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December 15, 2017

Ms. Nancy Colbert Puff
Deputy City Manager
City of Portsmouth
1 Junkins Avenue
Portsmouth, NH 03901

Re: RFP #18-18

Dear Ms. Colbert Puff:

Attached please find the answers to the questions you sent us on December 5, 2017. We want to reiterate our keen interest in working with the City of Portsmouth to transform the McIntyre into a vibrant and viable project in the heart of our city.

Please feel free to contact us with any further questions at the numbers listed above or via email at dan@twointernationalgroup.com or rich.ade@oceanprop.com.

Sincerely,

Daniel L. Plummer

Richard C. Ade

Daniel L. Plummer
President
Two International Group

Richard C. Ade
Executive Vice President
Ocean Properties Hotels, Resorts &
Affiliates

General Approach to the Redevelopment:

To frame our response, we thought it would be helpful to share our approach to the project. We expect that if we were chosen to partner with the City we would enter into a process whereby we would work hand-in-hand with the City, running a robust public engagement program in order to refine the vision for the site. On a parallel path, we would work with the City, consultants on our team and the GSA and National Park Service to ensure that the program we are designing and refining maintains compliance with the Historic Monument Program. Once the City and we are satisfied that the program requirements are fairly well-established and permissible, we would finalize the underwriting to confirm certainty of execution before commencing. We do not feel it is productive at this point to rework a suggested program with associated financial proformas with so many facets still in flux. Rather, we have addressed the questions posed by offering our professional opinions on viability, quantifying impact and trade-offs and noting challenges and opportunities associated with each aspect.

1. Proposed Uses:

As we stated in our RFP and in our presentation, we understand that the initial program we presented was a starting place, not a fait-accompli. We entered into this process expecting to consider modifications to proposed uses, the mix and configuration of space as long as the project remains financially feasible, not just to develop, but to own. Below please find our response to the proposed uses you outline.

a. 10,000 sf of space for community use.

With the lower density we initially proposed for the site as a whole, 10,000 square feet of community space fit out as first-class meeting space with no base rent would be costly. Lost retail rent alone could be \$350,000 to \$400,000 per year. Cost to build out such space would likely be in the range of \$40-75 per square foot or \$400,000 to \$750,000. The cost will vary significantly depending upon the type of community use. For example, performing arts may have substantial costs related to life/safety concerns due to the likelihood for high density gatherings, while a visual arts space would be less capital intensive.

A comparison to District Hall in Boston is instructive in the discussion of scale for this space in the context of the overall McIntyre development. District Hall is a 12,000 square foot building that cost \$5.5MM or \$458 per square foot to construct. It was developed as a public-private partnership with the City of Boston as a part of a 23-acre master development that includes 6.3MM square feet of commercial space, which is a subset of 1,000 acres in the Innovation District in the Seaport. This development included thousands of apartments priced at >\$3,000/month for studios as well as multi-million dollar condos starting at \$1,000/sf and office rents that were over \$60 per square foot. We feel that we do not have

enough critical mass in downtown Portsmouth to make such a large space self-sustaining and that the economics are such that any space like this would need to be scaled down significantly from the Boston model.

We understand the objective and the appeal, however, and offer the following:

Solutions and Trade-offs:

- We could reduce some of the open space on the site that we had originally proposed to accommodate more commercial space and/or repurpose some of the space we had lining the Plaza for community use on a smaller scale – perhaps 2,500 square feet. Given the proximity of nearby restaurants, we would likely not have to include a restaurant in this space, which is included in the District Hall footprint. Potential offsets to land rent, property taxes or increased density could be worked in to offset the loss of economic return.
- The City or a non-profit may be able to garner grant money that could be used to subsidize a portion of either the cost or operating costs. We would be happy to work alongside the City to explore this source of financing to make this use more viable.
- Space for displaying art will be dedicated in public spaces throughout the project.
- It is also possible we can utilize common space or space not rented that does not require a large capital investment to fit out for creative (art-making) space with minimal financial impact.

b. Redevelopment of the McIntyre as office.

While for the reasons outlined below, we believe office space is not the best use for the McIntyre, we would agree to evaluate redeveloping the McIntyre to retain office use in the property if some of our concerns can be mitigated.

Our position is that redeveloping the McIntyre as office has the following challenges, which we and the City would have to overcome if this were the predominant use:

Design

The design of the building, in particular the unalterable window line, will make it difficult to lease at terms sufficient to justify the cost to renovate the building. To the extent that office space would be viable, it would be as larger, full-floor or ½ floor tenants with few private offices to allow natural light to permeate the space. For the McIntyre, this would be approximately 13,500 in rentable square feet on three floors.

