

From: Penelope Jennewein <penelopejennewein@gmail.com>
Sent: Wednesday, March 28, 2018 2:12 PM
To: Mark Niedergang; mark@markniedergang.com; Board of Aldermen; City Clerk Contact; Katjana Ballantyne; Matthew McLaughlin; Stephanie Hirsch; Wilfred Mbah; Mary Jo. Rossetti; William A. White; JT Scott; J.T. Scott; wilfred_mbah@yahoo.com; Ben Ewen-Campen; Jesse Clingan; Lance Davis
Cc: Monica Achen; Michael Bowler; Benjamin Bradlow; Tessa Bridge; James Roberts Crall; Donald Cronin; Colleen Fitzpatrick; Fenna Krienen; Christopher Lay; Frank; Jon Leonard; Matthew Miller; surjeet paintal; Harriotte Ranvig; Joyce Shortt; Anosha Siripala; Melinda Green; Luke Schaber; Rand Wilson; Ian Adelman; pennie taylor; Jacob Kramer
Subject: ORS 3 Major Concerns Clarendon/Response to developer team

Dear Board of Alderman:

In response to the development team's [March 6 letter](#) to the Board: we appreciate the effort made to address some of our concerns; however, we still have major concerns with the Clarendon Home Rule Petition as it stands. We have backed up our statements with math showing our reasoning. Redgate's response does not support their claims with facts, and we ask them to do so, so we can evaluate their response.

Our major concerns are as follows:

- **THIRD PARTY OVERSIGHT** - The developer team's letter states that they have committed to oversight by a third party that will ensure good labor practices. We ask, if the developer is truly committed to ensuring good labor practices, that they do so through the legal standard, the part of the Ch. 149 law that requires certified payroll records.
- **PUBLIC WORK** - The letter states "We are proposing to build 278 apartment units, 25 of which are rent-restricted. We are not asking for, or accepting, any public subsidy for our portion of the project." Yet the HRP asks for the public housing operating subsidy to flow to the new owners of the affordable housing. As Redgate will be the new owner of 25 public housing units, where will the operating subsidy that is currently being received by the Housing Authority go? Reasonable interpretations of the Ch. 149 definition of public works is that if the subsidy is going towards the 25 public housing units within Redgate's portion of the project, this is a public work. Reasonable interpretations of the law are also that a project built on public land, as Redgate's portion will be, is a public work.
- **LACK OF TRANSPARENCY ON ECONOMICS OF THE PROJECT** - The development team stated that using the \$106M building value and the \$95M building cost would yield a profit number of only \$11M for them.
 - However, the \$106M building value is based on only 253 units and doesn't include the 25 rent-restricted units. We have attempted to estimate the value in Appendix A with the understanding that plans are not yet finalized. Even assuming the developer gets no subsidies as they are claiming, there is revenue here which will increase the building value. We estimated that the rent-restricted units would bring in revenue 65% of the level that the market rate units would, and that increases the building value by approximately \$5M to \$111M
 - The \$95M construction cost comes from underwriting assumptions which assumed construction of 300 units. (see Appendix B). Since the developer is building 278 units, this is overstated. We would estimate the construction cost is closer to \$88M ($=\$95M * (278/300)$)
 - **Final Profit number is therefore $(\$111M - \$88M) + \$3.0M$ developer fee = \$26M**

- And we believe these numbers are all underestimating the actual profit because we don't have access to the pro forma. The Board of Aldermen must ask to see the pro forma in executive session, which will show that the developer can easily pay prevailing wage.
- PREVAILING WAGE COST - The development team says that prevailing wage will cost \$14M instead of the \$6.6M we estimated. This is a gross exaggeration:
 - Our calculation was: Construction costs * (labor cost as a percentage of total cost) * (incremental cost of prevailing wage labor vs. non-prevailing wage)
 - $\$66M \times (50\%) \times (20\%) = \$6.6M$
 - They did not provide a calculation to justify doubling the cost.
 - We reached out to a number of developers around the Boston area to inquire what percentage of total construction cost labor typically is. We got confirmation that 50% is a reasonable estimate.
 - Prevailing wage costs 20% as an industry standard. We believe Redgate is using a much higher number to make prevailing wage sound infeasible.
 - **There's an easy way to resolve this: Open up the pro forma for the Board to examine.** You'll see actual costs for prevailing wage on the A+B blocks and the Board can judge if Redgate can pay prevailing wage.

