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October 4, 2016

BY HAND

David A. Olson, City Clerk
Newton City Hall
1000 Commonwealth Avenue
Newton, Massachusetts 02459-1449

Re: Washington Place / Petitions #179-16 and 180-16

Dear David,

Enclosed please find additional materials in response to requests raised by individual Councilors at the September 13, 2016 public hearing on this matter. Specifically, these materials address: 1) an analysis of possible office use; and 2) construction costs for potential residential and office uses. Accordingly, please find the following:

1. Letter from Brendan R. Cohn, Senior Vice President, Jones Lang Lasalle, dated July 6, 2016 regarding potential office development at Washington Place.
2. Newton-Watertown Office Market Comparables prepared by Jones Lang Lasalle.
3. Estimated construction costs for residential and office uses prepared by Dellbrook|JKS.
4. Comparison of residential vs. office costs (including hard and soft costs) and office rent analysis prepared by Mark Development.

Please let me know if you have any questions with respect to the foregoing.

Sincerely,



Stephen J. Buchbinder

SJB/mer
enclosures

cc: (By Hand, w/enclosures)
Ms. Alexandra Ananth, Chief Planner
Ouida C. M. Young, Esquire, Associate City Solicitor
(By First Class Mail, w/enclosures)
Mr. Robert Korff
Mr. Damien Chaviano
Mr. David Roache

RECEIVED
NEWTON CITY CLERK
2016 OCT -4 PM 3:19
DAVID A. OLSON, CLERK
NEWTON, MA 02459



July 6, 2016

Mr. Damien Chaviano
Principal
Mark Investment
57 River Street, Suite 106
Wellesley, MA 02481

Damien,

On behalf of JLL, I am pleased to present the following market assessment and supplemental market data to address the viability of commercial office development at Washington Place in Newtonville.

This assessment will include data on the local commercial office market along with a commentary on the requirements of companies seeking office space. These are the factors influencing office development.

Office Fundamentals

The City of Newton is located in the "Central 128" submarket, which JLL defines as the commercial office supply within the following cities and towns: Waltham, Newton, Wellesley, Needham, Weston and Watertown. This submarket totals approximately 20,000,000 square feet of commercial office space.

Within the Central 128 submarket, Waltham contains the greatest density of office space, totaling 10,400,000 square feet. By comparison, the Newton office market totals approximately 3,100,000 square feet.

Since Newton's location spans North and South along Route 128 and East and West along the Massachusetts Turnpike, it offers several pockets of commercial office space that behave distinctly from one another.

- Central Newton - 128/Mass Pike: Properties such as 275 Grove Street and 2221 Washington Street are considered highly desirable office buildings because of their proximity to the intersection of Route 128 and the Mass Pike. Route 128 is the primary highway for commuting employees, resulting in high demand for the properties on the Newton/Wellesley line. Rental rates here range from \$42.00-\$47.50 per square foot.
- South Newton - Wells Avenue: Wells Avenue sits on the Newton/Needham line and is accessed from Route 128 by the two Needham exits, Kendrick Street and Highland Avenue. While technically in Newton, the properties on Wells Avenue draw demand from nearby Needham properties (for instance,



those located on Kendrick Street, Gould Street, and First Avenue). Rental rates here range from \$25.00-\$32.00 per square foot.

- Newton Corner - Mass Pike: Newton Corner, the eastern pocket of office space, garners lighter demand because highway access is relegated to a lone exit off the Mass Pike, a toll road. Its distance from Route 128 and limited parking (2 spaces per 1,000 square feet leased compared to a range of 3.3-4.0 spaces at properties along Route 128) make the location less appealing for companies with a large commuting workforce. Furthermore, the interchange at Exit 17 is challenging. This is a secondary location for tenants seeking office space and caters mostly to smaller tenants whose principals live nearby. Two of the larger office buildings in Newton Corner, 2 Newton Place and 400 Centre Street, are owner occupied. Rental rates here range from \$31.00-\$36.00 per square foot.

Newtonville faces the same challenges as Newton Corner, though access is more challenged. The majority of tenant demand for office space is mostly concentrated and more robust along Route 128.

New construction in Newton has been limited over the last 20 years in terms of commercial office buildings. Two properties, 275 Grove Street and 130 Rumford Ave, are the only true multi-tenant office buildings that have been constructed since 1996.

At the moment, Two Wells Avenue is under construction speculatively, or prior to a tenant commitment. The redevelopment of this single story building into a three story, 100,000 s.f. office building is hoping to attract companies from the large tenant base in nearby Needham. Part of the N2 Innovation District, the Wells Avenue and Needham area is a well-established commercial area. The owner of the property has controlled the site for decades, so a low land cost allows for more competitive rental rates.

