



CITY OF CAMBRIDGE

Community Development Department

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To: Cambridge Affordable Housing Trust
From: Project Review Committee
Date: May 25, 2017
Re: 1791 Mass Ave Project - Project Expansion



The team of Capstone Communities LLC and Hope Real Estate Enterprises LLC, the developers of Port Landing, purchased the site at 1791 Mass Ave in May 2016 with acquisition and predevelopment financing from the Trust. The acquisition price was \$2.5MM. They had originally considered the development of approximately 25 affordable rental units at the site.

The abutters to the property are Lesley University; the Newport Road condominium; and two single-family homes at 1 and 2 Frost Terrace. These parcels abut the rear of the property and are "landlocked" except for access through Frost Terrace, a Private Way that belongs to the 1791 Mass Ave property. As Capstone/Hope engaged in initial outreach to the abutters, both of the owners of the rear parcels indicated that they would like to sell. Capstone/Hope negotiated with the owners and were able to get both parcels under agreement for a total combined price of \$4.2MM. Appraisals supported these prices. They are requesting acquisition and predevelopment financing in the amount of \$4,350,000 to enable them to expand the original project.

The acquisition of these abutting parcels will allow for a significant increase in the number of units. 1791 Mass Ave is 11,961 square feet, with an existing historic structure that will need to be partially preserved. 1 and 2 Frost Terrace add an additional 10,139 square feet to the land area, allowing for a larger and better design. Adding these sites would also increase the number of family-size units.

Positive impacts include:

- Increasing the number of units from an estimated 25 to an estimated 43, based on initial concepts and subject to developing a new design and obtaining zoning approval
More family sized units. A 43 unit project could allow up to 30 2- and 3-bedroom units. Early design studies for the 1791 site yielded roughly 14 2- and 3-bedroom units.

Table with 5 columns: Unit Size, Feasibility Design - 25 Unit, Project %, Feasibility Design - 43 Unit, Project %. Rows include 1 BR, 2 BR, and 3 BR.

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- Shift in building massing away from Newport Road abutters towards Lesley University. Newport Road abutters have raised concerns about height in preliminary meetings with Capstone/Hope. Shifting the project away from the Newport Road residences will have less impact on those abutters.
- Addition of up to 16 at-grade parking spaces. The original concept included requesting relief from required parking given the proximity to many modes of transit.
- Separation of the new construction from the historic building. The new design will allow the historic building to remain free-standing, which allows for a better integration of the new building versus having the structures attached.

The estimated budget for a 43 unit project is \$23.9MM. The per-unit costs are estimated to increase from \$529K per unit to \$556K per unit. Using estimates based on 4% LIHTC, which is the most conservative financing approach, the anticipated City subsidy request is estimated to be \$11.7MM, or \$272K per unit. The smaller project was estimated to need a total of more than \$6.2MM, or \$249K per unit. The increased per-unit subsidy is due to the basis cap for tax credits and the per-unit cap for State subsidy funds. If either of these limits change, it is possible that additional funds could be leveraged from these sources. In addition, the sponsors will work with staff to consider all funding sources, including 9% LIHTC, if it is available to reduce the amount of Trust subsidy.

	25 Units		43 Units	
Uses	Total	Per Unit	Total	Per Unit
Acquisition	\$ 2,500,000	\$100,000	\$ 6,700,000	\$155,814
Hard Costs	\$ 7,280,179	\$291,207	\$12,319,976	\$286,511
Soft Costs	\$ 3,460,322	\$138,413	\$ 4,876,984	\$113,418
Total	\$ 13,240,500	\$529,620	\$23,896,960	\$555,743
Sources				
First Mortgage	\$1,644,939	\$ 65,798	\$3,206,018	\$ 74,559
City Subsidy	\$6,230,016	\$ 249,201	\$11,719,209	\$ 272,539
LIHTC Equity	\$2,865,545	\$ 114,622	\$ 4,671,734	\$ 108,645
DHCD Subsidy	\$2,500,000	\$ 100,000	\$ 4,300,000	\$ 100,000
Total	\$13,240,500	\$ 529,620	\$23,896,960	\$ 555,743

The budget will change as the project goes through the design and permitting process. The budget and estimated need for City subsidy may also change if there are alterations to other subsidy programs or a significant change in interest rates or LIHTC yields. This budget estimate reflects 4% LIHTC, as 9% LIHTC are largely unavailable and may require a multi-year wait.

The current predevelopment budget approved by the Trust is \$330,000. Capstone/Hope is requesting an increase in predevelopment funding of \$150,000. The increased predevelopment budget will be used to fund additional design work; closing costs for the acquisition of the additional lots, including legal and pre-purchase due diligence; increased carrying costs for three lots, including taxes and insurance; and legal for the permitting process.

RECOMMENDATION:

This project, in the heart of Porter Square, is an opportunity to create a significant number of family-sized units in an area traditionally underserved by affordable housing. The expansion of the project to include the rear lots will allow the creation of more units; increase the number of family-sized units; and facilitate a better design. While there are still uncertainties in the project as it is early in the community and permitting process, the addition of the rear parcels would amplify the benefits of the originally proposed project while mitigating some of the risks.

The Project Review Committee recommends that the Affordable Housing Trust approve Capstone/Hope's request for an acquisition and predevelopment loan of \$4,350,000 to add parcels at 1 and 2 Frost Terrace to the 1791 Mass Avenue project to the Affordable Housing Trust. The funds should be made contingent on the following:

The loan shall be subject to the following terms:

1. The loan shall be structured as a first mortgage of \$4,350,000, *pari passu* with the existing CAHT first mortgage. No funds shall be advanced until acquisition loan closing; however, predevelopment funds approved for 1791 Mass Ave may be used to fund predevelopment costs for 1 and 2 Frost Terrace;
2. Term shall be 36 months or until construction loan closing, whichever occurs sooner;
3. Interest shall accrue at a rate of 3% annually;
4. Principal and accrued interest shall be due and payable at loan maturity; however, at construction closing, accrued interest shall either be waived, at Lender discretion, or deferred.

At or prior to loan closing:

1. CDD staff approval of predevelopment budget and scope of work
2. CDD receipt of appraisal sufficient to support acquisition

Following acquisition closing but prior to construction closing:

1. Environmental assessment and/or remediation plan acceptable to staff;
2. Borrower is required to seriously consider the use of 9% Low Income Housing Tax Credits and to discuss the feasibility of such with the Trust upon request;
3. CDD staff approval of final design and development plan;
4. CDD staff approval of final budget and operating proforma;
5. In addition, at Lender's request, Borrower shall provide written updates to the Cambridge Affordable Housing Trust on project status including proposed design and development scenarios and anticipated development timeline. The term may be extended as development plans are advanced.