



CITY OF NEWTON, MASSACHUSETTS

Department of Planning and Development

Michael J. Kruse, Director



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David B. Cohen
Mayor

Date: May 21, 2004

To: Community Preservation Committee
Jennifer Goldson, Community Preservation Planner

From: Trisha Kenyon Guditz, Housing Development Coordinator

cc: Michael Kruse, Director, Department of Planning and Development
Steve Gartrell, Associate Director for Housing and Community Development
Josephine McNeil, Executive Director, CAN-DO

Project background

The project sponsor, Citizens for Affordable Housing in Newton Development Corporation, Inc. (CAN-DO) is requesting \$575,000 in Community Preservation Funds for the Linden Green Homes development located at 248 Elliot Street in Newton Upper Falls. The .41 acre site, which is located in a Multiple Residence 1 Zoning District, includes a two-story, front gable Greek Revival-style building that was constructed in 1840 and a free-standing garage at the rear. The two-unit residential, wood frame building is currently vacant and included in the Upper Falls National Register Historic District and the Newton Upper Falls (Local) Historic District.

CAN-DO acquired the 17,905 s/f site in December 2003 for \$535,000. CAN-DO proposes to develop five homeownership units—three (3) affordable units (1 one-bedroom, 1 two-bedroom and 1 three-bedroom unit) and two (2) market rate units (1 two-bedroom and 1 three-bedroom unit)—at the site which is located on the corner of Elliot and Linden Streets. Two of the three affordable units will be reserved for first time homebuyers whose gross annual household income does not exceed 80% of area median income (AMI). The third unit will be available to a homebuyer whose gross annual household income does not exceed 100% AMI. Two of the affordable units will be located in the existing house and the third unit will be located in the proposed duplex. The three affordable units will be deed restricted in perpetuity. The deed restriction will be modeled on the City's Newton Connection and First Time Homebuyer Program document.

CAN-DO is requesting Community Preservation Funds to rehabilitate the existing historic building, construct a two-story addition to the existing building to accommodate a third unit and construct a two-story duplex at the rear. The existing garage will be demolished. The sponsor proposes to use the Community Preservation Funds for the following expenditures:

| | |
|-------------------------------|------------------|
| Work to the existing building | \$63,290 |
| Reduce balance on mortgage | \$61,710 |
| Construction-related costs | \$450,000 |
| TOTAL | \$575,000 |

CAN-DO needs a comprehensive permit to develop the project. The comprehensive permit application to the Zoning Board of Appeals will request relief from several zoning requirements including set back and dimensional requirements, parking requirements, the limitation of more than one free-standing residential building on a single lot and the maximum density requirements.

CAN-DO plans to submit a Local Initiatives Program (LIP) application for a comprehensive permit project to the Massachusetts Department of Housing and Community Development (DHCD) by the end of May. Under the Local Initiatives Program, DHCD has the authority to issue a site approval letter, which is required for a developer to apply for a comprehensive permit. The Local Initiatives Program provides technical and other sources of non-financial assistance to applicants. In the City's letter of support for the project, the Mayor encouraged DHCD to expedite approval of the development, which can take up to 60 days.

The Planning and Development Board and the Newton Housing Partnership have approved the allocation of CDBG and HOME Program funds for this project. The Newton Upper Falls Historic District Commission and the Newton Historical Commission have both reviewed and approved the proposed plans for the Linden Green Homes development. In addition, the City of Newton has completed its Section 106 environmental review of the proposed project. The 30-day public comment period expires on June 1. The City will release CDBG and HOME Program funds once it receives a Release of Funds by the U.S. Department of Housing and Urban Development.

Capacity of sponsor, organizational viability and development team

One of the principal nonprofit housing providers in the City, CAN-DO was incorporated in 1994 when the City asked the organization to become a certified CHDO (Community Housing Development Organization) under the HOME Program. CAN-DO's Executive Director is Josephine McNeil, who is an active member of the Newton Housing Partnership and a founding member of United Citizens for Housing Affordability in Newton. She is also a member of the Citizens Housing and Planning Association's legislative committee and is the chairperson of the housing element of the City's Comprehensive Planning Advisory Committee. In the last 10 years, CAN-DO has developed 20 units of rental and homeownership housing, 17 of which are affordable. CAN-DO's development projects include the following:

14 Nonantum Place (Louis H. Garfield House): three-unit transitional housing facility for graduates of The Second Step, a program for women and their children who are survivors of domestic violence.

