

Dear Board of Aldermen-

We are writing to express concerns about the Home Rule Petition that the development team for Clarendon Hill is seeking the Board to approve.

We urge the Board of Aldermen not to approve the Home Rule Petition as written. Before considering approval of such a petition, the Board should secure binding guarantees from Redgate that it will pay prevailing wage in all blocks of the project, including A+B. It is clear that Redgate has not provided adequate justification for the unprecedented request to not pay prevailing wage on a public work. If they want to stand by their claim that such an exemption is required to make the project financially feasible, then they should be willing to open their books and share detailed financials to prove it. The burden of justification is on the developer in this case.

We stand 100% behind the residents of Clarendon Hill, who deserve safe, decent, and rehabilitated housing. It's heartbreaking to see these buildings in such a deteriorated and dilapidated state, and the residents and their families forced to suffer indignity after indignity as a result. Public housing and the people who rely on it don't receive the support they require, whether at the federal or state level. In particular, Somerville Housing Authority hasn't received funding at appropriate levels to allow it to invest in the upkeep of the Clarendon buildings. Public housing must be a key component in addressing the affordable housing crisis this community is facing, and we must reverse the trend of disinvestment and privatization that is sweeping the country.

We are told that public funding simply isn't available to rebuild Clarendon Hill without bringing in a private developer, Redgate, and giving the developer the ability to build luxury housing (so-called "market rate" housing) on part of the public land on which Clarendon sits. This will more than double the number of housing units on site, but not increase the number of public housing units. Essentially, Somerville will be privatizing part of the public land and giving Redgate the ability to develop whatever will bring it the most profit.

During the construction of public works like public housing, MGL 149 Section 26 requires prevailing wage standards to be paid. We are told by Redgate that it doesn't believe that construction on the A+B blocks at Clarendon Hill falls under that law. **But the fact remains that Redgate is building on public land** (to be ground-leased to a limited liability partnership operated by the developers). Further, A+B blocks **will contain some public units, and public subsidies are sought in construction.** We assert that construction of public housing on public land that receives public subsidy is a clear case of a "public work." **All construction at Clarendon Hill should therefore pay prevailing wage.**

Redgate has claimed that its profit margin is too small to allow it to pay prevailing wage. Redgate claimed at a recent public meeting that it will earn a profit of 5% of the cost of development of blocks A+B, or about \$4.5M.

However, some initial analysis provided by the Carpenters' union calls that claim into question. It appears that Redgate will be making a substantially higher rate of profit on the project than it claims. See the appendix to this letter for details, but the bottom-line is:

After construction and occupancy, Redgate will own buildings worth approximately \$125M on the A+B parcels, with total cost of only \$95M. Redgate can sell the buildings to realize a \$30M profit, in addition to the \$3M it is taking out at closing. **\$33M is an enormous profit.**¹

Paying fair, prevailing wages on all blocks in this project is not an unreasonable request of a developer making so much money off the transaction. Hard costs for the project (A+B blocks) are quoted by underwriters at \$66M. If we assume 50% of that is labor cost (vs. materials), then labor cost will be \$33.0M. Prevailing wage is estimated as increasing labor cost by 20% (industry standard), so the incremental cost of paying prevailing wage would be \$6.6M.

The question before the board is: Should the Board approve a home rule petition that will allow a private developer (that is going to make at least a \$26.4M profit) to cut corners, slip out of the law requiring prevailing wage on public works projects, and make an additional \$6.6M of profit at the expense of working people in the trades?

Redgate will likely argue that this analysis is wrong, but it is based on the information we have available to work off of. Redgate is in the powerful position of having full access to all the financials which they don't have to share with the community or Board. They have flexibility in their financial model since exact plans for Blocks A+B are still changing, and there are a range of potential profits for them in those various scenarios. It's easy to reveal the numbers that make it sound like the project is unprofitable while hiding the long-term profit implications and we assert Redgate has done just that.

Redgate has a fiduciary responsibility to maximize profit for its investors and so it's not surprising that it would come before the Board and claim there isn't enough money to take on an incremental cost associated with paying fair prevailing wages on a public work, or try to claim that somehow their construction of mixed public/private housing on public land isn't a "public work". That's just business as usual and a negotiating strategy on its part.

But the Board and community also has a responsibility to get the best deal for Somerville residents and not let the development team steamroll us into privatizing a chunk of public land while cutting corners on construction costs at the expense of workers.

¹ Underwriting assumptions assumed 300 units in Blocks A+B, and there is currently nothing preventing Redgate from building that many units on A+B. We have included an appendix showing this math with a 253 unit building instead as requested by board members. We do not believe Redgate will building only 253 units.

Redgate's \$16M cross-subsidy contribution is needed to rebuild Clarendon Hill. But it's only a small percentage of the total \$105M construction costs for the public housing portion, and government (federal, state, and Somerville) is still picking up the bulk of the costs.

For Redgate's small contribution, it stands to reap a huge profit--much larger than it is letting on. Redgate is hoping to make that profit larger by scaring us into thinking we can't possibly help the residents of Clarendon while paying fair prevailing/union wages. If the Board approves this Home Rule Petition as is, it will be a tremendous and unnecessary giveaway to a private developer at the expense of the community.

Again, to restate the request: **We urge the Board of Aldermen not to approve the Home Rule Petition as written. Before considering approval of such a petition, the Board should secure binding guarantees from Redgate that it will pay prevailing wage in all blocks of the project, including A+B.** It is clear that Redgate has not provided adequate justification for the unprecedented request to not pay prevailing wage on a public work. If they want to stand by their claim that such an exemption is required to make the project financially feasible, then they should be willing to open their books and share detailed financials to prove it. The burden of justification is on the developer in this case.

