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MEMORANDUM

To: Community Preservation Committee

From: Elizabeth Valenta, Housing Programs Manager, Planning and Development Department
James Freas, Acting Director, Planning and Development Department

Cc: Josephine McNeil, Executive Director, CAN-DO, Inc.

Date: November 12, 2015 emailed to CPC staff 10:30 am, 16 November 2015

Re: 10-12 Cambria Road Affordable Housing Proposal

1. Overview

The Sponsor, Citizens for Affordable Housing in Newton Development Organization (CAN-DO, Inc.), is proposing to create two units of affordable rental housing through acquisition and rehabilitation of an existing two-family house located at 10-12 Cambria Road, Newton. The project would consist of two 2-BR units and will target families who are at-risk of homelessness. Supportive services will be provided to the households by CAN-DO. One unit will be affordable to households earning at or below 50% of Area



Median Income (AMI) and the other unit will be affordable to households earning at or below 80% AMI. The project targets a priority population, extremely low and low income homeless families, as identified in the *FY16-20 Consolidated Plan*.

The projected total development cost is \$905,410. The Sponsor is seeking \$471,117 in Community Preservation Act (CPA) funding, \$309,293 in total federal Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) funding and \$125,000 from other sources.

2. Project Description:

The property is an existing 1,716 sq. ft. two-family house built in 1938. It is located on a 5,000 sq. ft. lot in the SR3 zone. This is a two-story home with vinyl siding, concrete foundation and an asphalt shingled roof. The existing two units have ten (10) total rooms, four (4) bedrooms and two (2) bathrooms. The unit also has an enclosed 44 square foot porch, 98 square foot deck and 66 square foot porch area. The project consists of the following unit mix and characteristics:

Unit	Affordability Level	Proposed Rent	# of Bedrooms	# of Baths	Living type	Gross Living Area
1	<80% AMI	\$1,466	2	1	Two-family attached, two-story	858 square feet (est.)
2	<50% AMI	\$924	2	1	Two-family attached, two story	858 square feet (est.)

3. CDBG and HOME Requirements

3.A. Income Targeting and Rents

As proposed, the project will meet CDBG income targeting criteria. Each unit will be rented to moderate-income households. Moderate-income households are defined as households earning at or below 80% of AMI.

The proposed rent structure assumes that tenants will pay for utilities. Under the City’s Affordable Rent Policy, “monthly rents charged to tenants cannot exceed 35 percent (if cost of rent only) of the monthly adjusted income of a household whose gross income is 70 percent of the Boston AMI.” If HOME funds are utilized for the project, at least one unit must charge no more than the Low HOME rent limit. The proposed rents for these units comply with this threshold, as shown below.

2 Bedroom Unit w/ 3 person Household size at or below 50% AMI

	Household Size	Max Gross Rent	(-) Utility Allowance	(=) Net Rent
Low HOME	3 person	\$1,108	\$194	\$924

In contrast, the median market rent for 2 and 3 bedroom units is \$2,200 and \$2,650, respectively.¹

3.B. Eligible Costs

The proposed use of CDBG and HOME funds would reimburse the project for acquisition, rehabilitation, deleading and soft costs. CPA funds would likely be used for acquisition, construction and soft costs.

3.C. Affordability Period

¹ As of September, 2014. <http://www.zillow.com/newton-ma/home-values/>

If funding for this project is approved, the City will impose an initial 30-year affordability period enforced by a declaration of affordable housing covenants running with the land. The City will submit an application to the Massachusetts Department of Housing and Community Development requesting that the project remain affordable in perpetuity.

3.D. Labor Requirements/ Procurement

The wage requirements of the Davis-Bacon Act do 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.

3.E. 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, on some doors and windows. The costs for the lead abatement are estimated to be \$14,500.

4. Development Entity and Capacity

The Sponsor has demonstrated past experience in developing affordable rental housing using the acquisition-rehabilitation model, with 11 similarly developed units in its portfolio. Each of the completed units are occupied by low-or moderate-income tenants who represent numerous ethnic and racial backgrounds.

5. Design and Construction

5.A. Site Plans & Zoning / Permitting

The proposal will not require zoning relief.