228 Webster Street: six single room occupancy units for Newton Wellesly Weston Committee for Community Living, Inc. residents.

90 Christina Street (Kayla's House and the Highland Glen Condominiums): five rental units in Kayla's House for single mothers and their children and one affordable and three market rate condominiums in the rear.

18-20 Cambria Road: two rental units for families.

The Linden Green Homes development team consists of Josephine McNeil, project manager, Deborah Crossley, a licensed architect with residential design experience and Daniel H. Baker, principal and owner of Construction By Design, Ltd. Mr. Baker is a licensed contractor who worked on the Webster Street and Cambria Road projects. Mr. Baker, who provided the cost estimates for the Linden Green Homes project, is currently the general contractor for the 35-unit Nonantum Village Place project which is being developed by CASCAP, Inc. Jason Rosenberg, Esq., Rosenberg, Freedman & Goldstein, is Linden Green Homes legal counsel. CAN-DO intends to hire an owner's representative to monitor the construction process.

In addition to Linden Green Homes, CAN-DO is also involved in another homeownership project at 1093-1101 Chestnut Street. CAN-DO acquired the Chestnut Street site in December 2003 and plans to develop eight condominium units including four affordable units there.

Project funding

The project includes multiple sources of funding including a reservation of Community Development Block Grant (CDBG) funds (\$200,000) and HOME Program funds (\$76,319) from the City, an acquisition and construction loan from The Village Bank (\$1,405,596) and owner equity (\$7,224). Community Preservation Funds will be used to fill the gap in funding. CAN-DO received a \$544,000 advance from The Village Bank to purchase the site at the end of last year. The bank will not advance any additional funding until CAN-DO receives a commitment of CDBG funds to reduce the mortgage and receives a commitment of not less than \$425,000 from another funding source.

The total development cost of the project is \$2,264,394 and the per unit development cost is \$452,879. The per unit development cost for previous CAN-DO projects ranges from \$186,305 per unit to \$461,231 per unit. The proposed per unit development cost appears to be in the appropriate range, based upon CAN-DO's prior experience. Unfortunately, there are no other comparable (100% homeownership units) projects in Newton that received CDBG or HOME Program funds from the City.

The proposed sale prices of the CDBG/HOME-funded units are based on affordability guidelines of a 33% front end ratio for households at 70% AMI. (Front end ratio is defined as principal, interest, taxes and insurance including condo fees, if applicable.) This ratio is the industry standard. The sales price for the CPA-funded unit is based on a front-end ratio for a household of two persons at 90% of AMI. The proposed sale prices for the market rate units are based on a range of current market prices for one to three-bedroom units. (Source: Letter dated April 28, 2004 from Sandra E. Fromm, Principal, Karp & Liberman Real Estate Group, LLC to Josephine McNeil.) All buyers are required to provide a minimum 3% downpayment or provide evidence of a commitment for an alternate mortgage product (i.e. no money down, etc.).

Proposed Linden Green Homes sales prices:

| Unit and location on the site | Sales price |
|------------------------------------------|-------------|
| CDBG/HOME-funded unit; existing building | \$165,000 |
| CDBG/HOME-funded unit; duplex | \$185,000 |
| CPA-funded unit; existing building | \$225,000 |
| Market rate unit; existing building | \$399,000 |
| Market rate unit; duplex | \$529,000 |

Assumptions:

- \$10.20 tax basis (City of Newton Assessor).
- 6.0% interest rate on 5/19/04 (Based on average interest rates for “A” rated borrower; 30-year fixed conforming loan. Source: *Compareinterestrates.com*).
- .25% of sales price for homeowner’s insurance.
- \$240/month condo fee or 1.5% of sales price.

CAN-DO’s carrying costs (after construction is completed and prior to the sale of units) are expected to be minimal due to early and aggressive marketing of the units. The Planning Department agrees with this assumption, as the proposed sales prices should be very attractive in the residential marketplace.

Cost reasonableness: acquisition, rehabilitation, new construction

The Elliot Street site was appraised for \$510,000. CAN-DO acquired the property for \$535,000. The sponsor reports that the 3% difference between the appraised value and the sales price falls within the range acceptable to The Village Bank, the primary lender for the project.

