



June 10th, 2022

Todd Trehubenko
Chair | Medfield State Hospital Development Committee
459 Main Street
Medfield, MA 02052

Chair Trehubenko:

Per the request of the Medfield State Hospital Development Committee, we have completed a conceptual review of selected materials and assumptions as provided by Trinity Financial and their consultants. Trinity Financial was selected by the Town of Medfield's in November, 2021 and has completed additional due diligence since formally entering into a preliminary designation agreement with the Town in March, 2022. Trinity Financial is a well-known firm that has completed numerous large-scale, complex projects, including numerous historic rehabilitation efforts.

The focus of this review letter is on the commercial reasonableness of the assumptions contained in Trinity's preliminary development budget, pro forma and the materials listed below. However, as a consultant working on behalf of the Town of Medfield from the initial drafting of the Request for Proposals, we have been involved in all steps of the selection and due diligence process. In our experience, the extent of the investigation and due diligence completed by both parties (Trinity and Town/Committee) is exceptional and exceeds the typical level of work at this preliminary stage of a project.

Documents reviewed include the following:

- Financial Plan/Pro Forma Budget/Sources & Uses
 - o As included in the Response to Request for Proposal - Tab E. (August 2, 2021)
 - o In May 2022, a PDF document was provided as an update to the initial assumptions included in Tab E-Financial Plan/Pro Forma Budget/Sources & Uses. Attached as Exhibit 1.0

- Residential Market Analysis
 - o As provided by Kenilworth Market Advisors dated April 2022

General Notes

It should be noted that the numbers provided are conceptual and preliminary. Given the status of the project in the predevelopment phase, budget numbers and operating assumptions are typically based upon market data, comparable project benchmarks and team experience. As the design and engineering advance to a greater level of detail, the conceptual numbers will evolve. In our experience, the numbers

will continue to become more specific until the exact scope of the effort, material specifications, and detailed design allow for hard construction bids/contracts to be in place. As such, at this stage of the project, operating and cost estimates are based upon the best information available.

It should also be noted that working in existing and historic buildings and working on a previously developed site often introduces an element of variability. This variability dictates a conservative preliminary budgeting process. The scenario also encourages contingency allowances to plan for unknowns.

Another factor to consider is phasing. As the project evolves, portions of the work may be completed in phases. As a result, the funding sources may adjust to reflect that timing. However, the overall structure and assumptions on funding sources will likely remain consistent with the preliminary assumptions reviewed herein.

Development Budget Summary

- Hard Costs are assumed at \$300 per square foot + a 7% contingency. Based upon our development experience within dozens of historic buildings, this preliminary allowance is reasonable. Current supply chain challenges are difficult to predict, but the start of construction is many months into the future.
- Soft Costs include architecture, engineering and related consultant costs, fees and non-construction line items. The approximation at approximately 15% of hard costs is in-line with expectations for a project of this scale and complexity. Finance costs are not captured within this number.
- Finance Costs at nearly \$7M are not fully defined, but are assumed to include costs related to debt, equity, historic tax credit equity. This likely also includes some level of carry costs during construction and absorption. The scale and percentage against hard costs is in-line with expectations.

Total Sources

- The most significant component of the assumed funding is from Debt. The market generally sizes debt by evaluating the Net Operating Income (NOI or cash flow before debt service) from the project and deriving a test on (1) the ability to cover debt service (principal and interest payments) and (2) a test against collateral value of the stabilized property based upon annual income. In both scenarios, using market data, the approximate supportable debt amount from the project is reasonable in our experience.

The Net Operating Income is essentially the cash flow from rental income less the recurring expenses necessary to operate the apartments. These operating expenses include items such as real estate taxes, insurance, common utilities, landscaping, snow removal and the ongoing day-

to-day maintenance and upkeep of the buildings and grounds. After funding the operating expenses, the majority of the remaining cash flow is used to fund the principal and interest (mortgage payments) on the Debt. The cash flow remaining after paying the debt service is typically used to fund any necessary capital repairs or reserves and finally, as a distribution to equity investors that provided cash to help fund the project (see 'Private Equity' below).