Newtonville does not benefit from the same density of commercial office tenants, and the Two Wells Avenue project would have challenges if it were based in Newtonville.

Tenant Drivers

Office tenants seeking significant space (50,000 square feet and greater) are primarily focused on location and workplace environment. The right location provides access to the labor pool, while the workplace—its amenities and the corporate branding opportunity—enhances employee recruitment and retention.



Office design has become an important topic for tenants. Utilizing space efficiently and allowing for greater density is a serious consideration for companies. A densely designed office space calls for more employees and greater parking requirements.

Beyond the design and amenities—like cafes, fitness centers, and covered parking—tenants are also interested in planning for future growth within a property. As a result, these tenants seek large buildings or office parks that can accommodate growth over the lease term. This is accomplished when a Landlord provides rights on other space within the building or with new construction on site.

Two recent examples include Wolverine and Trip Advisor, both of whom recently moved into newly constructed buildings under long-term lease agreements.

Wolverine leased 165,000 s.f. at 10 CityPoint in Waltham. Of that 165,000 square feet, Wolverine immediately subleased 36,000 square feet at a term shorter than its own lease. This is a way to secure future expansion space from the outset. As the short term subleases expire, the space will be returned to Wolverine so it has the ability to satisfy its own potential or planned growth.

Moreover, Wolverine leased space in an office park that can build an additional 200,000 s.f. of office space onsite if needed.

Trip Advisor leased the entire 280,000 square foot building at 400 First Avenue in Needham. Under a long term lease, Trip Advisor will grow into its space over time. Should Trip Advisor reach full occupancy in its building, it may exercise the right for its Landlord to construct a 150,000 square foot addition to its building.

At its site, Trip Advisor is benefitting from the “Add-a-Lane” highway improvement project. Recently, Phase I of the Needham project opened new exits on Kendrick Street. Phase II, slated for completion in October 2017, will create a full interchange at Kendrick Street and make improvements to the existing interchange at Highland Avenue. Trip Advisor is ideally situated between two interchanges, one of which is new and the other vastly improved.

These are primary examples of how large, credit-worthy tenants make real estate decisions. Long-term lease commitments by these tenants allow owners to justify construction. Large corporate entities have the capital to invest if the real estate meets their many requirements, primary of which are access to major highways and buildings that cater to their workplace and occupancy needs. Smaller, less capitalized tenants cannot afford and do not seek this type of real estate.

Conclusion

Newtonville lacks the fundamentals for office development.



One Post Office Square Boston Massachusetts 02109
tel +1 617 523 8000 fax +1 312 601 1783

To be successful, an office development requires a number of factors. It must offer scale, whether in overall size or the ability to offer future expansion rights on existing space or with new construction. Parking requirements for new construction exceed 3.5 spaces per thousand square feet leased, and offering 4.0 spaces would be prudent. Access to major highways is an important factor. Both Wolverine and Trip Advisor's sites are at interchanges on Route 128.

The Newtonville site lacks many of these attributes. The limited highway access and the inability to offer a tenant future expansion make the site an unlikely destination for a large company seeking office space. Furthermore, the tenant base in and around Newtonville does not suggest that tenant demand exists for new, expensive real estate.

Sincerely,

A handwritten signature in black ink, appearing to read "BRC", written over a horizontal line.

Brendan R. Cohn
Senior Vice President, JLL

JLL Newton – Watertown Office Market



320 Nevada Street

59-85 Chapel Street

480 Pleasant Street

1-3 Bridge Street

55 Chapel Street

313 Pleasant Street

150-154 California Street

124 Watertown Street

9 Galen Street

KEY

Watertown/ Newton

Newton Corner

Newtonville

DEVELOPMENT SITE



Two Newton Place

One Newton Place

313 Washington Street

400 Centre Street

Gateway Center

1210-1220 Washington Street (0.5 miles away)

