CITY OF NEWTON, MASSACHUSETTS

Department of Planning and Development

newton community development block grant program

Setti D.Warren
Mayor

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To: Community Preservation Committee

From: Trisha Kenyon Guditz, Housing Program Manager
Robert Muollo, Jr., Housing Planner

Cc: Alice Ingerson, Community Preservation Program Manager
Amy Yuhasz, Associate Director for Housing and Community Development
Candace Havens, Planning Director

Re: Analysis of proposed community housing project at 61 Pearl Street. Citizens for Affordable Housing in Newton Development Organization, Inc. (CAN-DO) is the project sponsor.

Project description

Citizens for Affordable Housing in Newton Development Organization, Inc. (CAN-DO) is requesting a total of $480,000 in federal funds ($190,683.58 in FY11 CDBG funds and $289,316.42 in FY10 and FY11 HOME Program funds) and $665,000 in Community Preservation funds to buy down a first mortgage and to delead a multi-family property located at 61 Pearl Street in Newton Corner.

The property consists of a 2 ½-story building that was constructed in the early1870s and an attached 1½-story rear addition constructed prior to 1874. The main building and addition currently include three one-bedroom and one two-bedroom rental units (three units in the main building and one unit in the rear addition). The units are currently occupied and the estimated cost of relocation of the existing tenants is built into the development budget.

The proposed project will provide three two-bedroom rental units to tenants whose gross annual household income cannot exceed 60% upon initial lease-up and 65% of area median income thereafter. (For a four-person household 65% of area median income is $59,670.) Rents are restricted to the High HOME rent which is $1,321 for two-bedroom units. At the recommendation of the Planning and Development Board, tenants will pay for their own gas/electricity. As a result, a utility allowance of $145 is required to be deducted from the High HOME rent, which will result in a net tenant rent of $1,176 ($1,321 - $145) for all three units.

The proposed project includes reconfiguring the main house and addition:

The ground floor unit (Unit #1) will be accessible to individuals with mobility impairments and will have front and rear entry and exit ramps. Currently, the kitchen/dining and living room of the rear unit (existing Unit #4) are on the ground floor and abut Unit #1. The proposed ground floor plan converts the Unit #4 ground floor space into a bedroom, bathroom and closet for Unit #1. Unit #1 is 1,572 s/f which includes 352 s/f for the two ramps.

The proposed second floor (Unit #2) will be reconfigured to include the bedroom of the existing Unit #4 unit (the rear unit). Unit #2 is 1,318 s/f which includes 100 s/f of covered deck.

The proposed third unit (Unit #3) will be located in the addition and is 1,021 s/f including 118 s/f of covered deck.

The project site has six existing parking spaces. Under the zoning ordinance, two parking spaces per unit are required. The two parking spaces for the first floor unit will accommodate a van and include a standard accessible space as well.

The total development cost is $1,370,000. In addition to the requested CDBG and HOME funds, the other proposed sources of funding include $665,000 in Community Preservation Funds, $50,000 from a private foundation(s) and a $175,000 first mortgage (after the $605,000 take out in CDBG, HOME and CPA funds). The total public subsidy requested is $1,145,000 or $381,667/unit.

The cost of acquisition is $780,000 and CAN-DO has a signed Purchase and Sale Agreement dated November 5, 2010. (The original asking price was $899,000.) Prior to approval of federal funds the City has reviewed arm's length as-is property appraisals from both Cambridge Savings Bank (the lender) and an independent appraiser hired by the City. Each appraisal has concluded that the as-is value of the property is $780,000. Cambridge Savings Bank has offered a 10-year mortgage at 4% for the first five years with an adjustment in years 6-10 with an interest rate floor of 4 percent and capped at 5 percent. The first two years of the loan are interest-only. CAN-DO has purchased the property with acquisition financing from Cambridge Savings Bank.

Based on the development pro forma dated November 5, 2010, the estimated cost of construction including a 10% contingency is $354,948, which is based on an extensive home inspection report by Paul Cornell and Associates. The full report can be found at www.newtonma.gov/cpa/projects.htm. The project sponsor should confirm that the budget will include a contingency at 10%, as the scope of work document dated December 20th, assumes a construction contingency of 15%.

The proposed project meets needs identified in the *Consolidated Plan* for providing rental housing for low-income households and increasing the City's inventory of accessible affordable units.

HOME requirements

All three units in the project will be designated as HOME-assisted and subject to HOME Program regulations. CAN-DO will be acting in its capacity as a Community Housing Development Organization (CHDO) in the form of project developer and owner.

CAN-DO's request of CDBG funds for mortgage debt reduction and rehabilitation/deleading as well as HOME funds for mortgage debt reduction are eligible activities under the HOME and CDBG programs.

Maximum HOME subsidy limits

The HOME subsidy per unit is $96,438.81, which is below HUD's maximum per unit subsidy limit for two-bedroom units ($187,196.00).