We stand 100% behind the residents of Clarendon and the building trades. There is no "Sophie's Choice" between supporting the residents' interests and those of workers, and we ask the Board to reject this "divide and conquer" framing. The developer can afford to satisfy the residents and the construction workers while still earning a fantastic rate of profit.

Sincerely,

Our Revolution Somerville Steering Committee

(Monica Achen, 82 Prichard Ave.,
Michael Bowler, 10 Joseph St.,
Ben Bradlow, 52 Vinal Ave.,
Tessa Bridge, 148 Albion St.,
James Roberts Crall, 52 Vinal Ave.,
Donald "DJ" Cronin, 251 Summer St.,
Colleen Fitzpatrick, 12 Foskett St.,
Fenna Krienen, 52 Vinal Ave.,
Chris Lay, 16 Princeton St.,
Frank Lee, 5 Lester Ter.,
Jon Leonard, 73 Broadway,
Matthew Miller, 31 Rossmore St.,
Surjeet Paintal, 16 Princeton St.,
Harriotte Hurie Ranvig, 5 Lester Ter.,
Joyce Shortt, 16 Packard Ave., and
Anosha Siripala, 44 Elmwood St.)

Appendix A: Calculation of Market Value of A+B Buildings (300 units listed in underwriting assumptions) (Calculation done by Carpenters' Union)

Est. Gross Revenue (monthly) from schedule 1A			
Unit Type	No. Units	Rental Income / Unit	Total Est. Rental Income
Studio	30	\$2,016.00	\$60,480.00
1 BR	180	\$2,471.00	\$444,780.00
2 BR	75	\$3,092.00	\$231,900.00
3 BR	15	\$3,226.00	\$48,390.00
Total	300		\$785,550.00

Monthly Revenue	\$785,550.00
	x12
Gross Revenue	\$9,426,600
5% Vacancy Rate	\$471,330
GR Less Vacancy	\$8,955,270
Expenses per unit	\$9,000
Units	300
Total Expenses	\$2,700,000
Net Operating Income	\$6,255,270
Cap Rate	5%
Market or Trading Value	\$125,105,400

Appendix B: Estimate of Prevailing Wage Cost in A+B (from Clarendon Hill Summary Budget)

USE OF FUNDS	A&B
Redgate Payment	\$16,000,000
Relocation Budget	\$0
Construction	\$66,029,227

Infrastructure	\$0
Soft Costs	\$9,986,629
Reserves	\$0
Developer Fee/Overhead - Paid	\$2,986,952
Developer Fee/Overhead - Deferred	\$0
	\$95,002,808

Diff Prevailing Wage	
A+B Hard Costs	\$66,029,227
Labor % Hard Cost	50%
Est. Labor Cost	\$33,014,614
Incremental Prevailing Wage Cost	20%
Add'l Cost, Prevailing Wage	\$6,602,923

Appendix C: Redgate Profit Estimation

Fair Market Value	\$125,105,400
Total Cost	\$95,002,808
Developer Profit (Buildings)	\$30,102,592
Developer Fee at Closing	\$2,986,952
Final Profit	\$33,089,544

Appendix D: 253 Unit Scenario - Modelling the building with only 253 units. We do not believe Redgate will only build 253 units in A+B blocks, but wanted provide the math for transparency. We don't believe it materially impacts the story of what is happening.

Est. Gross Revenue (monthly) from schedule 1A			
Unit Type	No. Units	Rental Income / Unit	Total Est. Rental Income
Studio	25	\$2,016.00	\$50,400.00
1 BR	150	\$2,471.00	\$370,650.00
2 BR	65	\$3,092.00	\$200,980.00
3 BR	13	\$3,226.00	\$41,938.00
Total	253		\$663,968.00

Yearly Model	
Monthly Revenue	\$663,968.00
	x12
Gross Revenue	\$7,967,616
5% Vacancy Rate	\$398,381
GR Less Vacancy	\$7,569,235
Expenses per unit	\$9,000
Units	253
Total Expenses	\$2,277,000
Net Operating Income	\$5,292,235
Cap Rate	5%
Market or Trading Value	\$105,844,704

253 Unit Scenario: Estimate of Prevailing Wage Cost in A+B (from Clarendon Hill Summary Budget)

Diff Prevailing Wage	
A+B Hard Costs (300 Units)	\$66,029,227
Adjusted Hard Costs (253 Units)	\$55,684,648
Labor % Hard Cost	50%
Est. Labor Cost	\$27,842,324
Incremental Prevailing Wage Cost	20%
Add'l Cost, Prevailing Wage	\$5,568,465

253 Unit Scenario: Redgate Profit Estimation

Fair Market Value (253 units)	\$105,844,704
Total Cost (300 units)	\$95,002,808
Adj. Total Cost (253 units)	\$80,119,035
Developer Profit (Buildings)	\$25,725,669
Developer Fee at Closing	\$2,986,952
Final Profit	\$28,712,621

If Redgate chooses to build only 253 units, they will still make \$28.7M on blocks A+B, with a prevailing wage cost of \$5.5M. **So they have the funds to pay prevailing wage and still make a \$23.2M profit.**

However, it would be surprising if Redgate didn't choose to maximize its profit by building as many market rate units in these blocks as possible, and profit would be higher as outlined in the scenario in the letter.