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Barney Heath  
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## MEMORANDUM

To: Planning and Development Board

From: Rachel Powers, Community Development Programs Manager  
Elizabeth Valenta, HOME Program Manager

Cc: Jennifer Van Campen, Executive Director, CAN-DO & Metro West CD  
Josephine McNeil, Executive Director Emeritus, CAN-DO, Inc.

Date: July 6, 2017

Re: 236 Auburn Street Affordable Housing Proposal

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### **1. Executive Summary**

Project Sponsor, Citizens for Affordable Housing in Newton Development Organization (CAN-DO, Inc.), newly affiliated with Metro West Collaborative Development, is proposing to create eight units of affordable rental housing through the acquisition and rehabilitation of a three-family house converted to a single-family house, the addition of two attached modular homes totaling 2,300 square feet and an addition of a new 2,493 square foot congregate house located at 236 Auburn Street in Auburndale. The project consists of one 2-BR and two 3-BR units, affordable to households earning at or below 60% of Area Median Income (AMI) and a 5-BR congregate home for severely disabled adults



individuals, affordable to households at 30% AMI. The proposed project targets priority populations—extremely low and low income households as identified in the FY16-FY20 Consolidated Plan and will be eligible for listing on the Massachusetts Subsidized Housing Inventory (SHI).

The total development cost is budgeted at \$3,555,595. CAN-DO is seeking \$977,700 in Community Preservation Act (CPA) funding, \$1,020,000 in federal Community Development Block Grant (CDBG)

funding and \$447,900 in HOME Investment Partnerships Program (HOME) funding (\$276,300.90 in Newton Entitlement and Program Income and \$171,599.10 in Consortium CHDO Reserve Funds), \$659,995 in State allocated Facilities Consolidation Funds (FCF), for a total of \$3,105,595 in publicly-controlled money. At the project completion, the proposed group home will be sold to The Price Center, a Newton non-profit specializing in providing housing and supportive services for disabled residents. This would generate an additional \$450,000 in private resources.

The Sponsor will seek a Comprehensive Permit through G.L. Chapter 40B. The Housing and Community Development Division (the "Division") has reviewed the Funding Proposal submitted by the Sponsor on April 28, 2017 and a revised proposal on May 18, 2017.

## **2. Project Description**

The project includes the partial demolition and restoration of a nineteenth century house, the construction of a new modular, two-family duplex building, and a five-bedroom congregate house on an 18,760 square foot lot in the Auburndale village of Newton, MA. The historic single family home will front the public way, Auburn Street. The duplex unit will be located behind the historic house, and the congregate unit will be located at the rear of the site. There will be 10 parking spaces, including dedicated space for a handicapped accessible van.

The property is an existing 1,512 sq. ft. nineteenth century historic single-family house built in 1861. The structure, located on a 18,760 sq. ft. lot in an MR1 zone, is 2.5 stories, colonial-style with clapboard shingles, brick foundation and an asphalt-shingled gable roof. The existing property has twelve rooms, five bedrooms, five bathrooms, a 184 square foot porch and 354 square foot deck area. At the time of acquisition there were three separate units inside the existing house structure. Work will include the relocation of the historic home onto a new poured in-place concrete foundation, replacing the existing rubble base which has been cosmetically patched, but not structurally sound. Several additions to the existing property were made in the 1930s, and 1950s, but are not in character with the existing historic home. The additions will be removed, the building exterior restored, and the interior reconstructed to provide for a three-bedroom home. A small addition is proposed that will contain an office to provide a meeting space for tenants and service providers.

The new duplex building will be of modular construction and will contain two family housing units. The duplex will provide a 1,020 square foot two bedroom, one bath, kitchen/dining and living room, and a 1,280 square foot three bedroom, one and half baths, kitchen, dining room, and living room unit. The units will be two stories, with simple intersecting gable roof, wood siding and double hung window units.

A 2,493 square foot congregate house for individuals with severe disabilities will also be constructed. The congregate house will include five accessible bedrooms, two baths, a kitchen, dining, and living room with a live-in staff office/bedroom and bath. The house will be a single story building of modular construction. Gable roofs, wood siding, and double hung windows will match the character and geometries of the duplex and historic home.

