



CITY OF CAMBRIDGE

Community Development Department

IRAM FAROOQ

Assistant City Manager for
Community Development

SANDRA CLARKE

Deputy Director
Chief of Administration

To: Affordable Housing Trust
From: Chris Cotter, Housing Director
Cassie Arnaud, Senior Manager for Housing Development
Date: December 7, 2023
Re: Trust Development Pipeline Update + Upcoming Funding Requests

The pipeline of Trust-funded affordable housing developments continues to be very active. We now have thirteen active Trust-supported developments in various stages of activity, including four developments under construction or renovation; two new construction projects preparing for construction closings; and seven sites where plans for new affordable housing are at various stages of pre-development.

Sites where construction or renovation is underway:

- 12-unit Park View Cooperative
- 24-unit Rindge Commons North
- 12-unit 35 Harvey Street
- 62-unit 116 Norfolk Apartments

Sites where construction closing preparation is now underway:

- 106-unit 52 New Street
- 278-unit Jefferson Park Federal

Sites where new affordable housing has been or will be proposed:

- 2072 Massachusetts Avenue
- Broadway Park
- 1627 Massachusetts Avenue/4 Mellen
- 49 Sixth Street
- 37 Brookline Street
- 35 Cherry Street
- 30 Wendell Street

In addition to these 13 projects already familiar to the Trust, we wanted to provide a brief overview of three new projects, as well as a preview of the funding requests we expect to bring to the Trust in 2024.

In recent weeks, staff have received three funding requests which we are now starting to review. Two of the requests are for developments which have been previously discussed with the Trust and one is new:

- 1627 Massachusetts Avenue/4 Mellen Street: request from Homeowner’s Rehab Inc (HRI) for \$2,500,000 in Trust funding which, in addition to Trust funds previously provided for acquisition and predevelopment, would be the final piece of Trust funding needed for the new construction of 29 family rental units in the Baldwin neighborhood.
- Walden Square 2: request from Winn Development for \$33,250,000 in Trust funding for the new construction of two buildings containing 95 affordable family rental units adjacent to their existing Walden Square I development in Neighborhood 9.
- 87-101 Blanchard Road: request from B’nai B’rith Housing for \$18,169,120 in Trust funding for the new construction of 110 affordable 55+ senior housing in Cambridge Highlands.

In addition, staff expects to receive two additional funding requests in the coming weeks, one from a project already known to the Trust and one for a new development opportunity:

- 49 Sixth Street: Preservation of Affordable Housing (POAH) will be seeking an increase to their existing Trust funding commitment for the new construction of 46 affordable family rental units in East Cambridge.
- 103-109 School Street: Heading Home is expected to seek Trust funding for the conversion of a former homeless shelter to permanent supportive housing in the Port neighborhood.

The remainder of this memo provides a short update on the current state of development costs which is impacting some of the current funding requests, and then some background on new funding requests.

Current Development Costs

We wanted to share some general trends we are seeing with regard to changes in development costs. The most dramatic change has been to construction costs, which have been steadily increasing since the pandemic, and we are currently seeing hard costs in the upper \$400 and 500’ s per square foot as compared to costs in the mid \$200s/sf only a few years ago. The impact of this on total development costs (TDCs) is significant. Certain soft costs are also up, such as insurance, architectural and engineering. Some soft cost increases are due to associated increases in construction costs (e.g. higher construction loan interest due to larger construction loans), but in other cases the increases may be less connected. We are beginning our review of the recently submitted development budgets, and will be seeking to understand whether all soft cost increases are unavoidable or whether options potentially exist to avoid increases. Finally, in addition to increased development costs, significant changes in in the interest rate environment are impacting development financing as new developments can support less debt due to recent increases in interest rates.

