

City of Newton Riverside Development Peer Review



HR&A Advisors, Inc.
February 7, 2020

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Introduction

Purpose

The City of Newton engaged HR&A Advisors, Inc. (HR&A) to review and provide an independent evaluation of Mark Development's proposed commercial and residential development program for the Riverside site (the site). Specifically, HR&A's role was to assess the program based on the following elements:

1. Alignment with the City's broader goals relating to housing and economic development;
2. Viability and implications of the project's proposed commercial and residential uses under current real estate market conditions; and
3. Reasonableness of the projected economic and net fiscal impacts.

The following technical memorandum provides a summary of HR&A's analysis and findings presented in three sections:

Section I: Alignment with Planning Goals

HR&A reviewed and summarized recent City of Newton planning documents, including the City's Housing Strategy, Economic Development Strategy, and the Riverside Vision Plan to determine if the Riverside project is aligned with stated public development priorities.

Section II: Real Estate Market Analysis

HR&A completed an independent analysis of current real estate market trends for office, retail, hotel, and multi-family rental units in Newton and the surrounding communities to evaluate whether the proposed program, rents, and absorption of the Riverside site program can reasonably be supported by the market. As each of the four land uses is driven by a different set of population and employment trends and development patterns, HR&A considered the following three study areas to contextualize the different land uses:

1. The office and hotel market areas were defined as a 1-mile buffer along Route 128 stretching from the intersection of 95/93 in Reading/Stoneham to the 95/93 split in Milton/Canton, representing suburban Boston's growing employment hub.
2. The retail market area was defined as the area within a 10-minute drive of the Riverside site to capture the market for convenience retail.
3. The housing market area includes Newton and 12 neighboring submarkets selected to capture residents who live and/or work near the Riverside site and thus would reasonably relocate to the proposed multi-family housing.

Section III: Economic and Fiscal Benefits Analysis

HR&A reviewed the revised economic and net fiscal benefits resulting from the Riverside project estimated by MuniCap and submitted on February 5, 2020. This section evaluates the reasonableness of the methodology, approach, data sources, and conclusions reached by MuniCap and in certain cases explores the impact to the City resulting from a different set of assumptions as a high-level stress test to the model to better understand the potential range of outcomes.

About HR&A Advisors

HR&A is an industry-leading public policy, real estate, and economic development consulting firm. For more than 40 years, we have provided strategic advisory and implementation services for some of the most complex public policy and development projects across North America and abroad. With offices in New York, Dallas, Los Angeles, Raleigh, and Washington, D.C., we have guided hundreds of clients in transforming

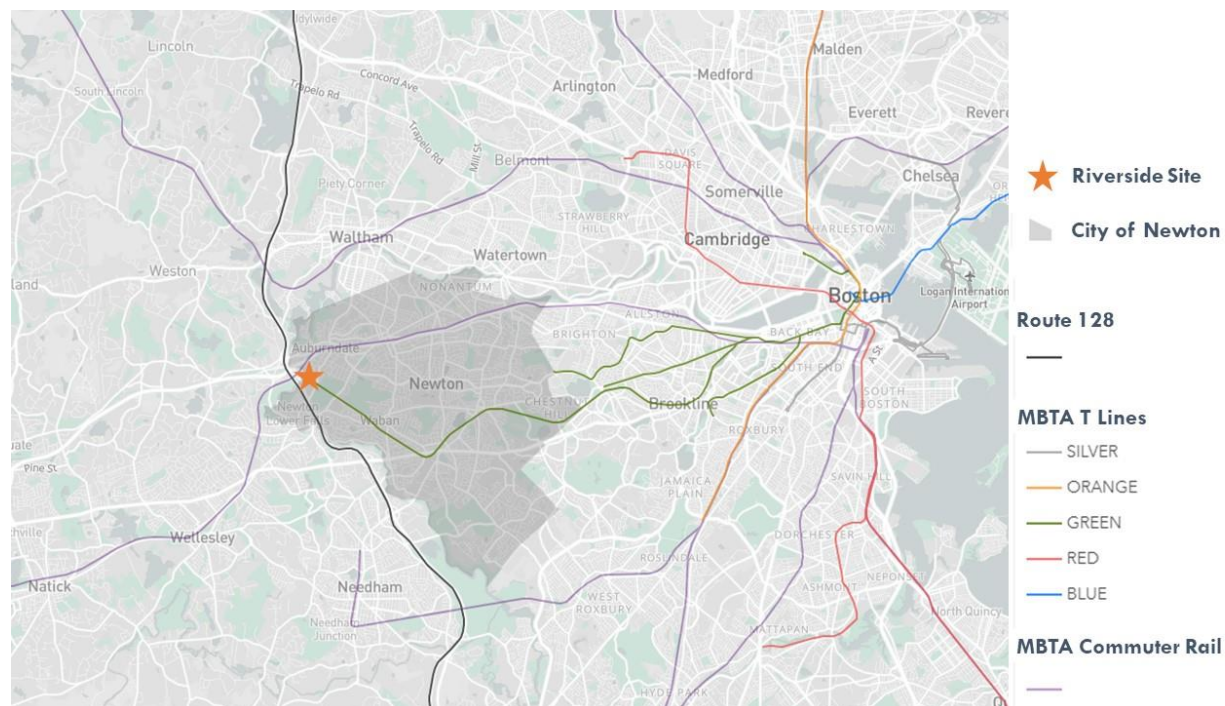
real estate and economic development concepts, and public infrastructure, first into actionable plans then into job-producing, community-strengthening assets.

HR&A’s experience in the Boston area includes work such as serving as the real estate and economic development lead on the Envision Cambridge plan and as team lead for Imagine Boston 2030, Boston’s first comprehensive plan in 50 years that will set the agenda for the city’s growth and development. HR&A is intimately familiar with the region’s real estate markets, available development tools, and public and private stakeholders and continues to be involved in local markets through advisory services for the Cambridge and Somerville Redevelopment Authorities and the Downtown Boston Plan.

Riverside Proposal

Located at the terminus of the MBTA Green Line, adjacent to Route 128 and less than a mile from the intersection of I-95 and I-90, the Riverside site is a key regional transit hub for both Newton and the greater suburban Boston community. The site serves workers commuting into Boston with access via the MBTA bus and train, local shuttles, as well as travelers using regional bus services to and from New York City.

Figure 1. Regional Site Context



The 13-acre development site is composed of two parcels: (1) a portion of the 22-acre MBTA-owned Riverside Station and surrounding surface parking lot at 355 Grove Street and (2) the 121,700 square foot Hotel Indigo parcel purchased by Mark Development which abuts the MBTA surface parking lot at 399 Grove Street.

In 2017, Mark Development, in partnership with Normandy (development team), proposed a redevelopment vision that would transform the site into a new transit-oriented mixed-use community. On March 29, 2019, the development team submitted their application for a special permit to re-zone the site to allow for 1.5 million square feet of new development. Responding to community concerns relating to project density, the development team submitted a revised project program in August/September of 2019 proposing 10 new

buildings totaling 1.2 million square feet. In December of 2019, the petitioner submitted a revised proposal for 1 million square feet including a mix of housing, office, hotel, and retail uses with structured and street parking for the project and MBTA station users. This analysis reviews the program submitted in December of 2019.

Figure 2. Proposed Riverside Program

Building	Building GFA	Market Rate Units	Affordable Units	Hotel Rooms	Office GFA	Retail GFA	Structured Parking Spaces	Surface Parking
Building 1	250,888				243,387			
Building 2	77,300			150				
Building 3	153,683	113	24					
Building 4	126,601	89	18			3,792		
Building 5	57,200	41	9					
Building 6	72,020	47	10			6,886		
Building 7	62,050	38	8			7,785		
Building 8	65,364	63	13			3,218		
Building 9	63,981	36	8			21,560	1,138	
Building 10	96,002	82	18				852	
Street Parking								51
Total	1,025,000	509	108	150	243,387	43,242	1,990	51

Source: Mark Development, December 2019 Revision

Section I. Alignment with Planning Goals

HR&A reviewed public documents, plans, and strategies that express the public priorities for new development in the City of Newton and at the Riverside site specifically to assess the site program’s alignment with the stated goals of the City and surrounding communities. The documents reviewed by HR&A include:

- Housing Needs Analysis and Strategic Recommendations, Newton Leads 2040 (2016)
- Economic Development Action Plan for the City of Newton (2019)
- Riverside Vision Plan (2019)

These documents represent a mix of various planning goals, priorities and recommendations thoughtfully prepared by the City of Newton and its community members and express a range of desires across themes including, but not limited to, housing, economic development, mobility, and land use. The Riverside proposal is generally consistent with certain priorities reflected in the above-mentioned documents, particularly those that address housing, mobility and economic development initiatives.

Figure 3. Plans Summary Table

Document	Purpose and Goals
Riverside Vision Plan	<p>The purpose of this document is to assist future decision-making regarding the Riverside site. Community input, existing conditions, planning and design best practices informed the plan, which is designed to be a guide for the City to review development proposals that best integrate the site into the surrounding communities. The principles of the Riverside Vision Plan include:</p> <ul style="list-style-type: none"> • Newton community connections • Housing for Newton • Model for sustainability • Quality design • Robust Newton economy <p>Transportation hub</p>
Housing Needs Analysis and Strategic Recommendations	<p>The purpose of this document is to analyze the current supply of housing in the City of Newton, the existing and future housing needs of its residents, and the available approaches to meet these housing needs.</p> <p>Proposed housing strategies include:</p> <ul style="list-style-type: none"> • Pursue diverse housing choices to meet changing housing needs of a diverse population • Locate housing to promote access and choice • Balance housing needs with the need for commercial space • Seek high quality design that is responsive to context • Maintain a process that is predictable and efficient • Pursue green design
Economic Development Action Plan for the City of Newton	<p>The purpose of this document is to identify opportunities to make Newton a great place to live, work and play; to grow commercial tax base, to enhance existing village centers and commercial corridors, and to build on the momentum of the regional economy. The Economic Development Action Plan sets forth the following goals:</p> <ul style="list-style-type: none"> • Take steps to pursue development types that make Newton both commercially successful and a great place to live, work

	<p>and play</p> <ul style="list-style-type: none"> • Focus redevelopment efforts on key parcels and corridors in Newton • Support the start-up growth, stability, and vitality of businesses and entrepreneurs • Make the development process more predictable and efficient, including community consensus and refinement of the review process • Maintain and enhance the special qualities of Newton while improving transportation throughout Newton for residents, businesses, and visitors
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Housing

By proposing 617 new units of multi-family housing, the Riverside proposal responds to the City and community’s objective to diversify the housing stock in the City of Newton, which primarily consists of single-family homes. In addition, with 17.5% of units designated as affordable, the Riverside proposal meets the City’s affordable housing goals.

Transportation Access

The Housing Needs Analysis identifies transit-oriented development as a means of achieving a reduction in the cost of living in Newton. The strategy calls for locating housing near walkable, transit-accessible locations and integrating lower-cost housing into a variety of market areas across the city, which the Riverside proposal will achieve.

Economic Development

The Housing Needs Analysis also appropriately recognizes the need to balance commercial space with housing supply, and proposes mixed-use buildings in transit-accessible locations, like the Riverside site, as a strategy for preserving both integral land uses. Additionally, the Economic Development Action Plan calls for the City to pursue development types, such as mixed-use projects with mass-transit, as a way of making the City more commercially successful. The Economic Development Action Plan explicitly calls for the redevelopment of the Riverside site, highlighting the potential to deliver attractive office space and a variety of housing types to diversify and grow the City’s tax base.

Conclusions

Mark Development’s Riverside proposal responds to the vision the City and community laid out in the Riverside Vision Plan. The 617 new housing units help address Newton’s current and shifting housing needs and provide a significant number of affordable housing units, addressing two of the guiding principles of the Riverside Vision Plan. It also responds to the objective to support Newton’s economic growth, by providing commercial space, which not only supports new employment but also generates substantial fiscal revenue for the City. The Riverside proposal’s outdoor amphitheater and public park address the Vision Plan’s call for variety of usable public spaces, and retail programming ensures a vibrant pedestrian experience. Lastly, the transit-oriented proposal and the new users it will deliver will likely support increased ridership of the Green Line and utilization of the Riverside MBTA station, responding to the Vision Plan’s goal of creating a stronger local transportation hub.

Section II. Real Estate Market Analysis

Summary of Findings

MARKET RATE MULTI-FAMILY HOUSING

- Newton sits in the middle of a diverse community with submarkets demonstrating a wide variation in age, income, housing tenure, and housing stock. There are two key groups driving the market for residential demand across the Study Area:
 - **Empty nesters and seniors** who are looking to downsize while staying in their community and value proximity to transportation. These residents are most likely to come from submarkets including Newton, Wellesley, Weston, Wayland, Needham, and Natick.
 - **Millennials and young families** who may be seeking shorter commute times, improved access to higher-paying jobs along the Route 128 Corridor/in downtown Boston, enrollment in Newton Public Schools or more affordable quality housing options while maintaining proximity to employment centers by living adjacent to transit and Route 128/Mass Pike. These residents are more likely to come from Waltham, Framingham, West Roxbury, Watertown, Brookline, Cambridge, and Allston-Brighton.
- Between 2012 – 2017, these two age groups (25 – 34 and 65+) have accounted for 78% of net population growth.
- The multi-family rental units proposed in the Riverside program will provide new diverse housing options for Newton's changing demographics in contrast with the existing predominantly single-family housing stock.
- Based on our analysis of 509 market rate units priced at \$3.43 per square foot, we anticipate absorption of these units will require three to four years based on recent market comps which have absorbed between 30 – 40 units on average per quarter.
- Transit accessibility will make the site even more attractive for these groups and may support faster absorption and higher rents, however the lack of TOD comps in the study area make the exact premium difficult to quantify with certainty.

AFFORDABLE HOUSING

- The Riverside project complies with new Inclusionary Housing Ordinance requiring 17.5% of units to be affordable at an average AMI of 65%, and provides a mix of unit sizes integrated evenly across eight buildings.
- The Riverside project will contribute 108 affordable units moving the City closer to its goal of delivering 800 new affordable units.

OFFICE MARKET

- Job growth along the Route 128 Corridor has been driven by high wage industries. Riverside has a large opportunity to capture these new workers both as residents and workers.
- Supply of new office space appears to be outpacing absorption on an annual basis. This is likely due to the fact that the many Route 128 Corridor tenants occupy built-to-suit headquarters. Over the last five years, market absorption has averaged 330,000 square feet annually across one to two large buildings. If Mark Development completes pre-leasing and delivers a Class A office building, it is reasonable that the space will be absorbed by one or two sizable office tenants immediately.
- Given the area's draw for large tenants the single large office tower that can accommodate large tenants all in one space will be more attractive than smaller office spaces spread throughout the site.

- Conversations with the local development community indicated that the site's transit accessibility will likely help the site to achieve top of market rents for suburban market which are currently \$45 - \$60 per square foot gross for new Class A suburban office.
- The site could be attractive for a range of growing tenants, in particular:
 - **Headquarters.** If the development team successfully attracts a headquarters tenant which may be likely given the large concentration of office space in a single building and proximity and visibility to Route 128, then the absorption period may be much faster.
 - **Life Sciences.** These tenants are increasingly being priced out of Cambridge and are looking for existing office space with larger floorplates that can accommodate their operational needs.
- Route 128 office trends show an increasing demand for amenities beyond the traditional office park. Tenants relocating from Boston and Cambridge to the suburban office market continue to rely on urban-like amenities to attract and retain a young workforce, including restaurants, retail, and fitness centers. The Riverside proposal's retail program and walkability are likely to appeal to these office tenant needs.

RETAIL MARKET

- As summarized in the market assessment, neighborhood scale retail as proposed by the developer is the best fit for the site as low vacancy rates across existing neighborhood retail centers are driven by a lack of new deliveries, which combined with high tenant turnover signals limited demand for new product. This dynamic will be particularly acute if this project is delivered around the time of the Northland project which will likely be a more attractive location for national retailers and restaurants given its scale and location on Needham Street.
- Retail will primarily be a tool for street activation and for providing convenience goods for on-site residents and workers, but will not likely generate significant revenue for the building owner.

HOTEL MARKET

- As summarized in the market assessment, HR&A concludes that the proposed 150 room hotel, replacing the existing 191 room Hotel Indigo is supportable and will continue to capture this market share with even greater demand generated by the office and housing on-site.

Multi-Family Rental Market

PROPOSED RIVERSIDE PROGRAM

Mark Development is proposing to develop 617 units across five mixed use buildings and three fully residential buildings.

