CITY OF CAMBRIDGE | Housing Department

To:	Affordable Housing Trust
From:	Cassie Arnaud, Director of Housing Development Alexis Turgeon, Senior Housing Development Planner
Date:	August 27, 2026
Re:	**2072 Massachusetts Avenue – Permanent and Pre-Development Funding Request**

Capstone Communities and Hope Real Estate Enterprises are requesting up to an additional $17,055,000 in Trust financing as the final funding needed to proceed with their plans to develop 74 affordable rental units at 2072 Massachusetts Avenue in North Cambridge. The $17,055,000 in new Trust funding would bring the total Trust support of this project to $22,126,000 or $299,000 per unit, as the Trust has already provided $5,071,000 in acquisition and predevelopment financing. They are requesting that a portion of this funding be advanced early to cover the cost of pre-construction activities, as described in further detail below. All existing short-term financing will be converted to permanent financing at construction closing.

BACKGROUND:

The development team acquired the 8,515 square foot site in 2018 with the assistance of the Trust. It is located on the corner of Massachusetts Avenue and Walden Street, abutting a small City-owned parking lot to the south and the Cambridge Housing Authority's (CHA) Russell Apartments, a six-story elderly housing building to the east. The Porter Square MBTA station and shopping center, multiple bus routes, and Gerard Bergin Park are all within a quarter mile of the site. During the predevelopment phase, a small fast-food restaurant operated on the site, covering a portion of the carrying costs.

Initially, the project was conceived as a 9-story, stepping down to 5-story, Chapter 40B development with 49 units. The project received support from the Planning Board in 2020 but, following a lack of support from the Board of Zoning Appeals (BZA), the development team rescinded the Chapter 40B application. The subsequent adoption and amendment of the Affordable Housing Overlay (AHO) created the opportunity to develop a by-right project of a larger scale at the site, and the development team began redesigning the project.

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In 2024, the project was introduced as a reimagined 12-story building that could be permitted by-right under the AHO. The updated design will create 74 affordable rental units for households earning at or below 60% of the area median income, with up to 12 units affordable to households at or below 30% of the area median income depending on the number of rental vouchers secured. The proposed unit and affordability mix is as follows:

Unit Mix	1 BR	2 BR	3 BR	Total
30% AMI	0	6	6	12
60% AMI	21	36	5	62
Total	**21**	**42**	**11**	**74**

The building will also include a ground floor lobby and community room, common laundry, onsite management, long-term bicycle parking spaces, and an outdoor rooftop amenity space. The development plan assumes no on-site parking, but the team will offer residents a range of amenities to encourage and support their use of alternative modes of transportation. While Transportation Demand Management (TDM) measures are no longer required under zoning, the team plans to voluntarily offer TDM benefits which will include informational packets detailing the nearby public transit routes and how to apply for discounted Bluebikes and/or MBTA memberships, and may also include free or discounted annual Bluebikes memberships, credits for ride-share services such as Uber or Lyft, and free or discounted short-term MBTA LinkPasses.

<u>Estimated Costs and Construction Approaches</u>

There are a number of specific cost drivers that are unique to this project including the added costs related to high-rise construction (e.g., fire-proofing and structural requirements), challenges of construction on a tight site with limited staging options along one of Cambridge's busiest streets, and the need to cantilever the building to accommodate the widening of Walden Street. The protracted history of this project has also added costs.

The current AHO project budget has had to absorb some "sunk costs" related to the original 40B project, including the developing and presenting of multiple designs and redesigns as the team sought to develop a scheme that would gain BZA approval under Chapter 40B. Those costs are estimated at roughly $437,500 in architectural, engineering, consultant, and legal fees, adding nearly $6,000 per unit and representing 3% of the project's total soft costs. In addition to these sunk costs, the delays due to resistance of the original Chapter 40B plans have meant that the project also is now being advanced during a time of significant construction cost and interest rate escalation.

In its efforts to find the most cost-effective approach to constructing a 12-story building, the team had initially planned to use a construction technique that uses laminated wood, known as "mass timber" or "cross-laminated timber" or "CLT" construction as it was believed to be more cost-efficient than steel construction, due to its faster construction timeline and because steel prices were escalating. CLT had the added benefits of also being more environmentally friendly and aesthetically interesting than standard steel-frame construction.

