

Appendix C

Report from Barry Abramson of Abramson & Associates in association with Beverly Gallo, Peregrine Urban Initiatives regarding financial analysis completed to inform the UCH-TIF Agreement between the City of Somerville and 299 Broadway Property Owner LLC

MEMORANDUM

TO: Alexis Turgeon, Housing Development Program Manager
Rachel Nadkami, Interim Director of Economic Development
City of Somerville Office of Strategic Planning and Community Development

FROM: Barry Abramson

SUBJECT: Evaluation of UCH-TIF Request for 299 Broadway Project

DATE: January 31, 2023

Abramson & Associates, Inc., in association with Beverly Gallo, Peregrine Urban Initiative, LLC, has evaluated preliminary pro forma information provided by Mark Development (Mark) 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.

The project is proposed to include two buildings: Building A – 115 units of rental apartments affordable to households earning less than 60% of area median income plus 5,900 net square feet of retail, and Building B – 172 units of rental apartments, 155 of which would be market rate and 17 affordable to households earning less than 80% of area median income, plus 8,100 net square feet of retail. Beacon will develop and operate the affordable housing in Building A (“affordable project”). Mark will develop and operate Building B and the retail space in Building A (the “private project”).

No parking will be provided on-site, eliminating a substantial cost, further challenging feasibility and enhancing the need for subsidy, especially given the reported presence of sub-surface asbestos contamination. It is our understanding that the City will provide a limited number of on-street parking permits to support marketing of the private project.

It is anticipated that the buildings will be constructed in two stages to allow for adequate staging area, minimizing disruption, with Building B likely proceeding first. Assuming further design, permitting and financing proceeds expeditiously, the first phase could be anticipated to commence construction somewhere in the vicinity of 18 months from now.

Mark has an option to purchase the site at a price reported to be \$22,800,000, with closing required by April 1st. Prior to making this investment, Mark seeks assurance of the availability of the full TIF generated by the combined project to fill its anticipated feasibility gap. It is understood that, at the time the project has undergone full design and permitting, secured a construction contract and financing can be better assessed, Mark and Beacon will submit revised pro forma information to the City based on the then current market conditions. The City will, then, evaluate the financial gap, if any, and indicated need for the amount of the TIF, and, as necessary, additional financial support.

The evaluation at this juncture is to determine the reasonableness of the City's allocation of the full TIF to the project, understanding that a refined analysis based on updated and more accurate information will be done at the above-stated time. To do this, Abramson & Associates has reviewed development pro forma information provided by Mark and Beverly Gallo, Peregrine Urban Initiative has reviewed pro forma information provided by Beacon. Both evaluations are caveated as being based on information provided by the developers and the necessarily preliminary nature of such information at this time.

The evaluation of the affordable project, summarized in the attached memorandum, concludes that the pro forma information is generally consistent with industry standards, though noting a concern about the level of state subsidy anticipated to be required possibly resulting in the State requiring meaningful local funding.

With regard to the private project, our evaluation concludes that the assumptions utilized fall within a broad range of reasonableness, albeit, in some cases, leaning toward the more conservative end of such range. This is understandable, given their preliminary nature and the vagaries and state of flux, both current and looking forward, characterizing many elements of the construction, financing and real estate market as well as the significant time between now and when the project would be able to secure financing based on full design, permitting and construction contract.

Mark has suggested that an untrended unleveraged return on cost (ROC) is an appropriate parameter for determining financial feasibility/need for gap financing and that such an ROC would be in the range of 5.5 - 6.5% in today's market. An untrended unleveraged return on cost is the stabilized net operating income divided by the total development cost, all in today's dollars. We concur that this approach is a reasonable parameter for this purpose as it has the benefits of: being simple, avoiding the vagaries of particular financing arrangements (while, inherently, accounting for them in a general market-wide way); avoiding speculation about inflation; and being a parameter for which participants in the real estate market are able to provide some general market norms (which, of course, should be adjusted for the particulars of the specific location and project).

We consider an untrended unleveraged return on cost for the private project in today's market could fall in the above range, perhaps at or toward the lower end of the range. Applying an ROC at the low end of this range to the pro forma costs and income based on Mark's assumptions results in a need for the entire TIF plus additional subsidy.

The above evaluation and the City's desire to see this project happen offer a basis for the City reserving the full TIF for the project, understanding that a deeper evaluation, based on updated and refined information provided by the developer and then current conditions, including ROC and such other return parameters as may be considered appropriate, will be performed to determine the appropriate amount of the TIF and any other subsidies, and that it may be appropriate for the City to negotiate additional provisions for monitoring and adjusting subsidy over time.

MEMORANDUM

Date: January 29, 2023

From: Beverly Gallo, Peregrine Urban Initiative, LLC

To: Barry Abramson, Abramson & Associates, Lead Consultant

Re: Review of the Early-Stage LIHTC Developer Submission to the City of Somerville for 299 Broadway.

I am pleased to submit the following abbreviated summary of findings 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 (Private Development Partner), to support the 299 Broadway project located in Somerville, MA prepared on behalf of the City of Somerville under subcontract to you. My review is based on the Low-Income Housing Tax Credit (LIHTC) proforma submitted by Beacon for 115 units of new housing affordable to households earning less than 60% of the area median income. Responses to follow-up questions and correspondences, addressed in January of 2023, provided ancillary information and clarification. 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 confirm the feasibility and practicality of the affordable housing project proposed in support of the developer's request for Tax Increment Finance relief from the City of Somerville, in partnership with Mark Development as the Private Developer. Comments are based on my experience as a real estate developer and development consultant in support of non-profit and mixed-finance affordable housing projects. Comments below are generally intended to assist the City in assessing the reasonableness of the early-stage TIF request to address funding gaps driven by the current affordable housing development marketplace.

I have reviewed in detail, line by line, the "draft" affordable housing proforma referenced above. While I can't opine as to the accuracy or scope of the architectural design/layout or of the construction cost estimate provided, the value of the line items is generally consistent with industry standards for a 4% Low-Income Housing Tax Credit, with associated Tax-Exempt Bonds, financing structure.

The one area of real concern is the estimate of state subsidies required to support the project, as presented, is extremely high. Particularly, the estimate of required State Tax Credits at \$14.7M (\$127,826/unit), while not unprecedented, may be problematic for the Department of Housing and Community Development (DHCD) to underwrite. This is not uncommon for projects of this scale and scope in the Boston area. In my experience, the Commonwealth will work with the developer to address this funding gap, but will likely require a meaningful local funding contribution from the City of Somerville.

Given that this project is in its early stages, I recommend that we re-visit the financing structure prior to closing on all sources to re-confirm consistency and reasonableness.