C I T Y O F C A M B R I D G E
Community Development Department

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MEMORANDUM

To: **Cambridge Affordable Housing Trust**

From: **Christopher Cotter, Housing Director**
Cassie Arnaud, Senior Housing Planner
Gabby Geller, Housing Development Planner

Date: **November 18, 2021**

Re: **35 Harvey Street – funding request**

On behalf Cascap Realty Inc., Homeowner's Rehab Inc (HRI), through its subsidiary Cambridge Community Housing, Inc. (CCHI), is requesting up to $2,917,664 in Trust funding to reconfigure and renovate 35 Harvey Street to into separate apartments. The property would continue to be permanently affordable and to serve low and very-low-income households, but the current configuration as 16 standard SRO units with shared facilities would be converted into 12 enhanced SROs, with private baths and kitchenettes, in order to better meet the needs of its residents.

Background

In 2007, the Trust provided $1,180,000 to Cascap Realty Inc. (Cascap) for the purchase and renovation of 35 Harvey Street, a 16-unit lodging house in North Cambridge. At the time of the purchase, there was significant demand for SRO housing as demonstrated by long waiting lists for SRO units at the YMCA and YWCA. Cascap's purchase was seen as an important step in preserving one of the last remaining private lodging houses in the city. The property consists of 16 small SRO units with shared communal bathrooms and limited kitchen amenities consisting of hot plates and a common refrigerator for resident use.

HRI has recently assumed operational control of Cascap's housing portfolio, including the 35 Harvey Street property, through its subsidiary CCHI. CCHI and Cascap have been operating under a Memorandum of Understanding (MOU) since 2019 which provides CCHI operational influence over the Cascap portfolio. Both organizations have been moving through a process through which CCHI and HRI will take on operational control over Cascap. While a full merger of Cascap into CCHI was considered, due to the expense and need for substantial public funds to facilitate, the path to take on control of Cascap effectively merges the organizations together under one parent organization.

At the time HRI assumed control through its subsidiary CCHI, the property had been experiencing high rates of vacancy for several years. Staff had previously worked with Cascap and DHSP to look issues causing vacancy and found that the marketability of the units based on the configuration of the building had become a significant issue for residents there. As with other owners and operators of similar

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SRO properties in the area, HRI and Cascap staff found that in recent years that demand for SROs has decreased to the extent that this type of housing model no longer worked as intended. The Covid-19 pandemic further exacerbated the problems, given the size and limits of the SRO units and shared spaces, leading to high vacancies and rates of turnover.

As a result of these challenges, HRI has developed a plan to renovate the property to create more viable permanent housing in the form of enhanced SROs with private bathrooms and small private kitchen facilities in each unit.

In addition to reconfiguring the units, HRI will also be making improvements to increase the property's energy efficiency and livability, as well as accessibility upgrades. The proposed unit reconfiguration has been laid out with maximum efficiency to keep as many units as possible and to have a fully accessible unit as well as ancillary office for management and/or service coordination staff, and a small common space for residents. The rehab plan is being designed to meet Passive House standards and includes upgraded insulation, improved windows and HVAC systems, with a long-term plan towards full electrification of the building. The scope also includes the restoration of some historical façade details as requested by the Cambridge Historical Commission.

In addition to physical upgrades to the property, HRI has put together a robust supportive services plan. HRI is partnering with Heading Home to provide 26 hours of on-site case management services per week to Harvey Street residents. These services are voluntary so residents may choose to meet with the case manager less frequently and/or less formally. Heading Home's case managers generally work during the day, but tenants will have access to Heading Home supportive services staff on a 24/7 on-call basis for emergencies. New MRVP rental subsidies will cover a portion of the estimated $60,000 per year for social services for residents. The balance of the cost will be covered out of project income from rents.

Project Budget

The total development cost for the renovation is estimated at $3,917,666, or $326,472 per unit, assuming 12 units. In addition to the $2,917,664 being requested from the Trust, HRI has applied for the maximum $1,000,000 in funding available in DHCD's recent Supportive Housing Round plus an additional award of 4 MRVP enhanced vouchers that will provide $1,500 per unit per year for Supportive Services. HRI will also be seeking $100,000 in City of Cambridge Historic funds. HRI is refinancing the existing private $140,000 mortgage on the property but is not planning to increase the amount of private debt as it is not supportable over time without capitalizing an operating reserve. The following provides more detail on the proposed budget:

Hard Costs:

Hard Costs represent 68% of the TDC and are estimated at $2,917,664 ($480/square foot or $243,139/unit). This square foot cost is higher than other recent projects which have come in closer to an average of $362.96 per square foot at Trust approval.