It should be noted that the interest rate environment has shifted in the months since the RFP response was initially submitted. However, increases in income (via higher market rent assumptions) help maintain the general financing strategy as outlined. As noted further below, the assumed market rents are substantiated via a professional, third-party market study.

- The second largest component of funding is derived from the use of Historic Tax Credits – both State and Federal. The assumptions, based on the anticipated qualified rehabilitation expenses as a percentage of assumed costs is in line with expectations and our experience. The pricing of both Federal and State credits is dynamic via a secondary market and adjusts to market forces - but is consistent with expectations. It should be noted that the state of MA tax credits process is capped and competitive, so the timing and overall scale of credits to be made available to the project is often difficult to predict.
- Additional elements of the funding, including MassWorks and MassHousing Workforce/Other are more difficult to estimate than the other key sources given the competitive nature of some of the components. Although a relatively large allocation against other state-level projects, the assumptions are possibly attainable, and are expected to be continually refined as the project advances. It should be noted that Trinity is familiar with the MassWorks program and has successfully obtained funding from this source for other projects it has developed. The timing over multiple years is also expected to be refined. Per below, increasing the amount of private equity may help offset any risk to reductions in the listed state-level sources.
- Private Equity is a funding source that is listed at slightly less than \$7M at this preliminary stage. Based upon projecting cash flow after debt service, the amount is deemed as reasonable and supportable. In general, the ability to attract private equity is based upon the expectation of a level of return on investment that is commensurate with the level of risk associated with the project. In this case, an investor would likely evaluate the annual expected yield as well as the longer-term return given cash flow events such as a refinancing or disposition of the property. In modeling the provided assumptions, both metrics seem reasonable to support the amount of equity listed. Given the projected cash flow, the project may be able to increase the equity amount to off-set any decreases in other listed Sources.

Operating Pro Forma

The provided pro forma includes four major areas of assumptions. In each, the provided and imbedded assumptions are seen as reasonable at this preliminary stage of the project. These items include:

- Market Rate Units. Given the apartment unit sizing, type and anticipated amenities and finishes, the rents are supported by market information. In fact, the assumptions list rents that are reduced below those provided by the Market Analysis. This is a conservative assumption against market benchmarks.
- Affordable Units. The provided assumptions for income restricted units at 80% of the Area Media Income (AMI) are in-line with data and expectations. Given 2022 data, the rents may be able to increase within the AMI limit. Any increases may help support the ability to finance more dollars through debt and private equity.
- Vacancy and Escalations. The assumptions of both vacancy and collection losses are market standard. The annual escalations are also in-line with market expectations. It should be noted that recent increases in inflation may adjust the annual escalations of rent as well as operating expenses, but often those items move in parallel.
- Operating Expenses. The listed assumptions are consistent with industry experience. The assumption is that annual, per unit apartment expenses are \$11,000. As a benchmark beyond the per unit assumption, the percentage of operating expenses against effective gross income is also in-line with expectations at roughly 37%.

Residential Market Analysis as provided by Kenilworth Market Advisors dated April 2022

The Market analysis to help inform unit mix, absorption expectations and market-rate rents is a typical step for larger projects to establish benchmarks. The analysis helps rely upon actual, current market data to shape and support the assumptions and to guide programming/design.

The data methodology employed in the report is in-line with expectations and follows industry standards for such an analysis. The report was completed by a Certified General Real Estate Appraiser – registered in the State of Massachusetts.

Background & Context – Peregrine Group, LLC

Peregrine Group is a real estate advisory firm located in Rumford, RI. The twenty-year old company provides development project management, strategic, finance/transactional support and leadership, asset management and consulting/advisory services on behalf of developers, property owners, institutions, public entities, investors and businesses seeking to achieve specific facility, investment and operating objectives. The firm also develops and acquires properties for their own, related account.

