CITY OF CAMBRIDGE
Community Development Department

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MEMORANDUM

To: Affordable Housing Trust
From: Project Review Committee
Date: February 22, 2018
Re: 2072 Mass Ave/Capstone and Hope

Capstone Communities and Hope Real Estate Enterprises are requesting an acquisition and predevelopment loan of $3,800,000 from the Affordable Housing Trust to purchase the property at 2072 Mass Ave. Development of the site will require an extensive design, zoning and permitting process.

The 8,514 square foot parcel is located in North Cambridge on the corner of Walden Street, .3 miles from the Porter Square MBTA station and shopping center. The site is currently a small fast food restaurant with parking. The restaurant lease runs until 2020.

The parcel is zoned Business A-2, with an area of approximately 685 square feet in the Residence B district at the rear of the site, which abuts a small City-owned parking lot, currently used for resident permit parking. The CHA's Russell Apartments, a six-story elderly housing building, abuts to the east.

Capstone/Hope were aware the site was available for sale and had been assessing how an affordable housing development might be feasible there. While Capstone/Hope were discussing the opportunity with the seller, the site was listed for $3.68MM and quickly generated market interest.

The developers plan to propose a 25- to 30-unit development, with approximately 2,000 square feet of retail space and ten at-grade parking spaces. The inclusion of ground-floor retail would be an asset by the neighborhood, and the concept received a positive reaction from CDD urban design staff. However, given the challenges in leasing retail space in that area, the developers will need to use conservative underwriting of the retail and it therefore may require capital subsidy to create this portion of the project.

The preliminary concept would require relief for FAR, unit count, parking, height, setbacks and open space. The relief would be to modify the base zoning, and the idea would be to mass height along Mass Ave, with six stories to match the adjacent Russell Apartments, with a lower portion in the rear abutting the Res B district. The City parking lot creates a buffer between the residential along Walden Street.

Similar to other developments sponsored by this team, an Agreement to Reconvey would be put in place to allow the Trust to compel the sale of the property if the development does not make sufficient progress within a certain schedule. The

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Agreement will include provisions for any necessary subsequent sales, and would ensure that any market appreciation is returned to the Trust.

The proposed price of $3.6MM for 25 units results in an acquisition price of $144,000 per unit. This is in line with our recent experience of the market. The developers will look at all possible funding sources, including both 9% and 4% LIHTC options.

In addition to the acquisition, Capstone/Hope are requesting predevelopment funds. These funds will be used for architecture and engineering for design; permitting; legal costs; acquisition costs including survey and appraisal; 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 broker commission by the seller (effectively reducing the net purchase price of the property). Additional predevelopment costs will be covered by cash flow from the current lease.

The predevelopment budget for requested Trust funds is:

Design	$ 80,000	Includes A&E, structural, permitting
Legal	$ 60,000	City legal, loan docs, permitting
Environmental	$ 25,000	Phase I and II, geotechinical
Fees	$ 10,000	DHDC application fee, market study
Overhead	$ 35,000	Additional $65,000 paid from acquisition
TOTAL	**$200,000**	

Developing affordable housing at this site will expand the housing options in the Porter Square area. While the proposed project will require zoning relief, the preliminary proposal fits with the existing scale of buildings in this area, and the "corridor" concepts being discussed during the Envision process. In addition to addressing the critical need for housing, the project can transform an underutilized site into an attractive, sustainable mixed-use building.

RECOMMENDATION:

This project is an opportunity to acquire a site in an excellent location. There is great potential to develop into permanently affordable housing. The current cash flow of the occupied site provides funding for the predevelopment period and reduces the costs of carrying the site.

The Project Review Committee recommends that the Affordable Housing Trust approve Capstone/Hope's request for an acquisition and predevelopment loan of $3,800,000 to the Affordable Housing Trust 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 $3,800,000. 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 not less than 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;
5. An Agreement to Reconvey as acceptable to staff, which shall allow for the Trust to compel the sale of this site if sufficient progress is not being made, and, as applicable, shall include provisions for the Trust to benefit from market appreciation;

At or prior to loan closing:

1. CDD staff approval of predevelopment budget and scope of work
2. CDD receipt of appraisal of value sufficient to support acquisition
3. Environmental assessment and/or remediation plan acceptable to staff;

Following acquisition closing but prior to construction closing:

1. CDD staff approval of final design and development plan;
2. CDD staff approval of final budget and operating proforma;
3. 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.