Figure 4. Proposed Riverside Multi-Family Program

Building	Market Rate Units	Affordable Units	Other Uses
Building 3	113	24	N/A
Building 4	89	18	Retail
Building 5	41	9	N/A
Building 6	47	10	Retail
Building 7	38	8	Retail
Building 8	63	13	Retail
Building 9	36	8	Retail
Building 10	82	18	N/A
Total	509	108	

Source: Mark Development, December 2019 Revision

LOCAL CONTEXT

In 2016, Newton completed a new housing strategy titled *Newton Leads 2040 Housing Strategy* which identified diversity in housing options as the City's greatest housing need. The report highlighted three trends that are driving this need:

1. An existing housing stock which is overwhelmingly large, single-family, ownership units at high price points;
2. Limited net new growth in units; and
3. Demographic trends which indicate that Newton householders are getting older and households smaller, with an increasing number of residents living alone.

HR&A examined the socioeconomic and real estate context at both the local and regional level to develop a contextual understanding of the market demand for the planned development program at the Riverside site.

REGIONAL MARKET OVERVIEW

Study Area

The Study Area for the housing analysis builds off of the Regional Study Area developed as part of the City of Newton's *2016 Housing Needs Assessment* which informed the *Newton Leads 2040 Housing Strategy*. Given the location of the Riverside site at the end of the MBTA Green Line and its proximity to the region's two major arteries, Route 128 and the Mass Pike, HR&A adjusted the Study Area for this analysis to exclude

Dedham, and include Cambridge to the east and Framingham, Natick and Wayland to the west. With 88,000 residents, Newton is the second largest submarket in the study area, which totals 656,000 residents.

Figure 5. Residential Market Study Area Map

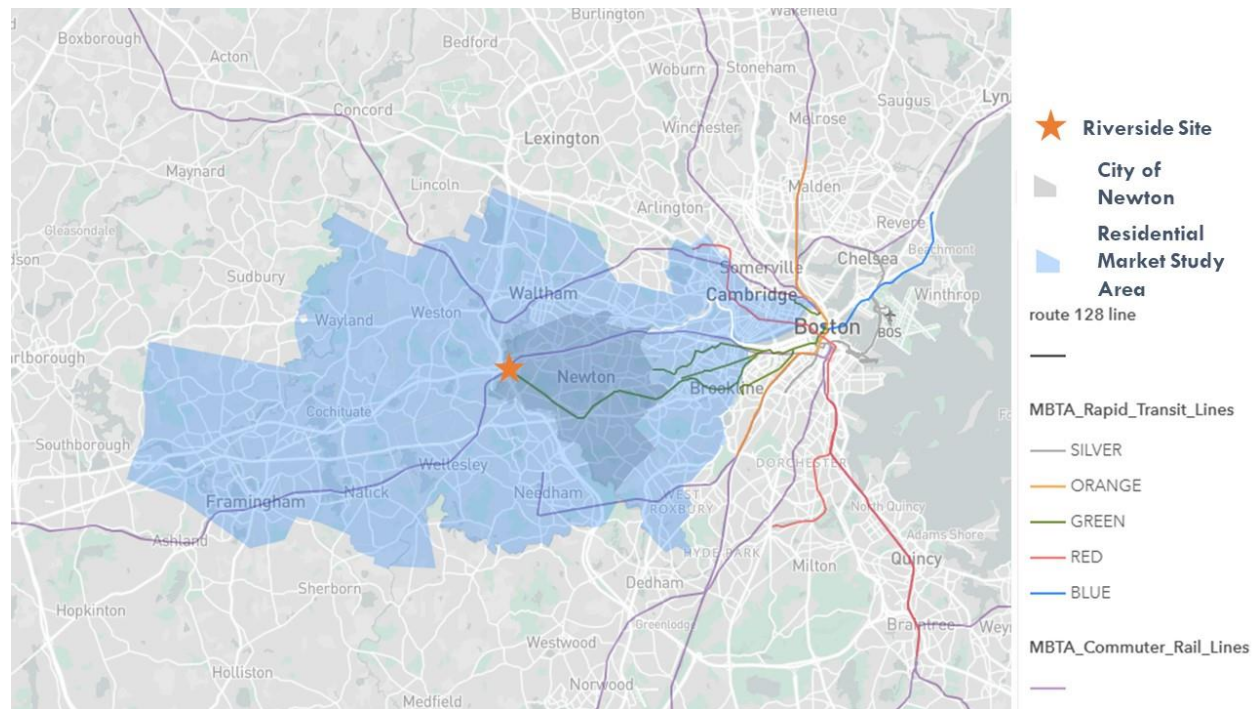
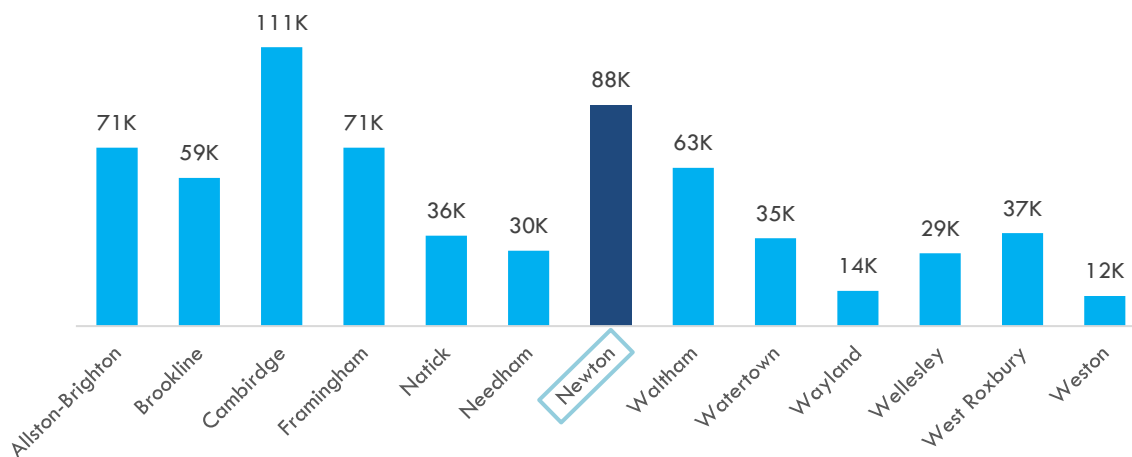


Figure 6. Total Population by Submarket, 2017

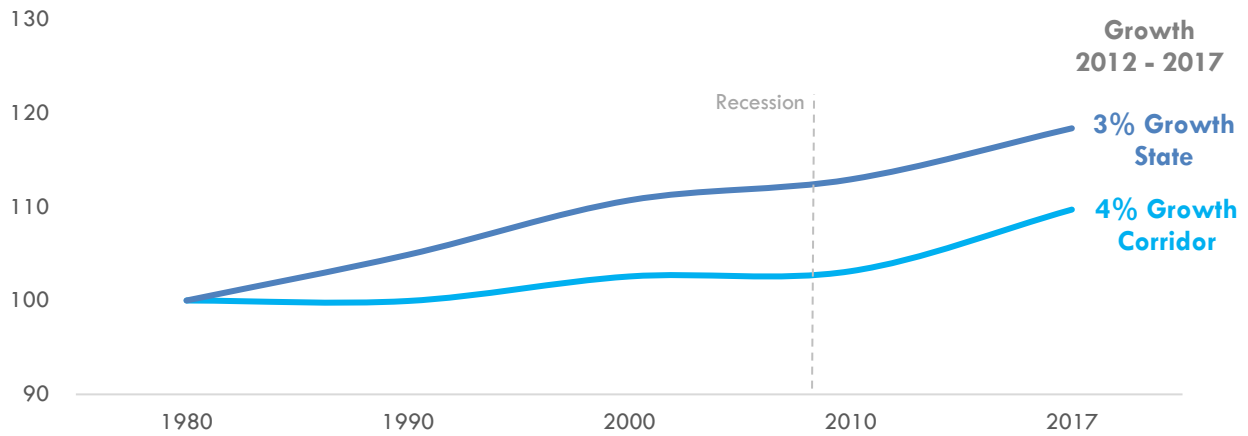


Source: U.S. Census Bureau, 2012 – 2017 American Community Survey 5-Year Estimates

Demographic Trends

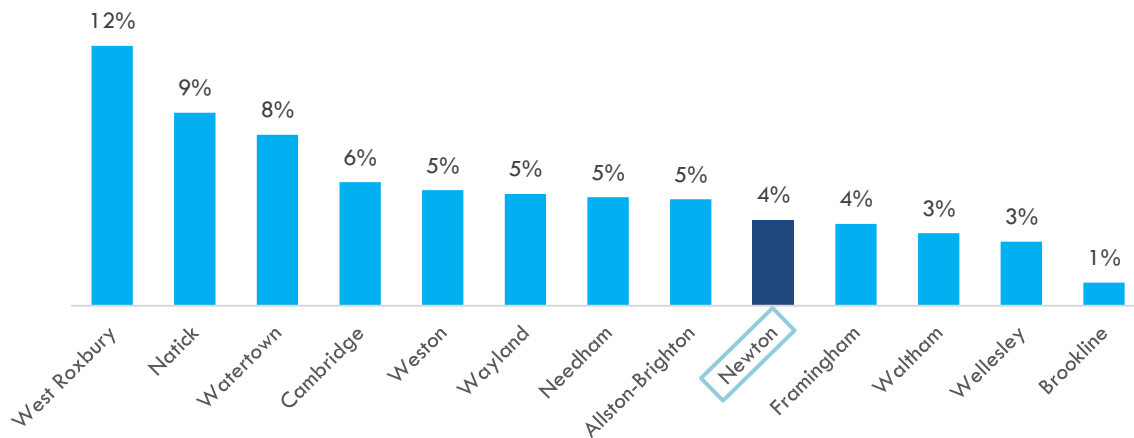
Following the recession, the study area has been a driver of population growth, outpacing the state growth rate between 2012 and 2017. At the submarket level however, population growth in Newton has lagged behind several of its neighbors.

Figure 7. Population Change, 1980 - 2017 (Indexed to 1980 = 100)



Source: U.S. Census Bureau, American Community Survey 5-Year Estimates, Decennial Census

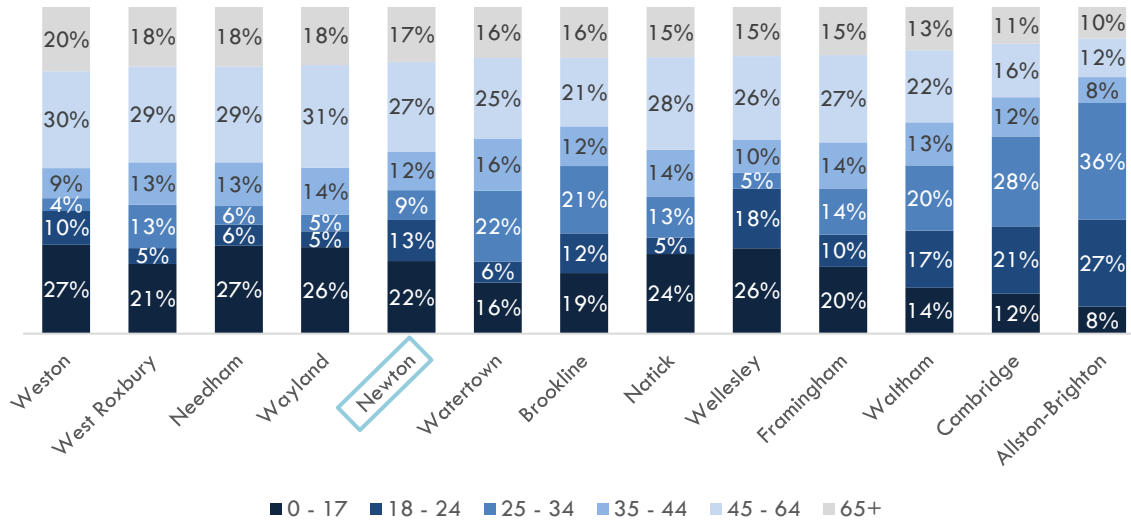
Figure 8. Population Change by Submarket, 2012 – 2017



Source: U.S. Census Bureau, 2008 – 2012 & 2012 – 2017 American Community Survey 5-Year Estimates

Newton, along with Needham, Wayland, Weston, Needham, West Roxbury, and Natick are home to a large number of older families, with over 50% of the population in the 0 – 17 and 45 - 64 age groups. Conversely, in Allston-Brighton, Brookline, Cambridge, and Waltham more than one third of residents are between the ages of 18 – 34, compared to less than a quarter in all other jurisdictions and just 12% in Newton.

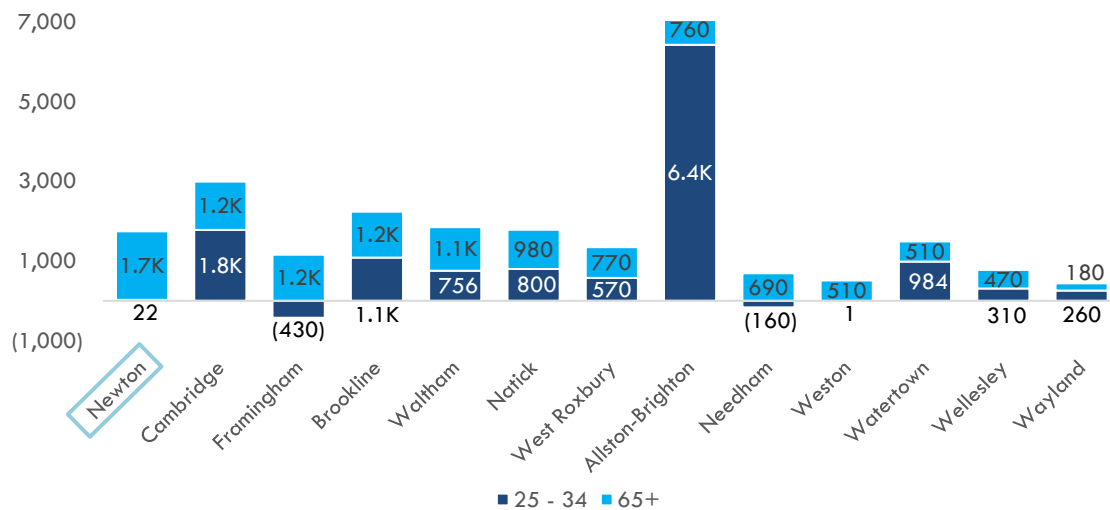
Figure 9. Age Profile by Submarket, 2017



Source: U.S. Census Bureau, 2012 – 2017 American Community Survey 5-Year Estimates

The 25 – 34 and 65+ age groups grew by 12,400 and 11,200 residents accordingly, and accounted for 78% of the net change in population in the study area between 2012 - 2017. Newton has seen the greatest net increase in the 65+ age group, but added just 22 residents in the young professional cohort in contrast to all but three neighboring submarkets which added between 260 and 6,400 residents in the young professional cohort.

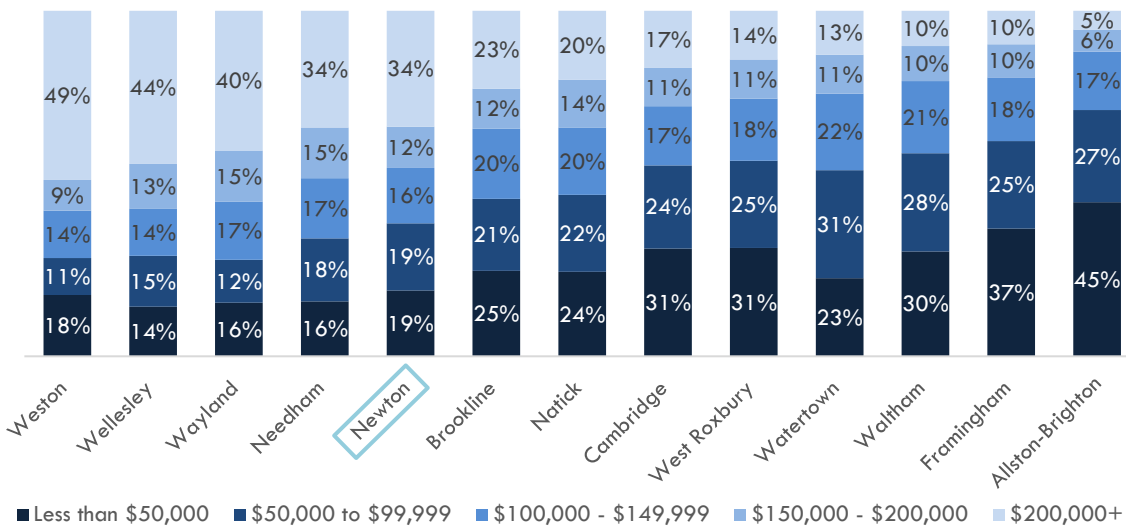
Figure 10. Growth of 25 - 35 and 65+ Age Groups by Submarket, 2012 – 2017



Source: U.S. Census Bureau, 2008 – 2012 & 2012 – 2017 American Community Survey 5-Year Estimates

In Newton, along with Weston, Wellesley, Wayland, and Needham more than a third of households earn over \$200K annually. In contrast, West Roxbury, Watertown, Waltham, Framingham, and Allston-Brighton more than 50% of households are earning less than \$100K while households in Brookline, Natick, and Cambridge are more evenly distributed among income brackets.

