

# **SANDWICH COMMUNITY PRESERVATION COMMITTEE**

## **UNDERWRITING ANALYSIS OF FUNDING REQUEST**

APPLICANT/SPONSOR: SCG Development and CHOICE, Inc.

PROJECT NAME/ADDRESS: Henry T. Wing School Residences

CPC \$ REQUESTED: \$2,650,000

TOTAL DEVELOPMENT COST: \$53,245,857 (over three phases and including site work, approximately \$415,000 per unit)

# OF PROJECT UNITS: 128

# OF AFFORDABLE UNITS: 107

DATE: June 9, 2020

### **1. Overview**

The proposal for the Henry T. Wing School is for the adaptive re-use of a portion of the Henry T. Wing School and new construction into a mixed income senior housing (62+) community named the Henry T. Wing Residences located at 33 Water Street, Sandwich. The project is proposed as a mixed income development with 84% of the units being affordable and 16% market rate split over three phases.

This analysis will review the request to the Community Preservation Act Committee. The developer team has requested \$2,650,000 over the three phases. The majority of these funds, \$2,000,000, will be used to prepare the site for the development.

The applicant is proposing that the Residences be constructed in three phases to take advantage of and maximize the tax credit program and other State funding sources;

1. The first phase will anchor the site with the historic rehab portion of the Henry T. Wing school along with the new construction of forty-three senior housing units.
2. The second phase will contain up to forty-one senior housing units in one three story multifamily structure
3. The third phase will contain up to forty-four senior housing units in a three-story multifamily structure.

SCG Development and CHOICE Inc. propose to construction a total of 128 units with 2 studios 118 one bedrooms and 8 two-bedroom units. See chart below:

<b>Property</b>	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Total</b>
Studio	2	-	-	2
1 BD	37	39	42	118
2 BD	4	2	2	8
<b>Total</b>	<b>43</b>	<b>41</b>	<b>44</b>	<b>128</b>

Of the 128 apartments 107 will be restricted to tenants making 60% or less of the area median income (AMI) and 27 of the 107 units will be restricted to tenants making 30% or less of AMI. The remaining 21 apartment units are proposed to be market rate. The breakdown of affordable and market rate units by phase is show below:

<b>Unit Type</b>	<b>Income/ Rent Limit % AMI</b>	<b>Phase I</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Total</b>
Studio	30% AMI	2	0	0	2
1 BD	30% AMI	6	9	9	24
1 BD	60% AMI	26	24	27	77
1 BD	Market rate	5	6	6	17
2 BD	30% AMI	1	0	0	1
2 BD	60% AMI	1	1	1	3
2 BD	Market Rate	2	1	1	4
		<b>43</b>	<b>41</b>	<b>44</b>	<b>128</b>

The chart below shows the breakdown of affordable and market units by phase.

	<b>Total Units</b>	<b>Affordable Units</b>
<b>Phase 1</b>	43	36
<b>Phase 2</b>	41	34
<b>Phase 3</b>	44	37

A summary of the sources and uses for the project is below:

Sources	Coterminous Closing				Total
	Demo/Site	Phase 1	Phase 2	Phase 3	
Tax Credit Equity	-	9,500,000	9,842,000	11,696,000	31,038,000
First Mortgage - TD Bank Loan	-	1,200,000	1,240,000	1,700,000	4,140,000
Affordable Housing Trust Loan	-	1,000,000	1,000,000	900,000	2,900,000
Housing Stabilization Funds Loan	-	1,000,000	1,000,000	900,000	2,900,000
Federal HOME Loan	-	550,000	550,000	550,000	1,650,000
State LIHTC Loan	-	1,944,000	1,224,000	532,800	3,700,800
Community Based Housing Loan	-	600,000	600,000	600,000	1,800,000
Barnstable HOME Loan	-	200,000	150,000	150,000	500,000
CPC Loan (Town of Sandwich)	2,000,000	250,000	200,000	200,000	2,650,000
Deferred Development Fee	-	935,066	92,751	231,477	1,259,294
<b>Total - Sources</b>	<b>2,000,000</b>	<b>17,179,066</b>	<b>15,898,751</b>	<b>17,460,277</b>	<b>52,538,094</b>
Uses	Demo/Site	Phase 1	Phase 2	Phase 3	Total
Ground Lease Pmt	-	215,000	450,000	600,000	1,065,000
Hard Construction Costs	2,000,000	10,853,002	10,379,435	11,485,108	35,326,670
Hard Construction Contingency		963,975	518,972	574,255	2,087,659
Soft Costs		2,904,219	2,616,367	2,731,798	8,447,132
Reserves		360,000	360,000	360,000	1,080,000
Development Fee		1,882,870	1,573,977	1,709,116	5,239,396
<b>Total Uses</b>	<b>2,000,000</b>	<b>17,179,066</b>	<b>15,898,751</b>	<b>17,460,277</b>	<b>53,245,857</b>

## 2. Executive Summary

Market/Leasing: As noted in the Cape Cod Commission’s 2017 Regional Housing Report, there is a dearth of year-round rentals of all types in the region with vacancy rates as low as 1% when a “normal” market would have about a 7% vacancy rate.

The development team is experienced, especially with the development of senior housing in Massachusetts, and the analysis completed to date shows that this development presents a relatively low level of risk with respect to a successful construction and ongoing operation of the rental housing.

## 3. Market Need/Study

As noted in the Cape Cod Commission’s 2017 Regional Housing Report, there is a dearth of year-round rentals of all types in the region with vacancy rates as low as 1% when a “normal” market would have about a 7% vacancy rate. It is highly likely that the units will fill very quickly with income eligible tenants.

## 4. Underwriting

Development Budget:

Total Development Cost (TDC) of \$415,000/unit while high is in line with many developments throughout Massachusetts. Material and labor costs have definitely increased in the last 3+ years. Almost \$15,000/unit can be attributed to the demolition and associated environmental remediation of the existing school buildings.

The CPA request of \$2,650,000 is high, but at \$24,000 per affordable unit is in line with other requests throughout the State. The following is a list of recently funded projects:

- 2019 Wareham, \$650,000 for the construction of 4 units (\$162,000/unit)
- 2018 Plymouth, \$1.4 million to Plymouth Housing Authority to fund 24 rental units. (\$58,000/unit)
- 2018 Mashpee, \$167,000 contribution to Habitat for Humanity construction of 3 homes (\$55,000/unit)
- 2017 Falmouth, \$362,000 for the purchase of 5.57 acres for the construction of 12 homes by Habitat for Humanity (\$30,000/unit)

The statute for CPA states that the funds can only be used for housing for households earning less than 100% AMI. The developer must show how the market units are being subsidized, and explain what those sources of funds are - such as the bank loan or tax credit equity. This is especially true in the site work phase where CPA funds are paying for much of the site related costs. Any grant agreement must condition the use of CPA funds for affordable units.

## **5. Conclusion**

The project will provide 128 units with 107 total affordable rental units in a mix of one- and two-bedroom apartments exclusively for seniors over age 62. The result of the analysis above is that the development is a low risk and a great opportunity to provide 128 mixed income units on an important site in the town. It is important to ensure that Community Preservation Act funds are not used to subsidize the market rate units. As the statute is written CPA funds can only be used for households earning less than 100% of AMI. The Town will need to create a grant agreement which conditions funding to affordable units or activities related to affordable units, such as the site work.

## **6. Attachments**

- SCG & CHOICE Proposal

Project plans and other application material referenced in this report are available from the Town.