CITY OF CAMBRIDGE
Community Development Department

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MEMORANDUM

To: Affordable Housing Trust
From: Christopher Cotter, Housing Director
Cassie Arnaud, Senior Housing Planner
Date: October 27, 2022
Re: Conversion of 49 Sixth Street/Sacred Heart by POAH

Preservation of Affordable Housing (POAH), a Boston-based housing non-profit, is requesting up to $7,750,000 in Trust financing to assist with their plans to convert a portion of the Sacred Heart Archdiocese site in East Cambridge into forty-six (46) units of affordable housing.

Background
The Sacred Heart property consists of a school building, convent, rectory, chapel, and church facility. POAH's plan involves creating 46 new affordable rental units in the school, rectory, and convent buildings, while the church and chapel would continue to be used by the Archdiocese.

In late 2020, the Archdiocese entered into an agreement to enter into a 99-year ground lease with Urban Spaces, a market-rate development company, to convey the convent, rectory, and school building for residential redevelopment. Subsequently, Urban Spaces negotiated an option agreement with POAH whereby POAH and Urban Spaces would be partners during the entitlement and predevelopment period, and that Urban Spaces would exit the project at construction closing at which time the ground lease would be assigned to a POAH-controlled entity.

Since POAH first introduced the project last year, POAH has made significant progress, refining their designs to maximize the number of family-sized units, securing some initial funding commitments, renegotiating the ground lease agreement with the Archdiocese, and successfully completing the Affordable Housing Overlay process.

Proposed Design/Zoning
POAH held three AHO community meetings in 2021 and completed the second advisory design review by the Planning Board in June 2022, following an initial design review in April 2022. POAH has refined their plans, incorporating input provided through the community process, consultation with City staff and, most recently, feedback provided by the Planning Board at two AHO advisory design meetings.

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POAH updated their initial development program to include more family-sized units than contemplated in their initial plans. POAH has also made efforts to ensure that units are designed to be more livable in terms of size and layout, within the constraints posed by the reuse and preservation of existing historic structures. The unit mix will include 14 one-bedroom, 20 two-bedroom, 11 three-bedroom and 1 four-bedroom units.

POAH has also worked closely with staff from the City's Department of Public Works (DPW) to ensure that adequate measures and flood mitigation features were included into the design the buildings where portions of the ground floor units will be slightly below grade. The ground floor units will have sufficient light as they will retain the large historic windows and will also have normal amounts of ceiling clearance.

The proposed design was well-received by the Planning Board during the AHO advisory design review process, as described in the Board's Final Report shared with the Trust in August. DPW and the Historic Commission have also provided memos affirming their support of the project as designed.

Affordability Levels

All of the units will be affordable to households earning up to 80% AMI per the project's approval under the Affordable Housing Overlay. However, POAH is planning to create some more deeply affordable units at the property, as follows:

	30% AMI	50% AMI	60% AMI	80% AMI*	Total
1BR	1		11	2	**14**
2BR	3	2	12	3	**20**
3BR	3		7	1	**11**
4BR	1				**1**
Total	**8**	**2**	**30**	**6**	**46**

POAH was able to secure $500,000 in Federal Home Loan Bank funding as a result of their inclusion of more deeply affordable units. They anticipate having 8 project-based vouchers for the 30% AMI units. All of the units at the project, including those at 80% AMI, will receive tax credits through "income-averaging" which allows owners to include units above 60% AMI (the standard tax credit eligibility limit) as long as the average income of the project remains at 60% or less.

Development Costs/Sources

POAH has also been working on reducing project costs from their initial estimates. At this time, the total estimated development cost is $29,918,447 or $650,401 per unit. This estimate assumes construction costs of $340/sf based on a cost estimate completed in April 2022. The proforma also shows an acquisition amount of $2,087,075, which consists of an accumulated lease payment up until closing of $1,287,075 and a one-time lease payment at closing of $800,000, as discussed further below. Finally, the budget estimates soft costs at

$105,000 per unit, capitalized reserves of $8,300 per unit, and a developer fee of just under 9%, all of which are consistent with other recent affordable transactions.