Daniel H. Baker, the general contractor, has provided the following cost breakdown for the work to the Elliot Street site:

| | |
|-----------------------------------------------------|--------------------|
| Historic repair and renovation to existing building | \$63,290 |
| Two market rate units | \$471,990 |
| Three affordable units | \$587,989 |
| TOTAL | \$1,123,269 |

Although full plans and specifications are not required at this time, the estimated square foot cost to develop the affordable units (\$152/s/f) and the cost to develop the market rate units (\$156/s/f) are both realistic according to Newton Housing Rehabilitation Fund staff that reviewed the cost breakdown.

Project schedule

The project schedule has been updated since the application for CPC funds was submitted. The revised schedule is outlined below:

| | |
|----------------------------------------------------------------------------------------------------------|------------|
| Upper Falls Historic District Commission and Newton Historical Commission approval received | April 2004 |
| CAN-DO submits LIP application to DHCD | May 2004 |
| City receives Release of Funds from HUD enabling the Housing Office to close CDBG and HOME Program loans | June 2004 |
| CAN-DO submits application for a comprehensive application | June 2004 |
| Comprehensive permit approved | July 2004 |

| | |
|------------------------------|----------------|
| Apply for a building permit | September 2004 |
| Construction begins | October 2004 |
| Lottery for affordable units | January 2005 |
| Construction completed | June 2005 |
| All units conveyed | September 2005 |

Marketing and homebuyer selection

Under the LIP guidelines, developers are required to have a DHCD-approved marketing plan for the affordable units. The plan addresses affirmative marketing to minority communities, categories of local preference and how prospective residents will be selected and approved for the affordable units. CAN-DO will be required to develop a marketing plan and describe how the organization will organize and manage a lottery process for the three affordable units at the Linden Green Homes development. The lottery process and requirements that CAN-DO must follow are outlined in detail in the LIP guidelines.

Monitoring and compliance

As a recipient of CDBG and HOME Program funds, the City of Newton is required to meet all federal monitoring and compliance requirements. Under HUD regulations, the City is responsible for ensuring that all federally-funded housing projects continue to house income-eligible residents throughout a project’s term of affordability. In addition, all first time homebuyers who reside in a unit acquired with CDBG or HOME funds must verify the property is their principal residence. The City is responsible for verifying the homebuyers’ principal residence on an annual basis. This is done through a written request for information/verification from the City to the homebuyer. This same process will apply to units funded with Community Preservation Funds.

Staff project review and underwriting

The multiple steps in the City of Newton’s funding approval process for all projects are identified below:

Phase 1: Preliminary

An applicant submits a preliminary letter describing the propose project and includes a request or funds. The letter identifies the proposed sources of funds and amount.

Planning Department staff conducts a site visit with applicant

Housing development staff convenes a meeting with all Planning and Development Department “stakeholders” to identify all potential issues, discuss preliminary environmental review requirements, etc.

Phase 2: Application for reservation of funds and underwriting

Once a project has been reviewed for eligibility, the applicant is required to submit an application including a development pro forma, operating budget, itemized scope of work, etc.

Within one week of receipt of a complete application, housing development staff convenes a scoping session where potential issues are discussed in more detail in an attempt at resolution.

NHRF staff assesses the preliminary construction/rehabilitation budget.

Housing development staff reviews the application based on the following criteria:

- ✓ Meets needs identified in City plans (i.e. Consolidated Strategy and Plan, and/or Community Preservation Plan)
- ✓ Amount of committed/proposed funding from non-City sources
- ✓ Amount leveraged
- ✓ Capacity of applicant
- ✓ Timing and applicant's readiness to proceed
- ✓ Financial feasibility: All sources/uses must be identified and determined to be realistic; the operating pro forma is reviewed
- ✓ Staff experience based on other projects. (However, all projects need to be reviewed on a case-by-case basis since none are comparable to one another.)
- ✓ Cost reasonableness
- ✓ Proposed project schedule
- ✓ Consideration of zoning, environmental issues, etc.

Staff makes recommendation to approve the application for funds.

Phase 3: Recommendations to other City boards and final approvals

Newton Housing Partnership must review and recommend approval of the project.

Staff submits a recommendation to the Planning and Development (P&D) Board and Community Preservation Committee (CPC), if sponsor is seeking CPC funding. Development projects funded out of the Purchase Rehabilitation Program do not require a public hearing because the guidelines for approving projects under the program have been approved. All other projects seeking federal funding are presented at a public hearing.

If P&D Board recommends approval, a letter requesting final approval goes to the Mayor.

If CPC approves the request, it is docketed with the Board of Aldermen.

