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MEMORANDUM

To: Community Preservation Committee

From: Robert Muollo, Jr. Housing Development Planner

Cc: Alice Ingerson, Community Preservation Program Manager
Howard Haywood, Manager, Myrtle Village, LLC.

Date: February 3, 2012

Re: Myrtle Village Proposal

Overview

The project sponsor, Myrtle Village, LLC is requesting \$795,584 in federal Community Development Block Grant (CDBG) funds and \$938,063 in Community Preservation Act (CPA) funds to develop seven units of affordable, deed restricted rental housing at two existing properties located at 12 Curve Street and 18-20 Curve Street. The project sponsor is also seeking zoning relief in the form of a Comprehensive Permit under M.G.L. c. 40B. The total development cost is \$2,982,814. The total public subsidy requested is \$1,733,647 or \$247,664/unit. The project sponsor is planning to attend the February Community Preservation Committee public hearing and hopes to submit an application to the Zoning Board of Appeals in May.

Project Description

The project at 12 Curve Street and 18-20 Curve Street is located in West Newton and is part of the Myrtle Baptist Church Neighborhood Historic District, which was added to the National Register of Historic Places in 2008. Myrtle Baptist Church currently owns both properties. 18-20 Curve street was purchased in the 1950's and 12 Curve Street in 2011. As part of the project Myrtle Baptist Church will transfer of ownership of both properties to Myrtle Village, LLC.

Currently the two properties consist of a total of three units and each unit is currently occupied. The project includes converting 12 Curve Street, which is an existing single family house, into two units,

rehabilitating those units and constructing an attached third unit. The two-family duplex at 18-20 Curve Street will be rehabilitated and one one-story unit and one two-story unit will be constructed on either side of the existing duplex. The completed project will provide a total of seven units of affordable rental housing. The project will consist of the following unit mix and characteristics:

| Unit ID | Affordability Level | # of Bedrooms | # of Baths | Square footage | Living type |
|---------|---------------------|---------------|------------|----------------|--|
| 1 | 50% of AMI | 1 | 1 | 700 | 1-story, Fully Accessible ¹ |
| 2 | 50% of AMI | 3 | 2.5 | 1,200 | Duplex |
| 3 | 70% of AMI | 2 | 1.5 | 990 | Duplex |
| 4 | 70% of AMI | 2 | 1.5 | 1,275 | Duplex |
| 5 | 85% of AMI | 2 | 1.5 | 990 | Duplex |
| 6 | 85% of AMI | 2 | 1.5 | 1,275 | Duplex |
| 7 | 85% of AMI | 3 | 2.5 | 1,200 | Duplex |

Development Team

The project sponsor is Myrtle Village, LLC. Newton Community Development Foundation (NCDF) is under contract as the development consultant and may also be property manager. The construction project manager and architect under contract is Mr. Angelo Kyriakides. Both NCDF and Mr. Kyriakides have documented relevant experience in development, design, construction management and property management of affordable housing projects of various size and complexity.

Federal Requirements

Income Targeting and Rents

Four of the seven units will be affordable to low-and moderate-income households. Low-and moderate-income households may not earn more than 80 percent of the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area Median Income (AMI) for household size, as determined by the U. S. Dept. of Housing and Urban Development (HUD). This proportion of affordable units exceeds the minimum requirement for CDBG and Comprehensive Permit projects. The three additional units will be affordable to households earning at or below 85 percent of AMI, which qualify for CPA subsidy.

The rent limits are determined by the Comprehensive Permit requirements and the Massachusetts Department of Housing and Community Development (DHCD) Local Initiative Program (LIP) guidelines. According to the LIP guidelines, the maximum rent charged to tenants may not exceed 30 percent of monthly adjusted income for a household whose gross annual household income is 80 percent of the AMI. The operating budget, dated January 19, 2012, follows this rent calculation methodology, adjusting for the appropriate income limits (e.g. 50%, 70%, and 85%).

Income Determination

Myrtle Village, LLC. will be required to utilize the services of a lottery agent. The lottery agent will be responsible for affirmative marketing and tenant selection including income eligibility determinations

¹ Fully accessible is defined as meeting "Group 2B" design standards according to the Massachusetts Architectural Access Board regulations found at 521 CMR

for all households upon initial rent-up. Income determinations will also be required for the current tenants, if those tenant(s) choose to apply to the lottery. The property manager will be responsible for income recertification on an annual basis. Both the lottery agent and property manager must use the “Part 5 Definition of Annual Income” methodology of income determination.

