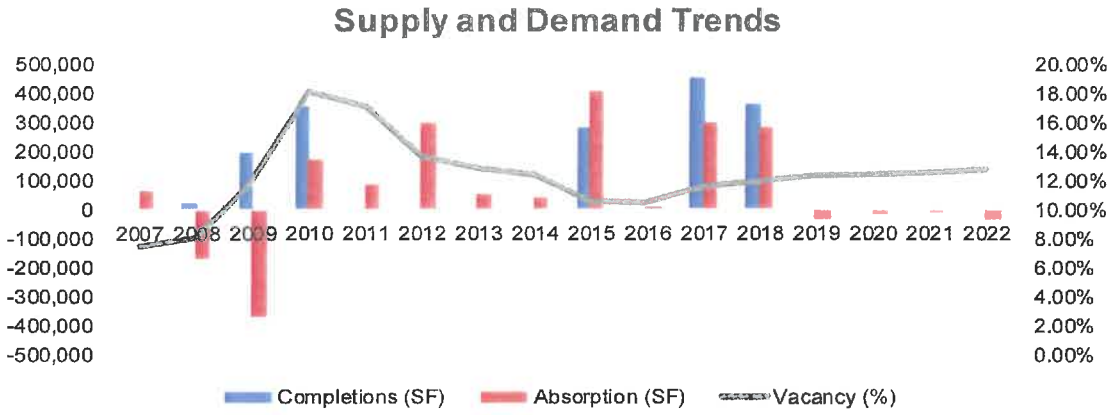
It is noted that in 2022 when Northland's Needham Street development is anticipated to come on-line vacancy is projected by REIS to be 12.80%, which would be the highest vacancy rate since 2014.



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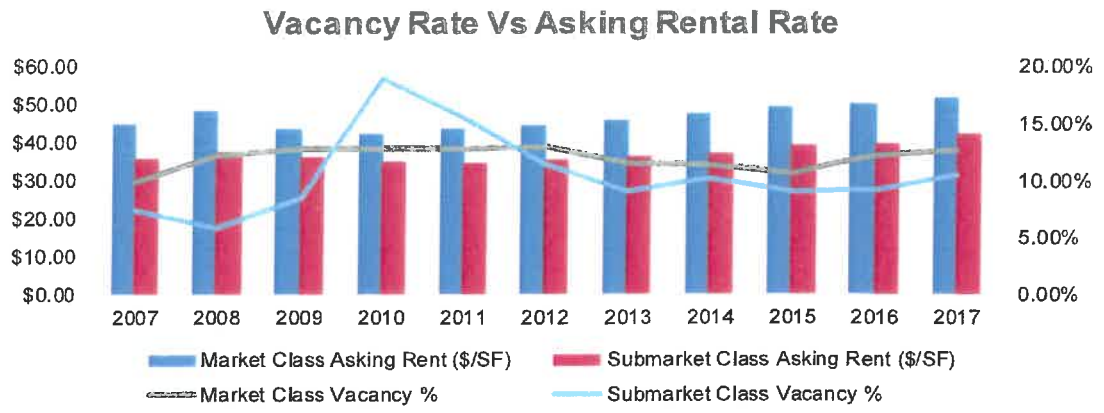
REIS does not publish forecasted statistics for the Class A submarket. Only historical trends are available for Class A office space.



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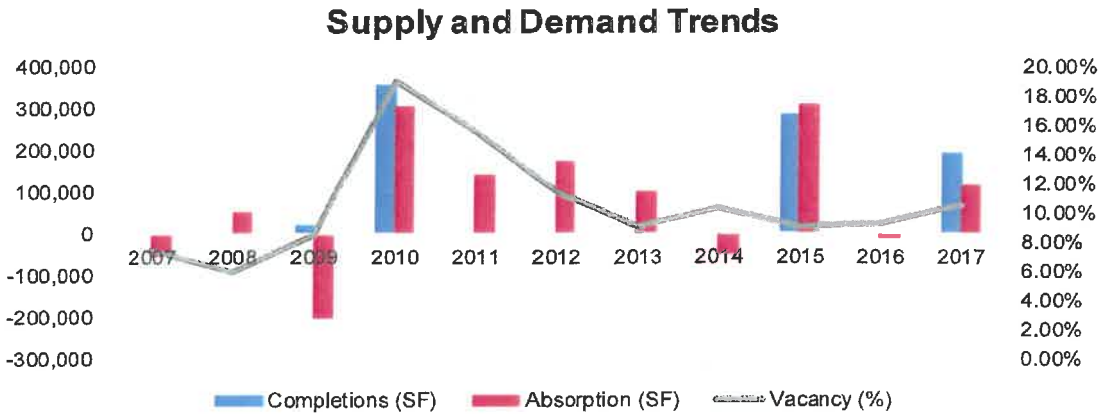

