

March 2019

NEWTON DEVELOPMENT PEER REVIEW NORTHLAND NEWTON DEVELOPMENT

City of Newton, Massachusetts

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



TECHNICAL MEMORANDUM

At the request of the City of Newton's Planning Department, RKG Associates (RKG) has completed an updated peer review of the 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:

- Overall Changes to the Development Program
- Peer Review of Northland's Fiscal Impact Analysis
- Peer Review of Northland's Economic Impact Analysis

DEVELOPMENT PROGRAM CHANGES

RKG, as an independent consultant for the City of Newton, previously completed a peer review of the fiscal¹ and economic² impacts associated with the proposed Northland Newton development site. Following RKG's December 3, 2018 peer review memo, Northland offered revisions to the development proposal and program which include:

- A reduction from 822 residential units to 800 residential units, both include a 15 percent (unit count) affordable component.
- A reduction in the proposed retail program from 185,200 square feet (inclusive of 50,000 square feet of restaurant use) to 115,000 square feet, inclusive of a proposed 40,000 square feet of restaurant use. The total decline in proposed retail is 70,200 square feet, or 40 percent.
 - While tenants are unknown, the Applicant estimates three large format restaurants at 10,000 square feet each (or 30,000 square feet in total) and three smaller scale restaurants totaling 10,000 square feet. Total proposed restaurant space is now 40,000 square feet, representing a 10,000 square foot decline from the original.
 - Northland, in response to Newton Planning Staff concerns, *"remains committed to providing up to 10,000 (SF)...at discounts up to 25% of the typical markets rents."*
- The proposed office development remains the same at 180,000 square feet.

¹ As prepared by Fougere Planning & Development, Inc., dated August 13, 2018.

² As prepared by Landwise Advisors, dated August 13, 2018.

FISCAL IMPACT ANALYSIS

The updated fiscal impact analysis takes into account the proposed changes in the development program, revised tax calculations to Fiscal Year 2019, and issues raised in RKG's December 3, 2018 peer review. Based on these factors, the Applicant has revisited their estimates of fiscal and economic impacts to which RKG offers the following comments and questions:

RKG concurs with the findings that the proposed Northland Newton development will provide a positive net fiscal impact to Newton on an annual basis. RKG has reviewed the revised assumptions and inputs used by the Applicant and generally has no issue with either the metrics for calculating revenue or those for calculating costs.

- Estimates of value are generally consistent with Fiscal Year 2019 data from Newton. As was noted by the Applicant during their public presentation, RKG agrees that our prior differences are well within an established market range.
- Estimates of municipal service costs have been adjusted accordingly to reflect the new program development.

That stated, in RKG's current review, we note that there appears to be a math error on Page 2, Table 2. The formula for calculating the residential value and property taxes results in a potential over statement of residential taxes by nearly \$212,000. While this error does not result in a negative fiscal impact for the overall project, it does reduce the tax receipts from the residential portion of the project.

Residential Valuation and Taxes (as presented by Applicant)

$(800 \text{ units} \times \$312,000/\text{unit}) = \$269,880,000 @ \$10.45 \text{ (FY2019)} = \$2,820,246 \text{ in taxes}$

Residential Valuation and Taxes (as presented by RKG)

$(800 \text{ units} \times \$312,000/\text{unit}) = \$249,600,000 @ \$10.45 \text{ (FY2019)} = \$2,608,320 \text{ in taxes}$

Finally, RKG notes that the Applicant's revised analysis indicates that "SAC estimates are revised from 142 to 138." RKG points out that the estimate of 142 students was offered in RKG's prior peer review, while the Applicant's prior estimate was 120 students. The Applicant has increased the estimated number of students to the School Department's recommendation of 138 students.

