CITY OF CAMBRIDGE
Community Development Department

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MEMORANDUM

To **Affordable Housing Trust**

From: **Cassie Arnaud, Senior Manager for Housing Development**

Christine Yu, Associate Housing Development Planner

Date: **April 25, 2024**

Re: **Acquisition of 16-18 Wendell Street – request for funding**

The Cambridge Housing Authority (CHA) has an accepted offer of $8,100,000 to purchase 16-18 Wendell Street, a 10,407 square foot property in the Baldwin neighborhood. This 24-unit SRO property was among the second group of sites made available by Lesley University and was publicly marketed with an asking price of $9,500,000. The CHA is requesting up to $4,950,000 in CAHT funds to support the acquisition of the site for use as permanent supportive housing.

The CHA plans to convert two of the existing SRO units to office space while the remaining 22 SRO units will become permanent supportive (PSH) housing serving individuals and couples exiting homelessness in Cambridge. Eight of the 22 units and two of the eight bathrooms will be ADA accessible. All units will be supported with Project-Based Section 8 Vouchers (PBVs) from the CHA.

The 16-18 Wendell property currently contains 24 individual SROs, as well as 8 bathrooms, a common room, a laundry room and a shared kitchen. The building was originally two separate historic structures which Lesley connected and converted to combined dormitory use. The building was renovated several years ago and is in excellent, almost brand-new, condition. Only minor work will be needed to make the site move-in ready, making this essentially a turnkey acquisition and allowing the CHA to begin operating the property without significant work or delay.

The balance of the funding for the project will come from the CHA and from Massachusetts Housing & Shelter Alliance (MHSA). Both sources are already committed, as described in further detail below.

The CHA estimates that the total development cost to acquire and convert the property into 22 units of affordable PSH housing would be $8,609,800 or $391,355 per PSH unit, 95% of which is for acquisition. The CHA has budgeted approximately $315,000 ($14,318 per unit) for property upgrades including the creation of new office space, kitchen upgrades, security camera installation, painting, and new door hardware and lock replacements. The remainder of the budget assumes $169,800 in soft costs and $25,000 of combined developer fee and overhead.

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While the CHA and other housing providers have been moving away from traditional SRO housing in favor of enhanced SROs or self-contained studio units, the CHA has determined that the location and attributes of 16-18 Wendell Street, including the size and design of the units, make this site an exception. They are confident that the Wendell Street units will be marketable and that they will be able to avoid the management challenges seen at other SRO properties. Staff from the City's Department of Human Service Programs (DHSP) agree with this assessment and are very supportive of the acquisition of this site for PSH. They are especially excited about the property's potential to serve chronically homeless couples, in addition to individuals, as there are currently few options for homeless couples. At least 16 of the units at Wendell are sufficiently sized to accommodate couples, though it is expected that occupancy will be balanced between couples and individuals. Like other recent Trust-funded PSH properties, intake for these units will be done through the Cambridge Consolidated Access Network (C-CAN) waitlist which is administered by DHSP. Housing staff will work with the CHA and DHSP staff on developing the details of the intake and tenant selection plan process and priorities.

In addition to the requested CAHT loan of $4,950,000 ($225,000 per unit), the balance of the funding will come from the CHA and from MHSA. The CHA will be providing $3,349,800 in CHA program funds which will be structured as a deferred loan in second position behind the CAHT first mortgage loan. If the CHA decides to charge interest on its loan, the interest rate of the CHA loan will be equal to or less than the interest rate of the CAHT loan. Both the CAHT and CHA loans will be repayable from a 50/50 split of net cash flow, with cash flow first going to fund and maintain a 4-month operating reserve and a 2-year social service reserve.

The CHA has already applied for and been awarded a $310,000 grant from MHSA towards the acquisition of this property through the Home and Healthy for Good (HHG) program, a permanent supportive housing program for chronically homeless individuals. HHG is run by MHSA and funded by the state. The MHSA acquisition funding must be used by July 1, 2024. The MHSA funding award also comes with $310,000 in annual supportive services funding, which can be used for development, housing operations, and/or stabilization services.

The CHA plans on partnering with Eliot Community Human Services, as they are also doing at 116 Norfolk, to provide supportive services at 16-18 Wendell Street. The proposed operating budget includes funding for four full-time employees, including 3 case managers and a clinical director, and part-time security that will be shared with 116 Norfolk Street. The supportive services staff will assist residents with their own individualized service plans.