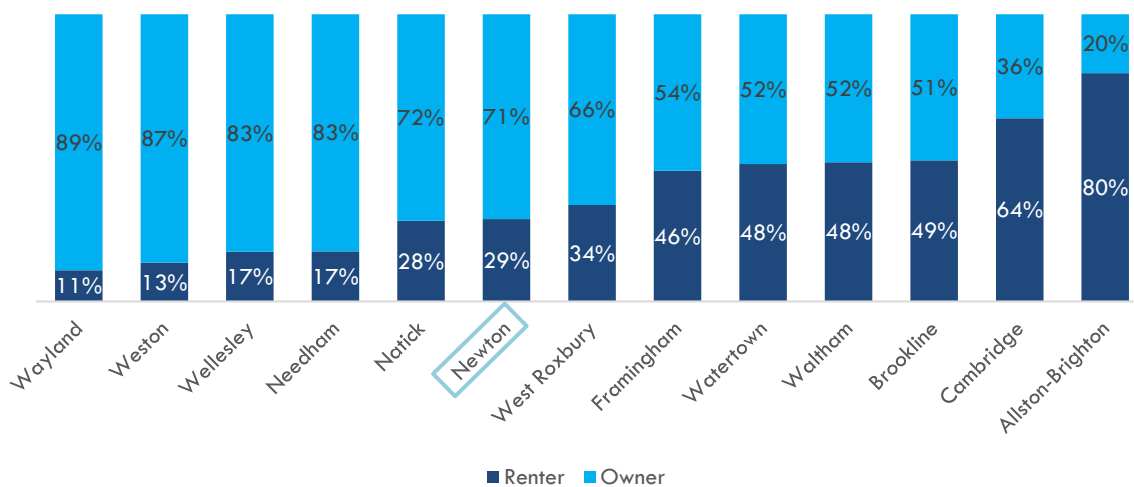
Figure 11. Distribution of Household Income by Submarket, 2017



Source: U.S. Census Bureau, 2012 – 2017 American Community Survey 5-Year Estimates

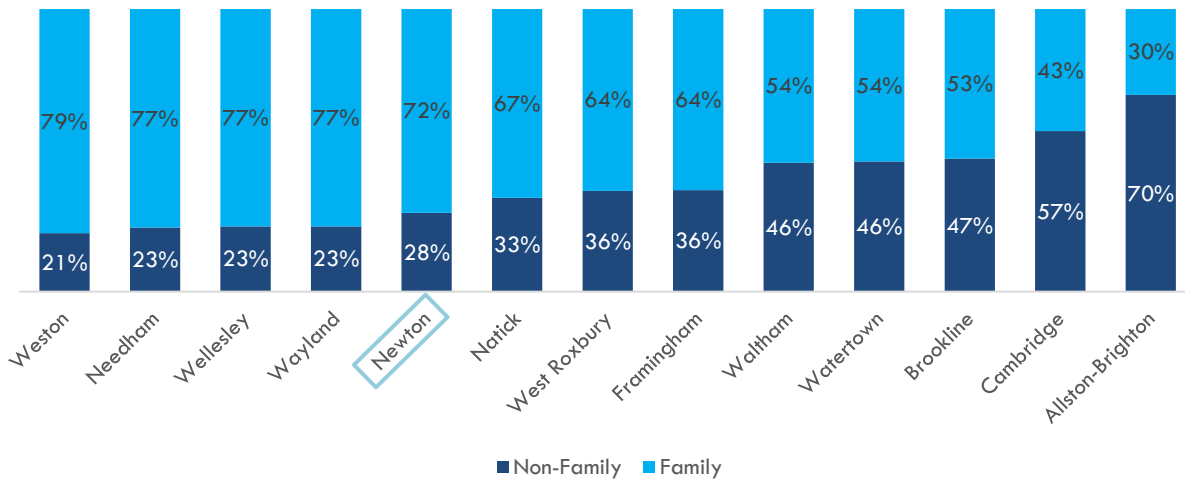
Seventy percent of Newton households are homeowners, and 72% are families. Roughly half of the submarkets in the study area reflect a similar dynamic in which a significant majority of residents are family households living in owner occupied units.

Figure 12. Housing Tenure by Submarket, 2017



Source: U.S. Census Bureau, 2012 – 2017 American Community Survey 5-Year Estimates

Figure 13. Household Type by Submarket, 2017

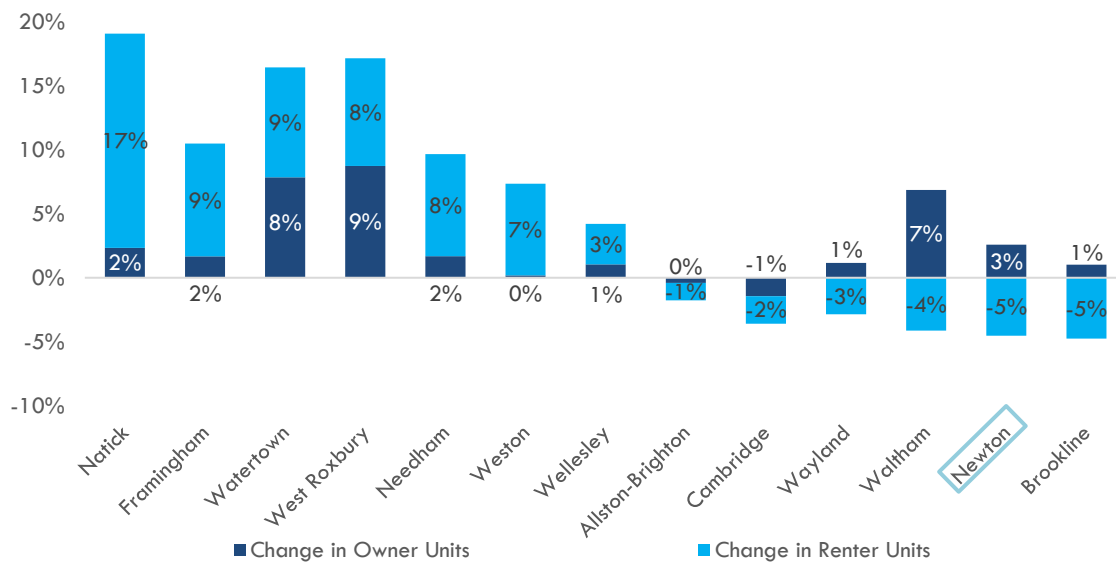


Source: U.S. Census Bureau, 2012 – 2017 American Community Survey 5-Year Estimates

Real Estate Trends

There are approximately 270K housing units across the study area (6% vacancy rate), of which Newton's 33,000 units account for 12%. Between 2012 – 2017, the study area housing stock grew by 1.5%, slower than the statewide average of 2.2%. Newton's share of the study area growth amounted to just 7%, well below its existing share of units. While many neighboring submarkets have seen a net increase in occupied units between 2012 – 2017 driven by new renters, the number of renter-occupied units in Newton has declined by 5%.

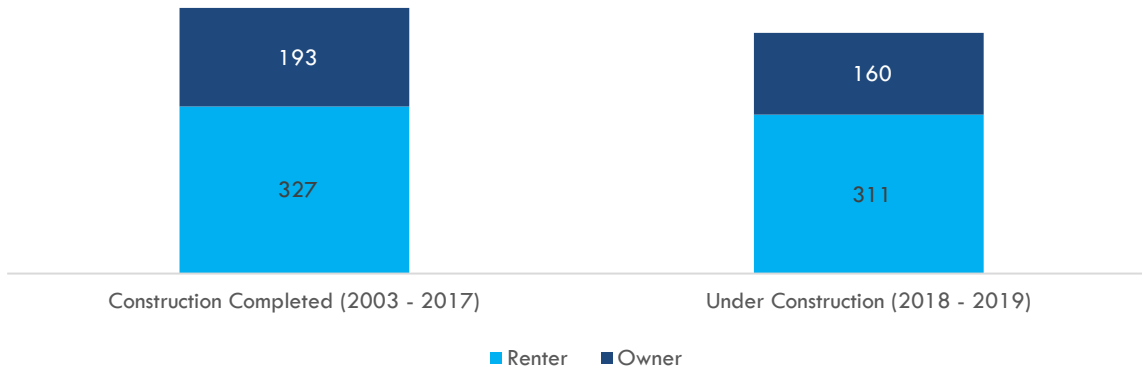
Figure 14. Percent Change in Occupied Units by Tenure and Submarket, 2012 – 2017



Source: U.S. Census Bureau, 2008 – 2012 & 2012 – 2017 American Community Survey 5-Year Estimates

Recognizing the increasing need for new housing options, the City is seeing construction of nearly the same number of units between 2018 – 2019, as were built between 2001 – 2017.

Figure 15. Building Permits, City of Newton, 2003 - 2019

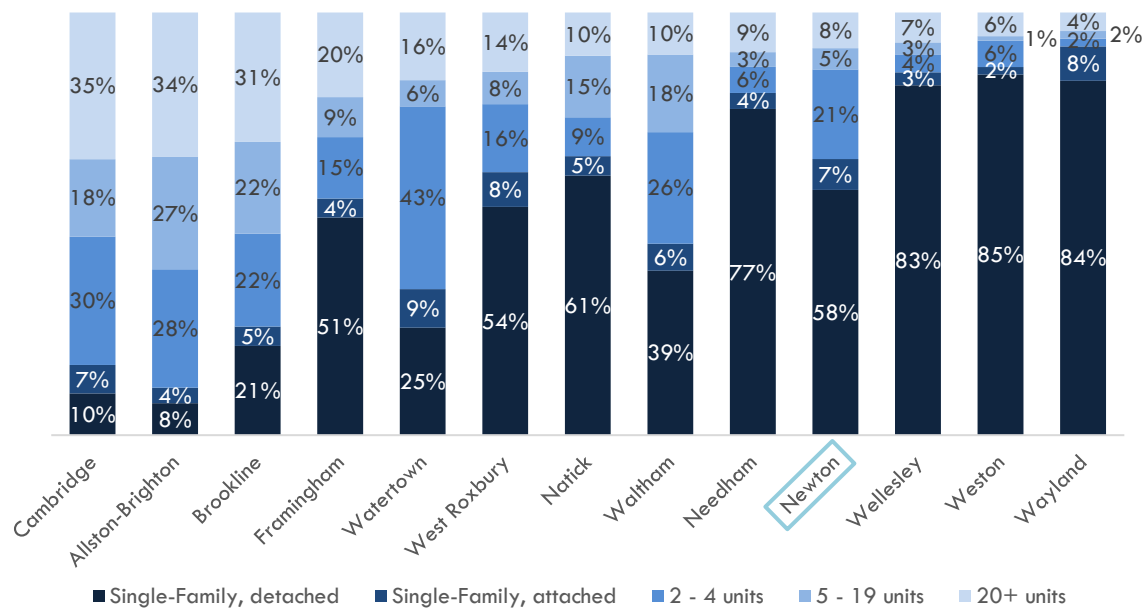


Note: Includes projects with three or more units permitted after 4/22/2003; but includes 287 Langley Road, The Terraces, approved in 2001.

Source: City of Newton Planning Department, 9/25/2019

Just 8% of occupied housing units in Newton are in multifamily buildings with 20 or more units, similar to the buildings that Mark Development is proposing. Existing large-scale multi-family developments with over 100 units in Newton include the Avalon at Newton Highlands (294 units), Woodland Station Apartments (180 units), Coleman House (146 senior affordable units), Washington Place (140 units), and Albemarle Gardens (113 units)

Figure 16. Housing Units by Type and Submarket, 2017

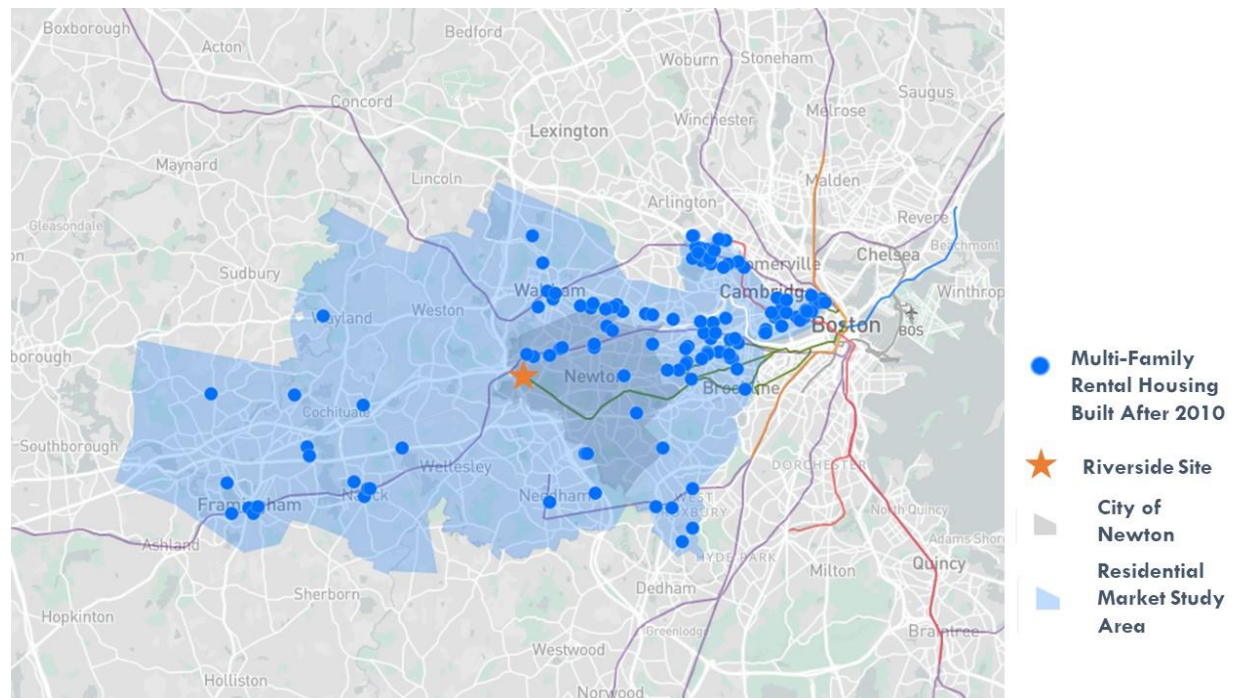


Source: U.S. Census Bureau, 2012 – 2017 American Community Survey 5-Year Estimates

Supply

Many of the new deliveries built since 2010 have clustered in the submarkets where multifamily development has typically been more prevalent including Cambridge, Allston-Brighton, Brookline, Framingham, Watertown, and Waltham. Other jurisdictions have been able to attract large-scale multifamily developments in recent years by leveraging vacant former industrial sites and underutilized parcels in close proximity to highways and rail lines which connect submarkets to downtown Boston.

