CITY OF CAMBRIDGE

COMMUNITY DEVELOPMENT DEPARTMENT

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OFFICE OF THE CITY MANAGER

SUSAN B. SCHLESINGER
Assistant City Manager for Community Development

BETH RUBENSTEIN
Deputy Director for Community Development

TO: Robert W. Healy, City Manager
FROM: Susan Schlesinger, Asst. City Manager, CDD SBS
DATE: November 12, 1997
RE: Council Order #044, dated 11/3/97
RE: REPORT ON FACTS SURROUNDING THE PURCHASE OF 324 FRANKLIN STREET BY PRIVATE DEVELOPER RATHER THAN CASCAP

This is in response to Council Order #044, requesting additional information concerning the sale of 324 Franklin Street to a private developer rather than to CASCAP, Inc. The acquisition of this property has been a priority of the Department's for the past year, because it is a formerly rent-controlled property occupied by low and moderate income tenants. In order to facilitate this transfer, the City committed to loan the entire purchase price to CASCAP to enable a sale with no contingencies.

Despite our best efforts, this property was recently sold to a private party. CASCAP was in the midst of final negotiations to purchase the property, including an agreed on sales price and no additional contingencies, when they were informed by the owner that he sold the property to a third party for a price substantially higher than what he and CASCAP had agreed to. Until being notified of the sale, the owner never indicated to CASCAP that the price was an obstacle to the purchase.

<u>BACKGROUND</u>

CDD's involvement in 324 Franklin St. began in late September, 1996 when two tenants of the building contacted Housing Division staff. The tenants reported that the mortgage on the property held by the FDIC was about to be acquired by an investment group. The tenants asked if the City could talk to the FDIC about the status of the property.

Housing staff spoke with the FDIC October 1, 1996. The FDIC reported that they had reached a settlement related to a non performing asset (a note on the property) and was selling the note to a new owner within 10-14 days at a negotiated price well below market value. Housing staff inquired if there was anything that could be done to intervene in the transfer of the property, and the FDIC said that since the transfer was imminent, nothing could be done.

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The property has a total of nine units. It is comprised of two 1-bedroom units, two larger 1-bedroom units, and 5 Single Room Occupancy (SRO) units. One SRO unit has its own bathroom and kitchenette, and the other four SROs are small single rooms that share one bathroom. The property, while structurally sound, requires major renovation including the replacement of all major building systems.

CASCAP, Inc. expressed interest in the property given the small unit configuration of the property. CASCAP quickly conducted a feasibility analysis of the property with the help of CDD. Their assessment of the rehabilitation needs and a financial analysis resulted in CASCAP's initial offer to the owner.

Their initial offer of $150,000 was rejected by the owner who assumed that he could get $300,000-$400,000 from a private for-profit developer who would convert the property to market-rate housing, displacing the existing low-income tenants.

In September, CDD, CASCAP, and the tenants met to talk further about the possibility of nonprofit ownership of the property. All parties agreed that they wanted to continue to have CASCAP try to buy the building with significant financial support from the City. CASCAP reached a tentative agreement with the owner to purchase the property for $250,000. As CASCAP continued to negotiate with the owner, they were informed by him without warning that he had sold the property to a third party for a substantially higher price than what he and CASCAP had agreed on. The new owner, Dallas Perkins, bought the property within 48 hours of the accepted offer of $325,000 less a broker's fee. Since Mr. Perkins has purchased the property, he has met with the tenants' lawyer and one of the tenants. He has been informed of the legal status of the tenants' litigation against the previous owner. He has not stated what his plans are for the property.

CASCAP's experience negotiating with the owner who then broke their agreement illustrates some of the challenges that a nonprofit organization faces in trying to buy property in Cambridge's very high cost real estate market. A nonprofit, even with public grant support of over half the development costs, still struggles to compete with a private developer. In order to keep rents affordable to existing tenants, rents are capped at approximately 30% of a tenant's income, resulting in very low operating income. Very low operating income means that the property can't support the expense of a large mortgage. This is an issue that a private for-profit developer doesn't have. A private developer would simply increase the rents, generating enough operating income to support a mortgage sufficient to buy and renovate the property.

