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C I T Y O F C A M B R I D G E
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MEMORANDUM

TO: Affordable Housing Trust

FROM: Christopher Cotter, Housing Director
Anna Dolmatch, Senior Manager for Homeownership

DATE: October 26, 2023

RE: 125 Harvard Street/Print Shop Condominium Building Envelope

We are requesting approval of up to $3,000,000 for rehabilitation and preservation of the Print Shop Condominium. Located at 125 Harvard Street, the Print Shop is a 24-unit all-affordable condominium developed by CASCAP and completed in 2008. The building has had continuous issues with water penetration from the roof and exterior siding. This situation has been challenging for owners and has led to higher turnover and some challenges reselling homes. The scope of work needed to address these issues is not feasible for owners to fund, and is beyond what existing City-funded housing rehab programs can support. After years of exploring other options, we are requesting Trust funding to fully address these issues to preserve this building as affordable homeownership for current owners and future buyers.

Background

The Print Shop is the largest Trust-funded all-affordable condo development, and the second-largest all-affordable ownership building in Cambridge. Subsidy funding sources included the Affordable Housing Trust; City HOME funding; state sources including AHT, HSF, and CATNHP; and grant funding for green features through the state's now-ended GAHI program.

Since completion in 2008, the building has experienced escalating issues with water penetration through the roof, siding, and the flashing on windows and Juliet balconies. The association spent more than $30,000 on a report by Building Envelope Technologies in 2019 to determine the source of the issues.

There are a range of likely causes, including the design of the roof, which includes solar panels that no longer function and HVAC compressors; damage to the roof during the heavy snow in 2015; faulty flashing around some windows and balconies; the waterproof sheathing that was used; and possible errors during construction.

The association has paid for small-scale repairs to stop immediate leaking on one side of the building. This project involved caulking at the site of the siding leak; this stopped the leak but did not address any damage that may have

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occurred to the sheathing underneath. There is also ongoing damage to fourth floor units and common areas from water penetration from the roof.

We have received communication from some unit owners with concerns about the overall quality of the building and the inability of owners to address large-scale repairs. Some owners continue to express the belief that the building was improperly designed and constructed. While our findings do not clearly indicate that issues are directly caused by poor quality construction or design, we are continually dealing with the impacts of the building issues and resident concerns. The number of problems for a new construction building of this age is atypical.

We have seen the highest rate of turnover of any ownership development at this building. Currently, JAS holds five units, with another two owners who have notified us that they would like to sell. The units being held can be sold to new buyers when ready, but we have concerns about bringing in any new buyers before these issues are resolved.

Building Renovation Plan

To address the known water penetration issues and create a more sustainable all-affordable condominium building, we are requesting funding sufficient for a comprehensive rehab of the building envelope. This includes:

- Demolition of existing metal panel siding
- Removal and replacement of all flashing around windows and balconies
- New siding
- Replacement of roof, including removal and reinstallation of all rooftop HVAC equipment

The estimated maximum project costs are $3,000,000. This includes hard costs with contingency, as well as soft costs including design and engineering, permits, and project management fees. This estimate is based on recent bids for new construction and costs of building envelope work on other buildings.

The Trust originally committed $3,080,000 and the City contributed $834,000 in HOME funding to develop the project, for a total of approximately $164,000 per unit. This project would require an additional estimated $125,000 per unit.

The anticipated costs are more than what the existing Home Improvement Program (HIP) can provide. Due to the terms of the affordable housing restriction, owners have little access to home equity loans and are not likely to have sufficient assets to cover the estimated costs of this repair. Print Shop owners currently pay some of the highest condo fees in the portfolio. Condo fees were recently increased by 22% due to increased insurance premiums from other building issues, resulting in costs of almost $100 more per-month for larger

units. The condo association has been addressing immediate issues with small, targeted repairs, but is not able to address the problems holistically. Funding this project through assessments or loans would be infeasible for many households.

There are likely many causes for the ongoing issues in this building, including the design, materials, possible construction errors, and maintenance problems. Overall, the building has significant, chronic issues that we would not expect to see in a new construction building that is only 15 years old. To fund the estimated project costs, owners would have had to have contributed an additional $700 per month each to the reserve fund since the building was occupied.

As we have discussed with the Trust, as the affordable homeownership stock ages, there will be cases where additional subsidy may be necessary to address major rehab needs and to prevent units from becoming unaffordable or unsaleable. We should note that this is not just an issue for all-affordable buildings; there is a mixed-income building where condo fees have doubled to more than $600 for the affordable units to fund ongoing building envelope work, causing some owners to struggle to maintain their housing.

We are recommending that the Trust take the unusual step of funding the project to ensure that it proceeds and creates a sustainable building. Many affordable rental buildings also require recapitalization after a period of time. While the deterioration of this building is abnormal, we do know that there are other all-affordable condo buildings that may need funding to address major capital needs in the future. We anticipate that there will be additional requests for Trust funding from these associations in the future.

Should the Trust fund this project, we recommend requiring a project manager experienced with all-affordable condo associations. We have discussed this project and approach with Just A Start and they are willing to take on this role. They would provide oversight of the Trust funds and work with the property manager and condo association as the work is planned and undertaken.

We recommend that the Trust approve up to $3,000,000 for exterior renovation work for the Print Shop Condominium, with $820,000 approved for initial closing, and $2,180,000 conditionally approved, with the following conditions:

1. CDD staff approval of budgets;
2. CDD staff approval of construction plans and specifications;
3. CDD staff approval of bidding process and contractor selection;
4. Loan advances shall be made only for approved project costs in accordance with the Loan Agreement to be entered into at closing;
5. The loan will be made to the Print Shop Condominium Trust, or other entity approved by CDD staff. No funding shall be given to individual unit owners or for any work not in the approved scope;

6. The Print Shop Condominium Trust will work with a project manager selected by CDD staff to oversee use of the Trust's funds;
7. The Print Shop Condominium Trust agrees to provide copies of condo budget, reserve account balances, and documentation of capital work to CDD, and annually thereafter;
8. The Print Shop Condominium Trust shall have a professional, third-party Capital Needs Assessment (CNA) completed and provide a copy to CDD;
9. Contributions to the Print Shop Condominium capital reserve fund to be increased a minimum of 3% annually, with increases documented to CDD, and be sufficient to address projects outlines in the CNA;
10. Any residual cash flow beyond payment of operating costs and standard reserve contributions shall be used to increase the capital reserve fund;
11. Standard Trust terms and conditions including but not limited to:
    a. Loan will have an interest rate of 0% and a term of 50 years;
    b. Principal shall not be due and payable until the end of the term, and may be forgiven.