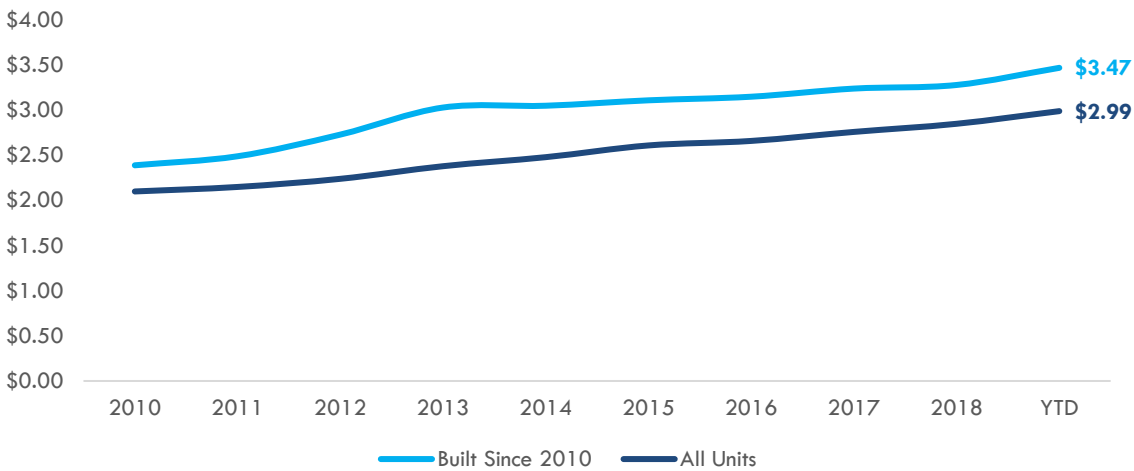
Figure 17. Multi-Family Rental Housing, Built After 2010



Source: CoStar

As a result of strong population and employment growth paired with slower net new deliveries, rents for new rental units delivered since 2010 have increased by 45% across the study area.

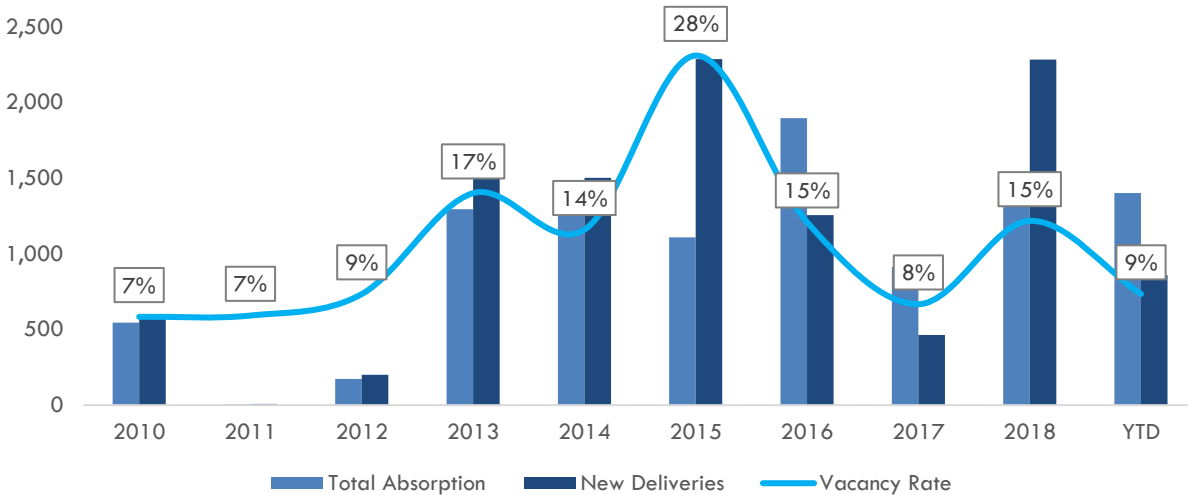
Figure 18. Change in Rent, All Classes, 2010 – Year to Date (YTD)



Source: CoStar

Strong demand has resulted in a high average annual absorption rate of over 1,000 units. The higher vacancy rate these newer buildings (9% compared to 4% for all buildings) reflects the market adjustments as new units come online.

Figure 19. Multi-Family Activity, All Classes, 2010 – YTD



Source: CoStar

Comparable Properties

The Riverside project has a smaller share of two- and three-bedroom units than other recent deliveries in Newton. In conversations, property managers mentioned that the larger two-bedroom units are particularly attractive for empty nesters. However, over time buildings have begun to incorporate a greater number of studios and three-bedroom units, particularly those seeking to attract millennials, while average unit square footage has trended downwards.

Figure 20. Unit Mix of Recent Deliveries/Construction

Building Name	Studio	1-Bed	2-Bed	3-Bed	Submarket	Year Built	Effective Rent/SF	GSF/Unit	No. of Units
Riverside	10%	51%	35%	4%	Newton	N/A	\$3.43	1,059	614
Washington Place	11%	43%	46%	0%	Newton	2020	N/A	810	140
28 Austin	0%	32%	68%	0%	Newton	2019	\$4.26	906	68
Woodland Station	0%	46%	47%	7%	Newton	2007	\$3.18	1,078	180
Avalon Newton Highlands	2%	31%	34%	33%	Newton	2003	\$2.98	1,318	294
The Merc	9%	58%	27%	6%	Waltham	2015	\$3.43	913	269
Currents on The Charles	4%	54%	41%	2%	Waltham	2015	\$2.86	938	200
The Kendrick	23%	36%	26%	15%	Needham	2018	\$3.49	884	390
Charles River Landing	0%	71%	29%	0%	Needham	2010	\$2.35	1,142	350
Elan Union Market	36%	38%	25%	1%	Watertown	2018	\$3.41	817	282
Gables Arsenal	0%	41%	34%	26%	Watertown	2016	\$3.04	1,152	296

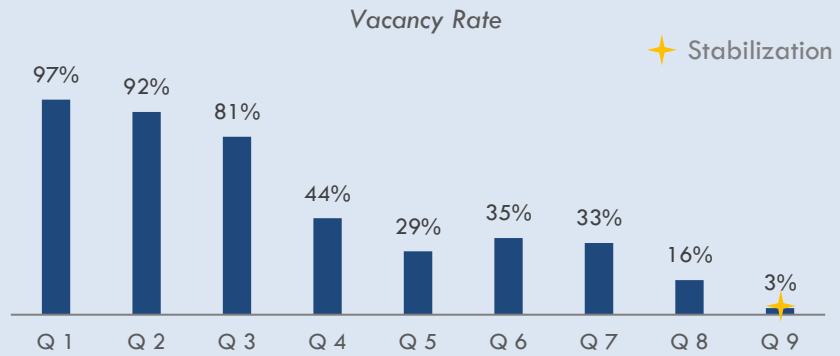
Sources: CoStar, MuniCap

The projects which have achieved the highest rents such as 28 Austin, The Kendrick, Elan Union Market, and The Merc all have a wide range of amenities including conference rooms and business centers, gyms, bike rooms, pet washing stations, game rooms, outdoor amenities (grill, fire pit, picknick area, pool, playground) and more. In order to achieve rents projected by Mark Development, the residential development on the Riverside site will similarly need to incorporate high-end amenities in addition to the retail, open space, and placemaking to achieve similar rents.

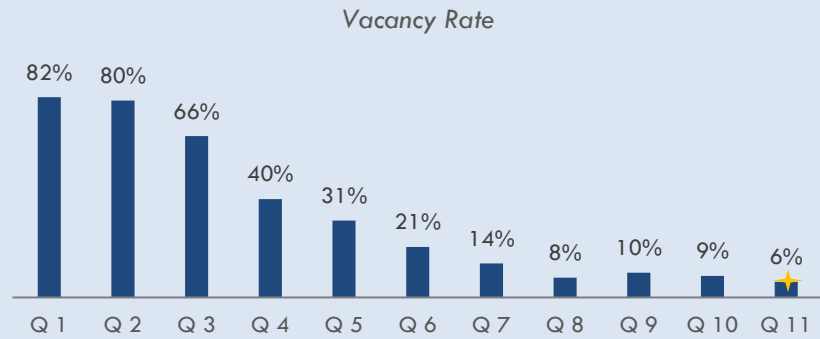
Recent large projects with between 270 – 390 units have delivered 0.7 to 1.5 spaces per unit, and required 7 to 11 quarters to reach stabilization (<10% vacancy).



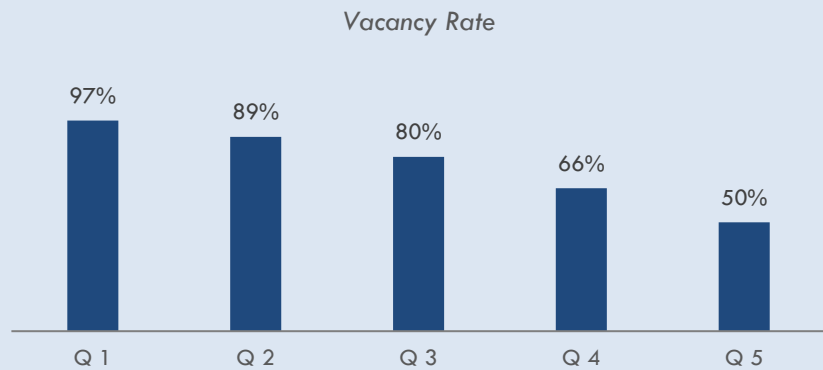
The Merc, Waltham
Units: 268
Delivered: 2015
Quarters to Stabilization: 9



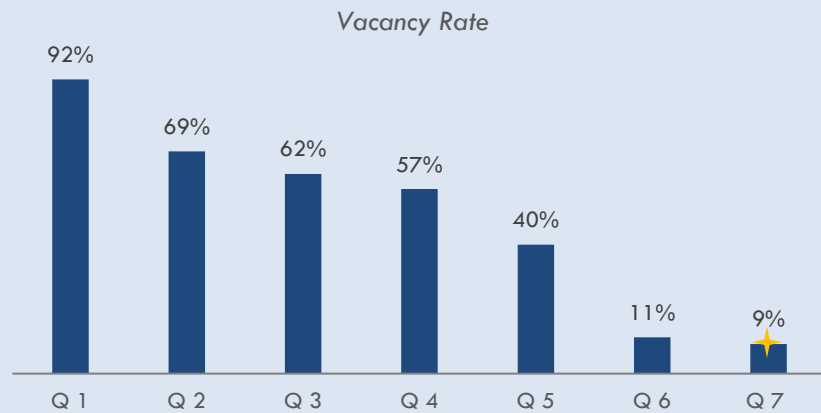
Gables Arsenal Street, Watertown
Units: 296
Delivered: 2016
Quarters to Stabilization: 11



The Kendrick, Needham
Units: 390
Delivered: 2018
Quarters to Stabilization: N/A



Elan Union Market, Watertown
Units: 282
Delivered: 2018
Quarters to Stabilization: 7
Source: CoStar



Between 2020 and 2030, the Metropolitan Area Planning Council (MAPC) in their “Stronger Region” projections, estimated that population living in the Study Area will grow by more than 30,000, creating the need for over 14,600 new housing units. In Newton alone the MAPC has estimated the City will need to add more than 1,670 new housing units. To date, more than 8,000 units have been proposed over the next 4 – 5 years, many of which may not make it to the development stage. In Newton, 1,082 units have been permitted and another 1,095 proposed. As demonstrated in the table below, the large projects including Riverside will be instrumental in allowing Newton to meet its growing housing needs for the next decade.

Building Status	Total Units	Percent Rental
Permit Granted, But Not Under Construction <ul style="list-style-type: none"> Includes Northland (800 units) 	1,082	54%
Pending Applications: Formal applications submitted to City or state subsidizing agency (40B), but no Permit granted to date <ul style="list-style-type: none"> Major projects include Riverside (617 units), Residences on the Charles 40B (204 units), and Dunstan East 40B (243 units) 	1,095	98%

Sources: City of Newton Permitting Data

DEMAND

In order to estimate the demand for new rental units at Riverside, HR&A examined the entire population of the Study Area by household income, age, housing tenure, and housing mobility. To first identify the pool of eligible households HR&A estimated the required income based on the rents and average unit square footage used in the MuniCap report (see Schedule I and Schedule IV-A). Assuming a household can spend up to 30% of their income on housing costs, HR&A estimated households would need to earn a minimum of \$147K annually to live in the market rate units. The table below lays out the estimated number of eligible households meeting this income criteria by age group who would be likely to move into a rental unit in a given year across the entire Study Area.

Figure 21. Multi-Family Rental Demand Analysis

Category	<25	25-34	35-44	45-64	65+	Total
Eligible Households	2,389	18,445	23,443	50,182	19,997	114,455
Renter Estimate	93%	71%	36%	24%	19%	35%
Renter Market	2,219	13,075	8,533	12,133	3,861	39,820
Turnover Rate	22%	13%	16%	8%	6%	12%
Total Rental Demand	495	1,750	1,403	914	236	4,798

Sources: ESRI Business Analyst, 2012 – 2017 American Community Survey 5-Year Estimates, HR&A Analysis

Mark Development proposed 617 new units, of which 509 would be market rate, equivalent to roughly 11% of the total demand for the entire Study Area (4,798) in a single year. Assuming the Riverside project can achieve average annual absorption rates similar to recent market comps of between 30 – 40 units per quarter, this would equate to a capture rate of 1.25% - 2.25% per year of the total study area, and would require the project to be phased over the course of three to four years.

Affordable Housing

AFFORDABILITY LEVELS AND APPLICABILITY TO CITY GOALS

The Mark Development Preliminary Inclusionary Housing Plan submitted to the City on December 6, 2019 outlines the unit count by number of bedrooms and Area Median Income (AMI) eligibility.

Figure 22. Riverside Proposed Inclusionary Housing Plan

Unit Type	No. of 50% AMI Affordable	No. of 80% AMI Affordable	No. of 100% AMI Affordable	Total Affordable	Share of Total Project
Studio	5	5	1	11	18.6%
1-Bedroom	22	23	8	53	16.9%
2-Bedroom	16	15	6	37	17.1%
3-Bedroom	3	3	1	7	25.9%
Total	46	46	16	108	17.5%

Source: Mark Development Preliminary Inclusionary Housing Plan, 12/6/2019

The City of Newton is committed to increasing affordable housing. Today, the City has approximately 2,543 Subsidized Housing Units¹, representing 7.5% of the City's housing stock estimated in the 2010 Census. A number of recent plans and policies published or adopted by the City have laid out a series of goals for increasing the number of affordable housing units in the City, such as 1) producing 800 net new affordable housing units by 2021 to meet the 10% threshold (Newton Leads 2040 Housing Strategy, 2016), and 2) fostering and maintaining a diverse community by providing greater housing options (Riverside Vision Plan, Inclusionary Zoning Policy).

In an effort to achieve these goals, the City revised their existing Inclusionary Housing Ordinance effective August 1st 2019, requiring all rental projects with more than 20 units to make 15% of units affordable to households earning between 50% - 80% AMI, and an additional 2.5% of units affordable to households earning 110% of AMI such that the units average to 65% AMI (total of 17.5% inclusionary units required). Beginning January 1, 2021, the threshold for units at 110% of AMI will double for rental projects with over 100 units, like the Riverside project, to 5% (total of 20% inclusionary units required).

The program outlined in the Riverside Preliminary Inclusionary Housing Plan meets the required 17.5% threshold and includes units across a range of bedroom sizes distributed evenly across eight buildings in-line with the City's stated goals of providing not only greater housing options by price point but also by bedroom count. Additionally, RKG Associates, in the City of Newton Housing Needs Analysis 2016 estimated a shortage of 848 units (ownership and rental) available to households earning 50 – 80% of AMI in Newton. The 108 rental units that will be delivered by the Riverside project at the 50% and 80% AMI threshold will help address this gap, reducing it by 13%. However, these units will not address the larger gap of 2,303 units and 1,941 units that exists for households earning under 30% of AMI or 30% - 50% of AMI respectively.

¹ A City's Subsidized Housing Inventory is the amount of low- or moderate-income housing available in the City eligible to be counted for the purpose of M.G.L Chapter 40B.

Office Market

PROPOSED RIVERSIDE PROGRAM

Mark Development is proposing one new office building at the Riverside site, which will add 243,387 square feet of Class A office space. Class A office is typically the most desirable office space in the market suggesting a new property built with high-quality materials, a variety of amenities and great accessibility.

Figure 23. Riverside Proposed Office Program

Building	Office GFA	Other Uses
Building 1	243,387	7,500 GFA MBTA office
Total	243,387	7,500

Source: Mark Development, December 2019 Revision

LOCAL CONTEXT

The City of Newton currently has 1.45 million square feet of Class A office space across 10 buildings, primarily concentrated in the Wells Avenue office park and along Washington Street in Newton Corner. Compared with neighboring suburbs along the Route 128 Corridor, the City of Newton has a relatively low supply of office space, a smaller share of parcels with visibility to the Route 128 Corridor, lower office rents, and higher vacancies.