CONCLUSIONS

Table 1 presents RKG’s reconciliation of impacts showing the difference between our calculation of net taxes and the Applicants. In Table 1, RKG assumes that the Applicant did make an error when calculating the per unit residential valuation which results in a difference of nearly \$212,000. RKG also notes it appears the existing “as is” property taxes of \$920,913 were not removed from the net tax calculation. As revised and offered by RKG, this new iteration of the Northland Newton development results in a net fiscal impact of \$1.07 million. The project overall still results in a positive fiscal impact, but by RKG’s calculations less than the \$2.20 million in the Applicant’s February 13, 2019 submission.

Table 1 – Reconciliation of Impacts

| | FEB 2019 | RKG 2019 |
|-----------------------------|----------------------|----------------------|
| Property Tax | \$ 4,028,112 | \$ 3,816,186 |
| Commercial | \$ 1,207,866 | \$ 1,207,866 |
| Residential | \$ 2,820,246 | \$ 2,608,320 |
| <i>less</i> City costs | <i>\$ (248,892)</i> | <i>\$ (248,892)</i> |
| <i>less</i> Education costs | <i>\$(1,984,854)</i> | <i>\$(1,984,854)</i> |
| Net Property Tax | \$ 1,794,366 | \$ 1,582,440 |
| <i>less</i> "as is" tax | <i>\$ -</i> | <i>\$ (920,913)</i> |
| Other Tax Receipts | \$ 406,121 | \$ 406,121 |
| TOTAL NET TAX | \$ 2,200,487 | \$ 1,067,648 |

Source : Fougere Planning and RKG (2019)

ECONOMIC IMPACT ANALYSIS

Similar to the fiscal impact analysis, the Applicant has submitted a revised analysis for estimating economic impacts. Revisions to the economic impact analysis reflect the smaller development program with a total development build out of 1.36 million square feet, down from 1.51 million square feet. This reflects the reductions in residential units, retail square footage, and parking. The economic impacts have been adjusted based on the new development program, and costs have been updated to reflect 2019 dollars.

Overall, RKG finds that the relationship between the reduction in square feet across the development program and reduction in economic benefits are generally proportionate. For example, there was a 28 percent reduction in overall square feet in the development which resulted in a 30 percent reduction in direct commercial/retail employment. Worth noting, while the total cost of the project declined by a little more than 2 percent due to the reduction in the development program, the estimated cost on a per square foot basis increased marginally because costs have been updated to reflect 2019 dollars.

- RKG considers the economic estimates prepared by Landwise to be reasonable and consistent with their prior methodology, concluding net positive employment, wage and general economic impacts for the City of Newton. As noted in our previous peer review memo, RKG does not have experience using the most recent iteration of the IMPLAN econometric model but appreciates the Applicant’s explanation for how the model derives localized economic impacts at the city level. While our estimated percentages for construction wages may differ, the Applicant

has pointed us to resources explaining how IMPLAN estimates localized impacts. Whether the Applicant uses the IMPLAN figure of 50 percent for construction wages or RKG's figure of 35 percent, the Northland Newton project will still result in positive impacts for both direct and indirect jobs and wages.

SUMMARY TABLES

A summary comparison of the development program, fiscal impacts, and economic impacts from the February 2019 analyses and the August 2018 analyses are offered in Tables 2 and 3.

