



CITY OF CAMBRIDGE

Community Development Department

IRAM FAROOQ
Assistant City Manager for
Community Development

SANDRA CLARKE
Deputy Director
Chief of Administration

MEMORANDUM

To: Affordable Housing Trust
From: Christine Yu, Associate Housing Development Planner
Cassie Arnaud, Senior Manager for Housing Development
Date: March 6, 2024
Re: 49 Sixth Street/Sacred Heart – Request For Funding Increase

Preservation of Affordable Housing (POAH), a Boston-based housing non-profit, is requesting up to \$3,000,000 in Trust financing, in addition to the \$7,750,000 funding already approved by the Trust in October 2022, to assist with their plans to convert a portion of the Sacred Heart Archdiocese property in East Cambridge into forty-six (46) units of affordable housing. This would bring the Trust's commitment to the project to \$10,750,000 or \$233,696 per unit. This is the last piece of major funding needed to move the development forward as it was announced in January 2024 that the project has been awarded state funding from the Executive Office of Housing and Livable Communities (EOHLC).

Background

The 49 Sixth Street development involves the conversion of a portion of the Sacred Heart property in East Cambridge to 46 units of affordable rental housing. The site is currently owned by the Roman Catholic Archdiocese of Boston (RCAB or simply 'Archdiocese') and will be made available for housing development through a long-term ground lease, as described in further detail below.

POAH's plan involves creating 46 new affordable rental units (14 one bedrooms, 20 two bedrooms, 11 three bedrooms, and 1 four bedroom) in the former school, rectory, and convent buildings, while the church and chapel would continue to be used by the Archdiocese.

POAH is redeveloping the site under the provisions of the Affordable Housing Overlay (AHO) and completed the AHO advisory review process in July 2022. The proposed design was well received by the Planning Board and their advisory design review report was provided to and accepted by the Trust in August 2022.

All of the units will be affordable to households earning less than 80% AMI per the project's approval under the AHO. However, POAH is creating some deeply affordable units at the property, primarily supported by an allocation of 8 project-based vouchers (PBVs) and 8 Massachusetts Rental Voucher Program vouchers (MVRPs) from the Executive Office of Housing and Livable Communities (EOHLC).

The Trust approved up to \$7,750,000 in funding for the project in October 2022, which was subject to a number of conditions including firm written commitments in state funding, 8 PBVs and 8 MRVPs from the state, as well as a renegotiated ground lease with the Archdiocese.

Since the Trust's funding approval in October 2022, POAH has been working on securing the remaining financing needed to begin construction, finalizing the ground lease with the Archdiocese on terms which will keep the affordable housing development feasible, and preparing for construction by producing final drawings and getting detailed pricing.

Ground Lease Update

You may recall that POAH was invited to enter into a partnership agreement with Urban Spaces (US), a private developer, who had control of the site through a 99-year ground lease with the Archdiocese. Under the terms of the POAH/US partnership agreement, the two entities would work together during the entitlement and predevelopment period and then US will exit the project at construction closing at which time the ground lease will be assigned to a POAH-controlled entity.

Since the Trust's 2022 funding approval, POAH has been working to negotiate improved terms with the Archdiocese and are now finalizing terms for an amended ground lease, which will better ensure the long-term financial viability of the project. The new lease terms will reduce the amount of annual ground lease rent paid to the Archdiocese as well as shorten the payment period from 99 to 50 years of payments. The impact of these improved lease terms is that the value of the ground lease will be reduced under the revised terms.

Budget/Funding Update

POAH has found that the cost of constructing this housing has increased significantly since their 2022 estimates. To balance the development costs, they worked on finding ways to reduce costs and were approved for additional non-Trust funding, primarily through LIHTC and historic tax credits.

POAH currently estimates that the total development cost (TDC) for the project will be \$43,948,820 or approximately \$955,000 per unit. Hard costs are budgeted at \$29.75 million (\$501 per square foot or \$646,765 per unit), while soft costs are estimated at \$8.74 million (\$189,936 per unit).

Despite the change, POAH's budget is not drastically out of line with other current new construction projects. As we have previously noted when reviewing other recent funding requests, both hard and soft costs are trending upwards among recent housing developments. We are currently seeing hard cost estimates range from the mid \$400s to over \$500 per square foot. In addition, we are seeing increased soft costs for many items such as insurance, as well as soft costs driven with construction costs, such as construction loan interest and some financing costs. However, the primary driver of the increase in TDC is increased construction costs over the past 2 years.