We reaffirm our support for Clarendon residents' right to have the new housing they deserve AND we want a guarantee that workers who are building it are safe and paid fairly. We reject the idea that we must choose between the two. Both are possible (and the developer will still walk away with an enormous profit).

We have included a list of important questions the Board should have answers to before passing the deal.

Sincerely,

ORS members Penelope Jennewein, Pennie Taylor, Ian Adelman, Luke Schaber, Rachel Distler, Melinda Green, Rand Wilson, Jacob Kramer

ORS 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.)

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 Penelope Jennewein
 (617) 596-1745

Appendix A: Updated Market Value of Building with 278 units

Updated calculation of the Fair Market Value of A+B plots after construction, including the revenue from the 25 rent-restricted units which will also yield operated income. Rental income estimated at 65% of market rate for Rent-restricted units.

Est. Gross Revenue (monthly) from schedule 1A				
Income Segment	Unit Type	No. Units	Rental Income / Unit	Total Est. Rental Income
Luxury ("Market Rate")	Studio	25	\$2,016.00	\$50,400.00
Luxury ("Market Rate")	1 BR	150	\$2,471.00	\$370,650.00
Luxury ("Market Rate")	2 BR	65	\$3,092.00	\$200,980.00
Luxury ("Market Rate")	3 BR	13	\$3,226.00	\$41,938.00
Rent-restricted	Studio	3	\$1,310.40	\$3,931.20
Rent-restricted	1 BR	15	\$1,606.15	\$24,092.25
Rent-restricted	2 BR	6	\$2,009.80	\$12,058.80
Rent-restricted	3 BR	1	\$2,096.90	\$2,096.90
Total		278		\$706,147.15

Yearly Model

Monthly Revenue	\$706,147.15
	x12

Gross Revenue	\$8,473,766
5% Vacancy Rate	\$423,688
GR Less Vacancy	\$8,050,078

Expenses per unit	\$9,000
Units	278
Total Expenses	\$2,502,000

Net Operating Income	\$5,548,078
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Cap Rate	5%
Market or Trading Value	\$110,961,550

Appendix B: Outstanding questions the BOA needs answers to.

Public Housing units contained in A+B

- How many public housing units will be within the portion of the development owned by Redgate?
- As Redgate will be the new owner of 25 (15?) public housing units, where will the operating subsidy that is currently being received by the Housing Authority go?
- What amount of subsidy will Redgate receive for each public housing unit in A+B?
- How will it be determined which tenants are leased public units in the Redgate portion? I.e., how do we ensure that Redgate doesn't get to cherry pick its tenants from the highest income level?
- Do the public housing units count towards Redgate's requirement to provide 20% affordable on site?

Design

- How final is the design? Is the square footage or footprint locked in or still being worked out?
- What is the total number of units? What will the unit mix be? When will it have to be finalized?
- What permits and permitting process is the development subject to? Does it make a difference that it is on state land?

Construction

- How will Somerville residents be prioritized for the 1000 jobs this project creates?
- If the project does not have to follow the state law with regard to prevailing wage and oversight, who will do the oversight? Why have they not yet agreed to certified payroll records?

Financing

- Can/when will the pro forma be shared with the Board and with the public so that we can all see the real numbers for the project?
- Has there been an independent analysis of the \$16 million land lease for A+B? Has there been an official appraisal? What was the method of appraisal?