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**CITY OF CAMBRIDGE**Community Development Department

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**IRAM FAROOQ**Assistant City Manager for  
Community Development**MEMORANDUM**

**To:** The Affordable Housing Trust  
**From:** Project Review Committee *CC*  
**Date:** March 24, 2016  
**Re:** 1791 Mass Ave

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Capstone Communities and Hope Real Estate Enterprises are requesting an acquisition and predevelopment loan of \$2,830,000 from the Affordable Housing Trust to purchase the property at 1791 Mass Ave. Development of the site will require an extensive design, zoning and permitting process. At this time, this is an acquisition of a site with potential in Porter Square. Agassiz is a neighborhood where there has traditionally been fewer opportunities to create affordable units.

The 11,961 square foot parcel is located in the Agassiz neighborhood, three blocks from the Porter Square MBTA station and shopping center. While not openly listed, the owner made it known that the site was available. While there were reportedly several other offers at a higher price, Capstone/Hope offered \$2.5MM without any contingencies, and now have the site under agreement.

Zoning is an issue for developers because the site is located in a three-block Res B zone surrounded by much denser districts along Mass Ave in both directions. Adjacent districts are zoned BC and BA-2, both of which allow more density. In addition, most of the proximate buildings along Mass Ave are at least four stories.

There are ongoing city-wide discussions of the critical need for affordable housing, especially close to transit, and the role that zoning can play in creating more housing. We believe that this is a case where an all-affordable development would be a more compelling case for additional zoning density. The potential affordable housing overlay could impact the as-of-right options for the site. Other avenues for zoning could be a comprehensive permit or a request to rezone the area to be consistent with the rest of the Mass Ave corridor in Porter Square.

In addition to zoning, the site will have to go through a historic review process. The existing building is an approximately 5,000 square foot mansard built in 1867. While the building is not well preserved, it is likely to be of historical significance because it is the last of its type in the area. Preliminary discussions indicate that the later additions to the building may be able to be removed, but the original building may need to be preserved. The building could be shifted closer to the front of the site. In addition, it's possible that a landmark study could be requested.

Given the complexity of the zoning and historical processes, it is difficult to know what the final project will be in terms of the number of units, building type, and tenure. Therefore, we do not have even a preliminary budget. However, we believe

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that a feasible project will range from 15 to 30 units. This puts the acquisition in the range of \$166,000 to \$83,000 per unit. A market-rate project one block away sold for \$222,000 per unit permitted. We believe that the acquisition is appropriate, even with all the unknowns, given the possibility of creating affordable housing in this area.

The first step will be to look at design options. Capstone/Hope will speak to different architectural firms to determine the best fit, including Bruner/Cott, who worked on Lesley's Art Institute and are very familiar with the neighborhood. The design options will inform what zoning relief is required. The budget will be developed once the unit count and type are determined and a strategy to obtain permissive zoning and/or needed permitting is in place.

If zoning changes or approvals are not possible, the existing building could likely be expanded and converted to an SRO, which would not require any zoning relief if it served a disabled population. In this fallback scenario, we would pursue a transfer of the property to a service provider, based on identified needs and capacities, to pursue a supportive housing reuse for the structure.

In addition to the acquisition, Capstone/Hope are requesting predevelopment funds to cover costs through permitting, an estimated two years. These funds will be used for architecture and engineering for design; permitting; legal costs; acquisition costs including survey and appraisal; holding costs including property taxes and insurance; and developer overhead totaling \$100,000 for two years. This amount will be considered part of the overall developer fee. A portion of the developer fee will be paid as a 2 percent broker commission by the seller.

The predevelopment budget is:

Design	\$110,000	Includes A&E, structural, permitting
Legal	\$ 60,000	City legal, loan docs, permitting
Environmental	\$ 50,000	Phase I and II, geotechnical
Carrying Costs	\$ 45,000	Taxes, insurance, security, maintenance
Fees	\$ 15,000	DHDC application fee, LIHTC market study
Overhead	<u>\$ 50,000</u>	Additional \$50,000 paid from acquisition
<b>TOTAL</b>	<b>\$330,000</b>	

While there are many complex issues to work through, this site in the heart of Porter Square has great potential for affordable housing. Capstone/Hope are eager to create a project that provides the maximum number of units while enhancing that stretch of Mass Ave. We believe this is an excellent opportunity to acquire a site for a reasonable price and tap into the momentum for zoning changes. If an affordable development is not feasible, the site can be sold.

## RECOMMENDATION:

This project is an opportunity to acquire a site in a great location and work to develop a project that makes best use of the site and increases housing opportunities in Cambridge. Agassiz is a neighborhood where fewer affordable housing units have traditionally been developed. While the final type and tenure of the project are not known at this time, acquiring the site ensures that it will be permanently affordable.

The Project Review Committee recommends that the Affordable Housing Trust approve Capstone/Hope's request for an acquisition and predevelopment loan of \$2,830,000 to support this project. 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 \$2,830,000. No funds shall be advanced until acquisition loan closing;
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:

5. CDD staff approval of predevelopment budget and scope of work
6. CDD receipt of estimate of value sufficient to support acquisition

Following acquisition closing but prior to construction closing:

7. Environmental assessment and/or remediation plan acceptable to staff;
8. CDD staff approval of final design and development plan;
9. CDD staff approval of final budget and operating proforma;
10. 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.