5.B. Proposed Rehabilitation

The Division's Housing Rehabilitation/Construction Manager has reviewed the inspection report and the preliminary scope of work submitted by the project architect. The estimated cost of rehabilitation is approximately \$148,528, which includes necessary deleading. The rehabilitation scope includes:

- *Exterior Building Envelope Repairs:* Replace Roof; Repoint masonry chimney to prevent failure; Repair siding, siding trim, seal penetrations and repair gutters and downspouts to prevent water infiltration; Porch repair of decking, structural supports, lattice to prevent failure;
- *Interior Building Repairs/Rehab:* repartitioning of second floor kitchen with new cabinets and appliances;
- *Mechanical/Electrical System Repair/Replacement:* Addition of new heating system (currently both units on one system); insulation of attic; Replace/repair misc. plumbing including waste lines and valves; Repair electrical connections;

- *Basement Repair and Mold/Asbestos Remediation:* Remove basement ceilings and wall finishes to determine extent of mold, and to provide proper access to electrical panels; Remove/encapsulate/cover basement asbestos flooring tile; Repair/replace basement rotted/termite damaged partitions, stair and frame sills;
- *Lead paint testing and removal.*

The estimated rehabilitation cost is \$86/square foot. Recent projects with substantial rehabilitation have cost \$97/square foot, \$105/square foot and \$113/square foot, while projects with moderate rehabilitation have cost \$63/square foot and \$37/square foot.²

Staff believes that the scope of work consists of legitimate items that need attention or will avoid future issues.

6. Financials

The feasibility analysis is based on the Development Budget and an Operating Pro Forma and ten-year Operating Budget, both revised August 21, 2015. Particular items to note are identified below:

6.A. Proposed Financial Structure

The projected total development cost is \$905,410 (\$452,705 total cost per unit and \$390,205 public subsidy per unit). The proposed sources consist of 86% public subsidy (CDBG, HOME and CPA funds), 14% foundation grants (Charlesbank Homes and Federal Home Loan Bank). The purchase price of the property is \$610,000. An independent appraisal found the property value to be \$610,000, thus supporting the actual purchase price.

Overall, the project is financially feasible, but due to the limited amount of private debt the project can take on, a significant public subsidy is required. The principal reason for the amount of public subsidy is the current market conditions, as Newton's land cost continues to increase. The median sale price for a single-family dwelling in 2014 is \$948,250, which is up from \$890,000 in 2013.³ The median sale price of a two-family dwelling is \$795,000 in 2014, compared to \$665,000 in 2013.⁴ Sixty-Seven percent of the project cost is for acquisition. The cost is further compounded by the tradeoff of project scale and the project's affordability level. Spreading the cost over two units result in a higher per unit cost. A project with more units could potentially have a greater impact on the surrounding neighborhood, but could also substantially reduce the overall cost (if the project includes market rate units) and the cost per unit. The proposal is underwritten at rents affordable to households at 50% AMI and 80% AMI. However, the sponsor has indicated that the target population will be at lower income levels

² Total rehabilitation cost divided by gross building area. \$97/square foot – 54 Eddy Street \$105/square foot - 61 Pearl Street; \$113/square foot - existing group residence; \$63/square foot - 20-22 Falmouth Road; \$37/square foot - 2148-50 Commonwealth Avenue

³ The Warren Group <http://rers.thewarrengroup.com/sor/tssearch.asp>; calendar year 2013 and 2014 (year-to-date for 2014)

⁴ City of Newton Assessor's Department; calendar year 2013 and 2014 (year-to-date for 2014)

and likely have housing vouchers. For comparative purposes, the table below shows the total development costs, total public subsidy per unit and subsidy per bedroom of similar projects since 2005.

Project Address/ Sponsor/Year	Project Type and Scope	Affordable Units	Total Development Cost	Total Public Subsidy/Unit ⁵	Total Public Subsidy/Bed
10-12 Cambria Road, 2015	Rental – Acquisition/Rehab	2	\$905,410	\$390,205	\$195,103
54 Taft Avenue CAN-DO 2014	Rental – Acquisition, Rehab/Construction	2	\$1,134,029	\$482,014	\$192,806
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
2148-50 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

6.B. Developer Fee

The developer fee and overhead are projected at \$66,327, or 8% of total development costs, excluding the replacement reserve fund. The proposed fee is within the standard recommended by the National Council of State Housing Agencies of 15%. It is also lower than the 10% distribution limit allowed under Chapter 40B.

6.C. Cash Flow

The proposal is viable from a cash flow perspective with sufficient income to cover expenses based on a projected \$2,471 Net Operating Income (e.g. income after expenses) once the property is fully leased. The proposal reflects a fully funded development with no mortgaged debt.

7. Architectural Accessibility

7.A. Design and Construction Applicability

⁵ Includes all HOME, CDBG and/or CPA public subsidy grants and loans

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 Sponsor has not proposed adding accessibility features.

8. Fair Housing and Equal Opportunity

CDBG or HOME does not require affirmative marketing for a project of this size. However, the Massachusetts State Department of Housing and Community Development Local Initiative Program will require the submittal of an affirmative marketing plan prepared in accordance with Section III of the Chapter 40B Guidelines, including 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.