POAH has spent significant time exploring opportunities to reduce costs through value engineering. While they identified a few items, they found that the overall scope of converting existing historic structures to housing is costly and did not find significant opportunities to reduce costs. Some of the specific cost drivers at 49 Sixth Street include the fact that to be eligible for the \$7.7 million in state and federal historic tax credits, POAH needed to meet several conditions set by the agencies at National Parks Service and Massachusetts Historic Commission regarding the treatment of window and floor repairs. Also, due to the age of the building itself and limitations set by the

historic agencies, addressing some of the issues with the systems and structures will be more expensive.

POAH has made efforts to balance the development costs increase by seeking additional sources. Along with to their request for additional Trust funding, POAH has sought increases in other non-Trust funding sources, including \$5.1 million in additional housing tax credit equity, \$2.6 million in additional historic tax credit equity, as well as increasing their funding request from the state.

The final budget for 49 Sixth Street includes \$16.6 million in 4% tax credit equity, \$7.7 million in combined state and federal historic tax credit equity, \$500,000 from the Federal Home Loan Bank (FHLB), and \$2.5 million from the state. With the exception of the state historic tax credits, which require a series of applications over a period of time, and the requested Trust loan increase, all other funding has been approved or awarded. They have been awarded \$1.2 million of the total \$2.5 million of state historic tax credit equity they anticipate and are confident that they will be able to secure the remaining credits through two remaining submissions.

At POAH's request, the Trust approved an alternative funding approach whereby POAH be allowed to provide \$1.5 million of their own funding in order to bridge or replace the EOHLC funding if that would allow the project to move forward more quickly. At this time, this bridge option remains available but may not be needed given the recent commitment of state funds.

CONCLUSION/RECOMMENDATION

The 49 Sixth Street development will create 46 much needed units of affordable housing, including 32 family-sized units. POAH's thoughtful design will restore and preserve existing historic structures while converting their use to high-quality affordable housing. While the development is more expensive than originally anticipated, the costs are in line with other current and recent requests.

Housing staff recommends that the Trust approve POAH's request for up to a total of \$10,750,000 for the 49 Sixth Street development, representing an increase of \$3,000,000 to the \$7,750,000 funding amount approved in October 2022. We have reviewed this request with Susan Schlesinger, Bill Tibbs, Alyson Stein, and Jim Stockard, who agreed with our recommendation to bring this request to the Trust for review and approval.

This loan commitment of \$10,750,000 shall be made subject to the Trust's standard terms and conditions including, but not limited to, the following:

1. CDD staff approval of the final development and operating budgets;
2. CDD staff approval of construction plans and specifications;
3. Approval of final construction bid and trade items from general contractor along with construction contract Borrower has entered into with contractor;
4. Firm written commitments from all funding sources, sufficient to complete transaction, including the following:
 - 4% Low-Income Housing Tax credit equity of approximately \$16,624,666;
 - Combined state and federal historic tax credits of approximately \$7,694,601;

- Permanent mortgage financing of approximately \$5,710,552;
 - Executive Office of Housing and Livable Communities soft funding of approximately \$2,469,000;
 - Federal Home Loan Bank funds of \$500,000;
 - 8 Project-based vouchers and 8 MRVPs sufficient to support operating budget; and
 - Deferred Developer Fee of \$200,000.
5. CDD staff approval of the 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;
 6. The Trust's review and consideration of Planning Board report(s) provided at the August 2022 meeting, pursuant to the Planning Board advisory design review under the zoning provisions of the Affordable Housing Overlay [This condition has already been met.]; and,
 7. POAH may, at their election, provide their own financing to bridge, or replace, funding from EOHLC on terms acceptable to staff, including but not limited to the following:
 - Interest rate of any POAH bridge loan shall be no more than 3% compounding;
 - POAH bridge loan shall be in shared loan position with Trust financing;
 - If EOHLC funding is awarded, any funds advanced under the POAH bridge loan shall be repaid and replaced by EOHLC financing at EOHLC closing;
 - If EOHLC funding is not awarded, POAH bridge loan shall be converted to a permanent loan and remain in shared position with the Trust, at an interest rate not exceeding 3% compounding;
 8. Standard Trust terms and conditions, including:
 - All affordable units shall be subject to the City's affordable housing covenant to be signed at loan closing; the term of the Trust AHC shall be fifty (50) years or one year longer than the longest restriction on the property;
 - All units shall be restricted to households earning below 80% AMI, as defined in the affordable housing restriction;
 - The loan shall be secured as a shared second mortgage loan of up to \$10,750,000 with other soft lenders;
 - The loan shall have an interest rate of 3% compounding, or such other rate approved by CDD Staff;
 - Loan shall be subject to a penalty rate of 8% compounding; applicable upon violation of the affordability restriction;
 - 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's operations, or through other means, or on other terms acceptable to and approved by staff;
 - Loan shall be non-recourse;
 - 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 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.