Given these changes, we have been expecting to see higher TDCs and greater needs for subsidy funding in order for developments to be feasible. However, we are concerned about the cost and

subsidy needs of new requests we are now reviewing. We will be working with each housing provider now requesting Trust funding to understand their individual funding requests and to ensure that all reasonable steps have been taken to minimize costs and maximize opportunities to leverage requested Trust funding with other available subsidy funding. We are beginning review of these funding requests, and the overviews below summarize what has been shared by the developers. Prior to bringing formal funding requests to the Trust for a decision, we will complete a thorough evaluation and underwriting of each request and provide a detailed overview of each for the Trust.

1627 Massachusetts Avenue

Homeowners' Rehab Inc (HRI) has submitted a request for an additional \$2.5 million in Trust funds for its redevelopment of 1627 Mass Avenue/4 Mellen as 29 units of affordable family rental housing. This request is in addition to the \$7,925,000 already committed by the Trust for the property acquisition and predevelopment.

Since acquiring the property from Lesley in August 2022, HRI has been working on refining their design and development plans for the site. HRI's current plan will create a total of 29 affordable rental units, including 4 apartments in the existing building and 25 apartments in a rear addition. The rear addition will be 6-stories, stepping down to 5-stories. HRI is developing this site under the Affordable Housing Overlay (AHO). While the recently amended AHO zoning would allow significantly greater height and density than is proposed for the site, HRI's proposed plan reflects the original AHO requirements. While adding additional stories would have the benefit of creating more affordable housing, it is not clear whether building higher would result in lower per unit costs.

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 part to significantly higher than typical acquisition costs (over \$250,000 per unit, compared to \$100,000 or less for other recent projects), the complexity of creating housing in the existing historic building, and the reality of hard costs of over \$500/square foot. (The TDC without acquisition is \$852,002 per unit). HRI looked at alternative unit mixes as they were developing their plans, including options which included a greater number of smaller units in order to reduce per-unit development costs by spreading costs over more units. However, they decided to retain their current proposed unit mix, which maximizes family-sized housing, based on feedback from the Trust. The current unit mix includes ten 1-bedroom, twelve 2-bedroom and seven 3-bedroom units.

The new funding requested would bring the total Trust request to \$10,425,000 or \$359,482 per unit for 29 units. While this is substantially higher than other recent projects, where Trust funding has more typically ranged from \$150,000 to \$200,000, we expected higher costs for this development given the high acquisition cost for this property given its premium location and the opportunity to create new affordable units in the Baldwin neighborhood. Higher construction costs and reduced access to debt also add to the overall cost and need for subsidy here.

HRI completed the AHO community process in March 2023, and is scheduled to had its second Planning Board advisory design review meeting on December 5, 2023. HRI has also submitted a pre-application for funding from the state in the 2024 winter funding round.

Walden Square 2 – Winn Development

Winn Development has submitted a request for \$33,250,000 in Trust funds to support the construction of 95 new units in two separate buildings at their existing Walden Square site (\$350,000 per unit for 95 units). We introduced this project to the Trust in 2021, and shared some information on Winn’s development and financing plan. The Trust had several questions regarding Winn’s early budgets for the project. While Winn had begun addressing some of those comments, including removing an acquisition line item from their budget and increasing the number of family-sized units at the site, Winn decided to pause work on their new project to focus on making improvements to their existing housing at Walden Square, and also to explore alternative designs for the new housing. The Walden Square 2 proposal presented to the Trust in May 2021 assumed a single 103-unit building and a Trust request in the range of \$17-19 million (\$165,000 – \$185,000 per-unit for 103 units).

Winn has reportedly made good progress at addressing identified issues at Walden Square I and has revised their proposed designs for Walden Square 2. Winn is now proposing the construction of two separate smaller buildings containing a total of 95 affordable units, including many family-sized units. The proposed unit mix includes 33 1-bedroom, 33 2-bedroom, 23 3-bedroom and 6 4-bedroom units.