Eligible Costs

CDBG funds are proposed to be used for code and non-code related rehabilitation work on the existing units, as well as eligible development soft costs. The use of CDBG funds to build new construction of housing is generally ineligible. Housing staff will work with the project sponsor to ensure that the final development budget separately allocates CDBG and CPA funds to eligible costs.

Affordability Period

The City of Newton will impose an initial 30-year affordability period enforced by a declaration of affordable housing covenants running with the land. The City will request to DHCD that the project’s affordability extend to perpetuity. As part of the Comprehensive Permit requirements, Myrtle Village, LLC, the City and DHCD will execute a rental Regulatory Agreement which further stipulates the affordability requirements and the terms of the developer’s profit limitations.

Property Standards

The project must meet the minimum housing quality standards for rehabilitation as well as local and state building code upon project completion and prior to occupancy.

Procurement / Labor Requirements

The Davis-Bacon Act wage rates do not apply because the project is less than eight total units. The project sponsor will have to seek competitive bids in accordance with federal and state procurement requirements.

Relocation

The project must meet Uniform Relocation Act requirements due to the proposed provision of federal funds. As stated earlier, all three units are currently occupied. The first URA notice has been sent by the sponsor to each tenant.

In an effort to not displace the current tenants during construction, the project will be phased by first completing work on the single-family house (12 Curve Street). Work will then begin on 18-20 Curve Street. Federal funds are able to pay for temporary relocation expenses during this phasing.

Regarding potential permanent displacement, DHCD may allow a ‘non-displacement’ preference for use in the tenant selection and lottery process. However, this preference does not guarantee that these households, if income eligible, will be selected for a unit.

It is the policy of the Planning and Development Department to not permanently displace households. Therefore, to ensure non-displacement of the current households, housing staff supports not conducting a lottery for three units if it is determined that these households are income eligible

and that these households are appropriately housed upon project completion (e.g. not over-housed), with the understanding that these units will not be included on Newton's Subsidized Housing Inventory (SHI). The units may be counted on the SHI upon unit turnover and a lottery is used. DHCD is aware of this recommendation, and has allowed this option in similar rehabilitation-type Comprehensive Permit projects with federal relocation requirements.

It is anticipated that two of these households will be appropriately housed. However, the relocation plan will need to address potential permanent relocation of one current tenant who only requires a 1 bedroom unit, because the completed project will only provide one one-bedroom unit, which is the fully accessible unit.

The project sponsor will need to submit a full relocation plan that describes project phasing, temporary relocation and how all existing tenants will be appropriately housed upon project completion.

Environmental Review

For this type of project the City is required to conduct an environmental assessment prior to commitment of federal funds. Myrtle Village, LLC has submitted a Phase 1 study to Housing and Community Development staff as part of the assessment. The Phase 1 found no evidence of recognized environmental conditions at the site. However, each unit is suspected to contain areas of non-friable asbestos. The Phase 1 recommended further testing to determine if appropriate removal of those areas is required. In 2005, an oil release occurred at an abutting property of 18-20 Curve Street. The source of the oil release was eliminated. In January 2012, further testing was conducted to determine current groundwater conditions. The testing found no evidence of containments in the groundwater at a level that required reporting to the MA Dept. of Environmental Protection. The third recommendation was removal of an out-of-service above ground storage tank at 12 Curve St.

The project involves substantial gut-rehabilitation that will disturb and remove many interior and exterior surfaces. Due to the non-friable asbestos and possible presence of lead paint on the site, all applicable work must follow state and federal lead-safe and asbestos-safe removal practices.

Design and Construction

The development budget estimates a construction cost of \$135/square foot and rehabilitation cost of \$155/square foot. These estimates are based on open shop competition.

According to the architect, work will consist of complete gut-rehabilitation of the existing buildings and new construction of three slab-on-grade units. The rehabilitation scope of work includes installation of new mechanical, electrical and plumbing systems, reframing all interior partitions, additional framing to exterior walls to facilitate new insulation to meet current energy codes, foundation repointing, removal of existing siding, stone veneers, vinyl, windows, doors, roofing material and finishes. Interior finishes will include kitchen cabinetry, hardware, appliances, vanities, and fixtures. Site work includes adding walkways, parking areas and individual storage areas.

Other proposed elements include thicker demising walls, cementitious clapboard siding and trim, wood windows with Low E thermal glass, renewable wood flooring, low-VOC paint, solid wood cabinets and renewable countertops. Additionally, all units will be sprinkled for fire protection.

The Newton Historical Commission and the Massachusetts Historical Commission have had the opportunity to comment on the proposed project. Both Commissions determined that the proposed project will have no adverse effect on significant historic properties.

