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YEAR-ROUND RENTAL HOUSING MARKET ANALYSIS: NANTUCKET

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PURPOSE

This report has been prepared at the request of Richmond Great Point Development LLC, as part of its pre-development due diligence in conjunction with its efforts to develop a new, twenty-eight (28) unit year round, market-rate rental apartment project on a +/- 1.6 acre portion of its +/- 70 acre mixed-use portfolio located off Old South Road in the mid-Island area of the Town of Nantucket (Nantucket Island).

In addition to providing a snapshot / overview of current market conditions for year round rental housing, on Nantucket, the objectives of this report were: (a) to try to ascertain the level of demand for additional year-round rental housing at this time, and (b) to try to estimate the monthly rents that will be expected to be achieved in the proposed project, which is specifically comprised of a unit mix of twenty (20) two bedroom units, four (4) one bedroom units, and four (4) studio units.

The report is based on information sourced directly by Windwalker William Raveis (WWR) and is intended exclusively for the use of Richmond Great Point Development LLC, its financing team, and its prospective lenders for the project, and is not intended for public distribution.

BACKGROUND / MARKET CONTEXT

Due in part to its exclusivity and location as one of the premier and most affluent seasonal resort / tourist destinations in the United States, extremely high local land costs, and restrictive zoning, all of which combine to result in uniquely high barriers to entry, which severely limit new development, especially at the densities commonly experienced in mainland suburban communities, Nantucket historically has had and continues to have a very limited supply of year round multi-family rental units.

Per a "*Workforce Housing Needs Assessment*" report dated April 2015, prepared by RKG Associates, Inc. for Housing Nantucket, the local non-profit housing organization which essentially serves as an extension of the Nantucket Housing Authority, Nantucket has an "**undeniable shortage of year-round housing**" across all bedroom sizes and market levels. This same report notes that the greatest year-round demand is for two bedroom units.

Local census (housing) data serves to illustrate the underlying context of this shortage very clearly. This data estimates that there are a total of approximately 11,700 total housing units in Nantucket; and that approximately 4,200 of these units (a little more than one third of the total) are occupied year round. The other +/- 7,500 of these housing units (almost two-thirds of the total) are only occupied on a seasonal basis.

In addition, only approximately ten percent (10%) of all of the year round housing units in the community, +/- 400 units in the aggregate, are identified as multi-family units. The vast majority of all of these multi-family units are two (2) unit duplexes, or are widely interspersed in two or three unit homes, or in individual garage apartments (which are strongly encouraged under existing local zoning). Many of these multi-family units are also condominium units, occupied by their owners, and are not part of the rental housing inventory.

Based on this dynamic, there are less than a handful of year round rental properties with more than three or four units at a given location, and no existing "apartment" projects or communities greater than six or eight or ten rental units located on any single property.

A favorable change to the local zoning bylaw criteria for "apartment buildings" was adopted at the April 2014 local annual Town Meeting. This change, to a great extent, was in response to the recognition by many in the community that a severe shortage of year round rental housing existed within the community. This change has now made the development of year round rental apartments at densities

of +/- 17 units per acre more viable within two (and only two) of the local zoning districts (the CN / Commercial Neighborhood Zoning District and the VN / Village Neighborhood Zoning District).

As a result, Richmond Great Point Development LLC, as the owner of a considerably large portion of the land area on Nantucket that is designated with this favorable zoning designation (within the CN / Commercial Neighborhood Zoning District) and as an experienced multi-family residential developer and owner with demonstrated financial capabilities, is in a uniquely favorable position to develop a new, high quality year round rental apartment development to meet this demand.

APPROACH

In order to independently ascertain the level and depth of demand for year-round rental housing and to estimate the average current monthly rents for this existing inventory, WWR interviewed Island residents and local real estate agents to gather a viable sample size of rental housing data. With the information obtained in the interviews, WWR compiled a spreadsheet of data points which included the following information:

- Address
- Area (Location / Neighborhood)
- Type (House/Apartment)
- Number of Bedrooms
- Number of Bathrooms
- Gross Living Area (s.f.)
- Monthly Rent
- Quality (low-, mid-, high-)

Based on this information, WWR selected and further analyzed the most comparable properties in relation to the proposed Richmond Great Point Development LLC apartment project (based on location and quality) to establish estimated monthly rental price ranges, on a price per bedroom and price per square foot basis, for the comparable apartment units. The quoted rents exclude utilities, which are generally paid by the tenant(s) in addition to the monthly rent.

Given that the proposed Richmond Great Point Development LLC apartment project will be comprised of brand new, energy efficient construction, with higher-end interior finishes (in terms of appliances, cabinetry, flooring, and fixtures) generally characterized in the industry as “institutional quality”, older and lower quality existing apartments that were surveyed (and their associated rents) were eliminated from the initial data points as not being appropriately comparable to the subject project. Only similar, higher tier quality rental properties were included in the analysis as “comparable” properties to derive the estimated projected rents for the subject project.