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Supply Additions

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

Boston Office Construction by Phase and Subtype

	Under Construction		Planned Construction		Proposed Construction	
Office Subproperty Type	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
Totals	16	2,575,004	57	14,491,606	28	7,155,000

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Boston Office Property Completions by Submarket

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
Totals	5,217,938	29	157,106

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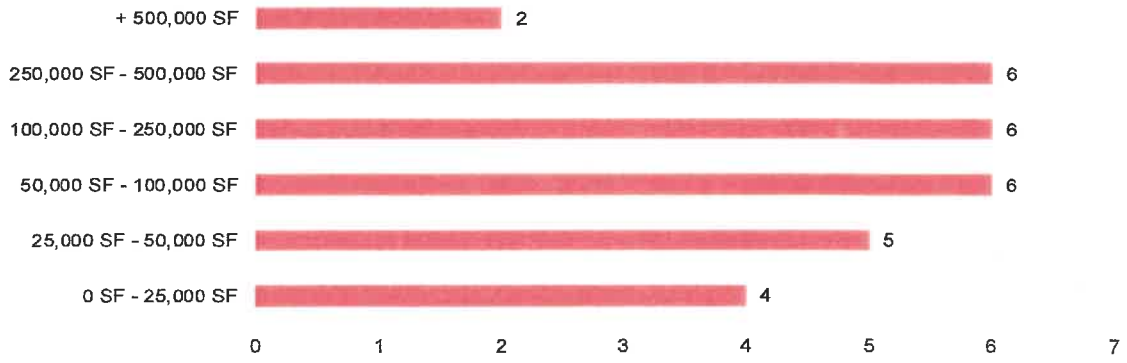
Total Projects Completed by Building Size



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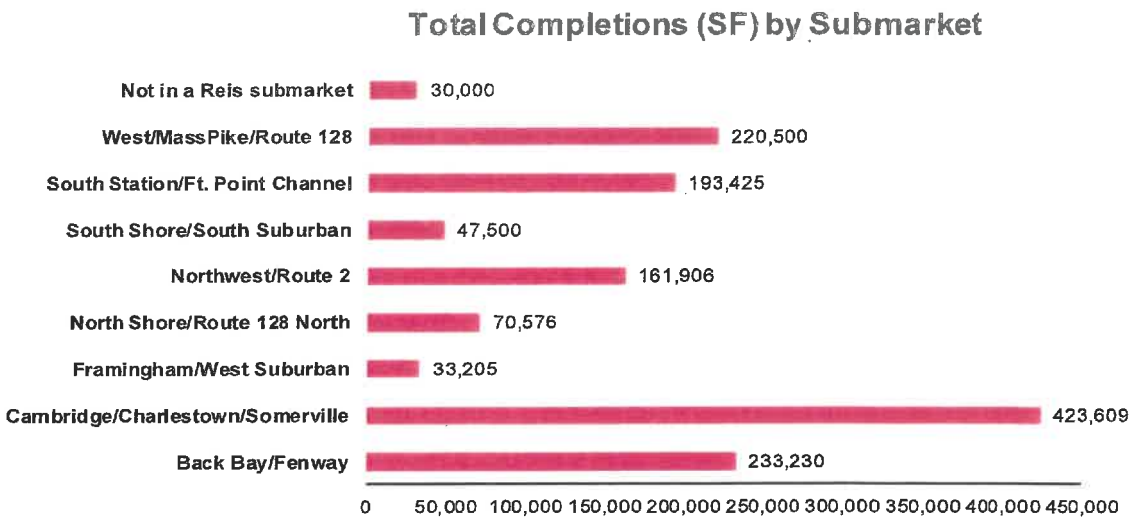

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The following table summarizes properties that are under construction, planned, and/or proposed in the subject's submarket.

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

	Under Construction		Planned Construction		Proposed Construction	
Office Subproperty Type	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
Totals	3	523,000	4	1,100,000	1	40,000

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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 on 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.