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# CITY OF CAMBRIDGE

Community Development Department

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## MEMORANDUM

**To:** Cambridge Affordable Housing Trust  
**From:** Cassie Arnaud, Senior Manager for Housing Development  
Janet Haines, Housing Development Planner  
**Date:** January 25, 2024  
**Re:** 1627 Massachusetts Avenue/4 Mellen Street

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Homeowners Rehab Inc. (HRI) is requesting up to \$2,500,000 in additional Trust funding as the final piece of Trust funding needed for their 29-unit affordable rental development at 1627 Mass Avenue/4 Mellen Street. This new funding would be combined with the \$7,925,000 previously provided for acquisition and predevelopment, which HRI is requesting be converted to permanent financing at construction closing. The new request would bring the Trust's total commitment to the project to \$10,425,000 or \$359,483 per unit.

As you may recall, 1627 Massachusetts Avenue is a 14,400 square-foot site located on the corner of Mellen Street and Massachusetts Avenue, between Harvard Square and Porter Square in the Baldwin neighborhood. The parcel consists of a 6,500 square foot historic building, as well as a parking lot at the rear of the site with access off of Mellen Street. The existing building, known as the Charles Saunders House, has been deemed historically significant and is on the National Register of Historic places and was designated a historic landmark by the Cambridge Historical Commission (CHC) in 2023.

The address has been known as 1627 Massachusetts Avenue but is being redesignated as 4 Mellen Street reflecting the location of the new building entrance.

HRI acquired the site in August 2022 from Lesley University for \$7,200,000. At the time, it was understood that securing the site at this price would result in higher than typical per unit costs, but the benefits of creating new affordable housing in this area of the city outweighed the cost premium concerns.

HRI is developing this site under the Affordable Housing Overlay. The project involves creating four units in the existing historic building and creating an additional 24 units in an attached addition on the existing parking at the rear of the site. The rear addition will be 6 stories, stepping down to 5 stories as required under the AHO. In total, there will be 10 one-bedrooms, 12 two-bedrooms and 7 three-bedroom units.

HRI considered alternative unit mixes including options which had larger numbers of smaller units and would have resulted in lower per unit costs, but decided to move forward with the current mix, which maximizes the number of family-size units, in consideration of Trust priorities. During the early design phase, HRI also explored a range of massing approaches to the site, including a 7-story option which would maximize what was then allowed by the AHO (the recently adopted changes have increased that). That option would have resulted in two additional units but would have also added costs as it would have triggered high-rise building code requirements and a different superstructure design. HRI determined that the current massing of a 6/5-story building was most advantageous from both a cost-feasibility and design standpoint.

HRI successfully completed the AHO process in December 2023 and the Planning Board issued its final advisory design consultation report on December 20, 2023, which is included in the Trust briefing materials for this meeting. The proposed design was well received and follow up items from the Planning Board include such things as refinement of the roof cornice design, transformer enclosure, landscaping and potential provision of movable furniture in the open space area.

As noted, the existing historic building is being preserved and will include two one-bedroom and two three-bedroom units. HRI has been working closely with the Cambridge Historic Commission and expects to receive \$650,000 from the CHC for historic renovation work at the project.

The new rear addition will meet Passive House standards and will include features to ensure maximum energy efficiency such as robust insulation, highly efficient HVAC systems and eco-friendly materials, and will be entirely electric. In addition to the residential component, the new building will contain a 700 sq.ft. ground floor amenity space.

The front yard setback on Mass. Ave. will be retained and additional site improvements are being made along the edges of the site, including small sitting areas, improved landscaping and lighting and passive open space. No parking is being provided and HRI will work with the City to designate a drop-off area on Mellen Street.

All 29 units will be affordable to households earning up to 80% of area median income (AMI), though actual incomes mix of residents will be lower as initial occupancy will be limited to households earning at or below 60% AMI with all units will also be subject to tax credit requirements.

### **Development Budget:**

The current TDC is estimated at \$31,908,050, or \$1,100,278 per unit for 29 units. This unusually high TDC is due in large part to significantly higher than typical acquisition costs (over \$250,000 per unit, compared to \$100,000 or less for other recent projects), as well as the complexity of creating housing in the existing historic building. In addition, as discussed in brief at the December 2023 Trust meeting, development costs have increased significantly across the board for all development projects due to rising construction costs, soft costs and interest rates.

A comparison of recent HRI project shows the magnitude of these costs increases. HRI completed its 98-unit Finch development (also built to Passive House standards) in 2020 for \$268/sq.ft. and at a total development cost of under \$600,000. Today, HRI is estimating hard cost estimates for 1627/4 Mellen at \$483/sq.ft., representing a per unit increase of as much as \$215,000 (assuming a 1000 sq.ft. unit), for construction costs alone. While hard costs may be higher at 1627/4 Mellen due to the added complexity of the historical renovation and conversion and lower economies of scale, other development projects under review are also showing hard costs in this range.

