

## MEMORANDUM

**To:** The Cambridge Redevelopment Authority (CRA) Board  
**From:** Tom Evans, Executive Director, and Kyle Vangel, Director of Projects and Planning  
**Date:** 1/17/2024  
**Re:** 2400 Massachusetts Ave. Equity Investment and Middle Income Housing Purchase

## BACKGROUND INFORMATION

The CRA signed a letter of commitment to the City of Cambridge (the “City”) on January 28, 2021, to develop 20,000 SF of affordable and middle-income home ownership housing as a commitment in connection the MXD Zoning petition accompanying the Kendall Square Urban Redevelopment Plan amendment. This commitment includes creating 16,000 SF of affordable (below 100% AMI) units and 4,000 SF of middle income (between 100% and 120% AMI) units.

The CRA has explored various alternatives for fulfilling its commitment to deliver both affordable and middle income units. The recently enhanced Affordable Housing Overlay is a critical tool in unlocking the ability to develop all-affordable projects in the city, but does not provide clear pathways for delivering middle income units as these would not qualify for the same level of zoning flexibility.

At the same time, in its Strategic Plan adopted in 2023, the CRA signaled its intent to pursue a financial strategy including revenue generating initiatives, which are defined as “investments that deliver returns over time, including real estate investment and loans that provide a return or at least a rotating source of funds.” The Strategic Plan further acknowledges that “any form of partnership would allow the CRA’s resources to go further.” Accordingly, the CRA issued a revised RFP in the fall of 2023 seeking development opportunities consisting of either land or partnerships to fulfil its affordable and middle-income home ownership commitment.

North Cambridge Partners LLC is under contract to purchase an approximately 27,786 square foot site located at 2400 Massachusetts Avenue in North Cambridge. They plan to develop a mixed-use project of approximately 94,682 square feet consisting of approximately 60 residential condominium units and 6,400 square feet of ground floor retail (the Project). North Cambridge Partners responded to the CRA’s RFP seeking an equity capital contribution from the CRA of \$5,000,000 to facilitate the purchase of the site. North Cambridge Partners further offered the CRA the opportunity to pre-purchase at least 4,000 square feet of residential condominium square footage within the Project to fulfil its middle income housing commitment.

## PROPOSED TRANSACTION

The CRA staff determined that the proposal submitted by North Cambridge Partners offers a favorable response to the RFP, and on December 13<sup>th</sup> in executive session, the CRA Board

authorized staff to move forward with negotiations. Shortly after the December Board meeting, a Letter of Intent was executed outlining initial terms based on the RFP response. To complete the transaction, CRA staff recommend that the CRA enter into (1) a Subscription Agreement which establishes the CRA's participation as a Limited Partner in the Project entitled to equity distributions per the terms of the project's Operating Agreement, (2) an Operating Agreement creating the structure for distribution of Project investment returns, and (3) a Purchase and Option Agreement to subsidize housing units in the Project to make them permanently affordable to middle income housing purchasers between 100% and 120% AMI (the Agreements). The Purchase and Option Agreement is a document unique to the CRA's interest in the creation of middle income units.

Foley Hoag LLP and HR&A Advisors, Inc. supported the CRA in drafting and analyzing the legal and financial terms of the Agreements. HR&A benchmarked the development assumptions against comparable projects in the area and developed a financial model for the project, finding that Project has the potential be financially feasible and provide returns that are in line with market standards.

Under the terms of the Agreements, the CRA will become a Limited Partner in the project in exchange for an equity investment of \$5,000,000 to support the purchase of the land at 2400 Massachusetts Ave. This equity investment will be made in January 2024. If the Project performs to expectations in the market, the CRA will recoup its initial investment and receive additional revenues which it can use to offset the purchase of affordability for the middle income housing units. It is anticipated that equity distributions from the project will occur in 2027 and 2028 once the project is completed and condominium sales generate revenues.

In order to fulfil its middle income housing commitment, the CRA anticipates it would preserve two to three condominium units in the property – equivalent to at least 4,000 gross square feet of residential area – as permanently affordable homeownership units for middle income households. This gross floor area will consist of both the net square footage of the units and the proportionate share of the residential common areas in the building attributable to the units. A covenant will be placed over these units restricting the future sale prices to households at the middle income AMI level as defined in the MXD zoning. These below-market units will be above and beyond the 20% inclusionary housing requirement for the Project.

## RECOMMENDATION

CRA staff recommend the CRA proceed with this equity investment in the project and purchase of the middle income units for several reasons:

- Housing production in Cambridge and Greater Boston is slowing due to high financing and construction costs. Sustaining housing production is an important public policy goal to mitigate further price pressure on the existing housing stock and provide housing opportunities. CRA staff see a role for the organization in leveraging its financial resources to support housing development projects in the current economic climate.

- Investing in the Project will diversify the CRA’s investment portfolio into land in Cambridge, in addition to the financial instruments (primarily stocks and bonds) the CRA participates in. CRA staff believe this is an appropriate diversification strategy for a municipal redevelopment authority.
- The transaction structure will enable the CRA to fulfil its middle income housing commitment in a way that is relatively untaxing on organizational staff and financial capacity. As a limited partner, the majority of CRA staff effort has been in the upfront negotiation of the terms of this agreement as opposed to managing the day-to-day of a multi-year development project. Moreover, the anticipated equity returns is expected to offset a portion, if not all, of the CRA’s middle income housing subsidy.
- Finally, participating in this transaction is an important step for the CRA in moving into the business of revenue positive real estate development through participation in partnerships. This is a key objective of the 2023 Strategic Plan for the organization’s long-term sustainability.

## PROPOSED MOTION

***Draft Motion:** Authorizing the Executive Director to enter into a subscription agreement, an operating agreement, and a purchase and option agreement for a five-million-dollar (\$5,000,000) investment into the 2400 Massachusetts Ave. development project, to support housing development in Cambridge and the delivery of at least four thousand (4,000) square feet of middle-income home ownership housing.*

## EXHIBITS

**Exhibit A:** RFP - Development Opportunity for the Creation of Below Market-Rate Housing

**Exhibit B:** Excerpt from North Cambridge Partners RFP Response