



NEWTON HOUSING AUTHORITY
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Amy Zarechian
Executive Director

February 8, 2022

Community Preservation Committee
c/o Lara Kritzer, Community Preservation Program Manager
Planning and Development Department
City of Newton
1000 Commonwealth Avenue
Newton, MA 02459

Re: Final Project Report- NHA Acquisition of CAN-DO Portfolio

Dear Ms. Kritzer,

Background

In May of 2018, the Newton Housing Authority (NHA) began reviewing the opportunity to acquire the 36-unit CAN-DO (Citizens for Affordable Housing in Newton Development Organization) real estate portfolio. The NHA signed a Letter of Interest with CAN-DO on May 18, 2018 and conducted its own due diligence of the financial and physical condition of the properties. The NHA signed a Letter of Intent dated June 18, 2019, stating its intention to acquire the portfolio following its due diligence process.

The NHA worked closely with the City of Newton's Department of Planning and Development staff and the Newton Housing Partnership to develop an acquisition plan using City of Newton CPA and CDBG funds, as well as a new mortgage from The Village Bank, to eliminate the portfolio's existing private debt, address immediate capital needs, and create an operating reserve for the properties. In addition, the NHA secured a generous \$250,000 grant from The Village Bank and committed its own contribution of \$250,000, both of which will be placed into the replacement reserve in annual \$25,000 installments over a period of ten years. The NHA also assumed all deferred financing and related affordable housing use agreements from various agencies, including the City of Newton, CPA, Community Economic Development Assistance Corporation (CEDAC), Federal Home Loan Bank (FHLB), and the Affordable Housing Trust Fund (AHTF).

The due diligence process and preparation for the financial closing involved in this acquisition revealed the complexity of the portfolio's funding sources, affordability restrictions, and tenant income requirements, as well as the acquisition transaction itself.

On January 28, 2021, the NHA acquired the 36-unit CAN-DO real estate portfolio.

Closing Complexities

Several issues resulted in delays and added complexities in the closing process. First, due to the large number of sources of deferred financing and associated affordable housing use restrictions that the NHA would be assuming as part of the acquisition, the NHA had to meet in depth due diligence requirements for each of the funding sources, including Facilities Consolidation Fund (FCF), Housing Innovations Fund (HIF), HOME, CDBG, FHLB, and AHTF.

Through this process, the NHA identified the need to create a Massachusetts Department of Housing and Community Development (DHCD) approved Affirmative Fair Housing Marketing Plan and Tenant Selection Plan for all the units to bring them into compliance. Submission of these plans was required prior to the closing to receive approval of the assumption of the deferred financing and affordable housing use restrictions from DHCD and CEDAC. The NHA was not aware of this need at the beginning of the acquisition process and needed to procure a third-party consultant to create the required plans. The NHA also identified maintenance issues that it paid out of pocket to address prior to closing, including installation of hardwired smoke detectors at Christina Street, and replacement of the boiler at Webster Street.

Additional challenges included the late addition of the Auburn Street development to the acquisition, the determination that the initial Project-Based Section 8 Housing Assistance Payment (HAP) Contract between CAN-DO and the NHA had expired prior to closing, negotiating the final Purchase and Sale Agreement with CAN-DO, and procurement of additional insurance for the properties.

These challenges also contributed to unanticipated costs associated with the acquisition, including legal costs, property taxes, and lottery agent fees.

Financial summary

Following the acquisition, the NHA issued a Request for Proposals in order to enter into a new project-based Section 8 contract for the 13 units previously supported by this source of funding. The NHA also needed to create an NHA-controlled LLC to act as owner of these units in order to receive Section 8 funds administered by the NHA. This process resulted in the delay of Section Project-Based Voucher (PBV) HAP funds to the units previously subsidized by Section 8 PBV funds. The HAP contracts for these units have now all been executed.

