CITY OF CAMBRIDGE
Community Development Department

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MEMORANDUM

To: **Cambridge Affordable Housing Trust**
From: **Project Review Committee**
Date: **February 22, 2018**
Re: **HRI Concord Highlands/671-675 Concord Avenue: predevelopment and permanent financing requests**

Homeowner's Rehab Inc. (HRI) is preparing to close on the first phase of construction of its 98-unit affordable rental project, HRI Concord Highlands. As you may recall, it was agreed that in advance of closing, staff would report back to confirm Trust approval of the final amounts and terms of funding.

Since the Trust last reviewed the project in October 2017, HRI has been working to finalize the budget and now expects the total development cost to be $58,228,753 which, at $595,000 per unit, is slightly under previous estimates of $600,000 per unit. The final request for Trust permanent financing is $23,803,176, of which $11,250,000 has been previously approved, and of which $12,553,176 is now being requested. This balance of $12,553,176 is reduced from the $14,825,000 conditionally approved by the Trust in October 2017, largely as a result of increased HOME and CDBG funding. The total City/Trust contribution to the project will be $26,808,176 or $273,500 per unit. The breakdown of City and Trust financing is as follows:

	CAHT	City HOME	City CDBG	Total
Committed:	11,250,000	875,000	1,500,000	13,625,000
Conditionally approved:	12,553,176	630,000		13,183,176
Total:	**23,803,176**	**1,505,000**	**1,500,000**	**26,808,176**

In addition to funding from the Trust and the City, the project will be funded with a combination of sources including $3.8 million in MassHousing WorkForce Housing funding, $1.5 million in DHCD HSF funding, $1.5 million in Massachusetts Affordable Housing Trust funding, an estimated $9.9 million in 4% tax credit equity, an estimated $3.75 million in state tax credit equity, and approximately $10.3 million in first mortgage financing.

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Loan Repayment Options and Reserve Recapture

As discussed previously, HRI will be assuming that, in addition to the project's eight (8) project-based Section 8 units, they will attract at least twenty-five (25) mobile voucher holders. This will increase the estimate net operating income, and available debt, as the payment standard for mobile vouchers is higher than for project-based units, and much higher than LIHTC units without rental assistance. However, lenders are cautious about underwriting mobile voucher income as tenants may choose to leave the property. As a result, HRI will capitalize a "Section 8 Reserve" which is sized assuming 10% mobile voucher attrition per year.

It will be a condition of closing that any unused funds in the Section 8 reserve be returned to the City and Trust. As noted at the October 2017 meeting, staff will need to negotiate the timetable for reviewing and recapturing funds with other lenders and investors but plan to request a process to review and recapture of unneeded reserve funds on a basis of every three years.

The Trust also recommended that, given the amount of local funding required at Concord Avenue, the loans should contain a repayment component. The PRC recommends that 50% of net cash flow be used to repay the loans.

Project Timing/two-stage closing

HRI is hoping to begin construction in late summer 2017, with an early partial closing on a portion of the City/Trust funding in early spring. These funds will be used for site work and enable a portion of the City/Trust funds to be moved off-budget in order to accommodate DHCD's per unit TDC caps.

RECOMMENDATION:

The opportunity to create almost 100 new units of 100% affordable housing is extraordinarily rare and special in Cambridge. HRI has taken full advantage of this opportunity by securing a comprehensive permit that will allow the new construction of affordable housing at this scale. While the amount of subsidy needed is high, we believe that the chance to develop a site of this size represents an opportunity too valuable to pass up.

Given its size, the Concord Avenue project is triggering a range of requirements and elements which we do not encounter on smaller-scale new construction. In addition, like many urban sites, the parcel itself has characteristics which make development more costly including challenging environmental and geotechnical conditions. HRI has worked closely with their engineers and with City staff to determine the most cost-effective ways to meet these challenges, and while they may not have been able to substantially reduce costs estimates, staff is satisfied that they have made significant efforts to avoid incurring additional costs and that the proposed budget is reasonable.

The Project Review Committee recommends that the Trust approve HRI's request for additional funds as follows:

$2,800,000 - funding from FY2018 City Budget
$9,753,176 - CPA funds
$12,553,176

This funding should be made conditional on the following:

For the Phase 1 closing, the permanent financing funds should be made contingent on:

1. CDD staff approval of the final development and operating budgets, including the budget for the Phase 1 work;
2. CDD staff approval of the repayment provision(s) of City/Trust financing, whereby 50% of net cash flow be used to repay the loans or such other similar provision acceptable to staff;
3. CDD staff approval of construction plans and specifications for Phase 1 work;

For the Phase 2 closing, the permanent financing funds should be made contingent on:

1. CDD staff approval of the final development and operating budgets, including the budget for the Phase 2 work;
2. CDD staff approval of the repayment provision(s) of City/Trust financing, whereby 50% of net cash flow be used to repay the loans or such other similar provision acceptable to staff;
3. CDD staff approval of construction plans and specifications for Phase 2 work;
4. CDD staff approval of the tenant selection and marketing plan, which shall include provisions to ensure at least 70% local preference in tenant selection;
5. CDD staff approval of recapture provisions in favor of the Trust for the Section 8 Reserve;
6. Firm written commitments from all funding sources, sufficient to complete transaction;

Loan(s) 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.

<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.