



CITY OF CAMBRIDGE

Community Development Department

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MEMORANDUM

To: Affordable Housing Trust
From: The Project Review Committee
Date: October 30, 2019
Re: 52 New Street – acquisition and predevelopment request

Just A Start (JAS) is requesting an acquisition and predevelopment loan of \$9,800,000 from the Affordable Housing Trust for a large new construction project in North Cambridge. The funding being requested would support the acquisition of a 43,793 square foot property located on New Street directly adjacent to Danehy Park.

The 52 New Street site is located in an area of the city which has been undergoing change in recent years, with multiple market-rate residential developments occurring on nearby parcels on New Street. The 52 New Street site is long and narrow and is zoned IA-1 which would allow up to 81 units with the Inclusionary bonus. A preliminary design assessment indicates that a project larger than 81 units would work at the site, including a large number of family sized units. At this early stage, JAS is envisioning a development of approximately 100 units, though the actual number of units may be greater or fewer depending on a closer examination of what design works best for the project.

There is currently a single-story commercial building at the rear of the site which is leased to a fitness center on a month to month lease. The seller has told JAS that the tenant is expected to leave in the coming months. JAS is in the process of assessing the current lease. The building would ultimately be demolished as part of the redevelopment of the site.

Just A Start has an accepted offer to purchase the site for \$9,300,000, with an anticipated closing in December 2019. Assuming a unit count of roughly 100-units, the acquisition cost would be in the range of \$93,000 per unit which is in line with other recent land sales.

The site has known environmental issues which will limit options but not prohibit the construction a residential building. An activity and use limitation (AUL) will likely need to be recorded which will limit below grade excavation and require ongoing monitoring. As a result, it is expected that there will be added development and operating costs, and features such as below grade parking will not be feasible. JAS's LSP will develop a remediation plan based on the new and existing environmental studies and reports and any new testing deemed necessary.

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JAS will work with their consultants to assess design and development scenarios. The actual number and configuration of units will be determined as design and feasibility work is completed. JAS will make

every effort to maximize the number of family-sized units at the site and will consider a variety of affordability mixes depending on financial feasibility assessments.

JAS has prepared some very preliminary estimates of the potential per unit cost of a variety of development scenarios. It is expected that total development costs for the project will be in the range of \$600,000 per unit depending on the number of units and the type of building design. While high, this is comparable to other recent new construction projects. Preliminary estimates suggest a total funding request from the Trust of approximately \$15.8 million including the \$9.8 million currently being requested for acquisition and predevelopment. These are very early estimates and actual costs will depend on number of units, construction type, affordability mix, availability of Section 8 rental subsidies, leveraged resources and financing terms.

In addition to the \$9,300,000 for acquisition, JAS is requesting up to \$500,000 in Trust funding to cover predevelopment work and carrying costs, as estimated below:

Predevelopment Budget	Estimate	Notes
A&E	253,000	Design Development, Permitting and Schematic design costs.
Legal	50,000	Acquisition costs, zoning and permitting, financial structuring
Property Taxes	87,000	FY 2019 taxes \$42,372 over 2 year holding period
Environmental	57,000	Phase I and Phase II reporting, RAO statement, and monitoring wells (if needed)
Other Consultants	25,000	Traffic, Geotechnical, Communications, Permitting
Accounting	15,000	Property accounting and audits during holding period
Relocation	7,000	URA compliance review/commercial reloc. counseling (if needed)
Application Fees	6,000	Loan and LIHTC Application fees
Estimated Total	500,000	

While there are still many unknowns, we believe that the opportunity to purchase and develop the New Street site represents an exceptional opportunity to create a significant affordable housing and to advance City and Trust priorities to create a large number of family-sized units.

Staff will continue to work with JAS and regularly update the Trust during the upcoming months as development scenarios are evaluated and refined.

RECOMMENDATION:

This project is an opportunity to acquire a large site in an excellent location. There is great potential to develop new permanently affordable rental units. The Project Review Committee recommends that Just A Start’s request for \$9,300,000 in acquisition financing and up to \$500,000 in predevelopment funding be approved by the Affordable Housing Trust. The funds should be made contingent on the following:

The loan shall be subject to the following terms:

- The loan shall be structured as a first mortgage loan of up to \$9,800,000;
- The Lender will disburse up to \$9,300,000 at closing. The remaining balance will be disbursed for approved predevelopment costs in accordance with a Loan Disbursement Agreement to be entered into with Lender;

- Term shall be 36 months or until construction loan closing, whichever occurs sooner; it is anticipated that some of all of the loan will be converted to permanent financing at construction loan closing;
- Interest shall accrue at a rate of 3% annually;
- All principal and interest shall be due at maturity; however, at construction closing, accrued interest shall either be waived, at Lender discretion, or deferred;
- Loan shall be non-recourse;
- An Agreement to Reconvey shall be executed at closing;
- All units built shall be subject to the City's affordable housing covenant, restricted to households earning at or below 80% of Area Median Income (or other standard approved in advance by Lender), and subject to a tenant selection plan acceptable to Lender.

At or prior to loan closing, the following conditions shall be met:

- CDD staff approval of predevelopment budget and scope of work;
- CDD review of preliminary budgets, design and development scenarios;
- CDD receipt of appraisal of value sufficient to support acquisition;
- Environmental assessment and/or remediation plan acceptable to staff.

Following acquisition closing, prior to construction loan closing:

- CDD staff approval of final design and development plan;
- CDD staff approval of final budgets and operating proforma;

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.