In the year since the acquisition, the NHA has recognized ongoing financial issues, including COVID-related income loss, affecting tenants' ability to pay rent in the newly acquired units, which resulted in the accrual of a large tenant arrears balance. The NHA continues to work with the tenants to secure rental assistance from various sources, including the City of Newton's COVID Emergency Rental Relief Program, DHCD Emergency Rental Assistance Program (ERAP), and DHCD Residential Assistance for Families in Transition (RAFT), but ongoing affordability remains an issue for many residents. As a result, the NHA plans to project-base Section 8 vouchers in the remainder of the newly acquired portfolio and plans to issue the HAP contracts by early spring. This project-based subsidy will further stabilize the portfolio and provide immediate relief to residents facing difficulties in paying rent by adjusting the tenant share of the contract rent to approximately 30% of monthly income.

When comparing the projected operating budget created by our consultant prior to the acquisition to our actual 2021 income and expenses for the portfolio, the 2021 NOI for the portfolio was less than anticipated. This is primarily due to a loss of rental income for 2021, which can be attributed to a loss in HAP income for project-based voucher units, as well as to the large tenant arrears balances. Broadly, the NHA's operating expenses for the portfolio were as expected. One large unanticipated expense was the 2021 property taxes for the portfolio, which totaled \$56,995.65 and was a result of the overall delay in closing.

The NHA also made some changes to the operations after the acquisition. For one, the NHA determined that it would contribute \$25,000 annually in replacement reserves in addition to receiving \$25,000 as an annual grant from the Village Bank, for a total of \$50,000. This amount, along with the CDBG funds granted for rehabilitation, is sufficient to build a healthy reserve balance for capital expenses and unanticipated costs to the portfolio. Additionally, the proforma created in 2019 listed \$33,000 in expenses for resident services. This portfolio did not pay for any of the Resident Services Department budget in 2021. Instead, services for the tenants in this portfolio were paid for by other sources, including grants and other NHA programs.

The NHA anticipates that the portfolio will be in a stronger financial position in 2022 than it was in 2021. This is due in large part to a plan to project-base Section 8 vouchers in additional units. This will allow the NHA to collect higher rents and make the portfolio more sustainable. It will also allow the existing residents to remain in their homes and pay rents that they are able to afford.

Capital Improvements

Along with the capital improvements completed by the NHA prior to closing and the assumption of all regular maintenance and unit-turnover needs, the NHA continues to work with Newton Planning and Development staff on the execution of the planned the CDBG-funded rehabilitation projects. Bids for one project have been accepted and two additional projects will be bid out in the near future.

Resident Transition

Throughout the acquisition process, the NHA met regularly with representatives from the CAN-DO Board and staff from the Newton Community Development Foundation (NCDF), which was performing the property management functions for the portfolio. The NHA continued to work with NCDF following the acquisition and benefited from their excellent stewardship and commitment to a smooth transition.

Following the acquisition, the NHA Resident Services Department reached out by phone to every new resident, and provided an information packet and a grocery store gift card as a welcome gift. NHA administrative staff also sent welcome letters providing the new residents with information about the acquisition, NHA policies, contacts, and resources. The NHA also hosted two “Meet Your Landlord” zoom meetings for new residents.

The Resident Services Department has 9 active cases with these new residents focusing on longer-term issues including rental assistance, hoarding/clutter, and other financial needs. The NHA is in the process of hiring a fourth licensed social worker whose focus will be on its family, section 8, and management tenants, including the former CAN-DO residents. The NHA will continue to provide excellent resident services to the residents of the newly-acquired units, along with its other long-term tenants.

Conclusion

Although complex and involved, the NHA’s acquisition of the CAN-DO portfolio stabilized the portfolio’s financial status, began a process of addressing immediate capital needs, preserved the tenancies of the current residents, and will provide a deeper level of long-term affordability for the entire portfolio.

The NHA is grateful for the support, trust, and resources from the CPC and the City of Newton required to stabilize, improve, and preserve this important resource that represents a major prior investment of City and State funds.

We look forward to meeting with the Community Preservation Committee to discuss this final report further.

Thank you for all your help through this process.

Sincerely,

Amy Zarechian
Executive Director
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82 Lincoln Street
Newton Highlands, MA 02461