The revised proposal includes the following unit mix and characteristics for the three affordable family housing units:

Units	Affordability Level	# of Bedrooms	# of Baths	Living type	Gross Living Area
1	Up to 60% AMI	3	1.5	Single-family detached, two-story	1,512 square feet (existing)
1	Up to 60% AMI	2	1	Single-family attached, two-story	1,020 square feet (proposed)
1	Up to 60% AMI	3	1.5	Single-family attached, two-story	1,280 square feet (proposed)

	Household Size	50% AMI	60% AMI
2 Bedroom	3 person	\$46,550	\$55,860
3 Bedroom	4 person	\$51,700	\$62,040

2017 HUD Income Limits

The Division staff recommends that the three affordable family units set both a target rent and a maximum rent. The target rent would be equal to the current published Low HOME rent which is set to be affordable to households whose incomes are less than 50% AMI and the maximum rent be set based on the High HOME rent affordable to households whose incomes are less than 60% AMI. It is anticipated that the project owner would continue to utilize this lower rent in the operating proforma. The proposed structure also assumes that tenants will pay for utilities. Rents are underwritten to be affordable to households not receiving rental assistance (e.g., a Section 8 housing voucher) because these subsidies are scarce and there is no guarantee or requirement that a tenant would have a rental assistance voucher. The following chart details this recommended target and maximum rent for the units:

	Max Rent* HIGH HOME Gross Rent <60% AMI	Target Rent* LOW HOME Gross Rent <50% AMI
2 br	\$ 1,508.00	\$ 1,108.00
3 br	\$ 1,733.00	\$ 1,280.00
3 br	\$ 1,733.00	\$ 1,280.00

\* *Gross Rent inclusive of utility allowance.*

The congregate, group home will be owned and operated by the Price Center and the five units will be affordable for individuals with disabilities whose income is less than 30% AMI.

The rent and income thresholds as proposed exceed the affordability the provisions set forth by the 40B Comprehensive Permit guidelines and subsequently will be eligible for listing on the Massachusetts Subsidized Housing Inventory (SHI).

### **3. Underwriting Recommendation (Please See Attached)**

Daniel Gaulin, subcontractor to FinePoint Associates, performed the project's underwriting and financial analysis based on the full CPC proposal received April 28, 2017, consistent with guidelines set forth by the U.S. Department of Urban Development and the WestMetro HOME Consortium. Mr. Gaulin acknowledges the complicated nature of the proposed project as it involves three development entities: CAN-DO, MetroWest and the Price Center. The success of the project will depend on the ability of each entity to execute its part of the development.

The project as proposed is not allowed under current zoning and will need a comprehensive permit from the City in order to proceed. The ability to obtain this permit presents a minor risk, therefore it is recommended that Newton condition a commitment of HOME funds upon receipt of the comprehensive permit and commitment of all other funding sources. Further, Mr. Gaulin noted negligible market risk, given that proposed rents represent a third of current market rents in Newton, there is a sufficient pool of target households and overall the project reflects community needs. Cash flows project an initial 17.5% cushion, about \$5,331 annually and no debt service.

The underwriting has since been updated to reflect the revised proforma dated May 18, 2017. Taking into account Mr. Gaulin's recommendations, the Housing and Community Development Division encourage the project proponent to allow rents up to 60% AMI (the high HOME rent), while continuing to target 50% rents (the low HOME rent). This slight change would help to strengthen cash flows and the project's sustainability in the long term.

#### **4. Development Entity and Capacity**

While the subsidy per unit is estimated to be \$444,449, we understand that much of the increased cost is due to Newton's expensive housing market and the complex nature of this project with the restoration of a historic structure. This situation is not likely to change in the future.

In preparing for the retirement of Executive Director, Josephine McNeil, CAN-DO has affiliated with MetroWest Collaborative Development in the operation and management of CAN-DO's housing portfolio and Newton housing development projects, such as the one proposed for 236 Auburn Street. CAN-DO and MetroWest now share an Executive Director, Jennifer Van Campen and Board of Directors. Given this transition, the City must carefully review MetroWest's management capacity of CAN-DO's portfolio as the project moves forward. The development team has completed projects of larger size and complexity, however the City must do its due diligence in reviewing the final plans, specifications and contractor qualifications, while monitoring MetroWest's property management of CAN-DO's scattered site portfolio.

