

Needham Board of Appeals

Pro Forma Review of Needham MEWS

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Methods to Measure if a 40B is Economic

- ☐ Return on Equity (ROE)
- ☐ Unlevered Internal Rate of Return (IRR)
- ☐ **Return on Total Cost (ROTC)**

HAC Has Consistently Favored ROTC

☐ MHP Guidelines – November 2005

- ROTC – 2 ½ % above the 10 year T Bill rate
- “ROE is Generally not appropriate...”

☐ Baywatch Realty vs Marion – 2001 to Dec 2005

- ROTC with Developers Overhead at 8%

☐ Avalon vs Cohasset– Sept 2007

- ROTC

☐ Cirsan vs Woburn – November 2013

- “...expect the parties to apply that [ROTC] approach...”
- “...not prohibited from supplementing their analysis with an ROE analysis, but they should be forewarned that it is likely to be given less weight”

Reasonable Return

- ❑ Developer's Fee of 10% of total development costs (760CMR56.02)

Or

- ❑ ROTC at stabilized occupancy of 2 ½ % above the 10 year T bill rate with an 8% Developers Fee. (MHP Guidelines)

Note: Distributions of profit from operating revenues shall not exceed a reasonable return of developer's equity [ROE] as determined by subsidizing agency (760CMR56.02) [no minimum ROE]

Definition Return on Total Cost (ROTC)

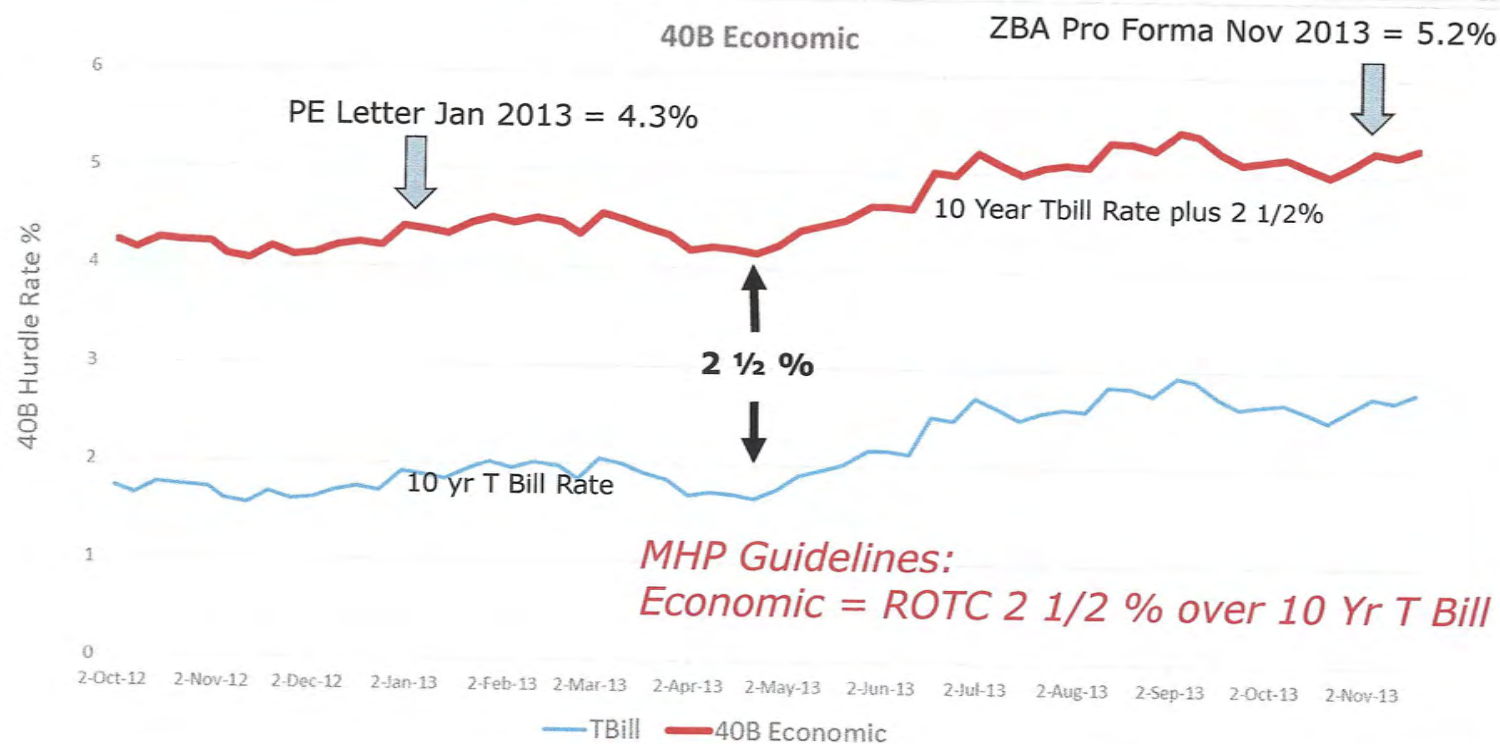
$\text{ROTC} = \text{Net Operating Revenue} \div \text{Total Cost}$