Parking

Parking needs to be available to lease the over 40,000 square feet of office on the upper three floors of the McIntyre and 10,000 square feet on the first floor. Parking requirements for the site to be self-sufficient could run from 150 to 230 spaces. We believe the site should not burden the City with extra parking demands. We do not feel that enough parking can be built on this site to support the existing McIntyre as office while also supporting much other development. Our proposal included 236 spaces, with 95 extra spaces above those required for uses on the site available for public use at no cost to the City.

The 2017 Community Profile on the City of Portsmouth's website provides some additional insight into the need for parking due to high concentration of commuters in the City's workforce. "Approximately one-half of working residents are employed locally, but the bulk of the workforce commutes into the City to work." While the publication does not state this, it is safe to assume that much of the "local" half live within the City limits, but not downtown. As such, these local commuters still have to use a car to get to work as public transportation is not abundant in many of the residential areas in greater Portsmouth.

Traffic

We are concerned about the impact of a large population of office tenants at the building on downtown traffic. The concentrated arrival and departure times of the office population, which could range from 200 to 280 people, could create significant congestion, particularly considering the site's proximity to the Memorial Bridge and the narrow streets surrounding the property.

Site Density

Office economics do not maximize the earning potential of the McIntyre. This is important as the McIntyre building envelope is the one part of the project that is immutable due to the restrictions associated with the Historic Monument Program. As such, in order to keep density down on the rest of the parcel, this building must more than carry its weight as far as income generation.

Market Dynamics

Exhibit A contains market information for office space in greater Portsmouth. The market can be categorized as strong with low vacancy and positive absorption. A closer analysis, however, reveals distinct dynamics within the downtown Portsmouth market, which is a small subset (538,000 square feet) of the 4,000,000 square feet of office space in greater Portsmouth, that may make an optimal office leasing program difficult. The downtown market is characterized by tenants in smaller suites 1,000 to 3,000 square feet, leased predominantly to financial and professional firms with 5-

15 employees. The demand for office space in downtown Portsmouth does not align well with the supply that the McIntyre would offer, demised most effectively in larger suites from 6,000 square feet to 13,500 square feet. A further analysis of supply and demand highlights the challenges the McIntyre would face as an office building.

Supply

Perhaps the best thing this site has going for it as office space is the fact that supply downtown is currently limited. There are also high barriers to entry due to the HDC requirements and zoning limitations, as well as the lack of available sites to develop, all of which will limit competition in downtown. However, the cost of compliance with the Historic Monument Program, combined with the cost to build parking, the substantial repair and remediation efforts, and logistical costs of construction in this part of downtown, will make developing 50,000 square feet of office space in the McIntyre more expensive than delivering the same area at one of Portsmouth's office parks. All other things equal, this will mean any new inventory in those parks can be priced much more competitively.

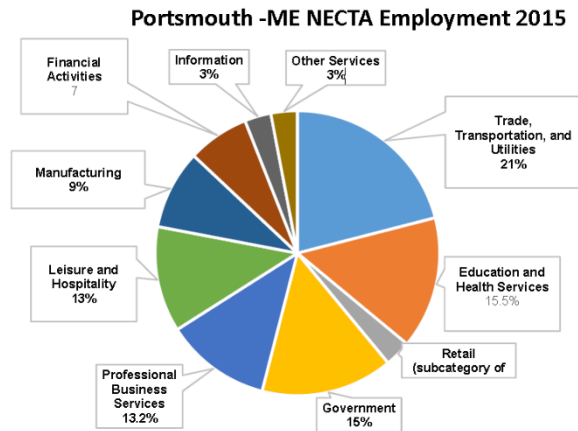
This dynamic will put the McIntyre at a competitive disadvantage to these office parks and likely lead to lengthy absorption periods, which may further result in rent discounts to fill the space. Currently there is 60,000 square feet under construction at Commerce Way and another 30,000 square feet under construction at Pease, with only 15,000 square feet of these spaces spoken for at this stage. These parks (Pease in particular) have room for an estimated **1 Million square feet of additional office space**. In addition to the fact that Pease has a fair amount of land that could be developed for office use, this land has no acquisition cost since it is all leased to developers on long term ground leases at much lower rates than the prospective McIntyre Building ground rent. The surface parking required for these tenants can be provided at a fraction of the cost of the structured parking needed to be built at the McIntyre site, unless the City can supply this parking elsewhere.

Demand

A key driver of the demand for office space is job growth in the local economy. Our current unemployment rate is 2%, which alone suggests it is becoming difficult for employers to grow without expansion of the workforce. Our workforce growth is not robust, however. In the five-year period from 2012 to 2017, the Portsmouth Metro NECTA (NH & ME Portion) workforce grew by only approximately 4.2%, less than 1% per year. Low to no growth is expected to continue in the foreseeable future statewide according to the New Hampshire Center for Public Policy. Our area stands to attract a disproportionate share of overall state growth given the high quality of life the Seacoast provides, but not likely at a pace that will generate a huge boost in hiring for local employers that might translate to accelerated demand for office space.