CDD and the non-profit housing development organizations continue to work very hard to purchase property in the City. The level of City financial support going to the nonprofits has been increasing to keep pace with property prices. After actively attempting to buy the property for six months, in the end the owner simply took a higher price without giving CASCAP an opportunity to meet the new price or renegotiate.

C A S C A P
I N C

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Memo

To: Elizabeth Sternberg
Housing Project Planner
Cambridge Community Development Department

From: Wendy H. Cohen
ASAP Project Manager

CC: Bradley J. Day
Director of Property Development

Date: November 10, 1997

Re: CASCAP's Attempts to Purchase 324 Franklin Street

Below is a timeline of actions that CASCAP, Inc. took in attempting to purchase 324 Franklin Street to preserve the affordability of the nine units and prevent the eviction of low and moderate income tenants.

April 24, 1997	Foreclosure Auction: Billmark LLC buys the property back at auction for $300,000.
June 4, 1997	CASCAP's consultant tours the building with the City's architect and estimates acquisition price of $150,000, rehab cost of $320,000, and total development cost (including soft costs) of $716,000. Projected rental income from seven Section 8 units will only support a $267,000 mortgage, leaving a gap of $449,000. This gap may be filled by seeking grants or deferred payment loans from the state and city government and quasi-public sources like the Federal Home Loan Bank (FHLB). If the state provides $210,000, City supplies $210,000 and FHLB donates $29,000, then the amount available to purchase the property is $150,000. This is CASCAP's initial offer.
June 23, 1997	Billmark LLC states that property value is in mid to high $400,000s, but says it will consider CASCAP's offer since there are "complicating factors" due to tenant actions.
July 3, 1997	CASCAP delivers first offer to Billmark LLC: $150,000 with $1,000 check for deposit.
July 9, 1997	Billmark LLC declines CASCAP's offer, states property is worth at least $350-400,000. Since asking price is twice CASCAP's maximum acquisition price, negotiations cease.
Aug. 5, 1997	CASCAP hires Project Manager for Affordable Small Apartment Preservation (ASAP) initiative (later funded by City). Goal is to preserve and develop affordable small apartments for low to moderate income individuals in Cambridge. One objective is to acquire, rehabilitate and manage distressed, abandoned and/or neglected properties.

Aug. 21, 1997	Tenant calls with urgent request for assistance. CASCAP calls Billmark LLC to check on asking price. Billmark LLC is asking $350,000 and would like to close in 30 days.
Aug. 26, 1997	Full-time Project Manager for ASAP tours existing building with CASCAP's architect.
Aug. 28, 1997	CASCAP's architect submits feasibility review to renovate building and maintain nine units. Total rehab cost, excluding hazardous materials abatement, landscaping and site work, is estimated at $400-500,000. CASCAP assumes rehab cost of $400,000 plus $20,000 for lead paint abatement in 1-BR units. At purchase price of $300,000, gap to be filled by City is $451,600. CASCAP sends draft budgets to City on 9/15/97.
Sept. 8, 1997	CASCAP meets with Billmark LLC representative, Mark Levy, to discuss 324 and 340 Franklin Street. The latter has title problem. The former was recently appraised at $400,000 (to obtain $325,000 mortgage). Billmark LLC might sell to a non-profit for less due to tax benefits, but wants CASCAP to facilitate cessation of tenants' litigation.
Sept. 9, 1997	City delivers memo to 324 Franklin Street residents re: meeting at City Hall Annex on 9/11/97. On 9/11/97, CASCAP staff meet with five tenants and CD officials to discuss mutual interests in preserving property as high-quality permanent affordable housing.
Sept. 15, 1997	CASCAP sends draft budgets to City to ascertain City's financial commitment to the project. CASCAP requests 30-day hiatus in which Billmark will not market property and CASCAP can determine tenants' income eligibility, level of rehabilitation, and need for temporary relocation during rehabilitation. But Billmark wants ballpark range.
Sept. 16, 1997	City responds to CASCAP that it is willing to contribute from $315,000 to $450,000. Maximum contribution from the City generates maximum purchase price of $250,000.
Sept. 17, 1997	CASCAP gives Billmark ballpark range of $150-250,000 and would like 30-day hiatus.
Sept. 19, 1997	Billmark LLC is "favorable inclined" to accept $250,000, but wants CASCAP to vouch for tenants that they will comply with a 30-day standstill agreement to cease litigation.
Sept. 23, 1997	CASCAP sends Memorandum of Understanding to Billmark for marketing hiatus for month of October while CASCAP talks with the tenants and drafts development plans.
Sept. 30, 1997	Billmark sends letter refusing to sign MOU unless CASCAP commits to $250,000 purchase price and involvement in negotiating a standstill agreement with the tenants.
Oct. 2, 1997	CASCAP faxes revised development budget to City and asks City to commit $486,800, since not all tenants are eligible for Section 8 subsidies. As the potential buyer, CASCAP asks City to help facilitate negotiations between Billmark and tenants. City says it will review the development budget.
Oct. 7, 1997	CASCAP sends letter to Billmark, suggests that it contact City for help with mediation.
Oct. 10, 1997	After offering some suggestions to CASCAP for fine-tuning the development budget, City revises its level of financial commitment to the project and offers up to $430,000.