9. Community Need

Affordable rental housing is in great demand. The Newton Housing Authority waiting list for family public housing is approximately seven years. According to the U.S. Census approximately 24 percent of Newton's population earning below 80% of AMI and many of these residents are housing cost burdened. This cost burdening is due in part to the change in the demographics of the City which has steadily transitioned from an economically diverse community to one of concentrated affluence. Between 2000 and 2013, the number of households earning below \$125,000 declined by almost 4,700 while households earning over \$200,000 increased by more than 4,200. Most of the limited new or re- construction is targeted to this demographic and often eliminates modest cost housing.

As stated in the City's *FY16-20 Consolidated Plan* and the *FY16 Annual Action Plan*, it is a priority objective to provide deeper development subsidies per unit in projects, so long as 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; 2) units for low-income households (at or below 50% of AMI) that do not have rental assistance; 3) units that provide permanent supportive housing to homeless persons including veterans; and 4) units for persons with special needs with accompanying support services.

This proposal creates new affordable rental housing opportunities for one household earning up to 80% of AMI and one household earning up to 50% AMI without rental assistance, meeting the priority objective #2 identified above.

10. Recommendation

The division presented the project to the Planning and Development Board on October 5, 2015. At that time the Division presented concern regarding several issues including (1) incomplete proposal submission; (2) outstanding questions regarding tenant selection and supportive services; and (3) the question of meeting conditions imposed for the funding of the Taft Avenue project prior to funding a new project. These concerns have been responded to, the complete

proposal has been submitted, the tenant selection and supportive services will be added as a condition to funding and the Board agreed to review the CAN-DO's financial and organization status at the December meeting.

The division also recommended the project only be funded by HOME funds and that the CDBG funds are reserved to be allocated following the issuance of an RFP in the spring of 2016. However, the Planning and Development Board voted to fully fund the project the requested amount taking into consideration the merits of the project and the sequential order of the request and the issuance of the notice of the RFP.

Based on the Planning and Development Board's recommendations and allowances for conditions for commitment and organizational oversight by the Board, the division recommends the project be fully funded in the amount requested **\$309,293** with the following allocations:

HM16-06B	EN Project Funds	\$	98,496.90
HM16-06C	CHDO Set-Aside	\$	21,106.55
HM14-06(B)	EN Project Funds	\$	482.72
HM15-06(B)	EN Project Funds	\$	3,172.20
HM13-06(B)	EN Project Funds	\$	17,163.00
HM15-09(C)	CHDO Set-Aside Competitive Pool Relinquished Funds	\$	25,578.00
Total HOME Funding		\$	165,999.37
Total Recommended CDBG Funding		\$	143,293.63
Total HOME and CDBG Project Funding		\$	309,293.00

The amount listed in HM15-09 is CHDO Set-Aside funding that was originally allocated to a member of the WestMetro HOME Consortium. The exclusive use of that funding by the member has expired and per the Mutual Cooperation Agreement the funds are to be relinquished into a pool to be allocated through a RFP process. CAN-DO will submit a proposal for the HM15-09 funding for the 10-12 Cambria Road project. The RFP proposals are due December 18th and allocations will be made on January 14, 2016. In the event that the project is not awarded the additional \$25,578.00 in funds, the division will request the amount be made available from CDBG funding.

The division recommends that the following items be added to the conditional commitment to the project:

- CHDO Recertification Approval
- Commitment letter for non-Newton funding
- Additional narrative of supportive services for residents

- Adoption of the Taft Avenue Affirmative Fair Housing Marketing Plan as approved by DHCD.

Finally, the Division requests that CAN-DO take clear steps to meet conditions outlined in the approval of CDBG and HOME funds for Taft Avenue (Attachment B), specifically, the organizational requirements including the submission of financial audit, operating budget, etc. and the submission of organizational strategic plan. While these items are not specifically tied to the funding of Cambria Road, there is clear directive that it is imperative that these conditions are met in a timely manner.

While the project funding is recommended, it is worthwhile to note that the Division continues to seek projects that leverage city-controlled federal funds to develop a greater number of affordable housing units and introduce greater diversity of housing unit types into Newton's housing stock. Such larger projects are essential to ensuring opportunities for households across the full range of low and moderate incomes and meeting the needs of Newton's changing demographics, which are the outcomes driving the Mayor's goal of creating 800 new units of SHI eligible housing, by 2021. To this end, the City is currently engaged in a process to develop a City-wide Housing Strategy which will in part help to identify housing development goals and set criteria to promote diverse affordable housing development in the City of Newton. The criteria will be used to guide the evaluation of proposals for projects that seek an allocation of City controlled funding through the RFP that will be issued in the of Spring 2016.