#### **5. CDBG and HOME Requirements**

##### *5.A. Eligible Costs*

The proposed use of CPA, CDBG and HOME funds, as allowable by each programs rules and regulations, would assist in refinancing or buying down the existing mortgage, and provide reimbursement for allowable hard and soft project costs including costs associated with demolition, site improvements, rehabilitation of the historic structure and construction of the modular units.

##### *5.B. Affordability Period*

If funding for this project is approved, the City will impose a 20-year HOME affordability period and a general affordability restriction in perpetuity or for the maximum duration permitted by law with approval from the Commonwealth of Massachusetts. The terms of the affordability will be enforced by a declaration of affordable housing covenants which will run with the land.

##### *5.C. Labor Requirements/ Procurement*

The wage requirements of the Davis-Bacon Act will not apply to this project because it consists of less than eight total units. The Division will manage the competitive bid process in conjunction with the

Purchasing Department in accordance with the City's Procurement Policy for Affordable Housing Projects and HUD regulations.

#### *5.D. Environmental Review*

The City is required to conduct an environmental review prior to commitment of federal funds. As part of the assessment, if funding for this project is approved, staff will review evidence that the property is free of potentially hazardous materials and that the project will not have any adverse effect on the surrounding environment. The lead inspection report found the presence of lead, so this will be abated as part of renovations of the existing property. Additionally, since the existing property is a historic structure, the City is coordinating with the Massachusetts Historical Commission on the property's historic preservation. Also, given the property's proximity to the Massachusetts Turnpike, noise mitigation measures will be taken into consideration in the development's scope of work.

### **6. Design and Construction**

#### *6.A. Site Plans & Zoning / Permitting*

The proposed construction would not meet the requirements for a special permit for in a Multi-Residence zone. The Sponsor will need zoning relief in the form of a comprehensive permit under Massachusetts General Law Chapter 40B. A project sponsor will work with the State subsidizing agency to apply for a project eligibility letter and then submit a comprehensive permit application to the City. DHCD manages the Facilities Consolidation Fund (FCF) through the Community Economic Development Assistance Corporation (CEDAC), and would ultimately act as the subsidizing agency. Staff anticipates that the project will be viewed favorably and granted a permit in a timely manner.

#### *6.B. Proposed Project*

The Division has reviewed the preliminary scope of work submitted by the project architect and found the costs to be reasonable based on extensive nature of the work proposed. The total project construction cost is estimated to be \$1,937,129. This includes relocation and extensive renovation of the existing historic structure containing a three bedroom unit, construction of a duplex building containing a 2 and 3 bedroom unit behind the historic structure and construction of a fully accessible congregate living five-bedroom dwelling.

### **7. Financials**

#### *7.A. Subsidy Per Unit*

The principal reason for the amount of public subsidy is the existing market conditions, as Newton's land cost continues to increase. The median listing price for a single-family dwelling in April 2017 is approximately \$1,450,000 which is up from \$1,300,000 in 2016.<sup>1</sup> Data on the median price for two-family dwellings was not available. The cost is further compounded by the project's scale, historic preservation and complexity, resulting in a higher cost per-unit.

For comparative purposes, the table below shows the total development costs, total subsidy per-unit and subsidy per-bedroom of similar projects since 2005.

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<sup>1</sup> As of April, 2017 <https://www.zillow.com/newton-ma/home-values/>

Project Address/ Sponsor/Year	Project Type and Scope	Affordable Units	Total Development Cost	Total Public Subsidy/Unit <sup>2</sup>	Total Public Subsidy/Bed
236 Auburn Street CAN-DO (Proposed)	Rental – Acquisition, Rehab/Construction	8	\$3,555,595	\$444,449	\$273,507
10-12 Cambria Road CAN-DO 2015	Rental – Acquisition, Rehab/Construction	2	\$905,410	\$390,205	\$195,103
54 Taft Avenue CAN-DO 2014	Rental – Acquisition, Rehab/Construction	2	\$1,144,029	\$534,514	\$213,806
54 Eddy St. CAN-DO 2012	Rental – Acquisition and Rehab	2	\$1,115,250	\$472,625	\$189,050
61 Pearl Street CAN-DO 2010	Rental – Acquisition and Rehab	3	\$1,370,000	\$381,667	\$190,833
2148 Commonwealth Ave. CAN-DO 2009	Rental – Acquisition and Rehab	2	\$950,000	\$337,500	\$135,000
11-13 Cambria Road CAN-DO 2006	Rental – Acquisition and Rehab	2	\$1,437,511	\$315,512	\$126,205
20-22 Falmouth Street CAN-DO 2005	Rental – Acquisition and Rehab	2	\$1,178,933	\$325,601	\$130,240
163 Jackson Road CAN-DO 2005	Rental – Acquisition and Rehab	2	\$1,178,048	\$325,158	\$130,063