Figure 24. Class A Office Supply and Performance Across Neighboring Submarkets

	Total Class A Office (SF)	Vacancy Rate	Annual Gross Office Rent	Net Absorption Since 2014 (SF)
Burlington	6,380,766	11.0%	\$35.88	505,377
Waltham	8,518,422	10.2%	\$35.16	1,363,778
Needham	1,716,952	9.9%	\$34.56	682,168
Newton	1,450,180	12.4%	\$27.96	16,858

Source: CoStar

As highlighted in the City's *Economic Development Action Plan* commercial property taxes are responsible for a small share of total property tax collections, despite such property being taxed at double the residential rate. In Newton, commercial properties account for just 8.7% of total property value, compared to nearly 18% in Watertown and more than 30% in Boston and Waltham. Reliance on residential property as the major contributor to property tax revenues, rather than the addition of new commercial uses, has limited the City's ability to grow their tax revenue. As a result, it is one of the City's goals to increase the commercial tax base which would help the City to more quickly increase revenue without increasing costs for residents. The Riverside site presents a rare opportunity, as the only large development site with visibility to Route 128 and transit access, for the City to leverage its proximity to an expanding office market in order to grow Newton's commercial tax base.

Furthermore, recent economic development initiatives represent a shifting interest on behalf of the City to position itself as a hub of innovation. In 2016, the City of Newton, the Town of Needham, and the Newton-Needham Regional Chamber designated a 500-acre area along Route 128 as the N2 Innovation District. Since then, the N2 Innovation District comprised of Needham Crossing, Wells Avenue, and Founders

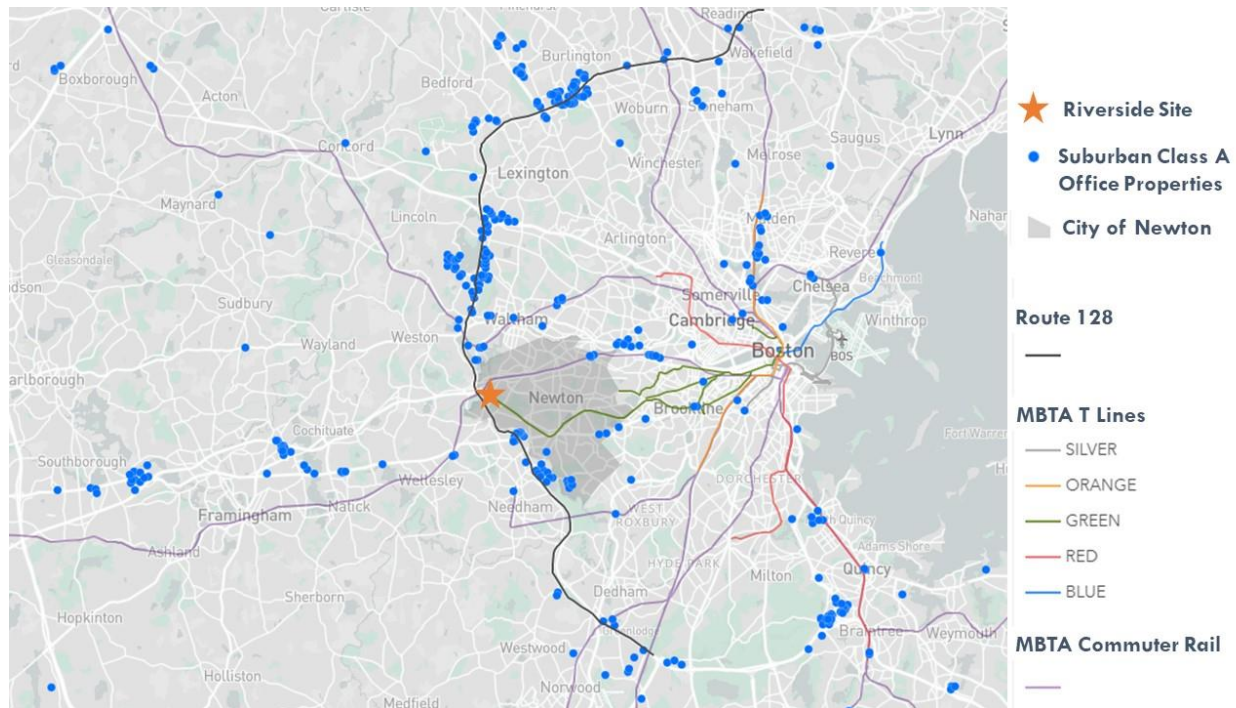
Park, has attracted new and growing employers including CoachUp, Empow, Boston Ballet, Examity, Stop & Shop, SharkNinja, NBCUniversal, CyberArk and Karypharm.²

REGIONAL MARKET OVERVIEW

Study Area

The positioning of the Riverside site’s office program should be considered within the regional context of the suburban Boston office market. In recent years, high rents in downtown Boston and the Seaport have pushed office tenants to once again look toward suburban office markets such as the Mass Pike and Route 128 Corridor. This is particularly true for life sciences, medical, and lab spaces, where high rents and close to zero vacancy in innovation districts like Cambridge’s Kendall Square are forcing tenants to look to the suburbs for more accommodating lab space.³ While both the Mass Pike and Route 128 Corridor were examined, this study focuses on the Route 128 Corridor which is experiencing greater growth.

Figure 25. Suburban Boston Class A Office Properties (Excluding Boston and Cambridge)



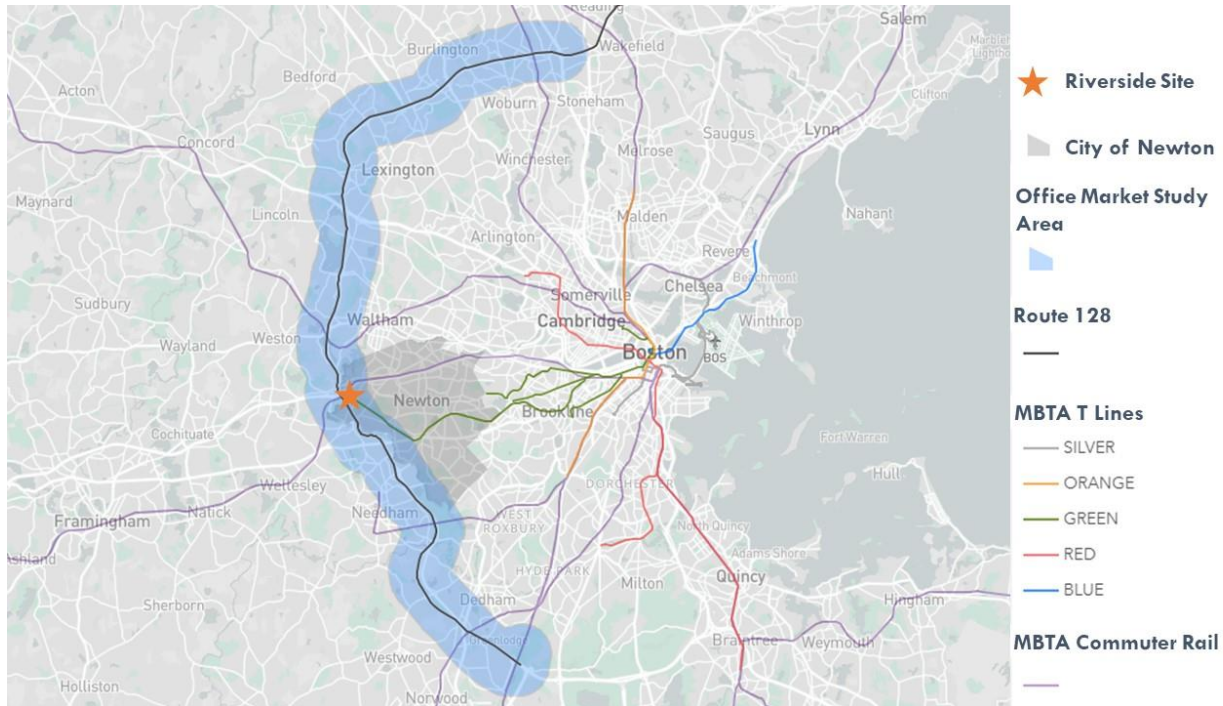
Source: CoStar

For the purposes of this analysis, the Route 128 Corridor is defined as a 1-mile buffer stretching from the intersection of 95/93 in Reading/Stoneham to the 95/93 split in Milton/Canton.

² Newton-Needham (N-Squared) Innovation District, March 2019.

³ Lincoln Property Company, *Route 128 and Interstate 495 Suburban Office Market Report*, Third Quarter 2019.

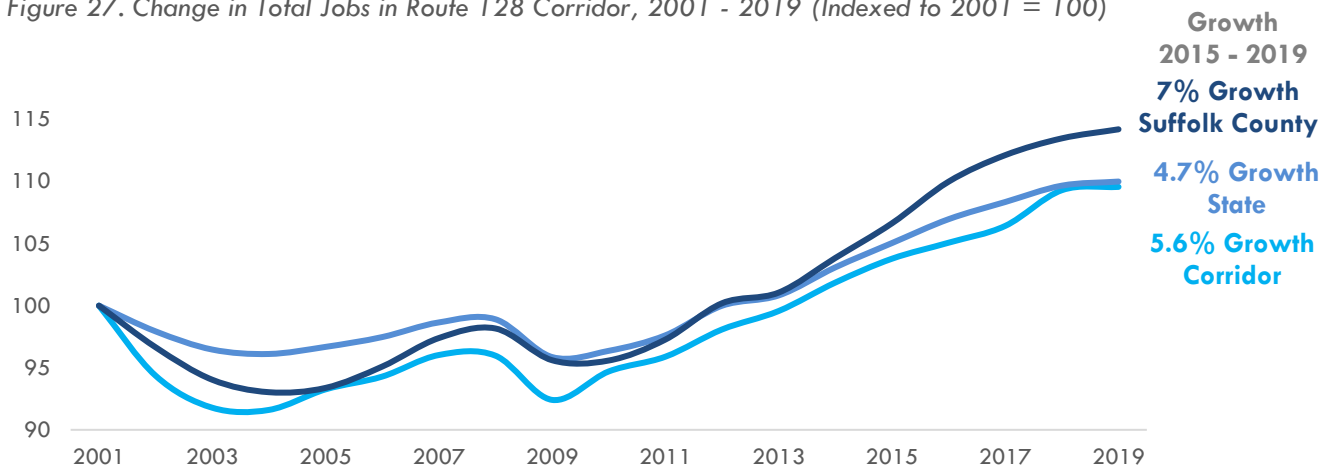
Figure 26. Office Market Study Area



Demographic Trends

Following the recession, the Route 128 Corridor has benefited from strong job growth. While slower than growth in Suffolk County (home to Boston, Cambridge) as a whole, the Route 128 Corridor outpaced statewide trends, achieving a growth rate of 5.6% between 2015 and 2019.

Figure 27. Change in Total Jobs in Route 128 Corridor, 2001 - 2019 (Indexed to 2001 = 100)

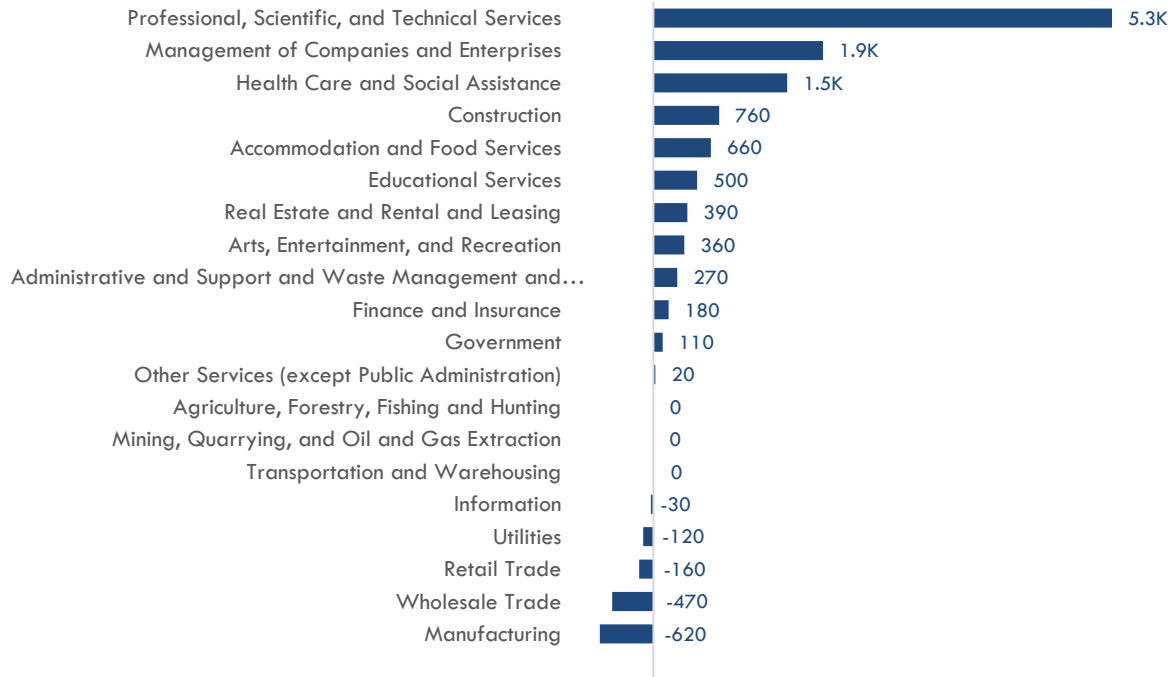


Source: Emsi

Job growth within the Corridor has been driven by high paying professional jobs. Between 2015 and 2019, the two highest growth industries which together accounted for 17% new jobs were Computer Systems Design

and Management with an average annual wage of \$180K, and Scientific, Research and Development Services with an average annual wage of \$210K.

Figure 28. Job Growth in the Route 128 Corridor, 2015 – 2019



Source: Emsi

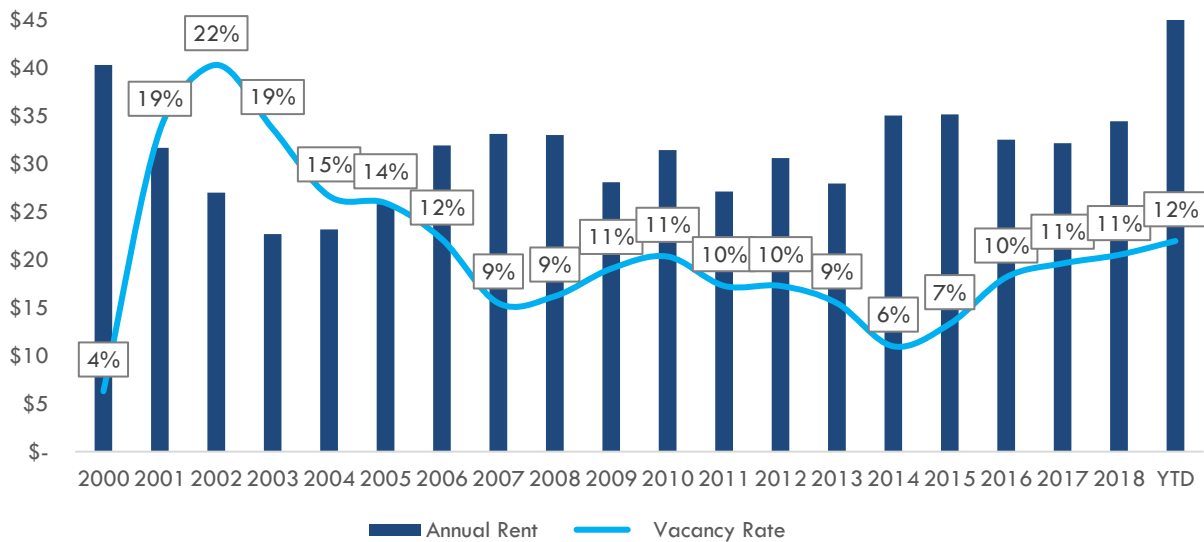
Real Estate Trends

Supply

The total supply of Class A office space in the Route 128 Corridor is 21.2 million square feet across 134 buildings. This is approximately one third of the size of the City of Boston’s Class A office supply.

Both rents and vacancy rates have been on the rise in the Route 128 Corridor in recent years and are currently at 12% and \$46 per square foot annually. New office space delivered in the last five years has a significant rent premium with annual gross rents reaching \$68 per square foot annually. However, vacancy rates for recent product are similarly high around 12%.