It is also important to examine what business sectors will be hiring for the growth we will have and thereby generating office demand. This is critical as there are a number of sectors that do not generate much office demand, such as hospitality and leisure or education and healthcare. The Government sector is also a big employer in most markets; however, government office space is mostly owned by the municipalities and as such does not create any absorption in the market. These sectors, combined, represent 43.5% of the regional workforce as detailed in the chart below.

Most of the absorption that took place in the last five years centered at Pease Tradeport and came from large businesses with high density. Companies such as Sig Sauer, Liberty Mutual, Wheelabrator, Computer Associates, Bottomline, Sprague Energy and Highliner foods have comprised the bulk of the market's absorption.



The last concern, assuming workforce growth does occur and that it occurs in more in office-user industries, is the cost. Large tenants in the Boston suburbs that move closer to downtown Boston will pay a significant premium, but they will likely gain access to a larger pool of talent. This talent either lives in the city or has excellent public transportation into the city that gives the employer a wider range from which to attract employees. Another advantage is proximity to higher education, which enhances recruiting efforts. The benefits in this dynamic can outweigh the costs. For a larger tenant in Portsmouth, it may be easier to recruit from Pease or another suburban office node because the pool of talent living downtown is virtually negligible compared to Southern, NH, Southern Maine and northern MA, from where most of the office workers in Portsmouth commute. Those commuters can access these office parks easier than downtown; thus, there may be no benefit to the business in recruiting despite a much higher cost of occupancy.

As an example, a small engineering firm with ten employees that needs 2,500 square feet of space could pay \$25,000/year more just in rent to be located downtown. In addition, the business owner may have to pay at least \$150/month for each of the employees' parking spaces, which equates to \$18,000 per year. Thus, the cost of occupancy is \$43,000 per year more than it would cost if the business were located a short distance from downtown. For most small businesses this is crippling, and for large businesses the numbers are typically too significant to ignore even if they can get past the parking issues. The result is a significantly reduced pool of prospective tenants.

Supply/Demand Summary

As the largest multi-tenant landlord in Portsmouth, our team is highly invested in supporting the City's office market and promoting its growth. As a landlord in both Pease and downtown, we also understand first-hand the challenges associated with attracting tenants that typically need a lot of parking and oftentimes are budget-conscious.

Our current vacancy rate of less than 5% is healthy indeed and in isolation suggests we can afford additional supply. However, a closer look at where and at what terms this supply must be added to meet demand is critical. It is notable that the average asking rents for the combined Portsmouth/Pease market has ranged from \$15.21/sf - \$17.25/sf NNN during past five years, far below the rents needed to justify construction cost at the McIntyre site, which we estimate to be **30-50% more than the surrounding market rates**. To be sure, there are tenants who will prefer a downtown location, for the urban atmosphere, proximity to related professionals, and walking distance to amenities, benefits that can more than compensate for higher occupancy costs; however, we feel this market is not deep, putting high performance and vibrancy for the McIntyre at risk.

Financing Considerations

Based on our discussions with several lenders and experience in this asset type, we feel at least 50% pre-leasing would be required before most lenders would consider funding office/retail space. Some caveats that may affect that requirement include the credit quality of tenants and any lingering uncertainty in costs to develop, such as environmental remediation. If lenders or appraisers have more conservative assumptions on rents, ability to lease remaining large blocks of office/retail, or of other risks involved, they might require more pre-leasing prior to funding a project.

Solutions and Trade-offs:

- A possible solution to the parking issue is for the City to subsidize the cost of adding more parking. Also, if the City were willing to guarantee us spaces in the High/Hanover facility, this would ease our needs on site. We do not feel that prospective tenants will be willing to walk from the new garage to this site given the distance; however, High/Hanover is a good option if space were available for a portion of the site requirements.
 - If the cost to renovate the building could be low enough to support lower rents, the economic model might be workable. Cost savings could be realized by less structured parking on site and capping the risk and cost of environmental remediation the developer has to bear. We are also open to exploring whether any of the project could be financed with TIF funds, thus lowering the overall cost of capital.
 - A gap in overall project returns could be offset by higher value items elsewhere on the site. We did not propose residential condominiums on the site as the National Park Service responded to our question that such a use was prohibited. We also have other market-based concerns about that use given the land lease. Nevertheless, we are willing to evaluate the site as a single investment. Higher value use can offset lower yielding land use if, as a whole, the project delivers the desired civic result at a reasonable return to us as the developer/owner.
- c. Redevelopment of the McIntyre as office or another use and include no other new development other than green space.**

Without some kind of subsidy to bolster economics, including no developer risk for environmental remediation and substantial commitment from the City for parking, we feel the redevelopment of the entire McIntyre site as office only with no new construction will not be feasible knowing that the City's objectives are to avoid any capital investment or development risk. If the McIntyre redevelopment includes no new income-generating development and either office or residential development can be accomplished economically in just that building, we would need to be able to utilize the parking as is on the site and would not be able to invest in covering the parking with the Plaza or adding public space as our proposal included. We believe this would be contrary to the City's vision.