However, in the last few months, the development team revisited the more traditional steel construction approach, specifically the "Can Am system" which relies on light-gauge steel and has the promise of being more cost effective. They sought construction pricing for both CLT and light-gauge steel options and, unexpectedly, the CLT pricing came in substantially higher than the light gauge steel option. While CLT may offer savings through quicker construction, the cost implications of needing specialized factories, contractors, engineers and consultants – all of which are in limited supply – seems to have offset its benefits. In addition, the fact that steel prices have since stabilized makes the light gauge steel system the most cost-effective approach, costing approximately $6 million less than CLT, a savings of $81,030 per unit. As a result, the development team is pivoting to a light gauge steel construction method. The switch from CLT to light-gauge steel will not impact the Passive House design, unit layouts, or exterior façade.

The team continues to explore other cost-saving measures, and it's possible that some construction costs may further decrease as additional value engineering is undertaken.

PROPOSED BUDGET AND FUNDING REQUEST:

The TDC assuming light-gauge steel construction is estimated at $71.86 million or approximately $971,000 per unit. This TDC includes hard costs and contingency at roughly $49 million or $541 per square foot. The TDC also includes an operating reserve of approximately $835,000, or $11,300 per unit, which is a requirement of tax credit investors and is equal to 6 months operating expenses and debt service.

With the light gauge steel pricing, this project's TDC per unit is now in line with or lower than that of other recently approved budgets for new construction projects. However, when acquisition is removed, 2072 Massachusetts Avenue's costs exceed those of other recent projects due to its significantly lower per unit acquisition costs.

Staff will continue to work with the development team to explore other cost reduction measures, including value engineering, to bring costs down where possible.

The table below provides a summary of the estimated development budget compared to other recent projects. While the per unit development costs exceed those of other projects when acquisition is netted out, the project compares favorably on a per bedroom basis as it prioritizes family-sized units.

Project	2072 Mass Ave	28-30 Wendell Street	4 Mellen / 1627 Mass Ave	87-101 Blanchard
Budget Type + Date	**Proposed Permanent Budget - August 2026 (Can Am)**	**Approved Permanent Budget - Feb 2026**	**Construction Closing - June 2025**	**Construction Closing - May 2026**
Total Units	74	95	29	110
Total Bedrooms	138	172	55	110
Total Sq Ft	90,682	110,920	34,707	97,279
TDC	71,860,506	95,595,871	32,201,631	75,055,215
TDC/Unit	971,088	1,006,272	1,110,401	682,320
TDC/Bedroom	520,728	555,790	585,484	682,320
Acquisition/Unit	48,649	168,421	248,276	85,000
Hard Costs/Unit	662,616 (541/sf)	573,548 (491/sf)	577,558 (483/sf)	409,258 (463/sf)
Fees & OH/Unit	56,565	77,963	84,000	52,884
City & CAHT/Unit	299,000	319,547	359,483	165,174

The development team's request for up to an additional $17,055,000 would bring the total Trust funding for this project to $22,126,000, or $299,000 per unit.

In addition to the Trust funding request, the project is expected to be funded with approximately $7.6 million in permanent debt, $26.8 million in federal 4% low-income housing tax credit equity, $9.2 million in state low-income housing tax credit equity, $5.25 million in other state soft funding, $250,000 in Passive Housing energy rebates, $185,845 in deferred developer fees, and utilize $371,307 in rental income from the restaurant located at the project site during the predevelopment phase.

Predevelopment Funding Increase Request

The team has estimated that they will need an additional $2,410,288 to get them to construction closing, including $1.3 million in final architectural and engineering work, $175,127 in other pre-construction costs, and $891,520 to pay the building permit fee prior to construction closing.

The team is requesting that up to $2,410,288 of the requested construction/permanent funding be made available in advance of construction closing to cover these remaining pre-construction costs.

As of August 2026, the development team has expended all $1,471,000 in CAHT predevelopment funds awarded since 2018, as well as nearly all the other funding they have been using to cover carrying costs and pay for predevelopment work. In addition to CAHT predevelopment funding, Capstone was able to maintain operations of the kebab restaurant at the site from 2018 until July 2025 when the restaurant owner voluntarily terminated the lease. The restaurant generated roughly $371,300 in income that was reinvested into the project and used to cover carrying costs. The restaurant income represents nearly 9% of all predevelopment costs for the project, including this additional request.

NEXT STEPS:

The development team completed the final AHO Planning Board Advisory Design Consultation in March 2026 and plans to submit a pre-application for the upcoming state funding round in September 2026. Having all anticipated local funds fully committed could increase their competitiveness by demonstrating local support as well as the project's "readiness to proceed." If the project is funded in the upcoming round, the development team anticipates starting construction within a year of funding announcements with completion in 2029, following a 20-to-24-month construction schedule.

To meet this timeline, the development team aims to utilize the additional predevelopment funds they are seeking to finalize design plans and have a shovel ready project.

