CITY OF SOMERVILLE, MASSACHUSETTS

MAYOR'S OFFICE OF STRATEGIC PLANNING & COMMUNITY DEVELOPMENT

KATJANA BALLANTYNE
MAYOR

THOMAS GALLIGANI
ACTING EXECUTIVE DIRECTOR

MEMO

To:	Somerville City Council
From:	Rachel Nadkarni, Director of Economic Development, OSPCD – Economic Development Division
Date:	June 25th, 2025
RE:	Final recommendation for UCH-TIF exemption and time period at 299 Broadway

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This memo summarizes background context on the Urban Center Housing – Tax Increment Financing (UCH-TIF) Agreement for the 299 Broadway redevelopment, and requests final approval of the tax exemption and time period for the agreement. The memo includes two additional memos from the City's real estate consultants who reviewed project financials as Appendix A and B, and accompanies an updated UCH-TIF Agreement that incorporates project changes approved by the Somerville Zoning Board of Appeals since the project received its initial Comprehensive Permit in February 2023.

Context:

The UCH-TIF Agreement approved by the City Council in 2023 for the 299 Broadway project was for a full 100% tax exemption on the increased land value for a twenty-year period, which is the full amount allowed for by the UCH-TIF legislation. This exemption percentage and time period were conditionally approved, with the stipulation that the project team would allow for a second review of their project financing just prior to a building permit issuance to confirm if the full exemption was still needed. The Economic Development Division has concluded their review with Abramson and Associates (in association with Beverly Gallo, Peregrine Urban Initiative, LLC) and found the full UCH-TIF is still merited. A variety of aspects of the project have also changed in the intervening two years, including increasing the number of housing units in the project. The project descriptions in the Agreement must now be updated to reflect the final approved project.

Summary of Request

The Mayor respectfully requests that this Council authorize the Mayor to execute an updated UCH-TIF Agreement between the City of Somerville and Mark Development LLC with a tax exemption of 100% of the tax increment on Lot 1 and Lot 2 of parcels 70-D-5 and 70-D-27 as they are to be subdivided per the Comprehensive Permit application for the 299 Broadway redevelopment project for a term of 20 years subject to additional terms and conditions. This updated UCH-TIF Agreement will also include the updated project description incorporating changes since February 2023. Once executed, the Agreement would be sent to the Executive Office of Housing and Livable Communities (HLC) and then recorded.

Appropriate staff will be available to answer any questions you may have. Thank you for your consideration of this matter.

Exhibit A: Memo from Abramson & Associates re: Evaluation of UCH-TIF and Other Financial Assistance for 299 Broadway Project, focused on Building B (the mixed-income building).

MEMORANDUM

TO: **Benjamin Demers, Senior Planner – Real Estate Specialist**
Economic Development Division
City of Somerville Office of Strategic Planning and
Community Development

FROM: **Barry Abramson**

SUBJECT: **Evaluation of UCH-TIF and Other Financial Assistance for**
299 Broadway Project

DATE: **June 23, 2025**

Abramson & Associates, Inc., in association with Beverly Gallo, Peregrine Urban Initiative, LLC, has evaluated financial pro forma information provided by the joint venture of Mark Development and Samuels & Associates (Mark/Samuels) and Beacon Communities (Beacon) in support of their request for an Urban Center Housing Tax Increment Financing (TIF) in the full amount of the tax increment for the maximum 20-year term and other financial assistance from the City.

The project comprises two buildings: Building A – 115 affordable rental apartments plus 6,782 square feet of retail, and Building B – 204 rental apartments, 183 market rate and 21 affordable at 80% of AMI, plus 4,999 square feet of retail. The City will provide on-street parking permits for the mixed-income project, given the lack of on-site parking. Beacon will develop and operate the affordable housing in Building A (the "affordable project"). Mark/Samuels will develop and operate Building B (the "mixed-income project"). Beacon will own and develop the retail in their building and master lease it to Mark/Samuels.