It is possible that a hotel could work in the McIntyre building only, with no other development. We would suggest maintaining our original concept of approximately 120 rooms, albeit in a different configuration, in order to maximize income to support hotel amenities and public spaces. Boutique hotels typically provide a higher quality standard and more amenities to differentiate the property from the mid-scale branded hotels that currently dominate the Portsmouth hotel market. Parking scenarios would have to be evaluated. Reduced parking to support only the hotel would likely result in

all surface parking or a single elevated deck. We would try to configure the main entrance and porte cochere off of Daniel Street with a parking entrance off of Bow street or Penhallow Street. The remainder of the site could be developed as public open space. However, it is unlikely the hotel development itself could support the investment of developer funds to construct significant high quality public spaces.

- d. **10,000 square feet of office if the McIntyre is not redeveloped as office.**
We believe this is feasible. Our proposal has 14,759 square feet of office/retail as is. We are open to new configurations.

- e. **10% of the proposed housing units as affordable rental housing to families earning 80% of area median income with monthly rent caps of \$1,190 for a studio, \$1,275M for a 1BR, \$1,530 for a 2BR and \$1,768 for a 3BR at the same unit mix as the market rate units.**
We believe this is feasible at the unit counts we originally proposed without significant trade-offs. We would need to reevaluate if the mix changed considerably.

2. Scale, Open Space & Steeple View:

We are open to reconfiguring our design to take into consideration issues of scale (e.g. height along Bow Street) and view corridors. As we proposed the lowest density project with the most open space, the trade-off may be that we increase massing or density in other parts of the site and/or leave less open space. The financial feasibility would need to be examined once we evaluate the associated reconfiguration.

3. Historic Monument Program/Historic Rehabilitation Credits:

Our analysis of the Standards for Rehabilitation as it applies to additions, in particular, leads us to believe that the demolition of the Post Office wing may be permissible. We note that this would need to be confirmed early in the process. If we were not able to demolish the façade of this wing, we feel we can modify our plan and maintain feasibility by adding stories, perhaps more set back than we had proposed, to this wing. We would lose up to 64 parking spaces we had planned to be under this wing and a garage entrance and will need to evaluate the cost of the resultant reprogramming.

4. Environmental Remediation:

As you are aware, we do not have a detailed breakout of scope or costs to remediate the environmental conditions in the McIntyre because neither the City nor the developers

have been given the necessary access to complete due diligence on this aspect of the project. Our process would be to work with environmental consultants to pursue the necessary testing as well as a remediation professional to provide a more definitive estimate of the cost to remediate. The findings and the cost estimates would be shared with the City so that we all have a complete understanding of the issues. Given the level of remediation we understand may be necessary at the site, the inspection process will likely be fairly intensive and difficult to do while property is in occupancy even if we could gain access.

As such, there are a few approaches that we could take in partnership with the City. First, if the City wishes to have these costs defined prior to the building being vacated, we could provide an allowance and then workout a formula such that any overage comes as a discount to ground rent or deferred property taxes. We had suggested an allowance of \$500,000 in our proposal based on the overall project economics. The allowance may be able to be increased if the plan's economic value increases. The advantage of this approach is that the development will commence earlier and generate revenue for the City earlier. Another option would be to wait until building is vacant and then complete thorough testing/inspections and secure a bid from a remediation contractor to define this cost. While this would result in delaying municipal revenues, it would provide a specific number to incorporate into the development agreement instead of a formula. Ultimately this comes down to how much testing/inspection we can do while GSA is still in occupancy of the space. The more we can do, the more we can define the potential costs.

5. Roles in Development and Long-Term Involvement:

Our two firms, headquartered in Portsmouth, are long-term owners and operators of commercial real estate. Our principals work throughout the life-cycle from development to stabilization and beyond. The ground lessee will be a new special-purpose entity controlled jointly by TIG and OP. The following are outlines of various roles within our partnership.

Design/ Planning. Bill Walsh and Barry Kimball of OP as well as Daniel Plummer and Ryan Plummer of TIG all stay actively involved throughout the design and entitlement process for their developments. As the architect on the project, Shannon Alther (TMS) would also be a key player in this phase. While other members of the OP and TIG teams would be involved in this critical phase as well, these principals will have significant input and participation in the process. Eve Hoefle will take the lead in working with the City on GSA and National Park Service issues in concert with the Development team.

Construction. The same key members as mentioned for design/planning will be involved in this process and members of their construction and implementation teams will join the project team. Both TIG and OP have building professionals who will manage the construction. It is likely that TIG's construction company will take the formal role of General Contractor; however, OP will also provide significant input – particularly with any hotel component.

