ATTACHMENT A

EXPIRING USE BUILDINGS IN CAMBRIDGE

BUILDING		TOTAL # UNITS	LOW	MODERATE
1)	Briston Arms (Garden Street)	154	30	75
2)	808 Memorial Drive	301	76+	136
3)	929 House (929 Mass. Ave.)	127	32	24
4)	Huron Towers (Huron Avenue)	248	62	149
5)	Rindge II HUD (402 Rindge Ave.)	274	55	0
6)	Cambridge Court (411 Franklin Street)	123	31	61
7)	Rindge I (362-364 Rindge Avenue)	506	48+	156
8)	Walden Square Apartments (Sherman Street)	240	48+	156
9)	Putnam Square Apts. (2 Mt. Auburn Street)	94	94	
10)	Inman Square Apartments	116	92	24
11)	Close Building (243 Broadway)	61	61	
12)	Norstin Apartments (Norfolk Street & Bishop Allen Drive)	32	32	
13)	Cast I & II (Columbia Street)	51	51	

18.

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
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February 7, 1994

To The Honorable, The City Council:

In response to Awaiting Report Item No. 2, regarding the status of expiring use buildings in Cambridge, please be advised of the following:

Preserving existing affordable housing resources is a top priority for the City and is the primary goal of the City's policy on expiring use restriction buildings. Cambridge has six (6) projects facing the risk of expiring use restrictions during the 1990s. These are privately-owned housing projects built with federal subsidies during the 1970s.

This status report will provide an overview of the expiring use issue, a discussion of the federal response, an update on the status of the six expiring use projects in Cambridge, and, finally, a report on City action to preserve this valuable stock of affordable housing.

1. Overview of the Expiring Use Issue

During the late 1960s and early 1970s, the federal government provided significant funding to private owners to develop affordable housing for low- and moderate-income households. This government assistance came in the form of below market interest rate loans or interest subsidies, and loan guarantees.

In exchange for this government assistance, the owners were required to make the housing units available to low and moderate income households at HUD-approved rents throughout the forty-year term of the mortgage. The contract with HUD, however, allowed owners to prepay the mortgages after twenty years. Prepaying the mortgage would have allowed owners to convert low and moderate income units to market units or commercial use.

The scope of the problem was enormous on the national, state, and local level. It is estimated that up to 500,000 units are at risk in the nation, with 27,000 units in Massachusetts, and over 1,200 units in Cambridge alone. Needless to say, the loss of 1,200 housing units from the affordable housing stock would lead to serious consequences in the City.

2. Federal Response to Expiring Use Issue

Congress enacted the Emergency Low Income Housing Preservation Act of 1987 (ELIHPA) as a temporary response to the mortgage prepayment problem. This law served as a prepayment moratorium, and authorized the use of federal incentives to owners to extend the affordable use restrictions for the full term of the original mortgage.

The Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA) represents an effort by Congress to establish a comprehensive solution to the prepayment problem. Under LIHPRHA, owners decide either: 1) to accept federal incentives in return for extending affordability; or, 2) in very limited circumstances, to prepay the mortgage and terminate affordable restrictions.

HUD would approve such prepayment only if there is no adverse impact on tenants or on the affordable housing supply. This is highly unlikely in the City of Cambridge, given the shortage of housing opportunities for low and moderate income households.

Prepayment could still potentially occur as a result of a project which is too expensive to HUD to preserve, or where the current owner wishes to sell but no buyer steps forward.

The effect of this federal legislation is a complex regulatory process which provides significant protection for tenants, while, at the same time, giving owners incentives to retain affordability. If an owner seeks federal incentives, it chooses whether to sell the project or stay in as the owner. In the event the owner wishes to sell, there is a priority for tenants or non-profit organizations to purchase the property.

The HUD regulatory process includes provisions for the participation of the tenants and local government in reviewing the plans and ensuring that they meet the needs both of the tenants and the community as a whole.

3. Status of Cambridge Expiring Use Projects

During the 1990s, six Cambridge projects face the expiring use issue (see Attachment A). Two project owners, 808-812 Memorial Drive and Briston Arms, have initiated the process to seek incentives and preserve the affordability. The owner of 808-812 Memorial Drive is considering a sale to a partnership between a local non-profit and the tenants. Two other projects, Walden Square and Rindge Apartments I, would have been eligible to prepay the mortgage, but used additional HUD financing which locked in the affordability for the full original forty year term of the mortgage.

The following is a status report on the six projects:

A. 808-812 Memorial Drive

808-812 Memorial Drive is a 301-unit mixed-income and mixed-use project. 212 of the 301 housing units are affordable to low and moderate income households. The remaining 89 units are market rate. In addition, the project contains 37,750 square feet of commercial space, 15,000 square feet of community space and a five story parking garage. Two gas stations are integrated on the site, retaining original land ownership.

The project is owned by 808 Memorial Drive Associates, a limited partnership headed by a Seattle-based firm, Security Properties, Inc. Zena Nemetz was the project developer and original managing partner. Nemetz was replaced in 1978 after the project defaulted on its mortgage. RCCC was originally a general partner, but withdrew in 1976.

On January 15, 1993, the owner filed a Notice of Intent with HUD to sell the project to a qualified purchaser. This filing triggered the start of the HUD regulatory process.

