



CITY OF CAMBRIDGE

Community Development Department

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To: Cambridge Affordable Housing Trust

From: Project Review Committee

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Re: Frost Terrace Apartments Project – Permanent Funding Request

The team of Capstone Communities LLC and Hope Real Estate Enterprises LLC (Capstone/Hope) is requesting up to \$10,785,378 in permanent financing from the Trust for Frost Terrace Apartments. This request includes \$6,700,000 in acquisition financing and \$480,000 predevelopment financing previously provided.

Located in the heart of Porter Square, Frost Terrace Apartments involves the creation of 40 new affordable rental units through the conversion of three single-family homes and the construction of a new 27-unit structure. As you may recall, in May 2016, the Trust approved the purchase of 1791 Massachusetts Avenue assuming a 25-unit project. In May 2017, the Trust approved additional financing for the purchase of the two rear parcels to expand the project. At that time, it was estimated that the total City/Trust contribution would be \$11,719,209 or \$272,539/unit assuming 43 units.

One of the incentives for expanding the size of the project was that the project could accommodate a greater number of family-sized units. Early designs indicated that the combined parcels could yield up to 30 2- and 3-bedroom units. The original design concept involved creating 43 units by replacing the two rear houses to make room for a single large new multi-family building, while retaining and relocating the existing historic house at 1791 Massachusetts Avenue. However, in response to feedback during the permitting process, the project was reduced to 40 units and designs changed to retain all three existing houses and to build a 4-5 story 27-unit structure in the middle of the site. In the end, Capstone/Hope was able to secure a Comprehensive Permit for 40 units including 14 one-bedrooms, 13 two-bedrooms and 13 three-bedrooms.

Since securing permitting, Capstone/Hope has worked to secure financing for the project including \$2 million in combined DHCD funding, \$2 million in state AHT funding, approximately \$9 million in tax credit equity, and \$3.2 million in first mortgage financing. The Cambridge Housing Authority has also awarded the project 8 project-based vouchers.

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In September, they received pricing estimates based on design development drawings which came in higher than anticipated. Since then, they have been working with their architect and contractor on options to reduce costs.

Project Costs/Cost Reduction Options

Capstone/Hope attributes the higher than anticipated pricing to a variety of factors including the general construction environment where material costs are increasing due to tariffs and where there is a surplus of construction work making bidding less competitive. The project is also uniquely costly due to design changes made during the permitting process including preserving the two rear houses and relocating the front house, preserving most of the existing mature trees on-site, and use of a more expensive façade articulation than originally proposed. In addition, the height of the new structure was limited to 4-5 stories which resulted in the need to excavate basement space for partial residential use to maintain unit count and proposed bedroom configuration.

After the first round of value engineering, including a series of interior design changes, Capstone/Hope has succeeded in significantly reducing anticipated costs. At this time, it is estimated that the Total Development Cost (TDC) would be \$27,219,486 or \$680,487 per unit, requiring a Trust contribution of \$10,785,378 or \$269,634 per unit. As part of their value engineering review, they also explored converting some 1-bedroom units to studios. While Capstone/Hope plans to proceed with the original unit configuration (13 3-bedrooms, 13 2-bedrooms and 14 one-bedrooms) the Project Review Committee supports their request for the Trust to grant them the flexibility of converting up to four 1-bedroom units to studios if necessary to stay at or below the anticipated TDC.

In the meantime, they continue to explore options to both reduce costs and bring in more resources, all of which would be used to further reduce the Trust funding. Staff will continue to work with them through this process, in preparation for a full construction closing in Spring 2019.

Predevelopment Loan Increase/Early Start Funding

In addition to the permanent request, Capstone/Hope are requesting that a portion of the funding be made available early for predevelopment and early stage site work. To date, the Trust has provided \$480,000 in predevelopment funding for the project. Capstone/Hope is requesting that an additional \$1,670,996 be made available prior to full construction closing to be used to take out existing predevelopment funding from BlueHub Capital (formerly BCC) and to pay for additional early stage activities including interior demolition of the two rear houses, excavation and foundation work, and preparation of front house for its relocation. The proposed budget is summarized below:

Remaining Predev/Early Stage Work:	
Demolition/Site Work	644,100
Environmental	37,925
A&E	305,806
Insurance	15,000
Taxes	29,084
Legal	21,803
Geotech	10,790
Permits/Fees	5,000

Accounting	5,000
Civil Engineering	14,289
Clerk of Works	13,223
Survey	5,000
Landscape Architect	10,000
Arborist	2,000
LEED Consultant	26,960
Financing Fees	20,000
Carrying Cost	5,015
Subtotal:	1,170,996
BCC Loan:	500,000
Total Early Funding:	1,670,996

RECOMMENDATION:

This project, in the heart of Porter Square, is a rare opportunity to create a significant number of family-sized units in an area traditionally underserved by affordable housing. While the TDC is higher than anticipated, the Trust funding request remains in line with the original budget. Costs at Frost Terrace are largely driven by a higher than typical acquisition per unit of \$168,417 and higher than typical design costs given the site constraints and permitting requirements. The team of Capstone and Hope has demonstrated a commitment to continue to work to bring costs down to reduce the overall TDC and funding needed from the Trust.

The Project Review Committee recommends that the Trust approve Capstone/Hope’s request for permanent financing up to \$10,785,378, of which \$7,180,000 has already been disbursed for acquisition and predevelopment and of which \$1,670,996 may be made available before the full construction closing for early stage activities as outlined above. In addition, the Trust grants Capstone/Hope flexibility to convert up to four 1-bedroom units to studios if necessary in order to maintain costs.

The \$1,670,996 increase in predevelopment loan funding should be made contingent on the following:

1. CDD staff approval of predevelopment budget, specs and scope of work;
2. The loan shall be structured as either an amendment to the existing CAHT mortgage or a new first mortgage, pari passu with the existing CAHT financing;
3. Loan term shall be 24 months or until construction loan closing, whichever occurs sooner;
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.

The permanent financing commitment of up to \$10,785,378 should be made contingent on the following:

1. CDD staff approval of final design and development plan;

2. CDD staff approval of the final development and operating budgets;
3. CDD staff approval of the repayment provision(s) of Trust financing, whereby 50% of net cash flow be used to repay the loans or such other similar provision acceptable to staff;
4. CDD staff approval of construction plans and specifications;
5. CDD staff approval of the tenant selection and marketing plan, which shall include provisions to ensure at least 70% local preference in tenant selection;
6. Firm written commitments from all funding sources, sufficient to complete transaction.

Loan shall be subject to standard Trust terms and conditions including, but not limited to:

- All affordable units will be subject to the City's standard affordable housing restriction to be signed at loan closing, requiring permanent affordability;
- Loan(s) will have an interest rate of 3% compounding, or such other rate approved by CDD Staff, and a term of 50 years;
- Loan(s) will be subject to a penalty rate of 8%. The penalty rate is only applied upon violation of the affordability restriction.
- Loans shall be non-recourse.

For both early stage work and construction periods:

- Notify Lender's Rehabilitation Specialist of all construction meetings and copy on meeting minutes;
- Copy Lender on all change orders;
- Copy Lender on all funding requisitions to other sources.