Affordability period

The HOME Program requires an affordability period of 15 years. However, the City will request that these units be affordable in perpetuity through execution of a rental Regulatory Agreement between the City, CAN-DO, Inc. and the MA Department of Housing and Community Development. The affordability period will be enforced by a deed restriction running with the land.

Income targeting and rent

Per HOME regulations, at initial lease up the HOME-assisted units must be rented to households whose income does not exceed 60 percent of area median income. The initial income targeting requirement does not apply throughout the affordability period, and households earning up to 65 percent of area median income will be eligible to rent the units thereafter.

Using the City's Affordable Rent Policy threshold, which states that rent (not including utilities) cannot exceed 35 percent of monthly adjusted household income, the current rent ($1,176) would be affordable to three-person households earning no less than 49 percent of area median income and four-person households earning no less than 44 percent of area median income. The analysis accounts only for households without Section 8 Vouchers.

Income determination

CAN-DO must income-certify tenant eligibility upon initial rent-up and then on an annual basis using the "Part 5 Definition" methodology (formerly referred to as the "Section 8" definition of income.)

Property and labor standards

Prior to occupancy, the property must meet the City's policy for minimum property standards for rehabilitation as well as local and state code. On-site inspections by the City will be conducted once every three years. CAN-DO has stated that the proposed rehabilitation work will address structural, mechanical and code-related deficiencies (refer to Housing Renovation Project Summary, dated December 20, 2010). Modifications and additions to the heating system and added insulation are included energy efficiency improvements. Sustainable building materials will also be used, where possible (refer to Sustainable Materials/Systems Summary, undated). The prevailing wages of the Davis-Bacon and related labor acts do not apply to this project.

Total development cost and per unit subsidy comparison

For comparative purposes, the table below shows the total development costs and total public subsidy per unit of rental and ownership projects with similar affordable units and scope over the past five years.

Project Address/ Sponsor/Year	Project Type and Scope	# of Affordable Units	Total Development Cost	Total Public Subsidy/Unit*
Rental Projects				
61 Pearl Street CAN-DO 2010	Rental – Acquisition and Rehab	3	$1,370,000	$381,667
2148-50 Commonwealth Ave. CAN-DO 2009	Rental – Acquisition and Rehab	2	$950,000	$337,500
3 scattered site units Advocates, Inc. 2007	Rental – Acquisition Only	3	$830,648	$138,441
11-13 Cambria Road CAN-DO 2006	Rental – Acquisition and Rehab	2	$1,437,511	$315,512
20-22 Falmouth Street CAN-DO 2005	Rental – Acquisition and Rehab	2	$1,178,933	$325,601
163 Jackson Road CAN-DO 2005	Rental – Acquisition and Rehab	2	$1,178,048	$325,158

Project Address/ Sponsor/Year	Project Type and Scope	# of Affordable Units	Total Development Cost	Total Public Subsidy/Unit*
Rental Projects				
19 West Street Advocates, Inc. 2004	Rental – Acquisition and Rehab	2	$676,400	$300,000
Ownership Projects				
248 Elliot Street CAN-DO 2004	Ownership – Acquisition, Rehab and New Construction	3	$2,279,415	$304,313
1101 Chestnut Street CAN-DO 2006	Ownership – Acquisition and New Construction	2	$3,680,926	$282,641

*Includes HOME, CDBG and CPA public subsidy grants and loans

Financial feasibility

The feasibility analysis is based on the development pro forma dated November 5, 2010 and revised 10-year operating budget, dated December 8, 2010. The forthcoming analysis draws from underwriting guidance from HUD, industry standards where available, and the results of the final subsidy layering analysis conducted by the City's independent HOME consultant, dated November 16, 2010 and updated December 29, 2010 (attached to this memo). Particular items to note are identified below:

The developer fee represents 10 percent of the total project hard and soft costs. A comparison of developer fees from past rental projects shows this fee to be on the higher end of the comparative range. The range included relatively low developer fees for similar projects (6 and 4 percent, for example). The developer fee is consistent with the state's allowable 10 percent for comprehensive permit rental projects and less than the Federal Home Loan Bank's 12.5 percent cap, and HUD's safe harbor for project-based subsidy rental projects which is 12 percent.

The 10-year operating budget's trending of revenue and expenses (3 percent and 4 percent, respectively) was recommended by the Housing Partnership and falls between the conservative trend required by the City's One-Stop Application for local and federal funds (3 percent and 5 percent), and the HOME consultant's observation of recent market trends of 2 percent for revenue and 2.5 percent for expenses. With current revenue and expense amounts for the operating budget, the threshold at which the project could not maintain debt service for the full 10-year term would be an annual rate of increase in expenses of 4.5 percent and an annual increase in income remained at the current 3 percent.

As the HOME Consultant's analysis points out, the terms of the Cambridge Savings Bank loan are attractive and the commitment letter confirms that the first interest rate adjustment is capped at 5 percent. It is unclear if any bank fees would be charged beyond typical closing costs and whether the development pro forma has budgeted for these potential expenses.

