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: **Chris Cotter, Housing Director**
Cassie Arnaud, Senior Housing Planner
Date: **January 27, 2022**
Re: **Acquisition of 1627 Massachusetts Avenue**

Homeowner's Rehab Inc (HRI) has made an offer to purchase a 14,400 square foot site located at 1627 Massachusetts Avenue, on the corner of Mellen Street, between Harvard Square and Porter Square. The property is one of a number of sites being offered for sale by Lesley University, and was advertised with an asking price of $7,200,000.

The parcel consists of a 6,500 square foot historic building, as well as a sizeable parking lot at the rear of the site with access off of Mellen Street. The existing building, known as the Charles Saunders House, has been deemed historically significant and is on the National Register of Historic places.

HRI envisions using the Affordable Housing Overly to convert the existing building to affordable multi-family use and to construct a rear residential addition. They have confirmed with Cambridge Historical Commission staff that this type of modification would not be inconsistent with the preservation of the existing historic building.

HRI submitted an initial offer on December 16, 2021 which was below the asking price but which HRI had determined would enable them to remain within the range of development costs of other recent Trust-funded affordable new construction. The offer included a limited due diligence period following execution of a Purchase and Sale Agreement to investigate the property and secure financing. HRI had hoped that the combination of their reasonable offer and the good will that would likely be generated if the site was sold to a community-based local affordable housing developer with a track record of successful housing development as well as historic preservation, would be enough to at least make it to a second round, if not an accepted initial offer.

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On December 23, 2021, HRI received notice that they would be invited to a second round of bidding, with bids due the second week of January 2022. After significant deliberation, HRI decided to increase their offer to the full asking price of $7,200,000, given how unique an opportunity it was to create new affordable housing in this neighborhood. The offer was submitted on January 11, 2022, with the same due diligence period and a note that that was their highest and best offer. While the higher offer will add a significant premium to the development, it appears the best way to ensure that this opportunity is reasonably available for the creation of new housing here. As you know, we have seen affordable housing providers outbid by others when sites in premium locations are offered for sale. In this case, while the acquisition amount will add significant costs, HRI's plan to permit a new building through the AHO will remove some of the risk that had been a more significant consideration in other cases before the AHO was available.

Value Estimates

While HRI has not yet determined what number of units they would look to create on the site, they investigated what a market-rate developer might be able to do as a means of assessing potential competing offers. Somewhat surprisingly, the AHO does not provide much, if any, competitive advantage for building size or scale given the site's underlying zoning. The 1627 Mass Ave site is zoned as C-2A which allows one dwelling unit per 300 square feet of lot or, in the case of this 14,400 square foot lot, 48 units as of right.

The number of units which could actually be built would likely vary given setbacks and other dimensional requirements, as well as constraints of preserving the existing historic structure, and developer decisions regarding unit sizes – a market-rate developer is more likely to produce smaller units, while HRI would prioritize the creation of larger, family-sized units.

According to several sources, the market is paying upwards of $150,000 per allowable unit in Cambridge. In the case of the 1627 Mass Ave site, that would be $7,200,000, which is both the asking price and what HRI ultimately offered. Supporting this value estimate is the recent sale of 619-629 Cambridge Street, the former site of Mayflower Poultry Company in East Cambridge which is zoned BA and sold for $5,000,000 in May 2021, or $200,000 per 25 allowable unit. In discussing this comparative sale with others with current knowledge of the market, it was noted that the Mass Ave site could exceed that amount given its more premium location.

Summary and Next Steps

While a purchase price of $7,200,000 may result in development costs that are substantially higher than what the Trust might expect to see on other sites, the potential to create affordable housing on this prominent site on the edge of the Baldwin neighborhood is a rare and valuable opportunity which seems to merit a higher-than typical cost premium. If HRI is successful in securing the site, discussions will need to be had with DHCD and other funders who may be less willing to accept that the value of creating affordable housing in this

particular area of Cambridge offsets typical concerns and limits regarding high development costs. However, we support HRI's aggressive efforts to try to secure this significant site for affordable housing and are hopeful that they will be the successful bidder. If their offer is accepted, staff will continue to work with HRI as the project proceeds and will likely bring an additional funding request to an upcoming Trust meeting for predevelopment funding to cover the cost of the purchase itself, as well as site design and analysis work.

Funding Request and Recommendation

Given the tight timeline for this transaction, we wanted to bring this request to the Trust as quickly as possible so that HRI will be ready to move forward if they are successful in obtaining site control.

RECOMMENDATION:

Staff recommend that the Trust approve HRI's request for up to $7,200,000 in acquisition funding for the purchase of 1627 Massachusetts Avenue subject to the conditions listed below. We have reviewed and discussed this request with Susan Schlesinger, Jim Stockard and Bill Tibbs, who agreed with our recommendation to bring this request to the Trust and recommend approval.

The funds should be made contingent on standard Trust terms and conditions including, but not limited to, the following:

- The loan shall be structured as a first mortgage loan of up to $7,200,000;
- Term shall be 36 months or until construction loan closing, whichever occurs sooner; it is anticipated that some or 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 may either be waived or deferred, at Lender discretion;
- Loan shall be non-recourse;

In addition, the funds should be contingent on the following:

- Evidence of site control, satisfactory to Staff;
- This commitment shall expire on June 30, 2022 unless otherwise extended by Lender.

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

- Staff approval of preliminary budgets, design and development scenarios;
- Agreement to enter in an Agreement to Reconvey at acquisition loan closing 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;
- Appraisal of value sufficient to support acquisition acceptable to Staff;
- Environmental assessment and/or remediation plan acceptable to staff.

Following acquisition closing, prior to construction closing, the conversion of any funds to permanent financing shall be subject to additional conditions including, but not limited, to the following:

- Staff approval of final design and development plan;
- Staff approval of final budgets and operating proforma;
- Agreement to enter into the City's affordable housing covenant, restricting all units built to households earning at or below 80% of Area Median Income (or other standard approved in advance by Lender); and
- Buyer/tenant selection plan acceptable to Staff.

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