In terms of sources, in addition to the $7,750,000 in Trust funding being requested, the development is expected to be financed with $11.5 million in 4% tax credit equity, $5.08 million in combined state and federal historic tax credits, $3.37 million in debt, $500,000 from the Federal Home Loan Bank (already awarded), $200,000 in deferred fee, and $1.5 million in soft funding from DHCD which POAH is prepared to bridge, or replace, with POAH/sponsor financing, as described in further detail below.

<u>DHCD Funding/POAH Bridge Loan</u>
POAH will be submitting a pre-application for $1,500,000 in DHCD funding later this month and hopes that they will be invited into DHCD's full 2023 winter funding round. POAH is proposing that they be allowed to bridge, or even replace, the DHCD financing if it appears that moving forward sooner would benefit the project. In such a case, POAH would provide a $1,500,000 POAH bridge note at closing, bearing an interest rate of no more than 3%, and with equal loan priority with the Trust loan.

Ideally, DHCD funding would become available before any of POAH's bridge loan needed to be drawn down. However, if DHCD funding becomes available after some, or all, of the POAH "bridge loan" funds have been used, those funds would be repaid to POAH when DHCD enters the project. If DHCD opts not to fund the project at all, POAH's loan would convert from a bridge to a permanent loan and remain in the project on a "pari passu" shared priority basis with the Trust funding.

This approach is similar to what was recently approved for the Cambridge Housing Authority's Norfolk Street project where it was agreed that the CHA funding being used to replace anticipated funding from DHCD, and which loan was approved to be of equal priority with Trust funding.

<u>Acquisition/ Ground Lease</u>
While most sites are secured through a standard "fee simple" purchase of the property, the Archdiocese is only making the property available through a ground-lease structure. Urban Spaces signed a ground-lease with the Archdiocese on terms which might have worked for a market-rate development, but which were less feasible for an affordable development.

Given these concerns, POAH and the Archdiocese have agreed to new ground lease terms when POAH assumes control of the lease from Urban Spaces at construction closing. POAH has reported that the terms of the ground lease will be amended to reduce the total lease period from 99 years to 50 years and to reduce lease payments at construction closing.

One way to compare the cost of a ground lease cost to a more standard "fee simple" acquisition is by calculating the net present value of lease payments over time. At Sixth Street, the net present value of all ground lease payments, assuming a discount rate of 6% and the new lease terms, to be $4,733,701 or $102,907 per unit, an amount that is in-line with, or below, other recent fee simple acquisitions.

In preparing this request and recommendation, we reviewed POAH's request with Peter Daly, Susan Schlesinger, Jim Stockard and Bill Tibbs. This was especially helpful given some of the unusual features the request, including the acquisition of a leasehold interest, and the access to and plans for alternate subsidy funding in the event DHCD funding is not available at construction closing.

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.

CDD staff recommends that POAH's request for up to $7,750,000 in Trust permanent financing be approved by the Trust subject to the following conditions.

1. Trust approval of POAH's requests to allow the project to close on construction financing ahead of a DHCD funding commitment on terms acceptable to staff, including but not limited to the following:
    - POAH to provide a POAH Bridge Note of $1,500,000 at closing;
    - Interest rate of POAH Bridge Note shall be no more than 3% compounding;
    - POAH Bridge Loan shall be in shared loan position with Trust financing;
    - If DHCD funding is awarded, any funds advanced under the POAH Bridge loan shall be repaid and replaced by DHCD financing at DHCD closing;
    - If DHCD 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;
2. CDD staff approval of the final development and operating budgets;
3. CDD staff approval of construction plans and specifications;
4. Submission of final construction bid and trade items from general contractor along with construction contract Borrower has entered into with contractor;
5. Firm written commitments from all funding sources, sufficient to complete transaction, including a commitment of 8 project-based vouchers;
6. CDD staff approval of the tenant selection and marketing plan, which shall include provisions to ensure 70% local preference in tenant selection and such other provisions required under the Affordable Housing Overlay;
7. The Trust's review and consideration of Planning Board report(s) provided at the August 2022 meeting;
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 which shall reflect the requirements of the Affordable Housing Overlay, including the requirement for permanent affordability;
    - 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 second mortgage loan of up to $7,750,000;
- 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 shall provide for repayment of principal and interest from 50% of net cash flow from the development, or other terms acceptable to 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.