



CITY OF CAMBRIDGE

Community Development Department

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Community Development

MEMORANDUM

SANDRA CLARKE

Deputy Director
Chief of Administration

To: Cambridge Affordable Housing Trust
From: Janet Haines, Cassie Arnaud
Date: January 27, 2022
Re: 52 New Street – Permanent financing request

KHALIL MOGASSABI

Deputy Director
Chief Planner

Just A Start (JAS) is requesting up to \$7,375,390 in additional Trust funding as the final piece of Trust funding needed for their upcoming development of 52 New Street, a new 107-unit affordable rental building in North Cambridge. This new financing would be combined with the \$10,650,000 in short-term funding previously provided for acquisition and predevelopment, which JAS is requesting be converted to permanent financing at construction closing. The new request would bring the Trust's total commitment to the project to \$18,025,390 or \$168,513 per unit.

As you may remember, JAS acquired the site in January 2020 with funding from the Trust. At the time, the Affordable Housing Overlay had not yet been adopted but they were hopeful that it would be in place by the time they needed to secure permitting. Fortunately, the AHO was enacted in October 2020 and JAS has been able to take advantage of the increased density and as-of-right permitting path available under the AHO for fully affordable projects.

Throughout last year, JAS worked to develop and refine their plan, incorporating design input provided through the community process, consultation with City staff and, most recently, feedback provided by the Planning Board at two advisory design meetings. JAS held three AHO community meetings in 2021 and completed the second advisory design review by the Planning Board earlier this month, following an initial design review in October 2021.

JAS determined that a single building would be the most efficient use of the long and narrow site. Their designs call for a single 6-story building containing a total of 107 apartments, 78% of which will be family-sized units. The unit mix will consist of 23 one-bedroom, 63 two-bedroom and 21 three-bedroom units.

The building is being designed to comply with Passive House standards and will include features to ensure maximum energy efficiency such as a robust thermal envelope, efficient HVAC systems, and eco-friendly materials.

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In addition to the residential component, the building also contains a range of amenities including 2 exterior upper-level decks, a large community room, a fitness center and a business center as well as the possibility of a future connection to Danehy Park.

Under their AHO submission, 97 units will be affordable to households earning up to 80% of area median income (AMI) and ten of the units will be eligible to households earning up to 100% of AMI. However, the actual income targets will be lower as the 97 units will be targeted to households earning less than at 60% AMI as required by the low-income housing tax credit program, and will include 14 units for households earning under 30% AMI.

The proposed building has been generally well-received by both the community and Planning Board. JAS was able to address the bulk of the design recommendations made by the Planning Board at the first advisory review meeting in October 2021, as well as feedback received from City staff and the community. The plans presented at the second Planning Board meeting in January 2022 were found to be responsive to these recommendations. The Planning Board advisory design report includes a small number of remaining recommendations such as adding backs to exterior benches, consideration of brighter colors on the façade, exploration of additional flood deterrents in the bicycle room, and possible changes to exterior façade materials. Staff will continue to work with JAS as they finalize design details in advance of construction closing.

Anticipated Development Budget

The total development cost (TDC) for the project is anticipated to be \$67,776,297 or \$633,423 per unit. While the overall TDC per unit is higher than other Trust-funded new construction completed in recent years, it should be noted that the Trust request, at \$168,513 per unit, is in line with, or lower than, other recent new construction projects.

JAS attributes the major cost drivers for this project to be primarily construction related in the form of material shortages, labor shortages and COVID-19 related protocols. JAS is presently carrying a 6.5% construction contingency in order to absorb unanticipated costs, but plans to reduce the contingency to 5% once they have final construction pricing.

In addition to the \$18,030,930 in Trust financing, the other project sources will include approximately \$23.9 million in 4% tax credit equity, \$14 million in amortizing debt, \$5 million in state tax credit equity, \$5.25 million in DHCD subordinate funding, \$1 million in MassHousing Workforce Funds, and \$400,000 in deferred developer fee.

While more expensive than other new construction completed in recent years on a TDC per unit basis, staff will continue to work with JAS to reduce costs where possible. A reduction in final development costs prior to construction closing will be reflected in a reduction in the Trust contribution.

JAS is in the process of assembling the final funding needed to begin construction. They have submitted an application for needed state funding to DHCD this month, and are planning for a November 2022 construction closing, with an estimated completion date in late summer 2024.

Recommendation: The 52 New Street development will create 107 much needed new, high-quality, energy efficient homes in an excellent location. Located immediately adjacent to Danehy park and within closing walking distance of the neighborhood's many amenities including the Fresh Pond Reservation, shopping, restaurants, and public transportation, the New Street site is a great opportunity to add a significant number of family units to Cambridge's stock of much needed affordable housing.

CDD staff recommends that the Trust approve Just A Start's request for up to \$7,375,390 in Trust permanent financing and that the existing \$10,650,000 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 \$18,030,930. We have reviewed and discussed this request with Peter Daly, Susan Schlesinger, Jim Stockard, and Bill Tibbs, who agreed with our recommendation to bring this request to the Trust and recommend approval.

This loan commitment of \$18,030,930 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. Staff approval of the tenant selection and marketing plan, which shall include provisions to ensure at least 70% local preference in tenant selection and such other provisions required under the Affordable Housing Overlay;
5. The Trust's review and consideration of Planning Board report(s) and any responses from the Just A Start pursuant to the advisory design review;
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 which shall reflect the requirements of the Affordable Housing Overlay, including the requirement for permanent affordability;
 - All units shall be restricted to households earning below 100% of Area Median Income (AMI), and 97 units shall be restricted to households earning less than 80% AMI, as defined in the affordable housing restriction;
 - The loan shall be secured as a shared second mortgage loan of up to \$18,030,930;
 - The loan shall have an interest rate of 3% compounding, or such other rate approved by Staff
 - Loan shall be subject to a penalty rate of 8% compounding; applicable upon violation of the 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 other terms acceptable to staff;
 - Repayment of accrued acquisition and/or predevelopment interest shall be waived and/or deferred at conversion to permanent financing at construction closing;
 - 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.