The CHA is also planning to work with Eliot to create a new PSH model for residents who are ready and interested in transitioning out of supportive SRO housing into permanent housing.
The CHA's plan is to identify ways in which they could offer a "ladder to other housing" to residents who no longer need robust wrap around services available onsite. One idea being considered is for the CHA to amend their administrative plan in order to allow them to offer residents the opportunity, when ready, to transfer into a studio or one bedroom apartment within the CHA's portfolio.

NEXT STEPS AND PROJECT SCHEDULE:

The CHA is working on completing its due diligence in preparation for a June 2024 closing in order to take advantage of MHSA funding which must be used by July 1, 2024. The CHA will also begin engaging with the neighborhood to inform residents of their plans for the property.

RECOMMENDATION:

The 16-18 Wendell site is ideally located for housing, in close proximity to the amenities of the Massachusetts Avenue corridor, including shops, restaurants, and public transit. The acquisition of this site will enable the rapid creation of 22 high-quality affordable rental units for chronically homeless individuals and couples with minimal work before occupancy. The acquisition of this site will enable to the CHA to house as many as 38 people and to provide these residents with safe, stable affordable housing and tailored supportive services.

Staff recommend that the Trust approve the CHA's request for up to $4,950,000 in Trust funding, as described in more detail above, to support the purchase of 16-18 Wendell Street. We have reviewed this request with Susan Schlesinger, Alyson Stein, Jim Stockard, and Bill Tibbs, who agreed with our recommendation to bring this request to the Trust and recommend approval. The funding should be made contingent on standard Trust terms and conditions including, but not limited to, the following:

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

1. Staff approval of final budgets and operating proforma;
2. Firm written commitments from all funding sources, sufficient to complete transaction;
3. Evidence of site control, satisfactory to Staff;
4. Evidence of value sufficient to support the acquisition price, acceptable to Lender in its sole discretion;
5. Environmental assessment and/or remediation plan, if required, acceptable to Staff;
6. Staff approval of the tenant selection and marketing plan, which shall be consistent with the City's marking preferences including but not limited to maximum preferences for Cambridge residents; and
7. Staff approval of the terms of CHA funding, including a requirement that CHA funding be subordinate to Trust funding and that the interest rate be no more than 3% compounding or such other rate approved by staff.
8. Standard Trust terms and conditions, including:

    - All units shall be subject to the City's affordable housing covenant to be signed at or prior to loan closing; the term of the affordable housing covenant shall be fifty (50) years or one year longer than the longest restriction on the property;
    - All units shall be restricted to households earning at or below 80% of Area Median Income (AMI), as defined in the affordable housing covenant;
    - The loan shall be secured as a first mortgage loan of up to $4,950,000;
    - The loan shall have an interest rate of 3% compounding annually, or such other rate approved by staff at or prior to loan closing;

- The loan shall be subject to a penalty rate of 8% compounding applicable upon violation of the Trust affordability restriction;
- Loan proceeds will be disbursed in accordance with the Loan Disbursement Agreement to be entered into at or prior to loan closing;
- All principal and accrued interest shall 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;
- The loan documents shall provide for repayment of principal and interest from 50% of net cash flow from the development, with cash flow first being used to fund and maintain a 4-month operating reserve and a 2-year social service, or on such other terms acceptable to Housing staff;
- Loan shall be non-recourse; and,
- Any reductions in project costs or increases in non-Trust funding sources shall be used to reduce the amount of the Trust commitment to the project.

Following acquisition, while renovation works is underway, the Borrower shall comply with the following requirements:

- Notify Lender's Construction Manager of all construction meetings and copy on meeting minutes;
- Copy Lender on all change orders;
- Copy Lender on all funding requisitions to other sources; and,
- Submit requisitions in form acceptable to Lender.

Following lease-up, the Borrower shall comply with the following requirement:

- Provide demographic information on the race and ethnicity of applicants at initial marketing, initial lease up, initial occupancy, and on waitlists and ongoing occupancy over time, as requested and in a form acceptable to the Lender; such reporting requirements will be included in the tenant selection plan documentation approved by staff at or prior to Loan closing.