As noted above, HRI looked at alternative unit mixes as they were developing their plans, including options which included a greater number of smaller units to improve economies of scale, but decided to retain their current mix which maximizes family-sized housing.

The new Trust funding being requested would bring the total Trust commitment to the project to \$10,425,000 or \$359,482 per unit.

In addition to the Trust financing, the other project sources will include approximately \$9.5 million in 9% tax credit equity, \$4.2 million in first mortgage debt, \$3.2 million in state tax credit equity, \$3.5 million in EOHLC subordinate funding, \$650,000 in historic funding, \$112,000 in Passive House incentives and \$324,442 in deferred developer fee.

**Conclusion, Next Steps:**

Staff will continue to work with HRI to explore options to reduce costs where possible, and any reduction in final development costs prior to construction closing will be reflected in a reduction in the Trust contribution.

HRI is in the process of assembling the final funding needed to begin construction. They are submitting an application for needed state funding to EOHLC in February 2024, and are planning for construction closing in early 2025, with an estimated completion date in late 2026.

**Recommendation:** The 4 Mellen St/1627 Mass Ave development will create 29 much needed new, high-quality, energy efficient homes in an excellent location. Located between Harvard Sq and Porter Sq on Mass Ave, the property has a very high walkability score, close to public transportation, stores, restaurants and schools.

CDD staff recommends that the Trust approve HRI's request for up to \$2,500,000 in new Trust permanent financing and that the existing \$7,925,000 in short-term financing which has been already committed for acquisition and predevelopment, be combined with the new permanent financing as a single permanent loan commitment of \$10,425,00. In addition, staff recommend that the CAHT accept the final advisory design report issued by the Planning Board on December 20, 2024 and included in the Trust January 25 briefing materials. We have reviewed and

discussed this request with Alyson Stein, Jim Stockard, and Bill Tibbs who agreed with our recommendation to bring this request to the Trust and recommend approval.

This loan commitment of up to \$10,425,000 shall be made subject to the Trust's standard terms and conditions including, but not limited to, the following:

1. Staff approval of the final development and operating budgets;
2. Staff approval of construction plans and specifications;
3. Firm written commitments from all funding sources, sufficient to complete transaction;
4. The Trust's review and consideration of Planning Board report(s) and any responses from HRI to the advisory design review;
5. Staff approval of the tenant selection and marketing plan, which shall include provisions to ensure the maximum local preference allowed in tenant selection and such other provisions required by the Trust and, as applicable, the Affordable Housing Overlay;
6. Standard Trust terms and conditions, including:
  - All affordable units shall be subject to the City's affordable housing covenant to be signed at loan closing; the term of the Trust AHC shall be fifty (50) years or one year longer than the longest restriction on the property;
  - All units shall be restricted to households earning below 80% of Area Median Income (AMI), as defined in the affordable housing restriction;
  - The loan shall be secured as a shared second mortgage loan of up to \$10,425,000;
  - The loan shall have an interest rate of 3% compounding annually, or such other rate approved by Housing staff at or prior to Loan closing;
  - Loan shall be subject to a penalty rate of 8% compounding applicable upon violation of the Trust affordability restriction;
  - All principal and accrued interest shall be due and payable at the end of the term; however, the repayment date may be extended for an additional term upon approval by the Trust and extension of the affordability period;
  - The loan shall provide for repayment of principal and interest from 50% of net cash flow from the development, or ground lease rent if applicable, or on such other terms acceptable to Housing staff;
  - Repayment of accrued acquisition and/or predevelopment interest shall be waived and/or deferred at conversion to permanent financing at construction closing on terms acceptable to Housing staff;
  - Loan shall be non-recourse;
  - Any reductions in project costs or increases in non-Trust funding sources shall be used to reduce the amount of the Trust commitment to the project.

During the construction period, the Borrower shall comply with the following requirements:

- Notify Lender's Construction Manager of all construction meetings and copy on meeting minutes;
- Copy Lender on all change orders;

- Copy Lender on all funding requisitions to other sources; and,
- Submit requisitions in form acceptable to Lender

Following lease-up, the Borrower shall comply with the following requirement:

- Provide demographic information on the race and ethnicity of applicants at initial marketing, initial lease up, initial occupancy, and on waitlists and ongoing occupancy over time, as requested and in a form acceptable to the Lender; such reporting requirements will be included in the tenant selection plan documentation approved by staff at or prior to Loan closing.