The buildings will be constructed in two stages, with Building A proposed to proceed first. Assuming construction contracting and financing proceed expeditiously, the developers anticipate the first phase to commence construction this summer with Building B vertical construction starting within a few months thereafter.

In 2023, the City reserved the full TIF generated by the combined project to fill the then anticipated feasibility gap, with that reservation being subject to an evaluation, at such time as the developers could provide updated financial pro formas based upon final design, permitting and construction contract(s) and when financing could be better assessed to enable the City to determine the appropriate amount of the TIF and any other subsidies.

To do this, Abramson & Associates has reviewed pro forma and other information provided by Mark/Samuels and Beverly Gallo has reviewed pro forma and other information provided by Beacon, supplemented by clarifications from the developers and the consultants' experience with comparable projects and research in the market.

Construction contracts have not been finalized for either project. The Building B construction cost estimate is based on the lower of two contractor bids. There is the possibility the price in the negotiated contract, anticipated within approximately one month, may be somewhat less than this bid amount, but the developer considers a reduction, if any, would be marginal. Beacon represents that the Building A construction cost has been agreed upon with the contractor with a final contract in that amount pending.

Beverly Gallo's evaluation of the affordable project is detailed in a memorandum dated April, 30, 2025. In summary, Beacon's assumptions appear to be reasonable and the project viable, assuming the State follows through in providing the funding in the amounts that have been preliminarily earmarked for the project. The risk would be whether the State will provide all of the funds Beacon estimates and/or if the final construction contract comes in higher than the estimate upon which the funding plan is based. In such case, it would be at the City's discretion whether to fill the gap with additional subsidy. The State requires a post-construction cost certification for tax credit projects, so, if construction ultimately does not use all of the allocated funds, an adjustment to the tax credit allocation will be made.

With regard to the mixed-income project, the developer represents that it has not been able to raise traditional financing for the project. They have been able to secure a financial partner, Safehold, Inc., to participate in the project in a structure in which Safehold would purchase a fee interest in the property for $35,000,000 and net lease it back to the developer for 99 years and also provide a $55,000,000 construction loan, together accounting for 84.4% of the project's estimated approximately $106,700,000 cost. The developer would directly fund the remaining $16,700,000 equity requirement. The developer represents that the deal with Safehold will be finalized in the coming weeks materially consistent with the terms of a letter of intent that the developer has provided.

We consider the assumptions utilized in the pro forma, generally, to fall within a range of reasonableness, albeit, in some cases, leaning toward the more conservative end of the range, subject to the caveats discussed below. Notably, a third-party market analysis, which the developer represents was required by Safehold, indicates rents for market-rate units at almost 5% less than previously assumed by the developer. The more conservative market rate rent assumption, averaging $4.84 per square foot in today's dollars, is within the range of reasonableness, though the developer believes there may be the possibility of achieving rent at or approaching the previously estimated level.

The developers' pro forma currently assumes that the project will receive the full UCH-TIF exemption percentage for the full twenty-year period allowed. The developers also anticipate receiving $2,490,375 from the Somerville Redevelopment Authority for the acquisition of Sewall Park, which the City intends to fund with a MassWorks Infrastructure Program grant received for the project, and this week will receive $750,000 from the Somerville Community Land Trust (SCLT) for an acquisition of "Lot 4" where SCLT will build affordable homeownership units. The developer also assumes a waiver of approximately $1,000,000 in Building Permit fees that is still being contemplated by the City. Note, these are each calculated in the developers' pro forma as deductions from costs rather than

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sources of funds.

We consider an untrended return on cost (ROC) to be an appropriate measure for determining feasibility. Untrended return on cost divides uninflated (i.e. in today's dollars) cash flow from operations before debt service by development cost.

Based on conversations with knowledgeable sources in the real estate sector, we consider an ROC of 6.0% to 6.25% to be a reasonable range for a development project of this type in today's real estate investment market.

Based on the above assumptions, the developer's pro forma indicates the project achieves an ROC (calculated as the net cash flow after land lease payments divided by the $71,700,000 of the combined loan amount and developer equity) that is toward the lower end of that range. We note that the ROC on an overall project basis, i.e. the net cash flow prior to deduction of the lease payment divided by the $106,700,000 total project cost, is slightly below the above-noted range that would be targeted with a more traditional financing structure.