RECOMMENDATION:

2072 Massachusetts Avenue is a long-awaited project that will provide 74 high-quality rental units to low- and moderate-income families and will enliven an underutilized parcel along the Massachusetts Avenue corridor. The project will benefit the broader community by enabling the widening of Walden Street by providing a portion of the site for the public right of way and by cantilevering the building to accommodate the widening. The site is well suited for new housing, situated near shops, restaurants, and other amenities, the Porter Square MBTA station and shopping center, Davis Square MBTA station, multiple bus routes providing service to the surrounding communities, and multiple open space locations, including Danehy Park. The development of this site will result in the creation of a significant number of high-quality affordable housing for the neighborhood, including deeply affordable family-sized units.

Housing staff recommends that the Trust approve the request from Capstone Communities and Hope Real Estate Enterprises for up to $17,055,000 in new Trust permanent financing, as described in more detail above, to support the construction of 2072 Massachusetts Avenue, and that the existing $5,071,000 in short-term financing, which has been already committed for acquisition and predevelopment, be combined with the new permanent financing as a single permanent loan commitment of $22,126,000.

Staff also recommend that up to $2,410,288 be allowed to be advanced early to cover approved pre-construction costs. This funding will be made available through an amendment to the Trust's existing short-term financing as described below.

Staff have reviewed this request with Raffi Freeman, Jim Stockard, Susan Schlesinger, and Alyson Stein, who agreed with the 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:

<u>Predevelopment Funding increase:</u>

The increase of up to $2,410,288 in new predevelopment funding shall be made contingent on the following:

1. The increase of up to $2,410,288 shall be structured as an amendment to the existing CAHT acquisition and predevelopment loan of $5,071,000;
2. Staff approval of final predevelopment budget and scope of work;
3. Funds will be disbursed for approved predevelopment costs in accordance with an amended Loan and Security Agreement to be entered into prior to predevelopment closing;
4. Term of the combined short-term loan of $7,481,288 (including $5,071,000 of prior funding and $2,410,288 of new predevelopment funding) shall be 24 months or until construction loan closing, whichever occurs sooner;
5. Interest shall accrue at a rate of 3% annually compounding;
6. At construction closing, all accrued interest shall be deferred and reflected in the new permanent loan; and,
7. Loan shall be non-recourse.

<u>Permanent Financing:</u>

The permanent loan of up to $22,126,000, plus accrued interest from the Trust's short-term financing, shall be made contingent on the following terms and conditions including, but not limited to:

1. Staff approval of final design and development plan;
2. Staff approval of final development and operating budgets, including twenty (20) year operating proforma;
3. Firm written commitments from all funding sources, sufficient to complete transaction;
4. Environmental assessment and/or remediation plan, satisfactory to Staff;
5. Staff approval of tenant selection and marketing plan, which shall be consistent with the City's marketing preferences including but not limited to maximum preferences for Cambridge residents, the tenant selection plan will also include the City's demographics reporting requirements, as requested and in a form acceptable to Staff;
6. Staff approval of construction plans and specifications;
7. Submission of final construction bid and trade items from general contractor along with construction contract Borrower has entered into with contractor;
8. Zoning approval and permitting necessary for project;
9. The Trust's review and consideration of Planning Board final AHO advisory design review report and any responses from Capstone Communities and Hope Real Estate Enterprises pursuant to the advisory design review; [This condition has already been met]
10. Standard Trust terms and conditions, including:
    - All affordable units shall be subject to the Trust's affordable housing covenant to be signed at or prior to loan closing;
    - The term of the affordable housing covenant shall be for the longest period allowable by law, or fifty (50) years or one year longer than the longest restriction on the property now or in the future, as approved by Staff;
    - All units shall be restricted to households earning at or below 80% AMI, as defined in the affordable housing covenant;
    - The loan shall be secured as a shared second mortgage loan of up to $22,126,000 (including funding previously disbursed for acquisition and predevelopment activities), subordinate only to private bank financing on terms acceptable to Staff;
    - The loan shall have an interest rate of 3% compounding annually, or such other rate approved by Staff;
    - The term of the loan shall be fifty (50) years;
    - The loan shall be subject to a penalty rate of 8% compounding annually; applicable upon violation of the affordability housing covenant;
    - Execution of all loan documents, including but not limited to the Loan and Security Agreement;
    - 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 and extension of the affordability period, subject to approval of the Trust and extension of the affordability period;
    - The loan shall provide for repayment of principal and interest from 50% of net cash flow from the development, or through other means, or other terms acceptable to 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.

During the construction period, the Borrower shall comply with the following requirements:

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

Following lease-up, the Borrower shall provide the following:

- Provide required demographic information per approved tenant selection plan; and,
- Provide data on the project's as-built and operating costs in format acceptable to Staff.