Financing. Rich Ade and Julie Cousins of OP and Eve Hoefle and Sally Evans of TIG will lead the financing end of the development and financial reporting with assistance from the other principals in their areas of expertise.

Leasing. Renee Plummer will oversee the leasing of commercial space at the property, with likely participation from third-party brokers.

Management. Asset management covering the entire development will be a joint effort of OP and TIG, with Julie Cousins and Eve Hoefle again being the main contacts for this with support from staff. Property level management of a hotel component would be provided by OP's staff of hotel management professionals, led by Tom Varley, also a Portsmouth resident. Property level management of the commercial space would be the responsibility of TIG.

Team Additions. We will be adding members to our project team as the project evolves. We will select professionals with expertise in the following areas, and likely more, choices which will hinge on the ultimate program to be developed.

- Public engagement facilitator
- Landscape architect
- Geotechnical & Environmental remediation experts
- Structural engineers
- Historic rehabilitation consultant
- Interior design consultants

6. Public Participation:

We intend to engage in a vigorous public input process. We would propose working on the public engagement program in concert with the City. We may decide that a third-party consultant should be engaged by the City or utilize the services of a member added to our team in addition to our own internal resources. The following is a preliminary outline of the charrette process we envision:

Vision: The charrette process will support and advance the City's mission to activate this property, by proactively reaching out to the community to facilitate input and shape the outcome by exploring the best uses for the site and the potential impact on the surrounding neighborhood. The objective will be to bring stakeholders together to collaborate, cooperate and educate the collective group on the concepts and value of the property, program and uses.

Guidelines:

- Explain the Historic Monuments Program with respect to limitations on redevelopment for the site;
- Discuss the long-term vision for the site and buildings;
- Describe the big picture transformation we hope to foster:
 - social, economic, environmental, and/or individual impact
 - Economic trade-offs;
- Determine the intended audiences for property;
- Delve into the short, medium, and long-term outcomes sought for the property.

Tactics:

Though the Committee structure, the following areas will be the emphasis.

- Town Government
- Public Sector
- Policy, Rules and Regulations
- Residents
- Property Owners
- Businesses
- Historical Character
- Economic Impacts

Schedule:

For a meaningful charrette, all stakeholders need to be in attendance and be willing to brainstorm all aspects/limitations for the project.

We are proposing to have four charrette time slots outlined in the following manner over a two-week period:

- Wednesday Public Listening Session: to hear the issues/requests/obstacles of the McIntyre site (two-hour duration);
- Friday Public Process Session: to review listening session items and craft narratives and visual diagrams of the possible opportunities (three-hour duration);
- Wednesday Public Review Session: to outline charrette #2 outcome and make adjustments (two-hour duration);
- Friday Public Information Session: to present the findings to all stakeholders and use this as framework for the McIntyre project next steps.

TMS has facilitated numerous charrettes over the years and has experience in this type of information gathering. We can also work with a third-party facilitator to help with the charrette process. As the City has not fully outlined the program of the McIntyre Site, we feel that the charrette process will allow the public and those who have ideas and issues a chance to make their voices known and participate in the important process of program development for this site. The public needs to hear from City staff about the Historic Monument Program and the City's fiscal goals for the development. The results will help inform and create the new McIntyre Project.

7. Market Analysis:

Please see Exhibit A for an analysis of the Portsmouth Office Market.

8. Minimum Lease Term:

25 years with renewals up to a total of 99 years. Note that we are not requesting a stable assessment period as was reflected on page 8 in our original proposal in error.

9. Questions Specific to OP/TIG:

a. If the City does not want a hotel, would we be interested? If so, which uses would we consider?

We would be interested in exploring other uses; however, as we have noted, a predominant office or retail use would certainly not be preferred. One option we might consider would be to convert all upper floors of the McIntyre and the new building to be constructed over the Post Office wing to apartments and maintain pedestrian level floors as office/retail. We would need to carefully evaluate the income potential and increased parking needs. As we noted, hotel use is not as parking intensive as other uses and does not affect commuter traffic patterns. Additional required parking would need to be supplied for added demand elsewhere. One option would be for the City to provide a long-term agreement for spaces at the High/Hanover garage to support the additional demand at this site above and beyond the 236 spaces proposed. Another option would be for us to try to add parking to the site, but this likely means bringing the parking above ground in spots, cutting into the plaza and public space. If structured parking is required, we are estimating this cost at approximately \$39,000 per space, which investment would need to be recouped in another part of the development. Reduced ground rent or deferred property tax are the likely offsets. Any reduction in development cost from City contributions or risk sharing would also bolster economics. To investigate this option, we would evaluate a revised proforma and adjust the overall program to assess its viability.

b. If the hotel usage were restricted to just the McIntyre Building, would we be interested and what would be the implications?