If the rents are assumed to be even halfway between the developer's prior estimates and the conservative estimates used for project underwriting, the ROC calculated as the net cash flow after land lease payments divided by the combined loan amount and developer equity would increase to a little above the target range and the ROC on total project cost would come closer to the lower end of the target range.

Based on the above and the City's desire to see this project move forward, we consider the City's provision of the proposed financial assistance (the full 100% exemption on the tax increment for the property for the full 20 year period allowed and the other assistance noted above) to be reasonable. This assumes the construction contract amount does not ultimately come in significantly below the level estimated by the developer and the project financing agreement is substantially in line with the terms of the letter of intent provided to us by the developer. While finalization of these agreements presents some uncertainty, it is our understanding that the present time is as close to the developers' anticipated financial closing and construction contract as possible that the City Council can approve UCH-TIF terms.

We understand that it is not certain the City will choose to waive the building permit fee or a portion thereof. Should the $1,000,000 the developer has assumed will be waived need to be added back to the project budget, it would represent a relatively small (less than 0.1%) impact on return on cost.

Exhibit B: Memo from Beverly Gallo, Peregrine Urban Initiative, LLC, re: Review of Updated LIHTC Developer Submission to the City of Somerville for 299 Broadway, focused on Building A (the fully affordable building).

MEMORANDUM

Date: April 30, 2025

From: Beverly Gallo, Peregrine Urban Initiative, LLC

To: Barry Abramson, Abramson & Associates, Lead Consultant

Re: Review of the Updated LIHTC Developer Submission to the City of Somerville for 299 Broadway.

I am pleased to submit this amendment to the initial follow-up summary of findings I submitted on April 17th, 2025 in connection with my review and analysis of the affordable housing component of a joint proposal submitted by Beacon Communities (Affordable Development Partner) and Mark Development/Samuels Assoc. (Private Development Partners). This review is prepared on behalf of the City of Somerville under subcontract with Abramson & Associates. My review is updated based on the Low-Income Housing Tax Credit (LIHTC) proforma submitted by Beacon Communities (dated April 9th, 2025) for 115 units of new housing, affordable to households earning less than 60% of the area median income. This analysis focuses primarily on the feasibility and the practicality of the financial models proposed by the developer of the affordable project. This memo is not a review of the Private Developer's proposal, which will be presented by the Lead Consultant under separate cover.

The purpose of this analysis is to re-confirm the feasibility and practicality of the affordable housing project proposed in support of the Private Developer's request for Tax Increment Finance relief from the City of Somerville, as administered by EOHLC, known as the Urban Center Tax Increment Financing program, or UCH-TIF program. Comments are based on my experience as a real estate developer and development consultant working with non-profit and mixed-finance affordable housing developer clients. Comments below are generally intended to assist the City of Somerville in assessing the reasonableness of the Affordable Developer's proforma.

I have re-reviewed the "draft" affordable housing proforma referenced above from the initial budget proposed in January of 2023. While I can't opine as to the accuracy or scope of the architectural design/layout or of the construction cost estimate provided, the proportional value of the line-items is generally consistent with industry standards for a 4% Low-Income Housing Tax Credits, with associated Tax-Exempt Bond financing. Current instability of the US and world economies, breeds uncertainly in the marketplace overall and I am unable to comment on how construction pricing and/or related development costs will be impacted going forward. However, with construction pricing currently in place and pending contract execution and closing on all sources of funding, the developers are motivated to move forward with construction before, and if, economic conditions change.

Below is a list of items that have either changed since my first review or that I wanted to revisit in light of current market conditions and realities:

- **Land Value**. The current budget is now carrying $11.4MM in acquisition costs ($99K/unit) for the portion of the land required for the affordable project. This is a significant increase from the January 2023 budget amount of $4.93MM ($43k/unit).