246 Walnut Street

288 Walnut Street

29 Crafts Street

JLL Newton – Watertown Office Market



Address	320 Nevada Street, Newton	480 Pleasant Street, Watertown	1-3 Bridge Street, Newton	55 Chapel Street, Newton	59-85 Chapel Street, Newton	313 Pleasant Street, Watertown	150-154 California Street, Newton	124 Watertown Street, Newton	9 Galen Street, Watertown
Owner	J Biotti & Sons	Spear Street Capital	Meredith Management	Chapel Bridge Park Associates (Poorvu)	KS Partners	Metro Realty Trust	W.J. Nealon Commercial Realty	Trust Construction Corporation	Equity Commonwealth
Size	86,000 s.f.	201,088 s.f.	43,643 s.f.	285,394 s.f.	74,692 s.f.	45,000 s.f.	90,000 s.f.	38,200 s.f.	114,040 s.f.
Percent leased	93.6%	95.0%	85.1%	95.6%	81.9%	100%	83.6%	83.6%	88.3%
Asking rent	\$19.50/s.f.	\$33.00/s.f.	\$24.00/s.f.	\$35.00/s.f.	\$27.00/s.f.	\$24.00/s.f.	\$25.00/s.f.	\$23.00/s.f.	\$34.00/s.f.
Parking	3.00/1,000 s.f.	3.50/1,000 s.f.	3.00/1,000 s.f.	2.50/1,000 s.f.	2.15/1,000 s.f.	2.26/1,000 s.f.	3.50/1,000 s.f.	2.50/1,000 s.f.	3.30/1,000 s.f.
Notes	No amenities on site	Café, fitness center, outdoor courtyard	No amenities on site	Café, fitness center, shared conference	No amenities on site	No amenities on site, but close to Watertown Sq.	No amenities on site	No amenities on site	Close to amenities and transit in Watertown Square

Address	246 Walnut Street, Newton	288 Walnut Street, Newton	29 Crafts Street, Newton	1210-1220 Washington Street, Newton	One Newton Place, Newton	Two Newton Place, Newton	313 Washington Street, Newton	Gateway Center, Newton	400 Centre Street, Newton
Owner	The Mount Vernon Company	The Beantown Companies	Chatham Development	The Davis Companies	Taurus Investment Holdings	REIT Mangement & Research	Taurus Investment Holdings	J.F. White Properties	Equity Commonwealth
Size	33,284 s.f.	38,725 s.f.	68,710 s.f.	89,700 s.f.	172,813 s.f.	109,272 s.f.	81,603 s.f.	185,000 s.f.	41,001 s.f.
Percent leased	85.7%	100%	100%	100%	92.7%	100%	88.2%	90.9%	100%
Asking rent	\$31.00/s.f. (3 rd floor) \$23.50/s.f. (1 st floor)	~\$21.50/s.f.	~\$26.00/s.f.	\$32.00/s.f.	\$36.00/s.f.	N/A	\$31.00/s.f.	\$34.50	N/A
Parking	2.40/1,000 s.f.	0.01/1,000 s.f.	3.00/1,000 s.f.	3.57/1,000 s.f.	1.99/1,000 s.f.	2.27/1,000 s.f.	2.00/1,000 s.f.	2.00/1,000 s.f.	2.56/1,000 s.f.
Notes	1 st floor space has very limited windows	Close to amenities and transit on Walnut Street	Across from, Whole Foods; some covered parking on site	Rockport Shoes to occupy 10/1/16; \$32 starting rent	Taurus rumored to be putting the building on the market for sale	Owner occupied	Building on the market for sale	Mostly smaller tenants throughout the building.	Owner occupied



Sept. 29, 2016 Residential or Office at Washington Place

Residential Floor Area: 83,000 GSF

No. of Apartments: 76 each

Below Parking Spaces: 95 cars for resid.