The tenants at 808 Memorial Drive have formed the Housing Partnership Committee (HPC) to work in partnership with Homeowners Rehab, Inc. (HRI) in determining the feasibility of purchasing the property. HPC and HRI have assembled a highly qualified development team to conduct due diligence studies to determine the financial feasibility of a purchase. This work includes investigating the capital needs and operating budgets of the project.

Two appraisals of the property are being conducted - one commissioned by HUD, and the other by the owner. If these two appraisals are more than 10% apart, a third independent appraisal will be conducted.

HUD has also commissioned a capital needs assessment to determine the required rehabilitation, which, when factored into the appraisal, will establish the preservation value of the property.

Assuming that no third appraisal is needed, the value should be established by the Spring of 1994. The owner then has thirty days to confirm its intention to sell.

The HPC-HRI partnership may submit its offer to purchase based on the preservation value. The actual sale would still take up to eighteen months to complete.

The major risk associated with this project is that the cost of preserving the affordability may exceed the federal limit. In that case, the owner could choose to accept less, or the buyer could identify additional financial resources. If neither of these events occur, and no other buyer steps forward, HUD could allow the owner to prepay the mortgage and terminate the affordability restrictions.

B. Briston Arms

Briston Arms is a 154-unit mixed-income development located on Garden Street in Neighborhood Nine. One hundred and five (105) units are affordable to low and moderate income families, and the remaining 49 units are market rate. The project is owned by the Briston Trust.

On December 27, 1990, the owner filed a Notice of Intent with HUD to seek federal incentives. On December 17, 1992, the owner filed a Plan of Action which provided details of the request for incentives to HUD.

In this Plan of Action, the owner agrees to extend the affordability restrictions for the full term of the original mortgage (until the year 2011). In return, the owner has requested that HUD provide 69 project-based Section 8 rent subsidies (currently there are none) for the low-income tenants. The owner requests rent increases as allowed by HUD; an increase in the annual return on equity to the owner up to 10%; and a second mortgage to allow the owner to take out the equity built up over the past twenty years.

HUD commissioned a capital needs assessment to determine the need for immediate rehabilitation, as well as establish requirements for a reserve account to meet long-term capital needs over the next twenty years.

HUD issued its preliminary approval of the Plan of Action on January 13, 1994. HUD has approved the requests for federal incentives, with the condition that the owner allocate some of the funds to capital improvements (i.e. reinvest in the project). There is now a public comment period on the Plan, and, after considering comments, HUD will issue final approval.

The two critical areas needing review in the Briston Plan are the impact of rent increases on the moderate-income tenants and the requirements for rehabilitation. The City has a major interest in ensuring that HUD requires the owner to invest adequate funds to complete a comprehensive rehabilitation, since it is unlikely that another refinancing will be available over the next twenty years.

C. 929 House

929 House is a 127 unit mixed-income housing development located at 929 Massachusetts Avenue in Mid-Cambridge. Fifty-six (56) units are affordable to low and moderate income households, and the remaining 71 are market rate. The project is owned by 929 House Realty Associates, a limited partnership, headed by the firm of McNeil & Associates.

The owner filed a Notice of Intent with HUD to seek federal incentives in return for extending the affordability restrictions. This Notice was filed on December 27, 1990. The owner did not specify whether it would seek to sell the property or stay in. The owner has taken no further action in this process.

D. Other Projects

There are three other projects which face expiring use restrictions, as follows:

** Rindge Apartments II located at 402 Rindge Avenue in North Cambridge, a 274 unit project;

** Huron Towers, located at 700 Huron Avenue in the Strawberry Hill neighborhood, a 248 unit project;

** Cambridge Court, located on Franklin Street in Riverside, a 123 unit elderly housing project.

The owners of these three projects have not taken any action to date related to the expiring use issue.

In addition, there are several projects which will face expiring use restrictions after the year 2000. These projects include Putnam Square, Inman Square Apartments, the Close Building, Norstin, and CAST I and II.

4. <u>City Action in Response to Expiring Use Issue</u>

The City of Cambridge has established a high priority for the preservation of the affordable housing in expiring use projects. These affordable units represent a significant resource for the City, and the loss of any would be very difficult to replace.

The City has taken the following actions:

** assigned a housing planner in the Community Development Department to lead the City's efforts in addressing the expiring use problem;

** advocated for a strong federal response to the threat of the loss of over 1,200 affordable units in the City;

** researched each of the expiring use projects in preparation for intervening in the HUD regulatory process;

** identified any local use restrictions which may impact on the prepayment issue;

** funded a tenant organizer position at CEOC to assist tenants in expiring use projects to organize and participate in the HUD regulatory process;

** provided technical support to the Citywide At-Risk Tenant Committee and individual tenant committees at four of the expiring use projects; and,

** assigned a construction specialist from the Community Development Department to participate in the capital needs assessment process at two projects.

We hope that this responds to your request for information on the status of expiring use buildings in Cambridge.

Very Truly Yours,

Robert W. Healy
City Manager

Consent Agenda # 18 S-36

Response to Awaiting Report Item
Number Two, regarding the status of
"expiring use" buildings in Cambridge.

In City Council,

February 7, 1994

Referred back to the
City Manager on motion
of Councillor Sullivan

Referred to the Housing
& Community Development
Committee on motion of
Councillor Duehay.
2/8/94 Copy sent to Housing
& Community Development
Committee (DL)