CITY OF CAMBRIDGE
Community Development Department

IRAM FAROOQ
Assistant City Manager for Community Development

SANDRA CLARKE
Deputy Director
Chief of Administration

KHALIL MOGASSABI
Deputy Director
Chief of Planning

To: Cambridge Affordable Housing Trust
From: Project Review Committee
Date: December 13, 2018
Re: 155 Willow St – new request

The Cambridge Housing Authority is requesting up to $6,522,388 for the construction of a new 26-unit affordable rental housing development at 155 Willow Street in East Cambridge. This CHA-owned site is currently being used as parking for Roosevelt Towers and is located a block from Cambridge Street and within short walking distance to the Union Square MBTA station currently being built. The CHA has determined that there is ample on-site parking at Roosevelt and that this lot is available to be redeveloped.

The CHA believes that the site can accommodate a 4-5 story building of approximately 30,000 square feet, with 7 units per floor, over a ground floor podium with common space at the front street level and parking at the rear. After considering a range of different building configurations, the CHA has settled on a proposed 26-unit structure which would include 3 full stories of residential and a partial 5th floor of residential, to provide a top floor setback from the adjoining property. Their plan is to use modular construction.

In addition to looking at different-sized building envelopes, the CHA has also reviewed different unit size configurations and has narrowed the project down to one of two proposed 26-unit scenarios, as summarized in the chart below. While both scenarios have four 3-bedroom units, Option 1 has more 2-bedroom units and fewer 1-bedrooms resulting in a greater overall percentage of family-sized units (73.1%), as well as greater TDC and greater need for Trust funding. Option 2 has more one-bedroom and fewer two-bedroom units resulting in a lower percentage of family-sized units (57.7%) but is estimated to need less Trust funding as a result of a TDC that is lower than Option 1. The CHA is prepared to proceed with either plan, based on input from the Trust. The following table provides a summary of each option:

155 Willow Street	Option 1	Option 2
1 BRs	7	11
2 BRs	15	11
3 BRs	4	4
Total units:	26	26
% family units:	*73.1%*	*57.7%*
Estimated TDC:	*$17,818,983*	*$17,026,639*
~TDC/unit:	*$685,345*	*$654,871*
~CAHT:	*$6,522,388*	*$5,838,044*
~CAHT/unit:	*$250,861*	*$224,540*

344 Broadway
Cambridge, MA 02139
Voice: 617 349-4600
Fax: 617 349-4669
TTY: 617 349-4621
www.cambridgema.gov

At this time, the CHA is estimating a total development cost (TDC) of between $7 million to $8 million, or $650,000 to $685,000 per unit, depending on building configuration. The CHA attributes these higher than typical TDCs primarily to the CHA procurement requirements which they estimate to add more than 25% to construction costs. While these TDCs are significantly higher than other current and recent projects, the fact that the CHA is contributing land at no cost helps keep the numbers down to levels more in-line with what we might expect for new construction of family-sized units.

The CHA is electing to use modular construction primarily because they want to familiarize themselves with the technology in advance of embarking on larger projects which could benefit from modular design. While there could be some reductions in cost with modular, they do not anticipate significant cost savings as reductions may be offset by new modular-related costs such as the need to hire an outside consultant. However, they expect that using modular will be at least cost-neutral and believe that the anticipated savings in time may translate into cost savings. The PRC recognized the value of developing familiarity with new approaches such as modular construction but was concerned that this project would need to absorb added costs due to the learning curve. In order to expand the benefits of this learning curve, they recommended that the Trust require the CHA to work with staff to identify ways to include other local affordable housing developers in the modular construction learning experience.

The CHA plans to apply for $1,500,000 in DHCD funding in the 2019 Spring Round if their preliminary application is approved by DHCD. In addition to the DHCD and Trust funding, the project would be funded with approximately $6 million in tax credit equity, $2.4 million in first mortgage financing, and $1.4 million in CHA funding. The CHA is anticipating that the project will include two project-based VASH vouchers, eight project-based vouchers from DHCD, and at least nine mobile vouchers. The $1.4 million in CHA funding will be used as a Section 8 reserve to back up the mobile vouchers. The structure and terms of the CHA funding has not yet been determined. Similarly, the repayment provisions of the CHA and Trust funding will need to be worked out as the project proceeds. Prior to finalizing the commitment, Staff will work with the CHA on a proposed structure for both the CHA Section 8 reserve as well as repayment provisions of both the Trust and CHA financing.

In terms of next steps, depending on feedback from the Trust, the CHA will begin a process with the community in preparation for applying for a Comprehensive Permit for the project. As the project takes shape, staff will continue to work with the CHA to assess costs and identify ways to reduce the overall TDC as well as needed Trust funding. In addition, staff will provide periodic updates to the Trust in advance of bringing a final formal request back to the Trust for review and confirmatory approval.

RECOMMENDATION:

The proposed Willow Street project is an opportunity to use an existing CHA site to create 26 new affordable units, including a large number of family-sized units. After discussion, the Project Review Committee agreed that the redevelopment of the Willow Street lot for affordable housing is an opportunity worth exploring further. While the costs are high and the project is still in its early stages, the PRC supports discussing the project at the December Trust meeting. The PRC recommends that any financing approval at this time be conditional and subject to further review as project details become more clear.

Specifically, the PRC recommends that the Trust conditionally approve the CHA's request for up to $6,522,388 in Trust financing assuming they proceed with Scenario 1 or up to $5,838,044 assuming they proceed with Scenario 2, as described above and subject to the following conditions:

- Given the project's early stage, the funding commitment should be time-limited and should expire on December 31, 2019 unless the following conditions have been completed to the satisfaction of the Trust:
  1. CDD Staff and Trust approval of final design and development plan;
  2. CDD Staff and Trust approval of final development and operating budgets, including proposed terms and conditions of CHA funding;
  3. CDD Staff and Trust approval of repayment provision(s) of Trust financing which require that a portion (typically 50%) of net cash flow be used to repay Trust loans;
  4. successful completion of permitting process;
  5. provision of project updates, at periodic request of CDD Staff and Trust;
- CDD Staff approval of a process by which the CHA will work with CDD staff to include other local affordable housing developers in the modular construction learning process; for instance, by convening meetings to discuss the project, scheduling site visits, and creating other activities to share the learning experience;
- Prior to closing, CDD staff shall bring final funding request to the Trust for approval;
- CHA may seek an extension to the Trust commitment.

In addition to the above-listed conditions, Trust financing for the Project shall be subject to standard Trust terms and conditions including, but not limited to:

- CDD staff approval of construction plans and specifications;
- CDD staff approval of the tenant selection and marketing plan, which shall include provisions to ensure at least 70% local preference in tenant selection;
- Firm written commitments from all funding sources, sufficient to complete transaction;
- All affordable units will be subject to the City's standard affordable housing restriction to be signed at loan closing, requiring permanent affordability;
- Loan will have an interest rate of 3% compounding, or such other rate approved by CDD Staff, and a term of 50 years.
- Loan 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.

<u>During the construction period:</u>

- 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.