The Planning and Development Department does not have a per-unit subsidy limit. Instead, a project’s subsidy amount is evaluated on a case-by-case basis through a federally-required subsidy layering analysis. Our goal is to provide enough financing to serve the greatest number of eligible households, to make the deal feasible and affordable to the target population and not over-subsidize the project or unduly reward those implementing it. Costs of affordable housing are a state-wide topic of interest.

#### *7.B. Developer Fee*

The developer fee and overhead are projected at \$331,872, or 9.3% of total development costs, excluding the replacement reserve fund. Underwriting performed by FinePoint subcontractor Dan Gaulin determined that this fee was reasonable given the size and complexity of the proposed project. The proposed fee is within the standard recommended by the National Council of State Housing Agencies of 15%.

#### *7.C. Cash Flow*

Cash flows project an initial 17.5% cushion, about \$5,331 annually and no debt service.

### **8. Architectural Accessibility**

#### *8.A. Design and Construction Applicability*

The City’s Accessibility in Affordable Housing Guidelines encourages applicants to enhance the accessibility of their projects to the extent that it is financially feasible. The congregate home will be fully accessible as required by the state Dept. of Developmental Services for the intended population.

### **9. Fair Housing and Equal Opportunity**

<sup>2</sup> Includes all HOME, CDBG and/or CPA public subsidy grants and loans

CDBG or HOME does not require affirmative marketing for a project of this size. However, the Massachusetts State Department of Housing and Community Development will require the submittal of an affirmative marketing plan prepared in accordance with the Chapter 40B Guidelines for the three family units, and a description of the lottery process that will be used for the project. If approved, this proposal would, to the greatest extent possible, provide employment and training opportunities to lower-income area residents and businesses during construction, as required by Section 3 of the Housing and Urban Development Act of 1968.

## **10. Community Need**

As stated in the City's *FY16-20 Consolidated Plan* and the *FY17 Annual Action Plan*, it is a priority objective to provide deeper subsidies in a project where the developer provides at least one of the following: 1) units that are accessible to persons with disabilities, where not required by applicable law and there is a substantiated market demand; and 2) units for low-income households (at or below 50% of AMI) that do not have rental assistance.

This proposal creates new affordable rental housing opportunities for three households earning up to 60% of AMI with a minimum rent affordable to households earning 50% AMI and creates 5 accessible units for severely disabled adults through the congregate home.

## **11. Recommendation**

The Housing and Community Development Division of the City of Newton Planning Department invited CAN-DO/Metro West to present the project submitted herein at the Planning and Development Board meeting held on June 5, 2017.

Based on the merits of the proposal, consistency with community need identified in the 2016-2020 Consolidated Plan and evidence of community support, the Division recommends CDBG and HOME funding as described above, at \$1,020,000 and \$447,900 respectively, with the following pre-conditions:

- a) Funds will not be released until a Comprehensive Permit is granted.
- b) Project cost savings are returned proportionally to the respective grant program(s) upon completion.
- c) Notify City if/when Operating reserves are disbursed for this project.
- d) HOME and CDBG funds cannot be committed until firm commitments are received from all other sources identified in the most recent Development Budget (this is a federal requirement).
- e) HOME and CDBG funds also cannot be committed until completion of the Environmental Review Record and HUD issues the Authority to Use Grant Funds.
- f) Project proponents, CAN-DO/Metro West, must report to the Planning and Development Board at various benchmarks throughout implementation of the project to monitor the financial viability of the project:

1. Following receipt of construction bids to verify project costs
  2. Four months following the start of project construction to report on progress;
  3. At project lease-up to submit a project completion report;
  4. Every 6 months thereafter for the first two years;
  5. As needed.
- g) Project proponents, CAN-DO/Metro West, must also submit property summaries including current tenancy and actual vs budget operating reports for all CAN-DO's portfolio to the Planning and Development Board at the intervals required in Condition f) above in order to monitor the property management capacity of newly affiliated organizations.