With the sponsor, housing development staff is responsible for construction monitoring. Staff is also responsible for reviewing and approving requisitions for payment

Housing development staff is responsible for ongoing monitoring and compliance throughout the term of affordability (after project completion).

Attachments

| LINDEN GREEN HOMES - 5 UNITS | | | | | |
|------------------------------------------------------|-------------------|-------|--|--|--------------|
| ITEM | | | | | |
| DEVELOPMENT BUDGET | | | | | |
| ACQUISITION COSTS: | | | | | |
| LAND | | | | | \$ 535,000 |
| BUILDING | | | | | |
| SUBTOTAL - ACQUISITION COST | | | | | |
| | | | | | \$ 535,000 |
| CONSTRUCTION COSTS: | | | | | |
| Direct Construction Costs | | | | | \$ 1,124,000 |
| Construction Contingency | 10% | | | | 112,400 |
| Subtotal: Construction | | | | | |
| | | | | | \$ 1,236,400 |
| GENERAL DEVELOPMENT COSTS | | | | | |
| Architecture & Engineering | | | | | \$ 85,000 |
| Surveys | | | | | \$ 2,500 |
| Permits = 18.60 per \$1000 | | | | | \$ 20,906 |
| Owner's Rep | 120@\$85 per hour | | | | \$ 10,200 |
| Environmental - Phase I | | | | | \$ 2,000 |
| Legal | | | | | \$ 10,000 |
| Title and Recording | | | | | \$ 5,500 |
| Accounting & Cost Cert. | | | | | \$ 1,500 |
| Marketing/Lottery | | | | | \$ 5,000 |
| Real Estate Taxes | | | | | \$ 3,760 |
| Liabilty Insurance | | | | | \$ 3,500 |
| Builder's Risk insurance | | | | | \$ 8,000 |
| Appraisal | | | | | \$ 450 |
| Construction Loan Interest | 12 MONTHS | | | | \$ 89,375 |
| Closing fees - | | | | | \$ 1,000 |
| Other: TVB INTEREST | 6 MONTHS@ 6.5% | | | | \$ 18,188 |
| Soil Testing | | | | | \$ 3,990 |
| Subtotal soft costs | | | | | |
| | | | | | \$ 270,869 |
| Soft Cost Contingency | | | | | \$ 16,038 |
| Subtotal: Gen. Dev. | | | | | |
| | | | | | \$ 286,907 |
| Subtotal:Acquis.,Const., and Gen. Development | | | | | |
| | | | | | \$ 2,058,307 |
| >Developer Overhead | | 5% | | | \$ 102,915 |
| >Developer Fee | | 5.00% | | | \$ 102,915 |
| Total Development Cost | | | | | |
| | | | | | \$ 2,264,138 |
| FUNDING SOURCES: | | | | | |
| City of Newton CDBG | GRANT | | | | \$ 200,000 |
| CPA HISTORIC | GRANT | | | | \$ 125,000 |
| CPA HOUSING | GRANT | | | | \$ 450,000 |
| CITY HOME FUNDS | GRANT | | | | \$ 76,319 |
| CONSTRUCTION LOAN | LOAN | | | | \$ 1,405,596 |
| OWNER EQUITY FROM SALES | | | | | \$ 7,224 |
| TOTAL SOURCES | | | | | |
| | | | | | \$ 2,264,139 |
| revised 05-18-04 | | | | | |

LINDEN GREEN

| UNIT NO | BLDG. | BDRMS | BTHRMS | SQ. FT. | SALE PRICE | INCOME |
|---------|------------|-------|--------|---------|-------------------------|--------------|
| #1 | DUPLEX | 3 | 2.5 | 1760 | \$ 185,000 A @70% | \$ 173,900 |
| #2 | 248 Elliot | 1 | 1.5 | 923 | \$ 225,000 <u>A@90%</u> | \$ 211,500 |
| #3 | 248 Elliot | 2 | 1.5 | 1264 | \$ 399,000 MR | \$ 375,060 |
| #4 | 248 Elliot | 2 | 1.5 | 1183 | \$ 165,000 <u>A@70%</u> | \$ 155,100 |
| #5 | DUPLEX | 3 | 2.5 | 1760 | \$ 529,000 MR | \$ 497,260 |
| | | | | 6820 | | \$ 1,412,820 |
| | | | | | PAYOFF | \$ 1,405,596 |
| | | | | | PROFIT | \$ 7,224 |

Income = 94% sales Price