ANALYSIS & FINDINGS

DEMAND

While WWR did not endeavor to specifically quantify the demand for year-round housing in terms of absorption, given the prima facie conclusions which were already reached in the “Workforce Housing Needs Assessment” report that was previously cited herein, the WWR interviews and real estate agent feedback certainly seem to confirm that there is a significant shortage of quality year round rental housing.

The empirical information obtained by WWR points to robust demand for additional, quality year round rental housing that would be available on a long-term basis -- a permanent supply of rental units, rather than homes/apartments which may or may not eventually be used by the owner and/or sold on short notice, which is prevalent in the community. Based on WWR's brief due diligence, the capacity of this demand appears to extend well beyond the absorption of the twenty-eight (28) new apartment units contemplated by Richmond Great Point Development LLC.

ESTIMATED PROJECTED RENTS FOR THE RICHMOND GREAT POINT DEVELOPMENT LLC GREGLIN AVENUE APARTMENTS

ESTIMATES FOR THE FOUR (4) STUDIO APARTMENTS (Average Size 310 SF Each)

- Of the data gathered, WWR found the fewest comparables for studio housing.
- Four studio units were identified wherein the tenant offered rental information. Of these, two of the units were considered to be direct comparables for this analysis, based on the location and quality of the properties.
- Based on these rentals, the estimated rent range is as follows:

AVERAGE RENT: \$1,350 Per Month

\$ Per SF RANGE: \$3.33-\$3.43 or \$1,200 to \$1,235 Per Month

\$ Per BEDROOM RANGE: \$1,200-\$1,500 Per Month

ESTIMATES FOR THE FOUR (4), ONE-BEDROOM APARTMENTS (Average Size 610 SF Each)

- WWR identified eight one-bedroom properties where rental information was provided.
- Of these, three of the units were considered to be direct comparables for this analysis, based on the location and quality of the properties.
- Based on these rentals, the estimated rent range is as follows:

AVERAGE RENT: \$1,600 Per Month

\$ Per SF RANGE: \$2.68-\$3.18 or \$1,635 to \$1,940 Per Month

\$ Per BEDROOM RANGE: \$1,400-\$1,800 Per Month

ESTIMATES FOR THE TWENTY (20), TWO-BEDROOM APARTMENTS (Average Size 970 SF Each)

- WWR identified twenty-six, two-bedroom properties where rental information was provided.
- Of these, twenty-one units were considered to be direct comparables for this analysis, based on the location and quality of the properties.
- Based on these rentals, the estimated rent range is as follows:

AVERAGE RENT: \$2,325 Per Month

\$ Per SF RANGE: \$1.69-\$2.48 or \$1,640-\$2,400 / month

\$ Per BEDROOM RANGE: \$1,025 - \$1,325 or \$1,960 to \$2,330 / month

The gap between the \$ Per SF and \$ Per BR range is due to the fact that the size of Richmond's proposed two-bedrooms units are smaller (970 sf) than the average size (1,150 sf) of the entire inventory of two bedroom properties in our data pool. With this in mind, WWR estimates that the rental range for the Richmond two bedroom units on a weighted average per SF basis is in the \$1,875 to \$2,200 per month range, with an average of \$2,050 per month. The average rent on a per unit basis rent or a per bedroom basis is higher, being equal to \$2,325 per month.

SUMMARY / CONCLUSIONS

In summary, WWR believes there is sufficient demand for Richmond Great Point Development LLC to lease all twenty-eight (28) of the contemplated year-round rental apartments in its proposed project. The projected rental rates are expected be within the aforementioned projected ranges, supposing no significant change in the economy or no significant increase in the available supply of year-round rental housing before Richmond Great Point Development LLC can construct and achieve initial leaseup / stabilization of its proposed project.

BIOGRAPHY

Jennifer C. Shalley
Broker Associate & Director of Research
Windwalker William Raveis Real Estate

Jennifer has represented a wide variety of buyers and sellers of Nantucket Real Estate and is one of the top brokers on the island with over \$160 million in sales under her belt in the last five years. From large-tract vacant land transfers, to commercial transactions, to single-family homes sales, Jennifer has a solid base of Nantucket real estate transaction experience. She was instrumental in two of Nantucket's largest land transactions: the \$16 million sale of Skinner's golf course and the associated Coffin Family Land, and the \$19 million sale of the 220 acres known as Norwood Farm.

Jennifer's analytical skills and attention to detail are not only instrumental in completing successful transactions for her clients but also in her role as Windwalker's Director of Research. She is responsible for providing in-depth market research for Windwalker on a day-to-day basis. This includes weekly market commentary, a detailed monthly report and a comprehensive annual review of the Nantucket real estate market. Windwalker's research is unparalleled on the island.

Most recently Jennifer held the position of Vice President at Wachovia, the nation's 4th largest bank, where she was responsible for the liability management of over \$22 Billion in asset-backed commercial paper. Prior to Wachovia, Jennifer worked at Citigroup as a sales associate covering banks, hedge funds and securities lending corporations. Jennifer received a B.A. in Economics and Spanish from the University of Virginia.