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# CITY OF CAMBRIDGE

Community Development Department

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**IRAM FAROOQ**

Assistant City Manager for  
Community Development

**SANDRA CLARKE**

Deputy Director  
Chief of Administration

**KHALIL MOGASSABI**

Deputy Director  
Chief of Planning

**To: Cambridge Affordable Housing Trust**

**From: Project Review Committee**

**Date: December 13, 2018**

**Re: Squirrelwood Apartments – Permanent Funding Request**

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At the January 2018 meeting the Trust voted to conditionally approve up to \$4,600,000 in financing to Just-A-Start Corporation (JAS) for the construction of 23 new affordable rental units on their Linwood Court property. The infill project will be accomplished as a component of the overall plan to rehab, preserve and consolidate its 45-unit Linwood Court Development with its 20-unit Squirrel Brand Apartments development. This project preserves and provides much needed capital improvements and repairs to 65 units and creates 23 new affordable units.

Since the Trust last reviewed the project in January, JAS has secured a Comprehensive Permit to build the 23 new units, assembled additional financing and finalized construction pricing. JAS is now seeking to formalize the Trust's permanent funding commitment in the amount of up to \$4,400,000 (\$191,304/unit) in anticipation of beginning the construction closing process in Spring 2019.

Located between Broadway, Columbia and Market streets in the Port neighborhood, Linwood Court consists of eight detached buildings that were substantially renovated and converted to affordable housing in 1973. Squirrel Brand Apartments, located across the street from Linwood in the former home of the Squirrel Nut manufacturer, was purchased by JAS in 1999 and includes 18 units in the converted factory and two units on Boardman Street.

The proposed 23-unit new development will include 2 new buildings and an addition to an existing building, designed to fit into the existing fabric of the Linwood community. Plans include the addition of an elevator in one of the new buildings and 3 new accessible units allowing for a more accommodating environment for tenants with mobility impairments. The renovations in the existing units include sprinkler systems, new roofs, windows, some kitchens and baths and exterior work.

The 23 new units will consist of 12 1-bedroom, 8 2-bedroom and 3 3-bedrooms units. As you may recall, over-housing has been an issue at Linwood as the majority of the existing units (92%) are 2, 3 and 4+ bedrooms and there has been nowhere for families to move when their household sizes decrease. With the consolidation, and the addition of the new 1 and 2-bedroom units, there will be flexibility to move tenants around the development to allow for "right-sizing" and freeing up large units for families that need them.

The new units will serve a range of incomes, including 13 for low and moderate-income residents, and ten which will be available to households up to 100% AMI through funding from MassHousing’s Workforce program.

The total development cost of both the renovation of existing 65 units and new construction of the 23 new units is estimated at \$42,357,901 (\$481,340/unit). The cost for the new construction only component is anticipated to be \$9,505,726 (\$413,292/unit ). The new construction will be funded with \$1,139,392 in tax credit equity, \$1,031,339 in DHCD funding, deferred fee of \$143,750, as well as the Trust funding and first mortgage debt. At the request of the Project Review Committee, JAS will be increasing their first mortgage financing as it was noted that the project could support more debt than had been assumed in the budget. With the increase in debt, the amount of Trust funding needed is reduced to \$3,981,000. However, JAS is requesting that the Trust authorize permanent financing up to \$4,400,000 as some construction pricing is yet to be finalized and may come in higher than budgeted. If that is not the case, and costs remain on budget, the final Trust loan will be closer to \$4 million. Staff will continue to work with JAS to assess options to both reduce costs and maximize resources, all of which would offset needed Trust funding.

In addition to the request for permanent financing, JAS is requesting to consolidate the existing outstanding City and Trust loans on the two properties. The loans, listed below, would be amended and restated to reflect the new entity with terms that reflect our current terms and conditions. A new affordable housing covenant will be entered into as a part of the consolidation.

<b>Project</b>	<b>Lender</b>	<b>Loan Amount</b>	<b>Estimated Accrued Interest:</b>	<b>Estimated Outstanding Loan Balance*</b>
Linwood Court	CAHT	\$329,000	\$302,428	\$631,428
Linwood Court	City	\$237,561	\$178,545	\$416,106
Squirrel Brand	CDBG	\$460,000	\$641,328	\$1,101,328
<b>Total Both Properties*</b>		<b>\$1,026,561</b>	<b>\$1,122,301</b>	<b>\$2,148,862</b>

\* prior to closing, actual amount of outstanding principal and accrued interest will be calculated

**RECOMMENDATION:**

Given the need for new affordable housing and the lack of suitable sites, we value and support Just A Start’s efforts to not only maintain existing affordable units but to create new affordable opportunities at their existing sites. The proposed consolidation will enable JAS to complete needed upgrades to the existing 65 units of affordable housing, as well as build the much needed additional 23 units for households that cannot afford market rate rentals in Cambridge.

The Project Review Committee recommends that the Trust approve Just A Start's request for between \$3,981,000 up to \$4,400,000 CDD in permanent financing for the new construction of 23 rental units subject to the following conditions:

The permanent financing commitment should be made contingent on the following:

1. CDD staff approval of the final development and operating budgets, including specifically any increase in Trust permanent financing above \$3,981,000;
2. CDD staff approval of the repayment provision(s) of Trust financing, whereby 50% of net cash flow and the ground lease be used to repay the loans, or such other similar provision acceptable to staff;
3. CDD staff approval of construction plans and specifications;
4. CDD staff approval of the tenant selection and marketing plan, which shall include provisions to ensure at least 70% local preference in tenant selection;
5. Firm written commitments from all funding sources, sufficient to complete transaction.

Loan shall be subject to standard Trust terms and conditions including, but not limited to:

- All affordable units will be subject to the City's standard affordable housing restriction to be signed at loan closing, requiring affordability be set at one year longer than the longest restriction on the property, and in any event no less than 50 years, or such other longer period as may be required by the existing underlying financing and/or zoning
- Loan(s) will have an interest rate of 3% compounding, or such other rate approved by CDD Staff, and a term of 50 years;
- Loan(s) will be subject to a penalty rate of 8%. The penalty rate is only applied upon violation of the affordability restriction.
- Loans shall be non-recourse.

During the construction period:

- Notify Lender's Rehabilitation Specialist of all construction meetings and copy on meeting minutes;
- Copy Lender on all change orders;
- Copy Lender on all funding requisitions to other sources.

Consolidation and restatement of existing financing should be subject to the following:

- That the maturity date(s) for the Loan(s) be extended to 50 years from closing, or such other similar period, acceptable to staff;
- That the interest rate(s) be set to 3% annually compounding, or such other similar rate as may be required by the investor and acceptable to CDD Staff.
- That the new affordability restriction(s) be set at one year longer than the longest restriction on the property, and in any event no less than 50 years, or such other longer period as may be required by the existing underlying financing and/or zoning.