  To be competitive for state funding, I noted that this cost generally needs to be in the range of $40,000-$45,000/unit, which is typical of what EOHLC will fund in the Boston-area. Beacon has clarified the increase in land costs occurred when the total land area was re-apportioned to more accurately reflect the land areas required for Phase A and Phase B, rather than to try to back-into the State's per unit standard. They also explained that the City of Somerville was aware of this re-calculation and offered to award $6MM in City Affordable Housing Trust funds to off-set the cost increase and the "ask" from the State. This brought the per unit cost to just under $47K/unit which is reasonable and was accepted by the EOHLC as part of Beacon's request for funding.

- **Developer fees.** The developer fee calculation is in accordance with EOHLC standards and is reasonable. Beacon is deferring 33% of the total fee as a source to the project which is above the typical of 25% that is commonly seen for affordable housing transactions of this nature.

- **Rents**:

  Fair Market Rents (FMRs) carried in the current budget are consistent with the 2025 HUD published FMRs, which drive the value of the Project-Based Section 8 (PBS8) contracts:

	HUD FMR (120%)	Beacon Budget	Variance
2 BR	$3,404	$3,392	(12)
3 BR	$4,102	$4,102	0

  FMRs support the value of the Project Based Section 8 vouchers and are determined and underwritten by local housing agencies. For this project, the SBS8s have been allocated and will be administered by Metro Housing Boston.

  MRVP rents indicated in the proforma budget are significantly lower than the rents published by EOHLC by zip code for 2025. This increase may support additional debt resources as needed:

	MRVP	Beacon Budget	Variance
2 BR	$3,476	$2,827	(649)
3 BR	$4,042	$3,418	(624)

  Similar to the PBS8s above, the request for eight (8) MRVP vouchers is reasonable and has been approved by EOHLC as evidenced by their award. https://www.mass.gov/news/healey-driscoll-administration-announces-227-million-in-awards-to-create-preserve-nearly-2000-housing-units

  LIHTC Rents are generally consistent with the rents published by MassHousing in 2024. Beacon has confirmed that they have secured an allocation from MassHousing for 2025.

- **Soft Costs**. As the Total Development Cost (TDC) has increased, the soft costs have likewise increased since my first review in January of 2023. This is not unusual as the project moves forward toward closing on sources of funding and related costs are confirmed and "bought-out".

  A couple of specific costs stood out as being on the high-end of the range of typical costs but are not unreasonable for a project of this size in this marketplace; it is also important to point out that these numbers have been presented to EOHLC and were deemed reasonable in the final budget that EOHLC accepted as the basis for their funding announcement in July in 2024:

  - Legal fees are estimated at 2.3%; which is a total budget of about $1,075,000, excluding lenders legal.

  - Consulting Fees are likewise higher than I have seen on similar sized projects. We assume that these costs are apportioned properly between the affordable and market rate phases, as costs that do not exclusively support the affordable project would not be "basis eligible" for tax credit purposes.

  - Environmental Costs are estimated at $187K. Similar to above, I assume that these fees are just for the portion of land that is accommodating the affordable units. Again, the apportionment of these fees will be tested through the Section 42 Cost Certification process.

- **Public Funding**. As stated in the review memo from January 2023, the assumption on state subsidies were particularly high at approx. $128,000/unit. Under the final budget submitted to EOHLC, these costs increased significantly to address the funding gap but it appears that the increase has been reviewed and approved by the State. The Sources below were included in the budget that was accepted by EOHLC, as evidenced by the award made to the project in July of 2024: https://www.mass.gov/news/healey-driscoll-administration-announces-227-million-in-awards-to-create-preserve-nearly-2000-housing-units

  It is also worth noting, that the Commonwealth and the project's financial underwriters will require a post-construction cost certification for all costs associated with a tax credit project. So, if there are any cost savings during the development process, they will be documented in the cost certification process, as prepared by an accountant (CPA) and evidenced in the IRS form 8609. An adjustment to the tax credit allocation can then be made at that time such that cost savings are yielded to the Commonwealth.

Given the current state of the project as it advances toward closing, I would consider the affordable housing development budget otherwise appropriate and within industry standards.