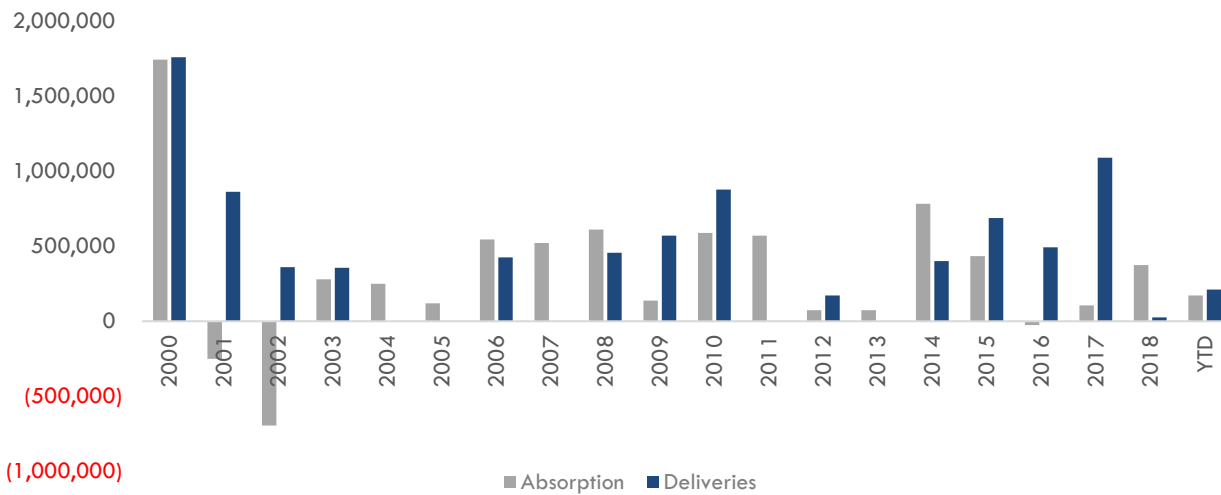
Figure 29. Route 128 Office Market Performance



Source: CoStar

Since 2000, over 7 million square feet of Class A office space has been delivered to the Route 128 Corridor, which represents roughly 41% of total office supply in the Corridor. Over the last five years (2014 – 2018), 2.7 million square feet has been delivered across 10 buildings, however deliveries have consistently outpaced absorption, with average annual absorption at 334,120 square feet and average annual deliveries at 539,230 square feet. This is likely due to the fact that the Route 128 Corridor attracts many large built-to-suit headquarters.

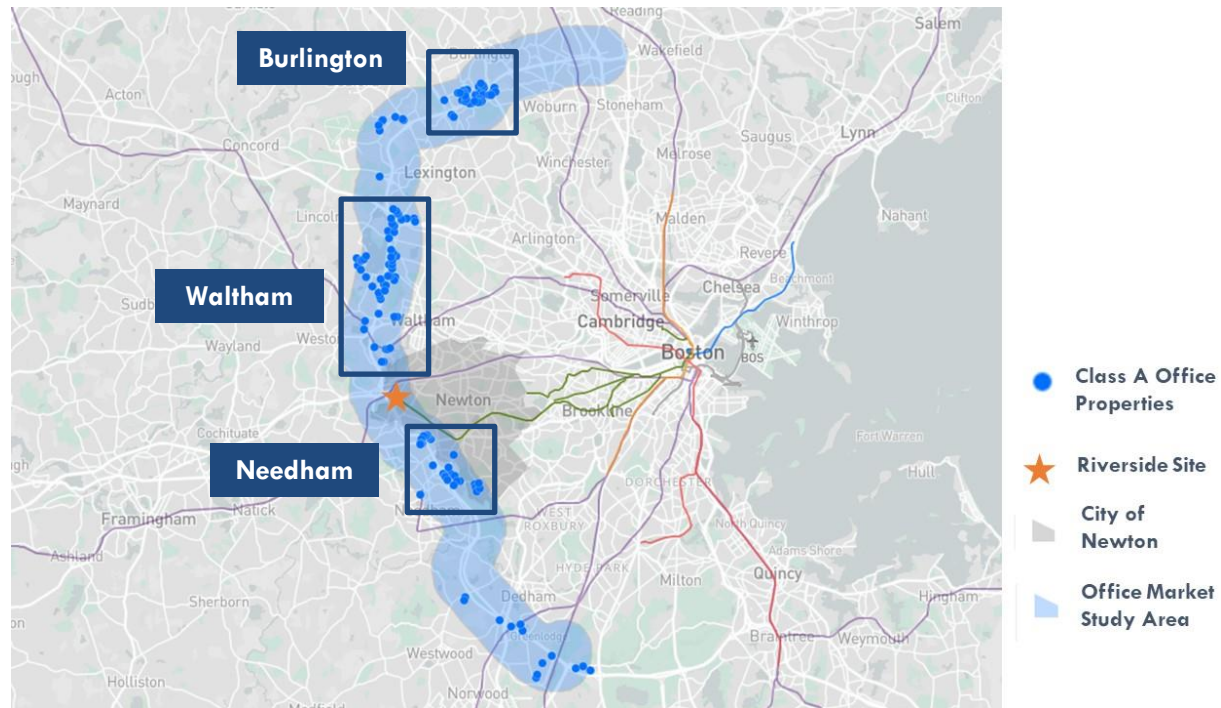
Figure 30. Route 128 Office Market Activity



Source: CoStar

The Route 128 office market is driven by three primary office clusters: Burlington, Waltham and Needham.

Figure 31. Office Market Clusters along Route 128 Corridor



Source: CoStar

The Burlington submarket offers 4.8 million square feet of office space, representing almost a quarter of the Route 128 Corridor total office market area. Just twenty-minutes north of Boston, this sub-market is well positioned to draw tenants and employees from Boston, as well as provide connection to the North Shore of Boston and Southern New Hampshire through its proximity to I-495, I-95, and Route 1 North. With current vacancy rates of 10.8% and gross annual rents of \$35.88, this is a top-performing market that benefits from its proximity to the retail amenities of the Burlington Mall. Office development in the Burlington submarket demonstrates suburban office appetite for urban amenities, with tenants seeking spaces that can attract and retain millennial talent through amenity-rich programs such as restaurants, curated shopping experiences, fitness centers, and community events.

The Waltham submarket comprises 38% of the total Class A office market on the Route 128 Corridor, offering over 8 million square feet of office space. Waltham has experienced a boom in high-end office development, with over half (4.5 million square feet) of the total submarket supply delivered to the market since 2000. Waltham’s submarket is a primary example of build-to-suits dominating the office market, and several office tenants have relocated to Waltham in recent years because of a large supply of expansive space for corporate campuses situated on the Route 128 Corridor promising close proximity to Boston. Recent deliveries to Waltham’s Route 128 office market include a 240,000 square foot addition to the City Point office park, which is home to software company Infinidat, biotech company Evidera, and the corporate campus headquarters of shoe companies Saucony and Sperry. In the spring of 2018, The Post at 200 Smith Street opened, a speculative 430,000 square foot redevelopment of a historic postal service distribution center with a new open-floor plan and flexible office space offerings. Tenants include biotech company ElevateBio which relocated from Cambridge’s innovation district of Kendall Square, and Dicphera Pharmaceuticals.

The Needham office submarket is comparable in size to Newton's share of the Route 128 Corridor, with 1.7 million square feet of Class A office space. Like Waltham and Burlington's submarkets, Needham benefits from its proximity to Boston, just 20-minutes west on the Mass Pike, and it also leverages its access to the nearby Needham Heights commuter rail station. Route 128 Corridor office space in Needham currently has vacancy rates of 9.6% and annual gross rent at \$34.56/SF. Needham's office supply is largely concentrated in Founders Park, a 41-acre campus with over 1 million square feet of office space accompanied by 20,000 square feet of retail amenities and 256 hotel rooms. Recent deliveries include 89 A Street, a 247,000 square feet space occupied by Steward Health Care Network, and 400 First Avenue, the 280,000 square foot world headquarters of TripAdvisor Inc. Founders Park, with its addition of the Kendrick, also demonstrates trends toward the mixed-use office districts with residential programs.

Comparable Properties

Figure 32. Recent Office Deliveries

Building	Submarket	Year Built	Square Feet	Gross Rent Per Square Foot	Tenants
Riverside	Newton	N/A	523,509	\$35	N/A
Riverside Center	Newton	2000	510,000	\$34 - \$42	Regus, TechTarget, Silicon Valley Bank, PayPal, Parexel, Starbucks Regional
2 Wells Ave	Newton	2017	130,000	\$44 - \$54	Bright Horizons
Burlington Research Center	Burlington	2014	280,000	\$31	Keurig Green Mountain, Concentric Visions
Millipore Sigma Life Center	Burlington	2017	280,000	\$45 - \$55	MilliporeSigma
The Post	Waltham	2017	430,000	\$57 - \$70	ElevateBio, Diciphera Pharmaceuticals
10 City Point	Waltham	2016	241,000	\$49 - \$60	Saucony, Sperry, Evidera, INFINIDAT
400 First Ave	Needham	2013	280,000	\$39	Trip Advisor
89 A Street	Needham	2017	247,000	\$39	Steward Health Care Network, Shark Ninja

Source: CoStar

DEMAND

Trends in recent development projects and lease-ups in the Route 128 Corridor suggest that Class A office tenants seek built-to-suit space with significant land area that can support headquarters and attractive amenities for the growing workforce. High visibility from Route 128, and proximity to highway infrastructure for ease of commute, continue to be demand drivers in the market.

Given the current state of the life sciences industry in Massachusetts and the resulting pressures on the Boston and Cambridge office market, there is reason to suggest increased appetite for office space in the Route 128 Corridor beyond what is currently being absorbed. The wave of life sciences companies leaving Boston and Cambridge are moving into large and flexible floor plates that can host the operations of these tenants in less expensive locations.

Given these trends and the Riverside site's premier location with visibility to Route 128, the size of the office program that can support larger office tenants, and access to the MBTA, the lease up of office space in the site remains feasible.

Retail Market

PROPOSED RIVERSIDE PROGRAM

Mark Development is proposing over 43,242 square feet of new retail across five mixed-use buildings.

Figure 33. Riverside Proposed Retail Program

Building	Retail GFA	Other Uses
Building 4	3,792	Residential
Building 6	6,886	Residential
Building 7	7,785	Residential
Building 8	3,218	Residential
Building 9	21,560	Residential
Total	43,242	

Source: Mark Development, December 2019 Revision

LOCAL CONTEXT

The City of Newton currently has 2.5 million square feet of retail space, which equates to 28 square feet of retail per capita.⁴ Newton is similarly retailed on a per capita basis to neighboring Needham and Wellesley, but trails behind stronger destination retail submarkets like Waltham and Burlington. Mark Development has proposed neighborhood scale retail for the Riverside site. Neighborhood retail includes convenience goods such as personal care, grocery and food and beverage.

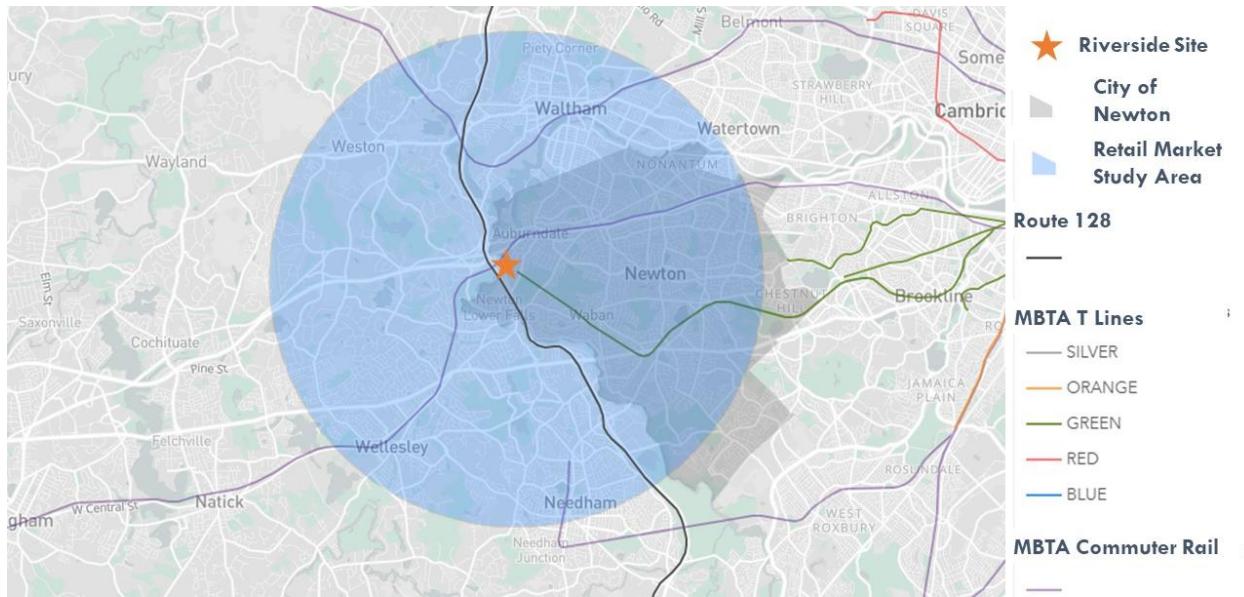
LOCAL MARKET OVERVIEW

Study Area

For the purposes of this analysis, the retail market area is defined as a 4-mile radius from the Riverside site, which equates to roughly a 10-minute drive-time. This captures the typical retail area for convenience goods.

⁴ For the purposes of the retail market study, retail spaces below 3,000 square feet were excluded from the market scan.

Figure 34. Retail Study Area

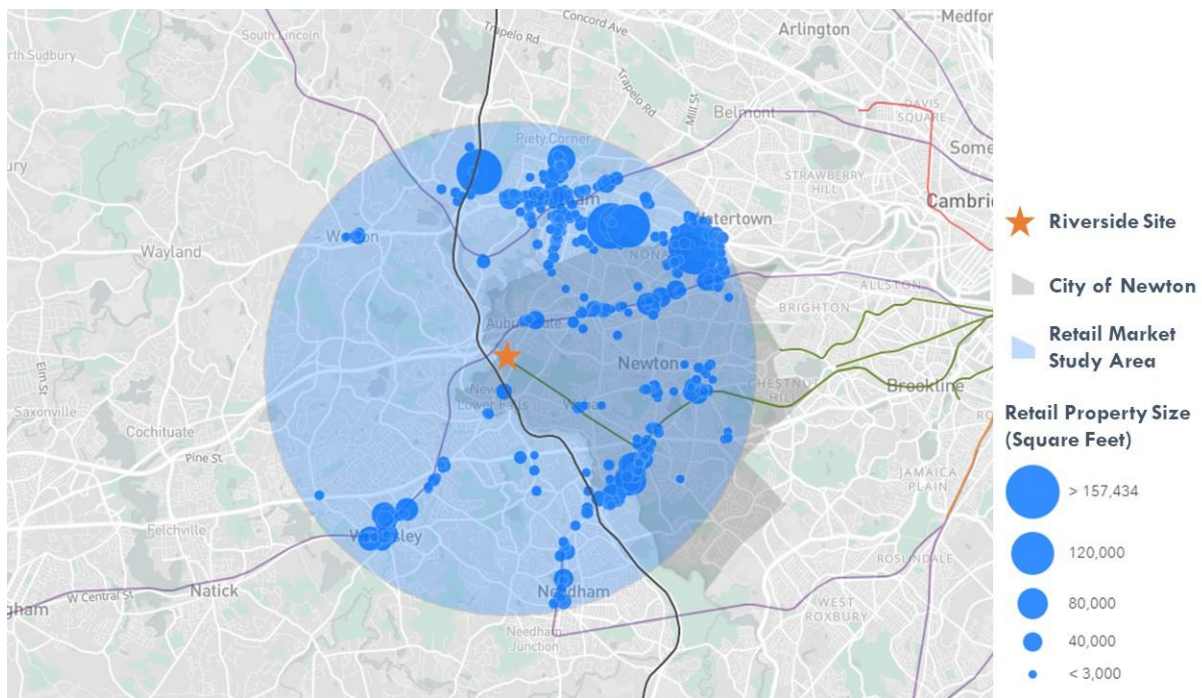


Real Estate Trends

Supply

There is currently over 7 million square feet of retail space within the 4-mile radius of the Riverside site. The average size of these retail spaces is 7,400 square feet.