As previously stated, rental income will be governed by the High HOME Rent, less a utility allowance. It is important to note that High HOME rent and utility allowances are subject to change annually. Therefore, it is possible that the utility allowance could increase more than the High HOME rent in that same year, which would require the project to lower the rent it charges tenants.

Operating replacement reserve amounts per unit ($500/unit) is between the conservative amount of $700 recommended by HUD and $300 to $350/unit as referenced by the HOME consultant's analysis. The Housing Renovation Project Summary (undated) notes that after project completion, major maintenance should be deferred for the near future, with most maintenance expected for the exterior property such as ramp and deck surface treatment, gutter cleaning and landscaping work.

Overall, the project assumptions are reasonable. It should be noted that long-term project viability may be most dependent upon future utility allowances not increasing at a higher rate than future High HOME rents. These changes would lower tenant rents.

Relocation

The project must meet Uniform Relocation Act requirements due to the proposed provision of federal funds. Relocation funds are included in the cost of development and are based on the following calculation:

$100 rent differential (Difference between current rents and a market rent which is estimated to be $1400 for a two-bedroom unit) x 4 units x 42 months (maximum allowable time to provide assistance) = $16,000 ($4,000/unit for rent payments) + $4,000 ($1,000/unit moving expenses) = **$20,800**
The existing tenants appear to be paying below market rate rents but higher than the High HOME rent. Tenants in the one-bedroom units pay between $1,150 and $1,200/month not including utilities. The tenant in the two-bedroom unit pays $1,400/month not including utilities. A quick examination of current market rents in Newton shows the availability of one-bedroom units for $1,250/month and two-bedroom units at $1,450/month not including utilities.

Architectural accessibility

The proposed project includes one first floor unit that is accessible to people with mobility impairments and will be designed and constructed to be in compliance with MA Architectural Access Board and regulations at 521 CMR. The unit will also have a front and rear entry and exit ramps. Only one ramp is required under code. The project is not required to be accessible under either state or federal fair housing requirements. However, the provision of an accessible unit meets needs identified in the FY11-15 Consolidated Plan and the recent policy guidance from the Mayor's Affordability and Accessibility Working Group. The estimated cost to only rehabilitate Unit #1 is $42,750. The project architect estimates that it requires an additional $111,319 to make the unit accessible. The funds required to make the unit accessible are slightly more than 10 percent of the total public subsidy requested.

Fair housing

HOME rental projects require submittal of a tenant selection, tenant participation and affirmative marketing plan to the Planning and Development Department for review and approval. Certain marketing requirements and selection procedures also need to be followed when the accessible unit is marketed initially and upon turnover, regardless of waitlist status. CAN-DO's reasonable accommodation and modification policy has already been approved by the Department.

Summary of principle aspects of the project

Meeting objectives identified in the Consolidated Plan

The proposed project meets two chief objectives identified in the recent Consolidated Plan: the development of affordable rental housing for low-income households and increasing the City's supply of affordable accessible housing. Although the rents are based on what households at 65% of area median income can afford, CAN-DO is assuming the availability of Section 8 vouchers which are limited to households at or below 50% of area median income.

The provision of an accessible unit and associated cost

Providing a unit that is accessible to a person with mobility impairment is not required under state or federal law. The provision of an accessible unit, particularly where it is not required, is a significant benefit of this project. The *additional cost* to provide an accessible unit is estimated to be $111,319. The financial implication of providing accessibility needs to be taken into consideration since it increases the public subsidy per unit cost by an additional 10 percent to $381,667.

Reducing existing rental units vs. units deed restricted in perpetuity

The existing building is providing slightly below market rate rental housing to four tenant households. CAN-DO's project will reduce the number of units to three but the units will be deed restricted in perpetuity and the City will complete the paperwork to have the units listed on the state's Subsidized Housing Inventory, which counts the City's 10 percent threshold under Chapter 40B.

Assumptions regarding rental income

CAN-DO will not be relying on the availability of Section 8 vouchers, although households with rental subsidies will not be turned away. Irrespective of whether a tenant has a Section 8 voucher, the rent CAN-DO may charge is still limited to the High HOME rent, less a $145 utility allowance (tenants will pay their own gas/electricity, as recommended by the Planning and Development Board) is $1,176.

The difference, therefore, between the High HOME ($1,321) and Newton exception rent exclusive of utilities ($1,466) for a two-bedroom unit is $145. This comparison is provided since CAN-DO's operating income for past rental projects is based on Newton exception rents, not High HOME rents.

Summary

CAN-DO has submitted a proposal that meets two significant needs articulated by the City in its Consolidated Plan. In addition, the feasibility of the project is dependent on certain presumptions that require evaluation and concurrence. Staff believes that the primary elements of the project have been identified in this memo and that a judicious determination can subsequently be made.