Site Plans & Zoning / Permitting

The project sponsor will be seeking a Comprehensive Permit under M.G.L. c. 40B after funding requests have been approved by the appropriate approval bodies. At minimum, the project will require zoning relief for density and parking.

On-site parking has been minimalized to allow for more units and green space. The project sponsor has proposed to locate tenant parking across the street in the Myrtle Baptist Church parking lot with the exception of three stalls on-site: a van-accessible handicap parking stall and traditional stall dedicated to the fully accessible unit, as well as one drop-off stall for all units. The project sponsor needs to seek a determination from the Inspectional Services Department as to whether an off-site parking easement is allowable, per the request of the City's Development Review Team.

Financials

The feasibility analysis is based on the development budget, operating statement and 10-year operating budget, dated January 19, 2012. This analysis draws from HUD guidance and industry standards, where available.

The total development cost is projected to be \$2,982,814 (\$426,116/unit and \$247,664 public subsidy/unit). The project sources are also projected to be \$2,982,814. The development sources consist of approximately 58 percent public subsidy, 21 percent private financing, and 21 percent developer equity. Rehabilitation represents the highest cost. The estimated total construction cost, including a 15% contingency, is \$1,359,598. Soft costs are a reasonable 25 percent of hard costs.

There is no acquisition cost involved in the project financing. The Village Bank currently holds a \$425,000 mortgage on both properties as a single parcel. This amount represents the 2011 acquisition cost of 12 Curve Street and the remaining balance due on an existing rehabilitation loan on 18-20 Curve Street from its conversion as a parsonage in 1986. The outstanding mortgage balance is approximately \$420,000.

The Village Bank has provided a letter dated January 24, 2012 indicating their interest in financing the project. The development budget includes a construction loan of approximately \$198,000, which will be paid off from the proceeds of a \$617,167 permanent mortgage upon project completion. \$617,167 is the maximum feasible mortgage with the current operating assumptions and at a sufficient debt service coverage ratio. The project could carry more debt if the rent affordability or project scope is reduced, or more favorable interest rates are obtained.

Developer Fee

In accordance with DHCD's profit limitations for Comprehensive Permit rental projects, the developer fee must be limited to 10 percent in distributions from capital sources. The developer fee, developer

overhead and development consultant fees are projected at \$168,023, or 8% of total development costs net of (i) such fees and profits; and (ii) reserves intended for property operations.

Cash Flow/Return on Equity

The projected initial cash flow is \$11,929 with a debt service coverage ratio of 1.25. The cash-on-cash return is 2.0% (\$11,929 cash flow / \$632,000 developer equity). In order to derive a total return to the developer on this project, the net present value of the cash flows must be calculated and added to the developer fee and overhead. In this case, the net present value of 25 years of \$11,929 annual returns at a 9% discount rate (this discount rate is in-line with the higher risk associated with a small rental development), results in an additional \$117,173, which, when added to the fees taken during the development period of \$168,023 results in an overall return of approximately \$285,196 or 10% of the total development cost.

Operating Pro Forma

The 10-year operating budget projects a 2 percent per year increase in income and 3 percent per year increase in expenses, respectively. The real estate taxes increase 2.5 percent per year. These trending assumptions are consistent with those used by state housing financing agencies.

Replacement Reserves

Operating replacement reserve amounts per unit (\$300/unit) are less than the conservative amount of \$700 recommended by HUD. The project will have approximately \$24,000 in replacement reserves by the 10th year of operation. However, the \$300/unit figure is in-line with current industry standards and is justifiable given that this project will entail significant rehabilitation and new construction with durable materials, thus extending useful life.

Comparison of Total Development Cost and Per Unit Subsidy

The table below shows the total development costs and total public subsidy per unit of the most comparable rental and ownership projects (in terms of number of units and scope). Please note that most projects in the City with between 6-8 units are group home residences, and thus were not included in this comparison.

| Project Address/ Sponsor/Year | Project Type and Scope | # of Affordable Units | Total Development Cost | Total Public Subsidy/ Unit* |
|--|--|----------------------------------|-----------------------------------|--|
| 12, 18-20 Curve Street Myrtle Village, LLC 2012 | Rental – Rehab / Construction | 7 | \$2,982,814 | \$247,664 |
| Webster House CAN-DO 2003 | Rental – Acquisition and Rehabilitation | 6 (SRO) | \$1,354,813 | \$225,802 |
| Pelham House Newton Housing Authority, 2005 | Rental – Acquisition and Rehabilitation | 10 | \$3,108,053 | \$ 174,859 |
| 192 Lexington Street SEB, LLC. 2011 | Ownership – Acquisition and Construction | 10 | \$5,322,027 | \$308,673 |

*Includes public subsidy grants and loans

Architectural Accessibility

This preliminary scoping and coverage analysis is not intended to replace the required analysis by a Massachusetts registered architect, the City's ADA Coordinator or the City's Inspectional Services Department. The analysis is subject to further review as information becomes available.

