CITY OF CAMBRIDGE
Housing Department

Christopher Cotter
Director of Housing

MEMORANDUM

To:	**Affordable Housing Trust**
From:	**Janet Haines, Housing Development Planner**
	Cassie Arnaud, Senior Manager for Housing Development
Date:	**September 26, 2024**
Re:	**Acquisition and Predevelopment of Frost/Roseland Portfolio**

The development team behind Frost Terrace Apartments, Capstone Communities Inc. and Hope Real Estate Enterprises -- Jason Korb and Sean Hope, have an accepted offer to purchase six contiguous sites adjacent to their Frost Terrace development for $18,250,000. They are requesting $18,250,000 in acquisition and up to $1,589,500 in predevelopment funding (including up to $410,000 for immediate life safety work and other necessary repairs) from the Trust to support this new affordable development opportunity, which they are calling Frost Terrace II.

The combined parcels total 127,668 square feet and currently contain 5 multi-family buildings and one single family house with a total of 23 existing rental units and a small parking lot. Twenty-one units are presently occupied and rented at below market rents.

Address	# units
1 Frost Street	2
3 Frost Street	1
5 Frost Street	8
28 Roseland Street	4
20 Roseland Street	4
22 Roseland Street	4
	23

The team is proposing to retain these tenancies while they put together their plan, and to lease up vacant units, to generate income while plans for the redevelopment take shape. It is estimated that the properties will generate cash flow which will be used to cover carrying costs and offset predevelopment costs. Any remaining accumulated cash flow will go into the development budget. The developers arranged for inspections of each of the units in order to evaluate current conditions and to determine what, if any, immediate life safety work was needed. Housing staff accompanied the team at this visit. Unit conditions varied, including many in good condition as well as several units which are off-line and will require upgrades in order to be re-leased. The team estimates that up to $410,000 in repair work will be needed to address life safety work and make vacant units ready for occupancy. The team has included allowances for relocation in their early development budget estimates.

Early design analyses suggest a range of potential approaches to creating affordable housing at the site, including undertaking a combination of historic renovation and new construction, similar to what was done at Frost Terrace. The team expects to redevelop the site under the provisions of the Affordable Housing Overlay (AHO). The properties are located immediately adjacent to Frost Terrace Apartments, the 40-unit affordable development completed in 2021. By combining the existing Frost Terrace property with the newly acquired land, the team proposes to take advantage of flexibility given to sites on corridors including increased heights and relaxed dimensional standards.

An informal valuation of the proposed transaction indicates that the pricing for these sites is comparable to other recent market sales in the area. The proposed purchase price is also comparable to another recent acquisition, HRI's 4 Mellen site which included a single large residential building and sold for $497/sf compared to the Roseland portfolio which would be $364/sf. A third-party valuation of the sites will be conducted in the coming weeks and a formal valuation sufficient to support the purchase price will be a requirement of any Trust funding, per standard Trust funding conditions.

NEXT STEPS AND PROJECT SCHEDULE:

The team's offer of $18,250,000 has been accepted by the owner. The development team will continue its due diligence in the coming months, with an anticipated acquisition closing in late 2024. Following acquisition, the team will be focusing on developing design and development plans with expectations to begin the AHO community process in late spring of 2025 and receiving the final Planning Board report in late 2025. They aim to apply for EOHLC funding in the February 2026 round with expectations for funds to be awarded by fall of 2026. They anticipate a closing and construction start in May of 2027 and construction complete in 24 months.

FUNDING REQUEST:

The Development Team is requesting up to $19,839,500 in Trust funding, including $18,250,000 in acquisition financing and up to $1,539,500 in predevelopment financing to cover expenses through the next 12 months for a total of $19,839,500. The predevelopment financing will fund the usual due diligence and predevelopment costs as well as the funds for the immediate life safety repairs and preliminary relocation planning for what will be a complicated development scenario. The preliminary predevelopment budget is as follows:

Preliminary Predevelopment Budget	
Life Safety Upgrades/Repairs	410,000
Architecture & /Engineering	585,000
Survey & Permits	20,000
Environmental/Geotech	80,000
Acquisition Closing costs	100,000
Non-Acquisition Legal	65,000
Appraisal	15,000
HTC Consultant	5,000
Real Estate Taxes	55,000
Predevelopment Interest	30,000
Relocation Prep	50,000
Insurance premium	60,000
Contingency/Misc	114,500
Total	1,589,500

DEVELOPMENT TEAM:

To take advantage of the increased height and density allowed for projects on the Mass Ave Corridor, the original Frost Terrace HRE Capstone LLC will be purchasing the property. Given the size and complexity of this project, the two principals involved with Frost Terrace, Jason Korb of Capstone and Sean Hope of Hope Real Estate, are bringing on a third partner for Frost Terrace II, Mathieu Zahler of MPZ Development. Matt has considerable experience in both affordable housing and historic preservation. Prior to starting his own development firm in 2017, he worked for Trinity Financial. He is currently developing 58 affordable units in Springfield and 50 units of mixed income/historic preservation in Templeton, MA. Matt is also the Chair for Mission Advancement for the Urban Land Institute.

RECOMMENDATION:

The Frost/Roseland site is a unique opportunity to create a significant amount of much needed new housing, taking advantage of the revised AHO for increased height and close proximity to all the amenities along the Massachusetts Avenue corridor, including shops, restaurants and the public transit. It will produce high-quality affordable rental housing in an area of the city where there is not already a lot of affordable housing. We have reviewed and discussed this request with Alyson Stein, Jim Stockard, and Susan Schlesinger who agreed with our recommendation to bring this request to the Trust and recommend approval.

Staff recommend that the Trust approve the team's request for up to $19,839,500 acquisition and predevelopment funding, as described in more detail above, to support the purchase and redevelopment of the Frost/Roseland site.

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 $19,839,500;
- 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.

At or prior to loan closing, the following conditions shall be met:
- Staff approval of preliminary budgets, design and development scenarios;
- Evidence of site control, satisfactory to Staff
- Plan to secure any necessary zoning and/or permitting approvals necessary to construct project, acceptable to Staff;
- Appraisal of value sufficient to support acquisition acceptable to Staff;
- Environmental assessment and/or remediation plan acceptable to staff.;
- Agreement to enter into a Loan and Security Agreement and Mortgage 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 capture market appreciation.

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:
- Approval of final design and development plan;
- Approval of final budgets and operating proforma;
- Approval of relocation plan;
- 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 by Trust); Standard Trust Terms and Conditions; and,
- Approval of 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.