

# HFF®

Arthur A. Klipfel III  
Manager  
Austin Street Partners LLC  
c/o Oaktree/Greenline  
84 Sherman Street  
Cambridge, MA 02140

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Dear Arthur,

HFF is a real estate capital markets intermediary focused on the placement of debt, equity investment and investment sales. Overall national volume in 2014 was \$64.9 B; Boston volume was \$7.6 B. The Boston office has been actively engaged locally in providing debt financing and equity investment in to be built multi-housing projects for over 25 years with nearly \$4 B placed in 20 projects in the last 3 years. This level of activity allows us to effectively act as a proxy for the marketplace.

In underwriting MH projects, lenders and investors ultimately focus solely on return on cost. Individual projects will have varying land, off site, linkage and levels of required affordable units, all of which are viewed as form of land cost and all of which will affect achievable returns. Effectively the lowest returns on cost acceptable for institutional-sized (over 100 units) to be built MH project within I 95 are currently +6%. Given the smaller size of this project (only 68 apartments total, only 51 market rate) and the ground lease (which limits investor and lender interest), minimally acceptable returns are likely to be higher today. This minimum return protects against a rise in construction costs, a decline in rents, an increase in operating expenses or a rise in capitalization rates. While there are minor outliers for superlative urban locations this has been the necessary return for a viable project.

We have reviewed the Pro Forma provided by Austin Street Partners. The projected rents and operating expenses are in line with the market. In our opinion with a 6.25% return on cost there is essentially no room to increase the land cost for this project in Newton without a corresponding reduction in one or more of the following: the number of units of affordable housing, off site costs or the size of the municipal parking lot. An increase in cost would most likely make the project unfinanceable and of no interest to prospective investors.



Frederic E. Wittmann  
Senior Managing Director