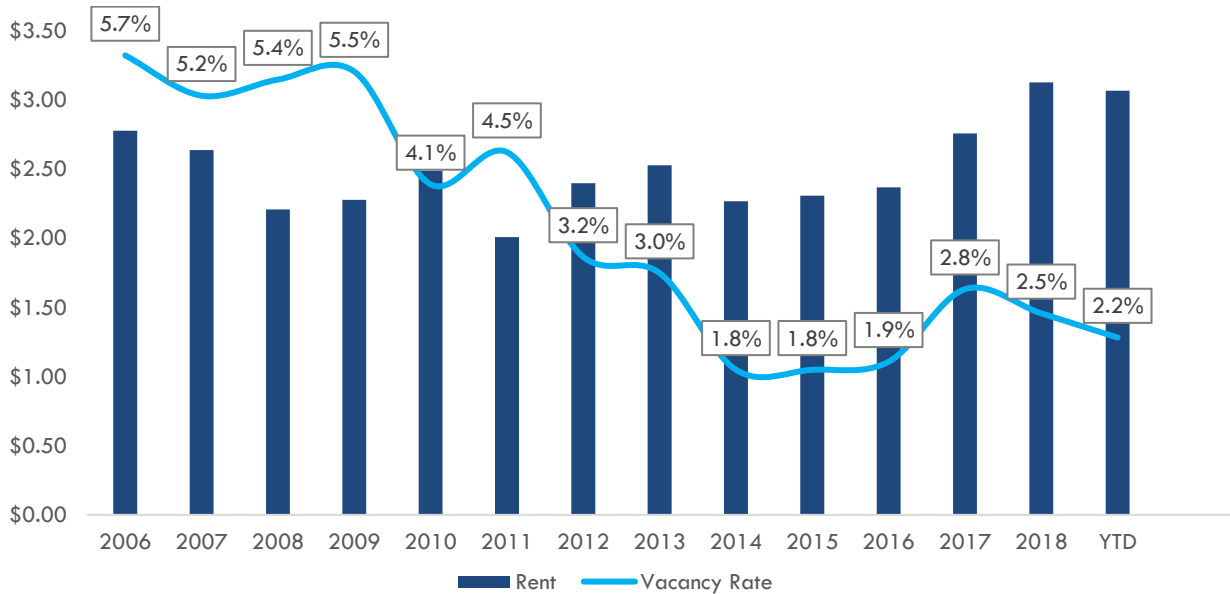
Figure 35. Retail Market Supply by Square Feet



Source: CoStar

Retail rents in the Study Area are at an all-time high of almost \$39 per square foot and vacancies are as low as 2.2%. New deliveries (built since 2013) are similarly performing well with current vacancies of 2.1%, and a significant rent premium, with annual gross rents of \$56 per square foot.

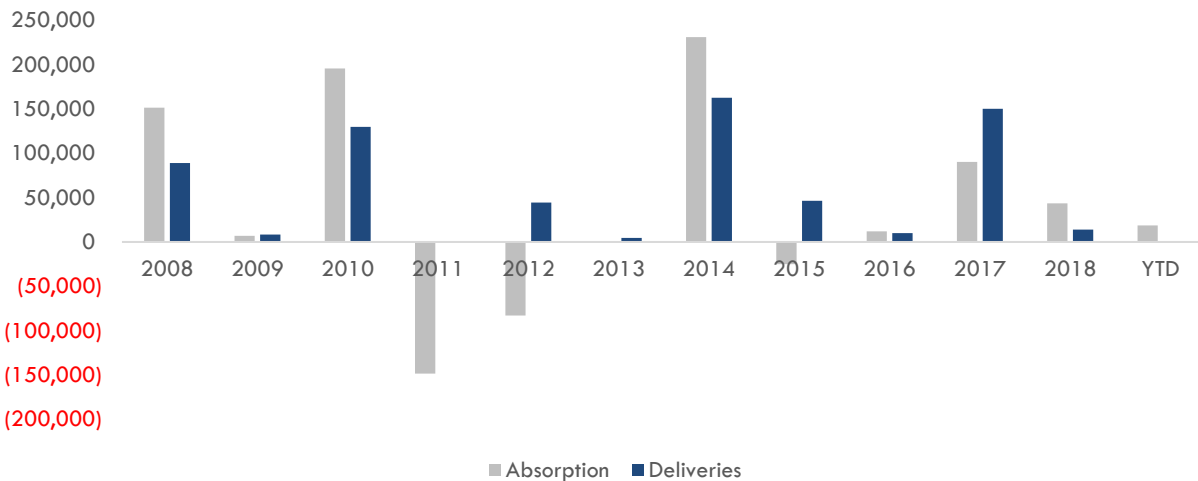
Figure 36. Retail Market Performance



Source: CoStar

The apparent strength of retail over the last five years is likely driven by a lack of new deliveries across most of the Study Area. The exception is the Newton Nexus Shopping Center, where three new buildings delivered in 2017 for a total of 150,000 square feet accounted for nearly half of the total 387,000 square feet delivered in the Study Area. Current tenants include TJ Maxx, Stop and Shop, Sierra Trading Post, Qdoba Mexican Grill, and Boston Ski and Tennis.

Figure 37. Retail Market Activity



Source: CoStar

Retail in the Study Area is either clustered around pedestrian downtown areas like Newton Center and West Newton’s Washington Street or car-oriented strip malls such as Needham Street in Newton.

Washington Street, which is the main retail corridor in West Newton, offers approximately 655,000 square feet of retail, including restaurants, small grocery stores, banks, hair salons, dry cleaners, banks, gyms, and a CVS. This corridor, which is less than a 5-minute drive from the Riverside site, is also in walking distance of the West Newton commuter rail station and runs parallel to the Mass Pike.

Newton Center is a pedestrian-oriented downtown centered around Newton’s town green. Retail in this area performs better than the market area as a whole, with lower vacancies and rents up to \$52/SF. In addition to neighborhood service retail such as CVS and Walgreens, Newton Center offers high-end retail options and boutique shops and restaurants. Newton Center also benefits from its close proximity to the Newton Center stop on the MBTA Green Line.

Needham Street in Newton Highlands offers over 1 million square feet of retail space, representing 15% of the total study area supply. Despite being just one mile from the Eliot Green Line stop, Needham Street is a car-oriented retail strip with strip malls of department store options (Marshalls, TJ Maxx, Home Goods, Men’s Warehouse) and chain restaurants (McDonalds, FiveGuys, Chipotle). This corridor is not performing as well as other retail clusters, with comparably high vacancy rates of 15% and lower rents of \$26.27/SF.

Conversations with retail market professionals suggest that banks and service retail such as grocery stores are among the strongest retail categories, as well as local food retailers, particularly the upscale options in Newton Center, that contribute to placemaking and street activation.

Figure 38: Retail Clusters in Study Area

Neighborhood Retail Cluster	Submarket	Square Feet	Top of Market Rents	Vacancy	Types of Tenants	Scale
Riverside	Newton	71,070				
Washington Street	Newton	655,000	\$36	1.3%	Convenience: restaurants, small grocer, banks, hair salons, dry cleaners, banks, gyms, pharmacy	Pedestrian-oriented downtown
Newton Center	Newton	435,000	\$62	0.6%	Convenience: pharmacies, boutique shops and restaurants	Pedestrian-oriented downtown
Needham Street	Newton	1,100,000	\$36	15%	Big Box	Car-oriented strip malls

Source: CoStar

DEMAND

As a terminus station on the Green Line, Riverside's retail program is well positioned to capture demand from transit ridership. In 2018, the Riverside Station had an average of 895 entries each day. However compared to other MBTA stations, the Riverside Station is relatively underutilized, and daily entries represent less than 1% of overall T-ridership. The Riverside site also serves the drop off and pick up location for regional bus service between Boston and New York, with six buses and 330 passengers arriving and departing each day. In addition to regional bus, the Riverside site also serves as the drop off and pick up point for a number of local shuttles connecting to nearby office parks, hospitals and college campuses.

The Riverside proposal will likely generate additional demand through on-site residents, hotel visitors, and office employees. Given the location of the Riverside site and the scale of the proposed retail program, service retail options, such as grocers, banks, fitness centers, are viable options for Riverside's retail tenants. The site is well-positioned to capture on-site demand generated by residents and employees, but competition with existing retail clusters in the study area suggest it is unlikely to become a primary retail destination.

Hotel Market

PROPOSED RIVERSIDE PROGRAM

Mark Development is proposing a 150-room hotel, which will replace the current 191-room Hotel Indigo.

Figure 39. Riverside Proposed Hotel Program

Building	Number of Stories	Maximum Height	Building GFA	Hotel Rooms	Other Uses
Building 2	6	69	79,683	150	N/A
Total				150	

Source: Mark Development, December 2019 Revision

LOCAL CONTEXT

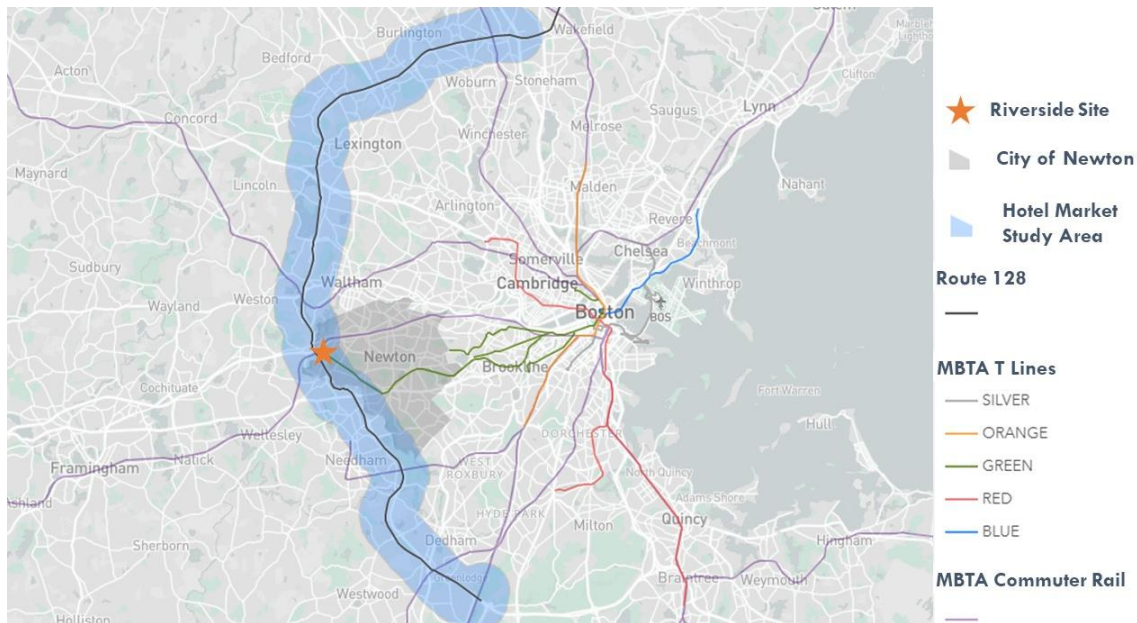
There are currently only three hotels in the City of Newton: the 270-room Crown Plaza on the border of Newton-Boston, the recently-renovated 430-room Boston Marriot Hotel just north of Riverside adjacent to Route 128; and the slated-for-demolition Hotel Indigo.

REGIONAL MARKET OVERVIEW

Study Area

In general, the hotel options in Newton target the business traveler, positioning themselves as desirable locations for their proximity to transit such as Route 128 and the Mass Pike and the employment hubs they serve. As such, the positioning of the Riverside’s site hotel program should be considered, like that of the office program, within the context of the Route 128 Corridor.

Figure 40. Hotel Market Study Area

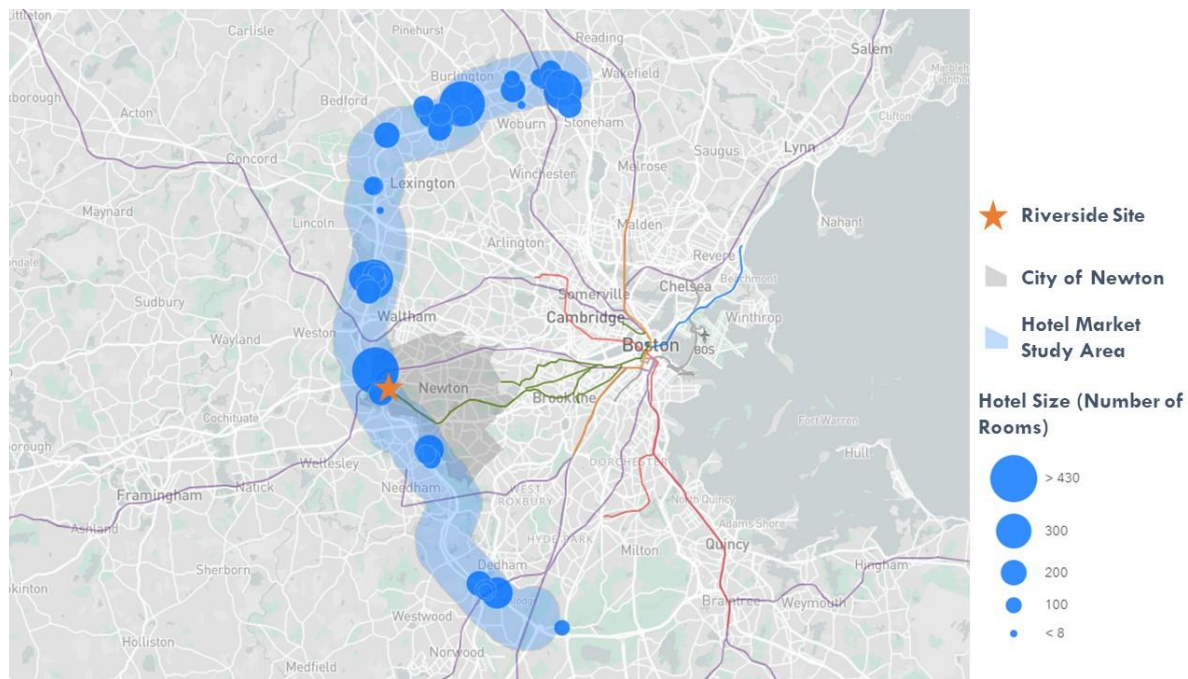


Real Estate Trends

Supply

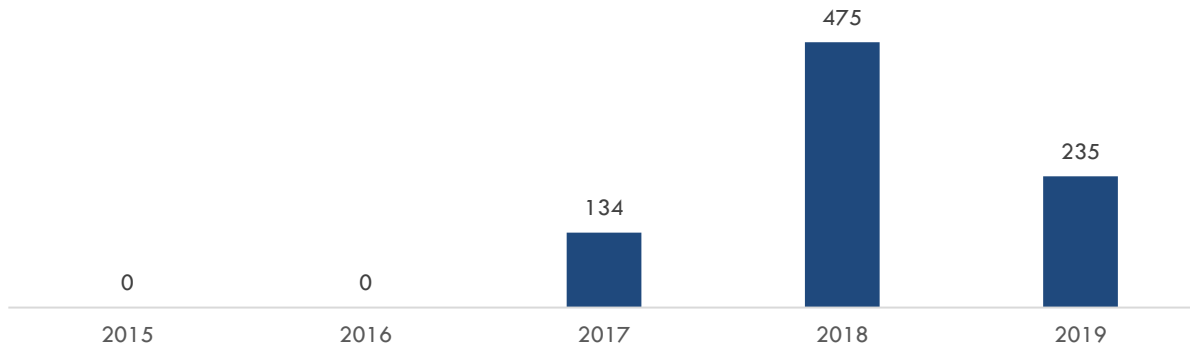
There are over 40 hotels with over 7,00 rooms within the Route 128 Corridor. This represents approximately 1 hotel room for every 28 jobs supported in the market area. The hotel supply in the Route 128 Corridor is largely co-located with the office clusters, with large hotel submarkets located in Burlington/Woburn and Waltham/Lexington. Since 2015 more than 5 hotels and 779 rooms have been added to the Corridor expanding the supply by 11%. These new hotels include a range of amenities such as an indoor pool, gym, meeting space, and dining options or in-suite kitchens. Even with the increase in recent deliveries, the existing Hotel Indigo continues to achieve a high occupancy rate of nearly 80%.

Figure 41. Hotel Market Supply by Number of Rooms






Sources: CoStar

Figure 42. Recent Hotel Deliveries, by Number of Rooms (2015 – YTD)



Sources: CoStar

Figure 43. Recent Hotel Deliveries

<p>Homewood Suites by Hilton Needham Heights, MA</p> 	<p>Residence Inn by Marriot Waltham</p> 	<p>Archer Hotel Burlington</p> 
<p>Built: 2017 Rooms: 134</p>	<p>Built: 2018 Rooms: 190</p>	<p>Built: 2018 Rooms: 147</p>

Source: CoStar.

DEMAND

Based on the market scan, HR&A concludes that the proposed 150 room hotel, replacing the existing 191 room Hotel Indigo is supportable and will continue to capture this market share with even greater demand generated by the office and housing on-site.