Architectural Access Applicability

The proposed project was scoped for coverage of the accessibility requirements under Section 504 of the Rehabilitation Act of 1973, Title II and Title III of the Americans with Disabilities Act (ADA), the Fair Housing Act (FHA) and the MA Architectural Access Board (MAAB) regulations at 521 CMR. For accessibility design and construction standards, the more stringent requirement applies.

Unit Accessibility

Although not required under state or federal law, the proposed project will incorporate accessible design features on the first floors of the newly constructed two-story units. Both the front and rear entrances of the two of the newly constructed units will be "visitable." The first floors of each unit will be designed to be modified without structural change and will have greater floor space to accommodate occupants with a mobility disability (Group 2A accessibility standards).

Also not required under federal or state law, the proposed project includes new construction of one single-level living unit that will meet Group 2B design and construction standards. A Group 2B unit contains features that provide, at the time of initial construction, full accessibility without need for further modification.

Site Access – Accessible Route

Given that the project sponsor is proposing to create an accessible unit, it is recommended that the site have at least one accessible route. Design and construction should follow the accessible route specifications of the Americans with Disability Act Accessibility Guidelines (ADAAG) and 521 CMR.

Accessible Parking

The project sponsor is proposing to construct one van-accessible handicap parking space including an access aisle proximate to the Group 2B accessible unit. This unit will have two total on-site parking stalls.

Building Entrances and Accessible Routes within Buildings

The project sponsor should follow the specifications in ADAAG and 521 CMR for building entrances and accessible routes within the accessible units.

Common Areas and Facilities

The project will not have any common use areas used as public accommodations (e.g. a leasing office). However, all common areas such as trash areas and receptacles, laundry areas, alarms, accessible routes, etc. should be compliant with the most stringent accessibility standard.

It is recommended that the accessibility design standards and specifications proposed by the project sponsor be reviewed in the submittal of the construction drawings for approval prior to construction.

Fair Housing and Equal Opportunity

Housing staff and DHCD will review an affirmative fair housing marketing and tenant selection plan prior to marketing commencement. The affirmative fair housing marketing plan must meet DHCD guidelines as well as the City's *"Guidelines for Uniform Local Resident Selection Preferences in Affordable Housing."* DHCD approves local preference requests on a project-by-project basis.

In accordance with DHCD and City guidelines, the lottery agent will need to adhere to specific requirements regarding initial marketing of the accessible units regardless of waitlist status, including targeted outreach efforts to the disability community. Households in need of an accessible unit will receive first preference for such units.

In accordance with 24 CFR 135 and Section 3 of the Housing and Urban Development Act of 1968, this project will give preference in employment and training opportunities to lower-income area residents. Additionally, subcontracts will be awarded to eligible Section 3 businesses, to the greatest extent feasible. Staff will work with the project sponsor and all Section 3 covered contractors to develop and implement a Section 3 Plan to fulfill this requirement.

The reasonable accommodation policy provided in the One-Stop Application is not sufficient, and an approved reasonable accommodation policy will be required prior to CDBG funding.

Community Need

As stated in the *FY11-15 Consolidated Plan* and the *FY12 Annual Action Plan*, it is a priority objective of the City to increase the supply of affordable rental housing. The project goes beyond the minimum federal and state affordability requirements and will create and preserve new rental housing opportunities for a diversity of household income and sizes. The project will also provide the opportunity for households to live close to amenities, transportation, and in a neighborhood with a rich heritage. Additionally, the proposal provides new construction of sustainable rental housing without demolishing existing structures and potentially may not displace current residents.

Providing a unit that is accessible to a person with mobility impairment is not required under state or federal law. The provision of a fully accessible unit and the project's additional accessibility features in two other units, particularly where it is not required, is a significant benefit of this proposal.

The Newton Housing Partnership has voted unanimously to support the project (see attached memo). Additionally, the project has received positive feedback from neighborhood residents, as indicated in letters included in the One-Stop Application. The project sponsor has also engaged all three Ward Aldermen about the proposal. Future meetings with the neighborhood are encouraged.