We think this is a viable option, although as in our other responses, there would be implications. As stated in our response to paragraph (a) above, apartments are likely the next best use for any new building adjacent to the McIntyre. One idea we have considered is to design the second building shown as part of the hotel as if they were micro-units, but retain them as part of the hotel structure (i.e. keep them connected at the first floor so they still shared entry, concierge, and amenity space). We would prefer to see these offered as long-term stay, but by designing them larger and with full kitchens, we would put the project in a better position to navigate changes in the hospitality market.

General Market Observations Regarding Proposed Uses.

We have heard the concerns voiced over the need for additional hotels in Portsmouth with three other projects in the approval or construction process. This is a good question and one that we have carefully considered. We believe with four existing hotels in the Portsmouth hospitality market under management, we are uniquely qualified to assess the impact of developing a hotel in downtown Portsmouth without overtaxing the market. Furthermore, our plan for this property is not to be just “another” hotel. We believe there is a void in the market for a boutique, non-branded hotel that would offer a different experience, drawing new visitors to Portsmouth and bringing vibrancy after-hours and disposable income to support our merchants. The existing inventory and planned additions to supply are branded mid-scale properties. Our vision for the McIntyre is a differentiated hospitality offering, one designed to provide unique amenities and services to enhance and showcase our local environment, history and community. As an independent, locally-owned property, the hotel will not be restricted in décor or design to prototype commercial brand standards like Hampton Inn or Sheraton, allowing for local inspiration and art in public space. Ocean Properties is a proven operator in this niche with hotels such as West Street in Bar Harbor, Lake Placid Lodge and a collection of unique properties we manage internally as Opal Hotels.

Ocean Properties routinely evaluates market conditions with an in-house staff of business planning and marketing professionals. We are well-versed in our market’s momentum, occupancy rates, average daily rates, and have created development scenarios for the McIntyre Site based upon all of these local factors as well as regional and national trends. Disruption in the industry and evolving leisure trends require an agile and experienced operator, such as Ocean Properties. We are confident that an upscale boutique hotel can be successful at this location. Over the past 24 months, Ocean Properties has opened six hotels with close to 900 total rooms using the same market evaluation process and all six have exceed the pre-development proformas.

We also note office, apartment and retail sectors are all cyclical and are facing trends that introduce uncertainty. In the office world, trends such as increasing user densities, telecommuting, and “hoteling” (the practice of employees sharing

a desk on different days) can impact demand even with growth in the economy. Further, our job market is at what most economists consider full employment. As such, in order for demand for office space to continue increasing, the number of people entering the job market must outpace not only people leaving the job market, but also overcome the practices that tenants are using to “do more with less.” Again, the depth the market and size of the employment base affect any market’s ability to confront these headwinds. As a secondary market in a lower population growth area, we need to heed these trends carefully.

In the apartment sector, there are concerns of overbuilding in many markets as well as the threat of aging millennials beginning their transition into single family homes as they start their own families. The latter has already begun with the early millennials reaching their 30’s and looking for larger space and land at more affordable prices than a downtown environment provides. Generation Z will hopefully fill this void, and there are still plenty of millennials in major markets looking to rent. We should note, though, that Portsmouth, and New Hampshire in general, are losing population in young adults, and both are projected to skew older through 2025. Unlike major metropolitan areas, we do not have a large population of millennials providing sufficient demand for extensive multi-family development.

The retail sector is bracing for continued change with shifts to experiences over shopping for goods and online purchases. We note that one of the proposals included 45,000 square feet of specialty retail at \$45NNN or double the market office rental rate, significantly buoying that part of the development. Specialty retail in general is a volatile asset class, and with 45,000 square feet in what is estimated to be a total market of 200,000 square feet of retail downtown, may struggle to maintain occupancy at such high rental rates.

While the hotel sector certainly has risks as well, including the growth of the sharing economy, there have been noticeable trends toward more transient lifestyles/workplaces and experiences over material items, all of which impact demand in the lodging market. People in general are much more mobile than they were 20+ years ago due to technological advances and the ability to be connected from anywhere in the world. In addition, we have an entire generation that has dedicated a significantly larger portion of their disposable income to travel and experiences over material items than their parents and grandparents. We feel this trend is likely to be passed on from millennials to Generation Z for two reasons. First, travel is much cheaper than it was 20+ years ago and will likely continue to trend downward. Second, the ability/desire to travel has been accelerated by advances in technology allowing us to be connected to the people closest to us (friends, family, coworkers) wherever we are. Thus, while there will inevitably be cyclical ups and downs with hospitality as there is with any industry, we feel a unique offering in downtown Portsmouth will be well-positioned to thrive.