Office Floor Area: 83,000 GSF

249 cars for offices

Rev.2
Residential Office

Construction Cost Estimate Breakdown				
BASE BID	DESCRIPTION			Notes regarding changes/difference
Division 1	General Requirements	196,855	335,128	
Division 1	HazMat	401,926	423,124	
Division 2	Demolition	335,369	353,057	
Division 2	Selective Demolition	0	-	
Division 2	Earthwork	1,350,017	2,685,000	
Division 2	Special Foundation/Soil Conditions	426,229	725,615	
Division 2	Fencing	19,269	32,804	
Division 2	Landscape & Site Furnishings	349,372	594,773	
Division 3	CIP Concrete (now true estimate)	2,568,669	4,206,610	
Division 3	Cementitious Underlayment	130,712	222,525	
Division 4	Masonry & Restoration	594,378	1,011,873	
Division 5	Structural Steel	9,400	1,425,000	
Division 5	Misc. Metals	161,562	275,044	
Division 6	Rough Carpentry	1,366,897	55,000	
Division 6	Finish Carpentry	378,690	110,000	
Division 7	Waterproofing	355,101	604,526	
Division 7	Insulation	386,542	658,052	
Division 7	Roofing	232,342	395,541	
Division 7	Siding	347,211	591,094	
Division 7	Fireproofing	0	-	
Division 7	Fire Stopping	11,894	20,249	
Division 7	Joints & Sealants	53,815	91,616	
Division 8	Doors, Frames and Hardware	287,806	489,962	
Division 8	Specialty Doors	0	-	
Division 8	Overhead Doors	37,871	64,472	
Division 8	Entrances, Storefronts & Glazing	452,443	770,242	
Division 8	Windows	602,883	1,026,353	
Division 9	Gypsum Wall Board	1,081,616	1,841,351	
Division 9	Acoustical Ceiling Tiles	140,718	239,559	
Division 9	Flooring	554,570	80,000	
Division 9	Painting	204,982	45,000	
Division 10	Specialties	136,134	231,755	
Division 11	Parking Equipment w/ doors	0	-	
Division 11	Appliances	210,438	358,250	
Division 11	Compactor & Chutes	104,222	177,429	
Division 11	Commercial Kitchen	0	-	
Division 12	Cabinets	182,126		
Division 12	Stone and Solid Surface Counters	182,277		
Division 12	Window Treatments	39,351		
Division 13	Special Construction	0	-	
Division 14	Elevators & Escalators	277,475	472,376	
Division 15	Fire Protection	314,399	535,235	
Division 15	Plumbing	1,102,999	1,877,752	
Division 15	HVAC	1,045,608	1,780,051	
Division 16	Electrical	1,098,173	1,869,536	
Trade Subtotal: +		17,732,341	26,675,953	
	Sub-Bonds		-	
	Pre-Construction Services	13,159	19,797	
	General Conditions	932,438	1,402,729	
	Winter Conditions	75,197	113,123	
	Builders Risk	0	-	
	Design Contingency	0	-	
	Escalation Contingency	0	-	
	Construction Contingency	984,540	1,481,109	
	Building Permits & Special Permits	0	-	
	General Liability Insurance	218,697	329,000	
	Payment and Performance Bond	157,905	237,547	
General Conditions/Insurance/Bonds/Permits Subtotal: +		2,381,935	3,583,304	
CM Overhead and Fees +		\$ 838,095	1,260,802	
TOTAL CONSTRUCTION COST =		20,952,370	31,520,059	
Cost /SF:		\$ 252	\$ 380	
Cost / Apt:		\$ 275,689		
Below Grade Parking Space Cost:				

Residential vs. Office Costs at Washington Place

	Residential		Office	
GSF	83,000		83,000	
# of Units	76		0	
Parking Spaces (1)	95		249	
<u>Hard Costs</u>	Total	Per SF	Total	Per SF
Base Building (2)	\$16,200,000	\$195	\$19,070,000	\$230
Parking (3)	\$4,750,000	\$50,000	\$12,450,000	\$50,000
Subtotal Hard Cost	\$20,950,000	\$252	\$31,520,000	\$380
Tenant Improvements	\$0	\$0	\$4,108,500	\$50
<u>Soft Costs</u>				
Architectural & Engineering	\$1,079,000	\$13	\$581,000	\$7
Legal	\$250,000	\$3	\$300,000	\$4
Permits, Fee, Taxes & Misc.	\$425,000	\$5	\$500,000	\$6
Marketing & Branding	\$125,000	\$2	\$0	\$0
Leasing Commissions	\$50,000	\$1	\$747,000	\$9
G&A (4%)	\$913,000	\$11	\$1,110,000	\$13
Subtotal Soft Costs	\$2,842,000	\$34	\$3,238,000	\$39
Financing Cost	\$1,162,000	\$14	\$1,162,000	\$14
Total Cost (Hard + Soft)	\$24,954,000	\$301	\$40,028,500	\$482
Land Cost	\$8,300,000	\$100	\$8,300,000	\$100
Total Cost w/Land	\$33,254,000	\$401	\$48,328,500	\$582

Footnotes:

- (1) Assumes that the market will require 1.25 spaces per unit for the residential and 3 per 1,000/SF for the office.
- (2) Assumes that residential is built with wood construction and the office is steel construction.
- (3) Assumes all parking is below grade at \$50K per space.

Office Rent Analysis

Office Project Costs \$48,328,500

Office Investment Returns	Base Rent	Reimbursables (CAM, RE Tax, Insur.)	Gross Rent Required
6.75%	\$39.30	\$12.00	\$51.30
7.00%	\$40.76	\$12.00	\$52.76
7.25%	\$42.21	\$12.00	\$54.21
7.50%	\$43.67	\$12.00	\$55.67
7.75%	\$45.13	\$12.00	\$57.13