



CITY OF NEWTON, MASSACHUSETTS

Department of Planning and Development
Michael J. Kruse, Director



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program

David B. Cohen
Mayor

Date: December 10, 2004

To: Community Preservation Committee

From: Michael Kruse, Planning Director
Trisha Kenyon Guditz, Housing Development Coordinator

RE: 52-54 Wyman Street proposal

Cc: Jennifer Goldson, CPA Program Manager

Applicant: Newton Housing Authority

Contact Person: Harvey Epstein, Special Projects Coordinator

Project Address: 52-54 Wyman Street

Total Development Cost: *Unknown*

CPA Funding Request: \$1,000,000

Project summary:

The Newton Housing Authority (NHA) is requesting \$1,000,000 in Community Preservation Funds to write down the cost of 52-54 Wyman Street, a vacant 1952 brick apartment building consisting of 10 two-bedroom units. *The cost of the acquisition is \$3,555,000.* The property is currently under agreement with a private seller. The Purchase and Sales agreement has been *extended to December 15.* The two-story building has eight units on the first and second floors (four on each floor) and two units in the basement. Five of the 10 units have been completely updated with new kitchen appliances, painting, etc. Work to the remaining five units includes painting, refinishing the floors, installing new kitchen appliances and minor carpentry. A lead paint inspection was performed and all the units and common areas are lead free. The decorative molding framing the two front exterior entranceways needs to be de-leaded. The cost of rehabilitation is estimated to be \$35,900. The Ward 5 Aldermen have been informed in writing about the proposed project and have also been invited to a site visit. All units will be deed restricted in perpetuity.

Development pro forma and operating issues:

Funding sources: The NHA has committed \$721,250 to the project from proceeds from the Inclusionary Zoning Ordinance. Proceeds from the sale of units at the Residences at Chestnut Hill (\$1,110,872) and The Terraces (\$3,475,865), when they become available, will be used to recapitalize the NHA's operating account (\$100,000) and pay down the mortgage balance.

The NHA's proposal raises two issues with respect to the use of City funds. One: It appears that a significantly larger first mortgage could be obtained than is proposed which would decrease the amount of CPA funds required; and Two: What is the appropriate mix of NHA's inclusionary zoning funds and CPA funds? This second issue has a broader aspect as well and is related to the efforts that should be made by applicants to leverage other funds with their request for CPA funds. In this regard, it should also be noted that maintaining significant liquid and discretionary resources, such as the NHA is proposing, is a significant tool to have available to purchase and preserve other affordable housing projects in Newton as they come on the market.

Availability of Section 8 vouchers: Overall project feasibility is dependent on the rents that the NHA receives through the Section 8 or a successor program. *As in all Section 8 supported developments, there is a reliance on a federal subsidy that contains a level of risk. Despite this inherent risk, however, most public funders—such as the City of Newton for example—and groups such as the Newton Housing Partnership believe that this is an appropriate risk to take in order to provide affordable housing opportunities.*

Total development cost: The NHA provided information on how the project will be financed and the forecasted cash flow or "burn rate" until 100% rent up. Although the NHA is requesting funding for acquisition only, *the NHA did not submit a financial pro forma that identifies all the costs associated with the development*, required of all community housing applicants. Without knowing the projected hard and soft costs, the total development cost and the total per unit cost cannot be determined. In addition, the total amount of funds leveraged cannot be determined without a pro forma.

Cost of de-leading and rehabilitation and their impact on financial assumptions: The NHA financial models and projected burn rate are based, in part, on an assumption that the entire building would have to be de-leaded and therefore, rent up would be delayed. The financial model submitted to the committee needs to be revised to reflect the reduced scope of de-leading and any other changes to the assumptions—including earlier rent up than anticipated—which were originally submitted with the application.

The application assumes the cost of significant de-leading. The estimated cost was \$45,000. A lead paint inspection has been conducted and only the two exterior entranceway porticos need de-leading and repainting. *The NHA plans to apply for a lead paint abatement grant from the City for \$5,900—reducing the need for rehabilitation funds by \$39,100.*

In addition, the NHA estimates that the cost to upgrade five of the 10 units (five have already been upgraded by the seller) will be approximately \$6,000 per unit or \$30,000. In the application, the NHA estimated that \$80,000 to \$100,000 would be needed for rehabilitation.

Acquisition and appraised value: The cost of acquisition is \$3,555,000 and the building is appraised for \$3,150,000. Typically, the appraisals for City-funded projects equal or are substantially close to the cost of acquisition. For example, the appraisal for 19 West Street, which received Community Preservation Funds, was \$600,000 and the purchase price was \$606,000. Both the purchase price and the appraisal for 45 Pelham Street, also funded with Community Preservation Funds, were \$950,000. The NHA notes that the appraisal did not use any Newton comparables in its analysis and may be somewhat flawed for that reason. *The NHA should justify the reasonableness of the acquisition cost.*

Non-financial issues

Occupancy history : When the NHA first approached the seller, one unit was occupied by a tenant-at-will. The NHA signed a Purchase and Sales Agreement only after the last unit was vacated.

Targeted populations: NHA has identified three targeted populations in the application: individuals/families, the elderly and the homeless and those at risk for homelessness. *(The application does not describe what "priority housing program" means relative to the homeless/at risk of homelessness population.)* The NHA is currently in the process of identifying prospective tenants for the property and it would be helpful to know what the NHA is doing to identify and encourage homeless/at risk families to move to the Wyman Street site. Since the elderly were also identified as a target population, it would be helpful to know if any of the units are handicapped accessible or adaptable. The NHA proposes to utilize Section 8 certificates for all of the tenants and thereby enhancing affordability to a lower income population.

Capital needs assessment: *A capital needs assessment, required of all community housing applicants, was not submitted with the application*

Appraisal: Although the appraisal was not completed when the application was submitted, the appraisal has now been completed. The NHA will provide copies to the Committee Preservation Committee at the working session on December 15.