Winn restarted the AHO community process to review updated designs and is now preparing for Planning Board advisory design review in early 2024. While Housing staff have been aware of Winn’s redesign process and have attended Winn’s AHO meetings with the community and design meetings with City staff, we have only recently received updated development budgets which we are now reviewing.

Their estimated total development cost has increased from approximately \$60 million or \$589,000 per-unit in 2021, to a current estimated total cost of \$78,211,025 or \$823,274 per-unit for 95 units. A large portion of this increase is likely attributable to the fact that there are now two buildings as compared to the single building plan. In addition, Winn’s projected construction costs have increased from \$266 per-square-foot in their 2021 pro forma to \$470 per-square-foot in the request just submitted. Finally, Winn’s current proposal continues to include many family-sized units which results in a higher cost per-unit than if they retained their initial unit mix which included several studio units.

As we begin to review their request more closely, we will look to understand the basis for the substantial increase in requested Trust funding, including what measures Winn has taken to reduce costs, and whether they have sought all other reasonable funding sources available to offset the amount of Trust funding needed.

87-101 Blanchard Road – B’nai B’rith Housing

B’nai B’rith Housing (BBH) is requesting \$18,169,120 in Trust funds for new construction of 110 units of affordable senior housing for residents who are 55 or older. BBH acquired the site at 87-101 Blanchard Road for \$6,250,000 in July 2023.

The site is in the Cambridge Highlands neighborhood on the Belmont line and was part of a larger property which has been divided into two condominium units. BBH plans to redevelop the front portion of the site, while the rear portion will remain separately owned with 80 units of market-rate rental housing in two buildings. The BBH site currently contains a row of vacant commercial spaces.

BBH plans to redevelop the site under the AHO and build a single 110-unit residential development for low-income seniors, with a variety of amenity space for residents as well as outdoor amenity space for residents as well as the surrounding community. Their estimated TDC is \$71,068,794 or \$646,080 per-unit for 110 units. We have been familiar with the Blanchard Road project from attending BBH's AHO meetings with the community and with City staff, but only recently received BBH's funding request and development budget. BBH is proposing a 'two-phase twinned' development to allow them to combine both 4% and 9% tax credits, by financing the two phases separately but constructing the entire building at the same time.

BBH completed the AHO community process in November 2023, and is now preparing for the Planning Board AHO advisory design review in early 2024. They have also submitted a pre-application for state funding in the 2024 winter round.

Other upcoming requests

49 Sixth Street

We expect POAH to submit a request for additional Trust funds for POAH's 49 Sixth Street, where the Trust has already committed \$9,750,000 for the project. POAH has been faced with increases in construction pricing. POAH has been working to reduce costs through value engineering, increase their funding request to the state, obtain commitments other available subsidy funds, and to finalize the ground lease with the Archdiocese on terms which will keep this affordable housing development feasible. As you may recall, this project involves the conversion of a portion of the Sacred Heart property in East Cambridge to 46 units of affordable housing, including 14 1-bedroom, 20 2-bedroom, 11 3-bedroom and 1 4-bedroom units. POAH completed the AHO design review consultation in July 2022.

103-109 School Street

We recently heard from Heading Home about their plan to convert their existing School Street building to permanent supportive housing. Heading Home has operated this property as an emergency shelter in the past, and now wants to create permanent housing there. Heading Home expects to begin its community process in early 2024. We expect to learn more about Heading Home's proposal soon, including their request for funding from the Trust. Heading Home has also submitted a pre-application to for state funding in the 2024 funding round.

Next Steps

We will continue review and underwriting for the new funding requests from HRI, Winn and BBH, and will do the same for requests anticipated from POAH and Heading Home, in advance of bringing these requests to the Trust in 2024 for decisions. As part of our review, we will assemble and share

more information on the comparative costs of these and recent developments to assist in the evaluation.

Looking ahead further, staff continue to work with housing providers to assess several new sites for affordable housing development. We will also bring requests for acquisition funding for those sites if and when such funding is needed to purchase other new properties.