Section III. Economic and Fiscal Benefits Analysis

HR&A reviewed the revised economic and net fiscal benefits resulting from the Riverside project estimated by MuniCap and submitted on February 5, 2020. This section evaluates the reasonableness of the methodology, approach, data sources, and conclusions reached by MuniCap and in certain cases explores the impact to the City resulting from a different set of assumptions as a high-level stress test to the model to better understand the potential range of outcomes.

Based on HR&A's assessment of the MuniCap analysis, the estimated impacts are reasonable given the current level of information about the site program.

Mark Development proposes to replace the existing 935 surface parking spaces and 191-room Indigo hotel with 509 market rate apartments, 108 affordable units, 43,242 square feet of retail, 243,387 square feet of office (excluding 7,500 of MBTA office space), 150 hotel rooms and 1,990 parking spaces.

Economic Impact

MuniCap estimated the on-going annual economic impacts of the proposed Riverside development at stabilization in 2020\$. Using IMPLAN software, MuniCap predicted the site would support 1,357 total jobs and \$86M in annual compensation.

Figure 44. MuniCap Economic Impact Summary

	Jobs	Annual Compensation	Income per Employee
Office			
Direct	649	\$50,254,265	\$77,429
Indirect	407	\$22,044,436	\$54,168
Total	1056	\$72,298,701	
Retail			
Direct	104	\$3,398,458	\$32,743
Indirect	28	\$1,786,765	\$62,914
Total	121	\$4,737,421	
Hotel			
Direct	60	\$3,799,735	\$63,078
Indirect	32	\$1,996,057	\$62,572
Total	92	\$5,795,792	
Apartment Management			
Direct impacts	49	\$1,353,144	\$27,665
Indirect impacts	28	\$1,654,200	\$58,868
Total	77	\$3,007,344	
Total Impacts			
Direct	862	\$58,805,602	
Indirect	495	\$27,481,458	
Total	1,357	\$86,287,060	

Source: MuniCap

HR&A's professional review of the MuniCap analysis is focused on understanding the extent to which the analysis appropriately reflects the expected fiscal impact on the City of Newton associated with the

proposed development. As a result, this analysis is focused on understanding ways in which changes to MuniCap's assumptions about the program and potential users resulting from different market dynamics might increase or reduce benefits of the project for the City. Specific notes on the MuniCap economic impact analysis detailed in the analysis below center around assumptions related to the program overall as well as office, retail, residential, and hotel uses.

OVERALL ANALYTIC ASSUMPTIONS

- **Project Phasing** – MuniCap estimated all impacts at the year of stabilization in 2020\$, acknowledging that the project will in reality be phased over five to seven years, and as a result, these impacts will not be fully realized until completion of the project.
- **One-Time versus Ongoing Impacts** – This analysis does not include the impacts from construction or infrastructure spending from either public or private sources. While the total construction spending and job creation does not impact the net fiscal benefits to the City on an annual basis, it will provide a one-time economic, employment, and fiscal benefit to the City that is not currently captured in this analysis.
- **Multipliers** – MuniCap used County-level multipliers from IMPLAN to estimate the impact of the Riverside project in terms of new jobs, wages and economic output generated. This means the indirect and induced employees are generated County-wide and not specifically within the City of Newton. However, as is commonly done, the fiscal analysis only takes into account direct impacts. Indirect and induced impacts, which will undoubtedly accrue, and which will likely produce benefits at both the County and City level, are not accounted for in either the MuniCap or HR&A analysis.

ASSUMPTIONS BY LAND USE

Office

Estimate:

- Estimated direct office employment of 649 Full Time Equivalent (FTE) jobs assumes 375 square feet per worker and a 0% vacancy rate.

Notes:

- The 0% vacancy rate reflects the MuniCap assumption that the Riverside project office space will be built-to-suit. This assumption aligns with recent construction trends along the Route 128 Corridor, where several new office buildings are built-to-suit.
- The assumption of 649 FTE's is driven in part by a conservative estimate that jobs at Riverside will look like jobs in the rest of the suburban Boston market (see Figure 45 below). This is a reasonable assumption given there is no indication of a tenant for the site currently. However, from a market perspective, there is an opportunity to attract biotech and other technology related tenants who are being priced out of Cambridge and Kendall Square. Should the Riverside site attract tech tenants, the economic impact of the project may be higher.

Figure 45. MuniCap Office Industry Distribution

Sector Description	Sector Allocation
Office administrative services	40%
Facilities support services	10%
Business support services	10%
Accounting, tax prep, bookkeeping, payroll	15%
Legal services	5%
Management consulting services	20%

- The 375 square feet per worker assumption is based on the overall average square feet per worker as quoted in the *Building Owners and Managers Association International 2019 Office Experience and Exchange Reports* for office properties in the Massachusetts market. Commercial real estate trends nationwide have illustrated a decline in the number of square feet per worker, and estimates from different sources frequently vary widely. For example, according to Cushman Wakefield's occupier report, *Space Matters* published in 2018, between 2009 and 2018, the number of square feet per worker in the Boston market declined by 4% to 184 square feet per worker. In the event the Riverside site supports the higher density worker square feet similar to the Boston office market, this would result in a total of 1,323 FTE direct employees and 829 additional indirect and induced jobs thereby increasing the total wages and economic output of the project.

Retail

Estimate:

- Estimated direct retail employment of 104 FTEs is generated by IMPLAN based on the MuniCap assumption of \$397 sales per square foot and a 5% vacancy rate across a mixed retail program.

Notes:

- MuniCap's estimate of \$397 sales per square foot is the average sales per square foot across a variety of retail uses excluding restaurant uses. While not included in the retail program, the average sales for restaurant uses is estimated to be \$420. These program and sales assumptions are very reasonable given the extent to which the retail tenant mix for the development remains undetermined. However, it is worth noting that, should the project attract food and beverage operators, the economic impacts from the retail segment may be higher than those estimated by MuniCap. Given the additional tax on meals, the addition of food and beverage vendors on-site would also increase the fiscal revenue for the City.

Hotel

Estimate:

- Estimated direct hotel employment of 60 FTEs assumes 0.40 FTEs per room.

Notes:

- The ratios used for employment estimates follow existing employment ratios in the Hotel Indigo today and are a reasonable assumption for the replacement hotel.

Residential

Estimate:

- Estimated direct apartment management employment of 49 FTEs is based on total rent of \$13,638,905.

Notes:

- This estimate is based on the developer's experience in staffing buildings in the local market, and suggests the residential component will have a level of service and management that is somewhat higher than other local properties. In conversations with local property managers unrelated to this proposal, a typical minimum estimate would be one maintenance jobs and two to three leasing jobs per 100 units which would result in 19 to 25 direct apartment management jobs.

Fiscal Impact

MuniCap estimated that the project, at stabilization, will generate between \$1,641,468 - \$1,776,003 in net annual tax revenue for the City of Newton with the range between Scenario A and B reflecting two different strategies for calculating the total number of new school children generated by the project (explained in the Schools section below).

NOTES ON METHODS OF ANALYSIS

MuniCap used two different methods to estimate the net fiscal impacts of the components of the Riverside project. These methods are the Per Capita Multiplier method and the Case Study method. These are appropriate for large mixed-use projects like Riverside at this stage of conceptual development.

The *Per Capita Multiplier* method assumes that the conditions of the City today, including average operating costs per capita, service levels, and budget distribution are the best estimates for future needs over the long run resulting from the new development.

Where more granular data was available about future conditions, MuniCap employed the *Case Study* method which directly estimates revenues by applying the tax rate to the estimated taxable use.

Figure 46. MuniCap Net Fiscal Impact Projection

	Scenario A (123 Students)	Scenario B (134 Students)
<u>New Development</u>		
Revenues		
Real property tax revenues	\$4,148,231	\$4,148,231
Motor vehicle excise tax revenues	\$32,138	\$32,138
Hotel room occupancy tax revenues	\$569,875	\$569,875
Hotel meals tax revenues	\$118,043	\$118,043
Additional revenues	\$106,744	\$107,545
Total Revenue	\$4,975,030	\$4,975,831
Costs		
Police, EMS, and fire	(\$461,343)	(\$461,343)
Students	(\$1,534,709)	(\$1,670,045)
Other general fund	\$0	\$0
Total Costs	(\$1,996,052)	(\$2,131,388)
<u>Existing Development</u>		
Existing Revenues		
Real property tax revenues	\$595,608	\$595,608
Hotel room occupancy tax revenues	\$525,742	\$525,742
Hotel meals tax revenues	\$118,043	\$118,043
Additional revenues	\$204	\$204
Total Existing Revenue	\$1,239,597	\$1,239,597
Existing Costs		
Police, EMS, and fire	(\$36,622)	(\$36,622)
Students	\$0	\$0
Other general fund	\$0	\$0
Total Existing Costs	(\$36,622)	(\$36,622)
<u>Total</u>		
New development	\$2,978,978	\$2,844,442
Less existing costs	(\$1,202,975)	(\$1,202,975)
Net Impact	\$1,776,003	\$1,641,468

NOTES ON ESTIMATES OF CITY COSTS

Schools

MuniCap developed two scenarios to estimate the number of students that will be generated by the new development. Scenario A is based on student generation factors developed for the Northland Newton Development project fiscal impact analysis and which used a previous *Enrollment Analysis Report*, dated November 2018, published by the Newton Public Schools. Scenario B is derived using an average of three student generations methods development by Newton Public Schools and published in the December 2019 *Enrollment Analysis Report*.

The school generation rates under Scenario A are slightly lower than under Scenario B, based on the recent change in methodological approach by Newton Public Schools. These approaches are reasonable and appropriate as applied in this case, and together provide a reasonable range for understanding potential impacts associated with the school district. HR&A defers to expertise from the Newton Public Schools as reflected in the recent update in the methodological approach.

Police, EMS, and Fire

To estimate increased police, EMS, and fire costs, MuniCap used a marginal approach based on historical data capturing police, EMS, and fire department calls generated at comparable development projects in Newton. This information was provided by Mark Development through interviews with the Newton Fire Department and allowed MuniCap to develop an average weighted estimate of the number of calls per 1,000 square feet of development or per unit. MuniCap also accounted for calls to the existing hotel to develop an estimate for the net new increase in service calls. This approach, based on local experience and applied to the specific development program, is reasonable.

Other General Fund

Beyond costs associated with students, police, EMS, and fire, MuniCap found that “additional general fund expenditures were not impacted as they are either expected to be offset by corresponding additional revenues or are negligible to corresponding departments.” While this assumption may be the case, HR&A also tested a scenario in which these costs are not offset to understand how the impacts to the City would change in the event this project did require marginal increases in relevant general fund expenditures. HR&A used the per capita multiplier method which MuniCap uses to estimate additional revenues to the City, and the list of City expenditures laid out in Schedule X: Additional Expenses to the City of Newton – Annual. Using the MuniCap estimates for the Riverside project’s expected additions to the City of Newton’s Permanent Population (1,418) and Total Service Population (2,280) this results in an additional cost of \$743,999. While there is certainly an opportunity that some portion of that potential cost will be offset with private funding associated with open space, this analysis is not accounting for that given that no existing financial commitments have been made as of the writing of this report.

Figure 47. HR&A Estimated Additional Costs to the City

General Fund Category	Factor Used	Additional Costs
Assessing	Per Capita	(\$19,782)
Treasury and Collection	Per Capita	(\$20,944)
Public Works	Per Service Population	(\$414,434)
Health and Human Services	Per Capita	(\$70,897)
Senior Services	Per Capita	(\$12,503)
Newton Public Library	Per Capita	(\$94,595)
Parks and Recreation	Per Capita	(\$110,843)
Total		(\$743,999)

Existing Development Tax Revenues

According to the City of Newton Munis Self Service website, the 2020 property taxes for Hotel Indigo totaled \$640,261, higher than the MuniCap estimate of \$595,608 as noted in Schedule IX. Greater existing revenue on-site would reduce the overall net fiscal impacts.

NOTES ON ESTIMATES OF CITY REVENUES

Real Property Tax Revenue

MuniCap employed two strategies in order to evaluate the assessed value of the proposed development, the first being an income capitalization approach and the second a comparison of recent comparable developments. MuniCap selected the comparable approach for the residential and commercial components, and the income capitalization approach for the hotel component. HR&A agrees this approach is reasonable.

Motor Vehicle Excise Tax

To measure the increase in motor vehicle excise tax generated by new residents on-site, MuniCap applied the City's Motor Vehicle Excise tax rate to a case study based estimate for the number of vehicles per household and average vehicle value that is tailored to the specific development program at Riverside, rather than using ratios that are derived from the City of Newton more broadly. HR&A agrees that this approach is most appropriate for estimating vehicle tax as vehicle ownership at a multi-family rental transit-oriented development site like Riverside is less likely to mirror existing car ownership patterns in the rest of the City.

Meals Tax and Hotel Occupancy Tax

MuniCap estimated the revenue from hotel occupancy taxes by applying the current hotel tax rate to estimates of room occupancy derived from Average Daily Rate (ADR) and occupancy rates. The MuniCap ADR assumption of \$269 suggests an ability to capture an ADR above what is what is achieved by the existing Hotel Indigo and what is verifiable in the existing market today. If the new hotel is not able to capture an ADR of \$269 and instead results in a lower ADR (\$200) but higher occupancy rate (78%) this would result in a decline in tax revenue of roughly \$83,000.

MuniCap estimated revenues from meals tax based on an average sales per square foot of restaurant space of \$420 multiplied by the proposed restaurant square feet. The sales tax revenue here estimates the states sales tax of 6.25% rather than the additional local option tax of 0.75%. If considering only local revenues which result from the local option tax, then the revenue declines from \$118,125 to \$14,175 both for the existing hotel and proposed new hotel.

CONCLUSION

All of the alternatives provided by HR&A above note ways in which impacts from the Riverside project may have both more positive and more negative fiscal impacts than the baseline estimate by MuniCap. As noted in the introduction to this memo, HR&A's review is concerned with understanding, once development is completed, what the worst-case scenario would be for the City, to understand if there is a scenario in which this project would be fiscally irrational. Figure 48 below illustrates this outcome in the "HR&A Alternative" scenario which includes alternative assumptions outlined above for hotel ADR and occupancy, hotel meal tax revenue, other general fund expenditures, and existing real property tax revenue. As detailed in the chart below, the Riverside project continues to exhibit a positive net fiscal impact even in this scenario.

Figure 48. Summary Comparison of Net Fiscal Impacts

	Scenario A (123 Students)	Scenario B (134 Students)	HR&A Alternative (134 Students)	HR&A Alternative vs MuniCap Scenario B
<u>New Development</u>				
Revenues				
Real property tax revenues	\$4,148,231	\$4,148,231	\$4,148,231	\$0
Motor vehicle excise tax revenues	\$32,138	\$32,138	\$32,138	\$0
Hotel room occupancy tax revenues	\$569,875	\$569,875	\$486,837	(\$83,038)
Hotel meals tax revenues	\$118,043	\$118,043	\$14,175	(\$103,868)
Additional revenues	\$106,744	\$107,545	\$107,545	\$0
Total Revenue	\$4,975,030	\$4,975,831	\$4,788,926	(\$186,906)
Costs				
Police, EMS, and fire	(\$461,343)	(\$461,343)	(\$461,343)	\$0
Students	(\$1,534,709)	(\$1,670,045)	(\$1,670,045)	\$0
Other general fund	\$0	\$0	(\$743,999)	(\$743,999)
Total Costs	(\$1,996,052)	(\$2,131,388)	(\$2,875,387)	(\$743,999)
<u>Existing Development</u>				
Existing Revenues				
Real property tax revenues	\$595,608	\$595,608	\$640,261	\$44,653
Hotel room occupancy tax revenues	\$525,742	\$525,742	\$525,742	\$0
Hotel meals tax revenues	\$118,043	\$118,043	\$14,175	(\$103,868)
Additional revenues	\$204	\$204	\$204	\$0
Total Existing Revenue	\$1,239,597	\$1,239,597	\$1,180,382	(\$59,215)
Existing Costs				
Police, EMS, and fire	(\$36,622)	(\$36,622)	(\$36,622)	\$0
Students	\$0	\$0	\$0	\$0
Other general fund	\$0	\$0	\$0	\$0
Total Existing Costs	(\$36,622)	(\$36,622)	(\$36,622)	\$0
<u>Total</u>				
New development	\$2,978,978	\$2,844,442	\$1,913,539	(\$930,903)
Less existing costs	(\$1,202,975)	(\$1,202,975)	(\$1,143,760)	\$59,215
Net Impact	\$1,776,003	\$1,641,468	\$769,779	(\$871,689)