Lastly, we’d also note that the diversity of uses in our vision for the McIntyre puts the project in the strongest position to withstand changes in the market. Eliminating one of these uses entirely makes the project rely solely on a few asset

types, which may respond differently to market conditions over time. The high cost of development in the downtown historic district requires a hard look at the uses and how they may sustain a stress test, keeping in mind that construction costs have been outpacing inflation by a large margin for almost two years now, and interest rates remain historically low, but are trending upward. If interest rates increase even modestly at the same time that construction costs continue to rise, apartment and office uses may struggle to remain viable. By having hotel, office, retail and apartments working together, the project stands the best chance to weather market shifts. Further, this diverse mix creates a more vibrant atmosphere for the occupants and public using the space by activating the area 24/7.

Ultimately, the successful redevelopment of the McIntyre requires both broad vision and attention to the most minute detail. It is a balancing act of civic priorities, stark realities, financial objectives, public impact, bricks and mortar, and open vistas. The partners, both public and private, must embrace the challenges, communicate flawlessly and drive it forward with gusto.

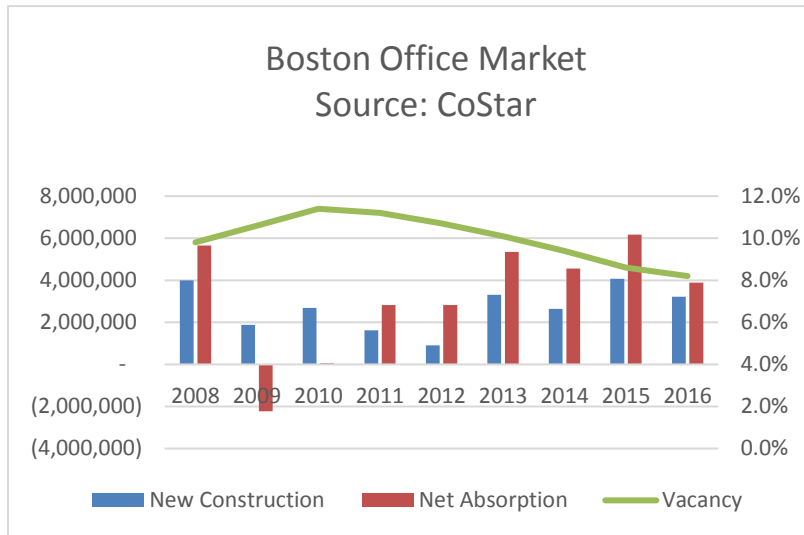
We would be honored to work with the City to bring this project to life.

Exhibit A

Analysis of Portsmouth Office Market

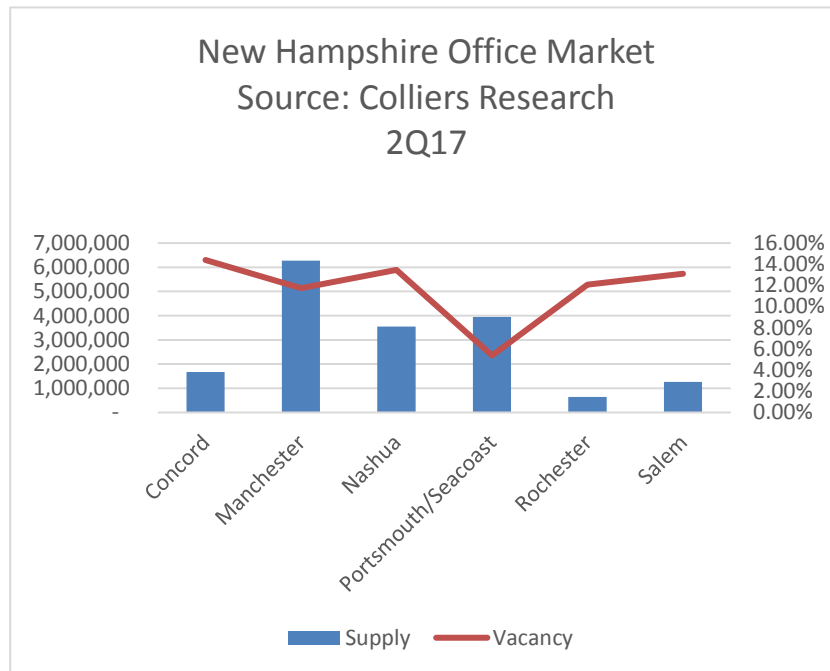
Boston

As southern New Hampshire functions as a satellite to the Boston market, it is useful to follow Boston trends. According to CoStar, supply is approximately 343MM square feet. The market began to rebound in 2011 with vacancy gradually declining to just below 8% as of Q217. New supply began in earnest in 2013, and net absorption has been from 2.8MM square feet to 6.2MM square feet per year in the past five years. While asking rates in some sub-markets, like downtown, Back Bay and the Seaport, are very strong at \$60.00 per square foot, the overall market asking rent has been fairly flat at \$21-23 per square foot market-wide, lower than the asking rent of \$24.10 in 2008.