Oct. 15, 1997	CASCAP makes second offer: $250,000 purchase price, 12-month option agreement with $3,675 quarterly option payments to cover estimated costs of operating property.
Oct. 16, 1997	Billmark declines second offer, although purchase price is acceptable. Billmark states that option period is long and payments during option period ($3,675 per quarter) are insufficient to pay carrying costs. Billmark plans to make counteroffer to CASCAP by 10/20/97, but calls CASCAP on 10/23/97 to say it cannot respond until 10/28/97 or 10/29/97. Billmark has another alternative and does not want to negotiate in bad faith. *From 10/16/97 until the property is sold on 10/31/97, CASCAP attempts to contact Billmark to reach an agreement to purchase the property, but Billmark won't negotiate.*
Oct. 22, 1997	CASCAP sends letter to Billmark requesting response to 10/15/97 offer. Billmark calls CASCAP on 10/23/97 to say that it cannot respond to offer until 10/28/97 or 10/29/97.
Oct. 24, 1997	At the request of City Manager and Assistant City Manager for CD, CASCAP sends signed purchase and sale agreement for $250,000 along with $10,000 deposit check. CASCAP must close within 30 days, with 30-day extension to obtain acquisition loan. Agreement sent to Billmark by overnight mail with response due by 10/27/97 at 5 p.m.
Oct. 27, 1997	Billmark fails to respond to purchase and sale agreement, but confirms its receipt of the agreement and voices concern about CASCAP's ability to obtain timely acquisition financing from City. City CD issues letter which explicitly states that City will provide $250,000 to purchase property. CASCAP sends letter to Billmark to extend deadline for acceptance of agreement to 10/29/97 at 5 p.m., including copy of letter from City.
Oct. 30, 1997	Billmark fails to respond to extension of purchase and sale agreement and letter from City. CASCAP sends letter to Billmark asking Billmark to promptly return two checks.
Oct. 31, 1997	Billmark calls to inform CASCAP that it sold 324 Franklin Street for $325,000 by way of a broker to Dallas Perkins, a private developer. Billmark signed the purchase and sale agreement on the afternoon of 10/27/97. The sale was completed on 10/31/97. Perkins offered a higher purchase price and could buy the property within four days.
Nov. 3, 1997	CASCAP received returned checks and a letter re: sale of the property from Billmark.

29.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

November 17, 1997

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 37, regarding a report on the facts surrounding the purchase of 324 Franklin Street by a private development rather than CASCAP, received from Assistant City Manager for Community Development Susan Schlesinger.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
attachment

Consent Agenda #29

S-712

Relative to Awaiting Report Item Number Thirty-seven, regarding a report on the facts surrounding the purchase of 324 Franklin Street by a private development rather than CASCAP.

In City Council November 17, 1997

PLACED ON FILE