The cost increase and is attributable largely to historic restoration of the façade, current higher construction costs driven by increased materials cost across various trades, as well as HRI's plan to pursue Passive House Design. As noted above, the Cambridge Historic Commission is requesting that the building's former historic façade be restored which will involve the replacement of the existing aluminum siding with new siding to replicate the look of the original clapboard. Designing to Passive House standards comes with an upfront cost premium due to higher-quality and more efficient windows, insulation, ventilation and systems. However, the benefit of this added upfront cost is expected to result in a higher quality living environment for residents, lower environmental impact, as well as lower operating costs over time. Of the total recent projects to look at for comparable costs, the Squirrelwood project is the most comparable. At the time of Trust funding, the project was estimated at $262.00 per square foot. Those costs increased to $355.00 per square foot at the time of construction closing.

Soft Costs:

The soft costs represent 32% of the TDC and at $59,868/unit are generally comparable to other projects of this size. The biggest soft cost line item is relocation at $124,450. HRI will be working with Heading Home to relocate the current residents who will ultimately be able to to return when work is complete.. Architecture and Engineering costs are also somewhat higher than other comparably sized projects due to the complexity around reconfiguring the space and the historic preservation requirements. HRI is working to provide more detail on the costs that are specifically related to historic preservation as drawings and scope of work is finalized.

Operating Costs:

Project Operating costs are projected at $190,039 per year or $15,837 per unit per year. While these costs are considerably higher than a standard affordable project, $60,000 per year of that cost is for Resident Services.

Timeline and Next Steps/Predevelopment Funding

HRI is currently preparing a One Stop Application for the Supportive Services Round for DHCD which is due next month. They will be meeting with residents and notifying abutters as the project progresses. If they are successful in securing the needed funding, they expect to begin relocation once the project has full funding in place in order to begin construction in Summer of 2022.

HRI has requested that up to $180,000 of their total $2,817,664 funding request be made available before construction closing for needed predevelopment activities per the Predevelopment Cost Budget below:

USES	Total Predev Expenses
Architecture and Engineering	103,198
Survey and Permits	3,400
Environmental Engineer	2,100
Legal	15,000
Relocation	25,000
Appraisal	5,000
Inspecting engineer	2,500
Application & LIHTC	1,600
Contingency/Misc	22,202
Total	**180,000**

Recommendation

The reconfiguration of the 35 Harvey Street property to enhanced SRO units will better meet the needs of the residents the housing is designed to serve. The property has had ongoing vacancy issues which have only grown worse in the wake of the Covid Pandemic. Residents having their own private bathrooms and kitchen areas will enable residents to have much more private space and allow for the likelihood that residents will be more at home and stay long term. This will also provide for more financial stability for the building.

Staff recommends approval of HRI's request, on behalf of the owner, Cascap Realty Inc, of up to $2,917,664 in Trust funding of which up to $180,000 may be made available in advance of the full construction closing for predevelopment activities as described above. We have reviewed and discussed this request with a Trust member, Jim Stockard, who agreed with our recommendation to forward this request to the full Trust for review and approval.

The closing and disbursement of up to $180,000 in predevelopment funding shall be made contingent on the following:

1. CDD staff approval of predevelopment budget and scope of work;
2. Funds will be disbursed for approved predevelopment costs in accordance with a Loan Disbursement Agreement to be entered into prior to closing;
3. Term shall be 36 months or until construction loan closing, whichever occurs sooner; it is anticipated that the predevelopment funding will be combined with the remaining balance of $2,737,664 to be converted to permanent financing at construction loan closing;
4. Interest shall accrue at a rate of 3% annually compounding;
5. All principal and interest shall be due at maturity; however, at construction closing, accrued interest shall either be waived or deferred, at CDD staff discretion.

The closing and disbursement of the remaining balance of $2,917,664 as permanent financing shall be made contingent on the following conditions:

1. CDD staff approval of final design and development plan;
2. CDD staff approval of construction plans and specifications;
3. Environmental assessment and/or remediation plan acceptable to staff;
4. Firm written commitments from all project funding sources;
5. CDD staff approval of the tenant selection and marketing plan;
6. Standard Trust terms and conditions, including:
    a. All 12 units will be subject to the City's standard affordable housing restriction to be signed at loan closing, in senior position unless otherwise agreed to by the CDD staff;
    b. All 12 units will be restricted to households earning below 80% of Area Median Income as defined in the affordable housing restriction.
    c. The loan will have an interest rate 2% compounding, or such other rate approved by CDD staff;
    d. The loan will be subject to a penalty rate of 12%, applicable upon a violation of the affordable housing restriction;
    e. All principal and accrued interest will be due and payable at the end of the term; however, the repayment date may be extended for an additional term upon approval by the Trust and extension of the affordability period;
    f. All loans will be non-recourse;
    g. Any reductions in project costs or increases in project sources may result in a reduction of the Trust loan.

The following requirements shall apply to both the predevelopment and permanent financing:

- Demonstrated control of the property by HRI or an HRI-affiliated subsidiary in a manner satisfactory to CDD staff;
- CDD staff will continue to work with the borrower as the project progresses through the DHCD approval process. Should the budget be found to be able to accommodate additional debt, the borrower may be required to seek additional private funding to reduce the amount of Trust funding;
- 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.