- Benchmark

- ☐ T bill Rate plus 2 ½% or ROTC/ROA approved by subsidizing agency
- ☐ At Stabilized Occupancy – Year 4
- ☐ Included - Overhead and Profit for Subcontractors – 14%
- ☐ Included - Developers Fee – 10%
- ☐ Timing of T Bill plus 2 ½%
 - At time PE letter Issued Jan 15, 2013= 4.27%
 - Current ZBA Review = 5.2%

Note: Open issue– should developer overhead of 10%, which is redundant of soft costs, should be an additional cost

40B ROTC Definition of Economic



Plan Comparisons

300 Unit Plan

Original Site Plan



349,555 Sq ft

ROTC 4.27% approved by MassHousing

268 Unit Plan

Revised Site Plan



350,173 Sq ft

ROTC 7.3% submitted to ZBA

ROTC of Project Approved by MassHousing

		2013	2014	2015	2016	2017
1. Final MassHousing Approval						
300 Unit Submission to MHFA	300				Stabilized Occupancy	
TDC Net of Dev OH		\$ 68,899,121				
Developers Fee/OH		\$ 7,009,000				
Total Development Cost	0%	\$ 75,908,121	\$ 75,908,121	\$ 75,908,121	\$ 75,908,121	\$ 75,908,121
Effective Income	3%	\$ 7,370,495	\$ 7,591,610	\$ 7,819,358	\$ 8,053,939	\$ 8,295,557
Operating Expenses	3%	\$ 4,406,299	\$ 4,538,488	\$ 4,674,643	\$ 4,814,882	\$ 4,959,328
Net Operating Income		\$ 2,964,196	\$ 3,053,122	\$ 3,144,716	\$ 3,239,057	\$ 3,336,229
Return on Total Cost		3.90%	4.02%	4.14%	4.27%	4.40%

Economic per Subsidizing Agency



Note: Information obtained from FOI request to MassHousing

ROTC Benchmarks- Two Reference Points

10 Yr TBill + 2 ½% - Nov 2013 = 5.2%

10 Yr TBill + 2 ½% - Jan 2013 = 4.3%

Initial
300
4.27%

**Initial Pro Forma
Approved by MassHousing**
At date of approval of PE Letter
Stabilized Occupancy

108 Unit Plan

Applicant's Proposal

- ☐ 16 Unit Town House
 - Parking for 32
- ☐ 92 Unit Garden Style Building
 - Parking 151 Garage
 - 10 Surface parking
- ☐ Club House
- ☐ Pool, Fitness Center, Business Center (same as 268 unit plan)
NSF 114,515 Sq ft
GSF 140,238 Sq ft 82%

☐ No Preliminary Plans

- Detail Pro Forma
- Verbal Description
- Credibility issue

ROTC 4.89%

Economic per original submission 4.27%

Uneconomic per Today's T Bill Rate 5.2%

ROTC by Project vs Benchmark

300
7.3%
MEWS

268
7.3%
MEWS

10 Yr TBill + 2 ½% - Nov 2013 = 5.2%

108
4.9%
MEWS

10 Yr TBill + 2 ½% - Jan 2013 = 4.3%

300
4.27%
MHFA

At Stabilization

Factors Effecting ROTC - \$5.0 Million

☐ Number of Units

- 108

☐ Proposed Mitigation Costs –up to \$1.0 Mil

- 1 of 2 Full Traffic Lights
- Sidewalk
- MERV 16 Filtration System
- Acoustic Upgrades