# Department of Planning and Development

## 236 Auburn Street

### *Affordable Housing Proposal*

July 10, 2017



**PUBLIC HEARING AND ACTION ITEM:**  
RECOMMENDATION FOR THE ALLOCATION OF  
\$1,020,000 IN CDBG FUNDS  
\$447,900 IN HOME FUNDS  
FOR 8 UNITS OF AFFORDABLE HOUSING PROJECT  
SPONSORED BY CAN-DO/METROWEST CD

## Executive Summary

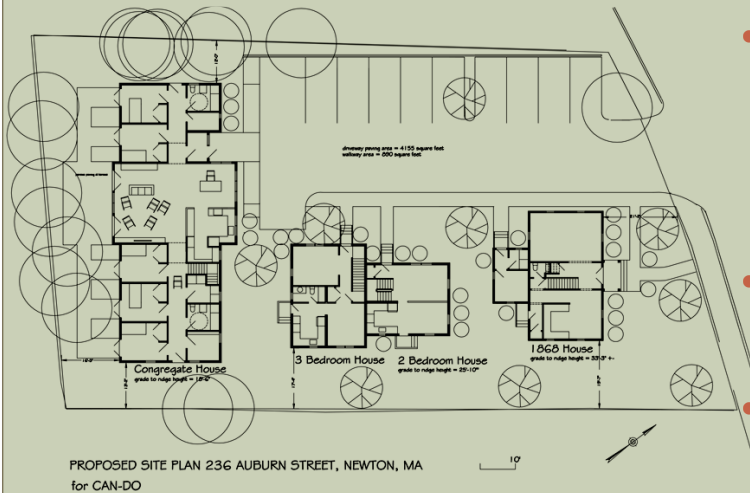


- CAN-DO/MetroWest CD
- Existing three-family historic dwelling converted to 8 units affordable rental housing
- Total Cost: \$3,555,595
- \$447,900 subsidy per unit
- Acquisition/Rehabilitation/  
New Construction
- Comprehensive Permit (40B)
- Affordability:
  - Up to 60% AMI households
  - 30% AMI households



236 Auburn Street

# PROPOSAL



- Three units of affordable family housing-
  - Acquisition/Rehabilitation/Conversion of historic home (3 Bedroom)
  - Construction of two-family modular duplex (2 Bedroom/3 Bedroom)
- Five unit congregate home
  - Construction of 5 Bedroom modular home for severely disabled adults
- 10 parking spaces

# PROJECT FUNDING



## 236 AUBURN STREET DEVELOPMENT COSTS

Source	Amount	Status
<b>City of Newton</b>		
CDBG	\$1,020,000	Seeking approval
HOME	\$447,900	Seeking approval
CPA	\$977,000	Approved by CPC/Pending Council
<b>Commonwealth</b>		
FACILITIES CONSOLIDATION FUNDS (FCF)	\$659,995	Pre-application Pending
<b>Private</b>		
PRICE CENTER SALE	\$450,000	Transfer TBD
<b>Total</b>	<b>\$3,555,595</b>	

# FUNDING RECOMMENDATIONS



- **Funding Request:**

- \$1,467,900 in Federal CDBG/HOME funds
- 447,900 subsidy per unit

- **Funding Recommendations:**

- \$1,020,000 in CDBG funds
- Allocate following HOME funds:

Projects/Program Funds	\$276,300.90
<u>CHDO Set-Aside Funds</u>	<u>\$171,599.10</u>
TOTAL HOME Funds Allocation	\$447,900.00

# CONDITIONS OF FEDERAL FUNDS



- Comprehensive permit is granted
- Receipt of Commitments from all Financial Resources
- Completion of the ERR/HUD Authority to Use Funds
- Report to Planning and Development Board:
  - Following receipt of construction bids to verify project costs
  - Four months following the start of project construction to report on progress;
  - At project lease-up to submit a project completion report;
  - Every 6 months thereafter for the first two years;
  - As needed.

## CONDITIONS OF FEDERAL FUNDS



- City notified if/when Operating Reserves are disbursed.
- Project cost savings are returned proportionally to respective grant program(s)
- Project proponents must also submit property summaries including -
  - current tenancy and actual vs budget operating reports for all CAN-DO's portfolio to the Planning and Development Board at the intervals required in Condition f) above in order to monitor the property management capacity of newly affiliated organizations.