Our four Partners and staff of eleven bring decades of development and financing experience to the market.

Peregrine has been fortunate to be retained by the Town of Medfield since the Fall of 2020 – initially to help draft the Request for Proposal with the Medfield State Hospital Development Committee (MSHDC), and again via MassDevelopment (within an ongoing 5+ year relationship as On-Call Consultant/House Doctor) to support the MSHDC in administering the RFP process, evaluating the RFP responses and through the current steps of Due Diligence.

For additional information, please see [Peregrine Group](#).

In summary, based upon our deep experience in development projects included dozens of adaptive reuse projects involving historic buildings, we have found the financial and market assumptions to be reasonable. It is understood that all assumptions are preliminary and conceptual given the status of the project and the level of design and engineering. However, at this stage, and in our experience, assumptions are in-line with expectations.

Sincerely,



Eric J. Busch
Managing Partner | Peregrine Group, LLC

EXHIBIT 1.0

Medfield State Hospital RFP
 Trinity Financial
 Development Summary, Pro Forma, and Operating Budget
 5/12/2022

Development Budget Summary		Total
Land Costs		\$2,000,000
Extraordinary Remediation Sitework		\$126,083,000
Hard Costs		\$18,944,744
Soft Costs		\$6,937,561
Finance Costs		\$153,965,305
Total Costs		\$153,965,305
Total Sources		Total
Funded By Private Equity		\$6,941,120
Funded By MassHousing Workforce/Other		\$8,500,000
Funded By Massworks		\$19,000,000
Funded by Historic Tax Credits		\$30,387,962
Funded By Debt		\$89,136,223
Total Sources		\$153,965,305

Market Rate Units					
Unit Type	# of Units	Average NSF	Monthly/Unit	Annual Total	
Studio	34	550	\$1,950	\$795,600	
1 Bed	116	750	\$2,450	\$3,410,400	
2 Bedroom	74	1,150	\$2,950	\$2,619,600	
3 Bedroom	25	1,500	\$3,800	\$1,140,000	
Total	249	0		\$7,965,600	
Market Rate Averages		917			

*Proforma is Lower than
 KWA study by
 \$200/month
 SF Estimate based on
 ICON architecture
 estimate

Affordable Units					
Unit Type	# of Units	Average NSF	Monthly/Unit	Annual Total	
Studio	11	550	\$1,782.00	\$235,224	
1 Bed	39	750	\$1,901.00	\$889,668	
2 Bedroom	26	1,150	\$2,265.00	\$706,680	
3 Bedroom	9	1,500	\$2,612.00	\$282,096	
Total	85	0		\$2,113,668	
Affordable Unit Averages		926			

SF Estimate based on
 ICON architecture
 estimate

Total all Units	334			\$10,079,268	
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Medfield State Hospital RFP
 Trinity Financial
 Development Summary, Pro Forma, and Operating Budget
 5/12/2022

	# of Units	Percentage with Pets	Units With Pets	Monthly Pet Fee	Annual Total
Pet Fee	334	50%	167	\$50	\$100,200

	# of Units	# of Parking Spaces	Spaces/Unit	Monthly Parking Fee/Space	Annual Total
Parking Fee	334	249	0.75	50	\$149,400

Number of Units
334

	Total	Per Unit
OPERATING BUDGET		
INCOME		
Apartment Rental Income - Market Rate	\$7,965,600	
Less Market Vacancy	5% (\$398,280)	
Apartment Rental Income - Affordable	\$2,113,668	
Less Affordable Vacancy	3% (\$63,410)	
Parking Fee Income	\$149,400	
Less Parking Vacancy	5% (\$7,470)	
Pet Fee	\$100,200	
Total Income	\$9,859,708	
EXPENSES		
Total Expenses	\$3,674,000	\$11,000
NET OPERATING INCOME	\$6,185,708	