☐ Architectural/Engineering Fees -- \$1.4 Mil

- 12% vs 5%

☐ Design and Residential Construction Cost – \$2.6 Mil

- \$99/sf vs \$91/sf
- Amenities for 108 units vs 268 units

Permits Fees and Mitigation Costs

☐ Conditions that maybe imposed by Board – \$1.67 Mil

- 2 Full Traffic Lights – \$389,600
- MERV 16 Filtration System – \$920,580
- Acoustic Upgrades – \$383,500

 **Cost Conditions
imposed by ZBA**

☐ Other Fees as Required – \$1.06 Mil

- Building Permit Fees – \$258,800
- Drainage Impact Fees – \$250,000
- Utility Fees – \$450,000
- Other Fees – \$ 105,000

 **Fees that Maybe
waived by ZBA**

Permits-Fees Mitigation Cost Options

□ Option #1

- Eliminate one of two traffic lights – \$200K

Total Reduction \$.2 Mil

Result ROTC from 4.86% to 4.89%

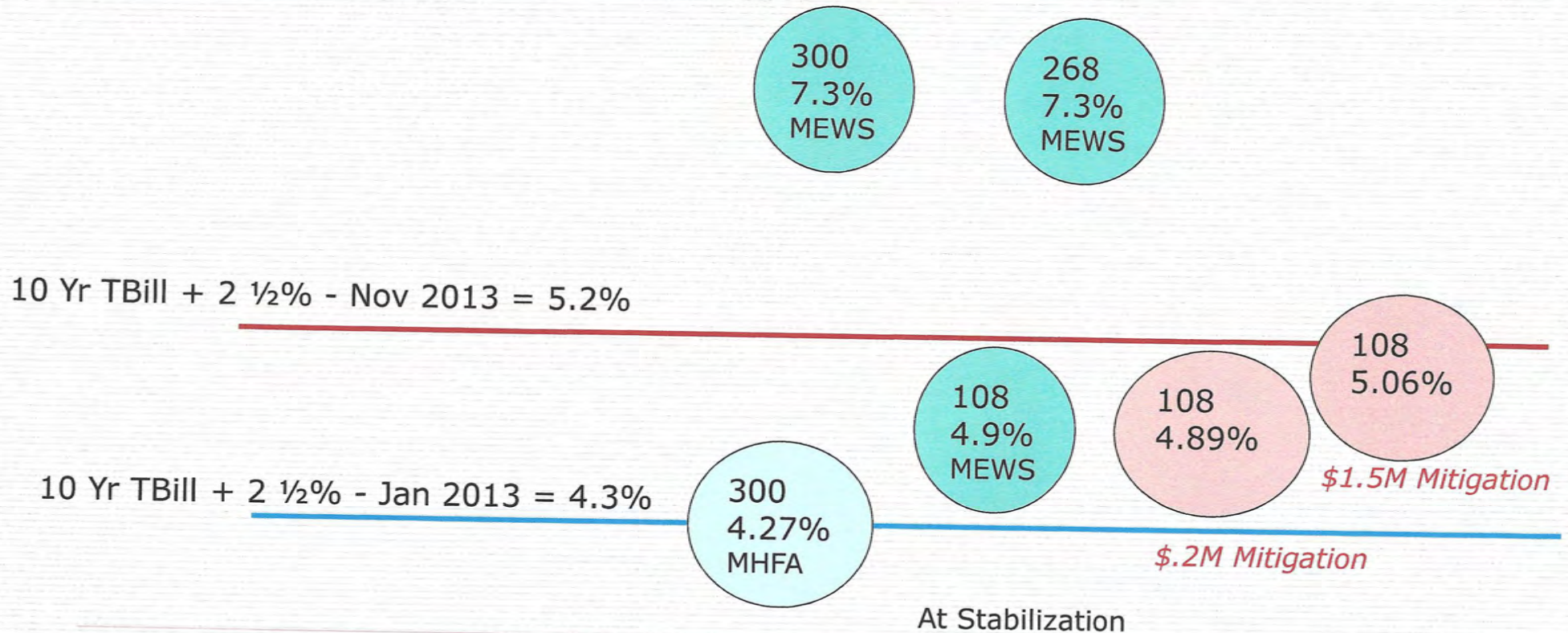
□ Option #2

- Eliminate one of two traffic lights – \$200K
- Eliminate Filtration System – \$920K
- Reduce other Fees by \$380K