Table 2 – Summary Comparison of Fiscal Metrics of the Northland Project

| Northland Development - Newton, MA - Comparisons now and then | FEB 2019 \$ | AUG 2018 \$ | % Δ |
|---|-------------------------|-------------------------|---------------|
| Residential Units | 800 | 822 | -2.7% |
| Residential SF | 1,050,095 | 1,080,000 | -2.8% |
| SF per Unit | 1,313 | 1,314 | -0.1% |
| Structured Parking (spaces) | 1,410 | 1,800 | -21.7% |
| Surface Parking (spaces) | 140 | - | |
| Gross SF (all) | 1,358,295 <i>of tot</i> | 1,510,297 <i>of tot</i> | -10.1% |
| Commercial/Retail | 308,200 22.7% | 430,297 28.5% | -28.4% |
| Residential | 1,050,095 77.3% | 1,080,000 71.5% | -2.8% |
| Office SF | 180,000 | 180,000 | 0.0% |
| Large Restaurant SF | 30,000 | 30,000 | 0.0% |
| Small Restaurant SF | 10,000 | 20,000 | -50.0% |
| Other Retail SF | 75,000 | 135,200 | -44.5% |
| Student Count | 138 | 120 | 15.0% |
| Student Costs (marginal) (2018 blend) | \$ 1,984,854 | \$ 1,467,480 | 35.3% |
| Per Pupil | \$ 14,383 | \$ 12,229 | 17.6% |
| Property Tax | \$ 4,028,112 | \$ 4,513,797 | -10.8% |
| Police | \$ (40,420) | \$ (56,502) | -28.5% |
| Fire | \$ (100,000) | \$ (100,000) | 0.0% |
| Health | \$ (83,472) | \$ (85,728) | -2.6% |
| Other | \$ (25,000) | \$ (25,000) | 0.0% |
| Gross before Education | \$ 3,779,220 | \$ 4,246,567 | -11.0% |
| NET with Education | \$ 1,794,366 | \$ 2,779,087 | -35.4% |
| OTHER TAXES | | | |
| Excise Tax | \$ 174,600 | \$ 178,075 | -2.0% |
| Local Option Tax | \$ 165,000 | \$ 195,000 | -15.4% |
| Pers Prop Tax | 26,240 | 30,589 | -14.2% |
| CPA Tax | \$ 40,281 | \$ 45,138 | -10.8% |
| Total Other Tax | \$ 406,121 | \$ 448,802 | -9.5% |
| NET ALL | \$ 2,200,487 | \$ 3,227,889 | -31.8% |

Table 3 – Summary Comparison of Economic Metrics of the Northland Project

| Northland Development - Newton, MA - Comparisons <i>now and then</i> | FEB 2019 \$ | | AUG 2018 \$ | | % Δ |
|---|--------------------|-------|--------------------|-------|------------|
| Construction Costs (mill) | \$ 493.0 | | \$ 504.0 | | -2.2% |
| Per SF | \$ 363.0 | | \$ 334 | | 8.8% |
| Direct Employment | | | | | |
| Construction | 3,296 | | 3,310 | | -0.4% |
| Office | 977 | | 977 | | 0.0% |
| per SF (stabilized) | 175 | | 175 | | 0.0% |
| Retail | 345 | | 494 | | -30.2% |
| per SF (stabilized) | 300 | | 337 | | -11.1% |
| Residential | 24 | | 24 | | 0.0% |
| SALARIES and BENEFITS | | | | | |
| One Time Impacts | | | | | |
| Direct Economic (mill) | \$ 250.0 | | \$ 252.0 | | -0.8% |
| Indirect Jobs | 1,023 | 31.0% | 1,057 | 31.9% | -3.2% |
| Indirect Economic (mill) | \$ 67.0 | 26.8% | \$ 69.0 | 27.4% | -2.9% |
| Ongoing Impacts | | | | | |
| Direct Economic (mill) | \$ 149.0 | | \$ 152.0 | | -2.0% |
| Indirect Jobs | 885 | 65.8% | 900 | 60.2% | -1.7% |
| Indirect Economic (mill) | \$ 59.0 | 39.6% | \$ 59.0 | 38.8% | 0.0% |
| TOTAL ECONOMIC (mill) | | | | | |
| One Time Direct | \$ 485.0 | | \$ 486.0 | | -0.2% |
| One Time Indirect | \$ 155.0 | | \$ 160.0 | | -3.1% |
| Ongoing Direct | \$ 333.0 | | \$ 340.0 | | -2.1% |
| Ongoing Indirect | \$ 141.0 | | \$ 143.0 | | -1.4% |