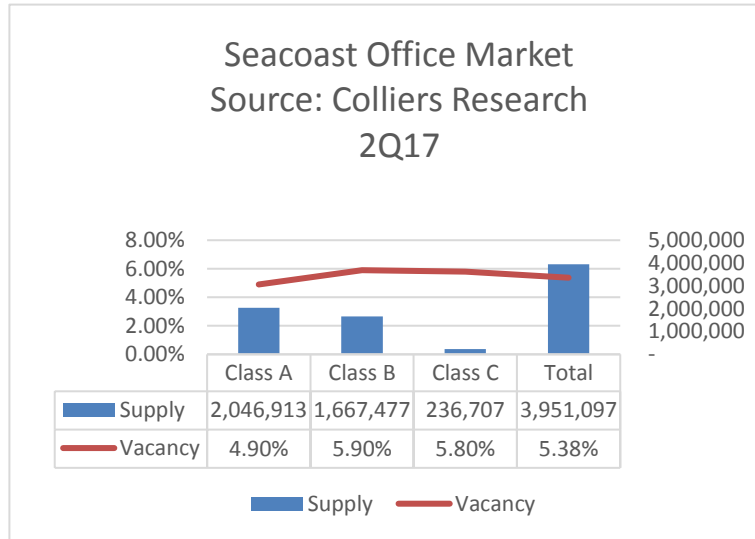


New Hampshire

The following chart, compiled from data from Colliers Research, compares the major submarkets in New Hampshire. The Portsmouth/Seacoast submarket (Brentwood, Exeter, Greenland, Hampton, Newfields, Newington, North Hampton, Portsmouth, Raymond, Seabrook and Stratham) includes approximately 4,000,000 square feet and the lowest vacancy among the submarkets with a 5.38% vacancy as of 2Q17 compared to 11.01% for the entire market. Asking rates have been declining slightly since 3Q15. Portsmouth/Seacoast enjoys the highest asking rate of \$23.54 per square foot gross.



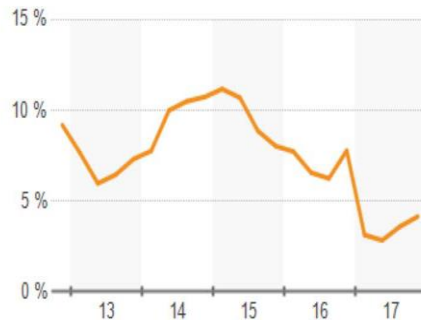
Portsmouth



As shown above, approximately, 50% of the total Seacoast office inventory is Class A, which has the lowest vacancy, 4.90% versus an average of 5.38%.

The Portsmouth office market is further delineated into two major categories, (1) established office parks, such as Pease and Portsmouth Office Park, and (2) downtown. The bulk of the office supply is outside of downtown. Portsmouth “suburban” multi-tenant office space, excluding smaller buildings, is approximately 3.0MM square feet. Parking is generally surface and offered to tenants for free, excluding some limited underground parking at some larger buildings. According to CoStar, a survey of suburban Portsmouth, drawn as an area that includes the major office parks and excludes downtown, shows trends declining vacancy in recent years, with a slight uptick in 2017. Absorption has been strong in this subset, with a five-year average of 63,000 net absorption per year.

Vacancy – Suburban Portsmouth Office Survey

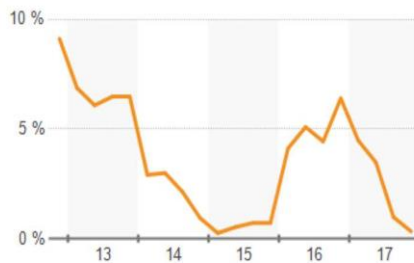


Source: CoStar

Information supplied by Colliers International surveying non-medical office space in buildings greater than 10,000 square feet indicates only approximately 538,000 square feet of product in downtown Portsmouth with very low vacancy of 1.44% as of 3Q17. This space includes 20 buildings, only four of which are buildings greater than 50,000 square feet.

A similar survey from CoStar of downtown Portsmouth office space in buildings above 10,000 square feet also demonstrates low vacancy, with much smaller absorption volume of only 14,131 square feet per year as a five-year average. Parking is somewhat scarce and expensive. At this historical rate, the McIntyre as all office could take over 3.5 years to lease up.

Vacancy – Downtown Portsmouth Survey



Source: CoStar

One could argue that the lack of availability has prohibited significant absorption, the “if you build it, they will come” argument. This is certainly possible; however, in the long run, demand needs to drive leasing for a sustainable project, and we fear the headwinds we have outlined, namely higher occupancy cost, parking, and traffic considerations along with the building design, will impede the success of the McIntyre as predominantly office.