Total Reduction \$1.5 Mil

Result ROTC from 4.86% to 5.06%

Impact of Reduction in Mitigation Costs



Amenities – .7 Mil

☐ 268 Unit Project

- Pool
- Clubhouse (8,500 to 10,000 sf)
- Cost \$1.9 Million

☐ 108 Unit Project

- Pool
- Clubhouse (8,500 to 10,000 sf)
- Cost \$1.9 Million

☐ Project is 60% smaller

- Less people
- Less usage

☐ Propose 30% reduction in costs to \$1.3 Million

Architectural & Engineering Costs - \$1.4 Mil

□ Industry Standard

□ Original Design

- Apartments 7%
- Garage 6%
- Clubhouse 7%

□ Replicate Design

- 50% of Original Design
RS Means

□ Applicant Proposed

(% of residential construction, garage, amenities)

- MassHousing Application @ 3%
- 300 Units @ 3%
- 268 units @ 5%
- 108 units @ 12%

Competitive Architectural and Engineering Cost				
Project	Developer	Units	Height	%
Mews 268 Mill Creek		268	3 and 5 Story	5.4%
Woburn 38 Cirsan		268	6 Story	4.5%
Norton Thorndyke		230	3 Story	2.3%
2880 Cranberry Gatehouse		72	3 Story	5.1%

*Proposed to Reduce Fees to 5% of
Residential Construction
Garage Cost
Amenities Cost*

Architectural Fees are not additive from project to project.

Residential Construction Costs - \$1.8 Mil

☐ 300 Units - \$95.48/sf

- No Town Houses
- 3 Each-- 4 Story Buildings -
- 2 Each -- 5 Story Buildings

☐ 268 Units - \$91.07/sf

- 5 Each -- Town Houses
- 2 Each -- 4 Story Buildings
- 0 Each -- 5 Story Buildings

☐ 108 Units - \$99.28/sf

- 4 Each -- Town Houses 16 units
- 92 Garden Apartments
- **Recommend \$91.07/sf**

Competive Construction Cost			
Project	Developer	Units	\$/SF
Mews 268	Mill Creek	268	\$91.07
Norton	Thorndyke	230	\$93.31
2880 Cranberr Gatehouse		72	\$91.11

MEWS

- No design Plans
- Building Costs were requested
- Response-- Not Available
"This is Mill Creek's business that they do day in and day out"

Revised ROTC

What If:

Architectural Fees – Reduce to 5%
Construction Cost and Amenities – Reduce
Mitigation and Fees – As noted

300
7.1%

268
7.1%

10 Yr TBill + 2 ½% - Nov 2013 = 5.2%

108
5.35%

108
5.56%

Reduce
Mitigation by
\$1.5 Mil

10 Yr TBill + 2 ½% - Jan 2013 = 4.3%

300
4.27%
MHFA

Reduce
Mitigation by
\$.2 Mil

At Stabilization

Additional Areas of Examination

- ☐ Land Appraisal
- ☐ Site Improvements
- ☐ Garage
- ☐ Amenities
- ☐ General Developers OH
- ☐ Surveys and Permits
- ☐ Architecture and Engineering
- ☐ Furniture and Equipment
- ☐ Construction Loan Interest
- ☐ Developers Fee and OH
- ☐ Operating Cost

MEWS Pro Forma Summary

Project is economic if:

1. Developer's Fee = 10% of total cost
2. ROTC Greater than 10 Yr T Bill Rate + 2½% = 5.2%

MEWS is Economic at:

- 108 units – 5.35%
 - With Reduction in Mitigation Cost of \$.2 Million
- 108 units – 5.56%
 - With a Reduction in Mitigation Cost and Permit Fees of \$1.5 Million



Questions