

**Perez, Lori**

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**From:** Wilson, Anthony  
**Sent:** Thursday, December 5, 2019 9:47 AM  
**To:** Perez, Lori  
**Subject:** FW: FW: Thank You/Quick Question

Please add this to the agenda as a communication from councillor kelley

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**From:** Carvello, Maryellen <mcarvello@cambridgema.gov>  
**Sent:** Thursday, December 5, 2019 9:46 AM  
**To:** Wilson, Anthony <awilson@cambridgema.gov>  
**Cc:** Kelley, Craig <ckelley@cambridgema.gov>  
**Subject:** FW: FW: Thank You/Quick Question

Hi Anthony,

At the request of Councillor Kelley, please include the email below as a communication from Councillor Kelley on Communications from Other City Officers for the Council Meeting of December 9<sup>th</sup>.

Let me know if you have any questions.

Best,

Maryellen

Maryellen Carvello  
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**From:** Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)>  
**Sent:** Thursday, December 5, 2019 7:37:35 AM  
**To:** R. P. Reardon Company <[rpreardoncompany@gmail.com](mailto:rpreardoncompany@gmail.com)>; Richard <[richard@mckinnoncompany.net](mailto:richard@mckinnoncompany.net)>  
**Cc:** DePasquale, Louie <[ldepasquale@cambridgema.gov](mailto:ldepasquale@cambridgema.gov)>  
**Subject:** Re: FW: Thank You/Quick Question

Louie: could you put this on Monday's agenda please? Otherwise I get stuck in a bunch of one-off emails that I worry will confuse things more than clarify them.

Thanks.

Craig

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**From:** R. P. Reardon Company <[rpreardoncompany@gmail.com](mailto:rpreardoncompany@gmail.com)>

**Sent:** Monday, December 2, 2019 9:24:29 PM

**To:** Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)>; Richard <[richard@mckinnoncompany.net](mailto:richard@mckinnoncompany.net)>

**Subject:** Re: FW: Thank You/Quick Question

Craig,

You are correct in assuming the 6% is a low return on a typical investment but this project is not what one could call typical. The reason the developers are willing to take such a low return on investment has a number of factors. 1) The current investment is at risk if nothing is done to change the dynamics of a shifting "mall" profile therefore "new" money will potential protect "old" money. 2) Existing leases on the current improvements make it difficult to transition to a new concept increasing costs. 3) Unlike other investment opportunities Real Estate allows for leverage which allows a developer to place only a portion of the costs in cash and using mortgages to finance the remainder yet getting 100% of any future capital gains. 4) Cambridge is as we know a highly desirable location for development reducing the risk with Harvard and MIT. The construction budget is approximately 88% of what the finished value would be using current projections.

I am not sure if the The Vanguard projections provided are a "return on" and a "return of" investment including capital gains which would inflate the returns in a period of declining interest rates.. Bond funds typically have increasing share prices with declining interest rates therefore the "\$10,000" example usually includes reinvesting dividends/interest.

I would glad to talk more about the project if you have any additional questions.

Thanks,  
RPR

Hey Bob (with a cc to Rich):

This seems like a good question. What is the expected return on this construction investment? I'm not exactly sure how 6% popped up but it did and it seems to be a dubious benchmark I should understand better.

Thanks.

Craig

**From:** Rafi Mohammed <[rafimo@gmail.com](mailto:rafimo@gmail.com)>

**Sent:** Monday, December 2, 2019 7:40 PM

**To:** Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)>

**Subject:** Re: Thank You/Quick Question

This is why I'm curious if the 6% came into play in the CambridgeSide analysis. 6% is unrealistically low.

Below are the returns for the Vanguard Total Bond Fund. Why would a developer take the risk on real estate for a measly 2.5% increase in risk compared to a totally safe bet (I'm looking at the 10 year return).

Steve Karp did not become a self made billionaire by investing in projects that reap 2.5% more than investing in a safe corporate bond...

7:34

 investor.vanguard

How the potential for risk affects yo

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# Performance

**Average annual returns**

as of 09/30/2019

**Show**

Quarter-end

Month-end

15%

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On Mon, Dec 2, 2019 at 7:29 PM Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)> wrote:

I did some minor googling and that number does seem low.

**From:** Rafi Mohammed <[rafimo@gmail.com](mailto:rafimo@gmail.com)>  
**Sent:** Monday, December 2, 2019 7:26 PM  
**To:** Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)>  
**Subject:** Re: Thank You/Quick Question

Ok, thank you.

It's interesting, 6% seems like an awfully low return on investment for real estate developers.

On Mon, Dec 2, 2019 at 7:17 PM Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)> wrote:

What's been kicked around in various discussions with developers I know over the years has been a 6% return. That's been a basemark number I've taken as the baseline for discussions. Your point is well-taken.

**From:** Rafi Mohammed <[rafimo@gmail.com](mailto:rafimo@gmail.com)>  
**Sent:** Monday, December 2, 2019 6:59 PM  
**To:** Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)>  
**Subject:** Re: Thank You/Quick Question

Hi Craig,

I watched the meeting a few times up to your 6% question and Reardon had not mentioned 6% or any rate of return up to that point.

The reason why I ask is if in fact Reardon did say 6%, that's unrealistically low. For the last 10 years, on average the S&P 500 has returned 13.44%. Why invest in risky real estate when you can put your money in the S&P 500?

Any other thoughts on where I can track down this 6% figure?

Thank you! Rafi

On Mon, Dec 2, 2019 at 6:34 PM Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)> wrote:

I think he said that 6% was roughly the boundary during the meeting.

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**From:** Rafi Mohammed <[rafimo@gmail.com](mailto:rafimo@gmail.com)>  
**Sent:** Monday, December 2, 2019 5:50:20 PM  
**To:** Kelley, Craig <[ckelley@cambridgema.gov](mailto:ckelley@cambridgema.gov)>  
**Subject:** Thank You/Quick Question

Hi Craig,

Thank you for taking the time to meet with us today - much appreciated.

I have a quick follow-up question: when you were asking Mr. Reardon questions at the Council meeting last week, you mentioned that New England Development needed a 6% return to bring in the capital to move forward with the project.

I'm curious where you got this 6% figure from. I reviewed Mr. Reardon's 3 page letter to council and he did not mention 6% anywhere.

Thank you, Rafi