

ULI Development Handbook Series

Residential Development Handbook

Third Edition



Urban Land
Institute

Rollins Square

Boston, Massachusetts

A classic Bostonian streetscape and creative financing characterize this innovative mixed-income community. Containing a mix of 147 condominium units, 37 rental apartments, and 6,000 square feet (560 square meters) of ground-floor retail space, Rollins Square has successfully provided workforce housing in a rapidly gentrifying urban neighborhood. Workforce housing is affordable for middle-income workers such as teachers, nurses, and policemen who do not qualify for most housing subsidy programs but also do not have the income necessary to purchase housing in many high-priced cities. The Rollins Square project was developed by the Planning Office for Urban Affairs (POUA), Inc., a 501(c)(3) nonprofit housing developer affiliated with the Archdiocese of Boston. Established in 1969, POUA has developed approximately 1,690 units of affordable and mixed-income housing throughout the greater Boston market, with an additional 650 units currently under development. The project was also the result of Boston's "linkage ordinance." To balance commercial development with the housing demand that it creates, the city of Boston amended its zoning ordinance in 1983 to establish the linkage ordinance, which requires developers of major commercial, retail, hotel, and institutional projects to either pay a specified impact fee or develop an equivalent value of affordable housing on site (which the city defines as affordable to households whose income is at or below 80 percent of Boston's median area income [MAI]). The program has provided a predictable, long-term funding stream for the development of affordable and workforce housing while reducing the imbalance between jobs and housing in the central city.

Workforce Housing Program

With a particular focus on moderate-income units for first-time homebuyers, Rollins Square successfully meets the objective of providing entry-level housing for the area's growing workforce. The 73 affordable condominium units targeted South End residents who provide critical services to the community but cannot afford to live there.

The development provides housing opportunities for residents in a broad range of income levels. Twenty percent of the project's total units (37 units) are targeted to low-income residents whose income is 30 to 60 percent of area median income. Forty percent of the units (73) are for-sale condominiums targeted to moderate-income homebuyers whose incomes range from 80 to 120 percent of area median income. This component

of the project has provided significant homeownership opportunities to first-time homebuyers, a population severely underserved in Boston's South End. The remaining 40 percent (74) of the units were designed and marketed as high-end market-rate units selling for as much as \$750,000.

Site, Surroundings, and History

Rollins Square is a diverse and vibrant urban neighborhood adjacent to Beacon Hill and Boston's Back Bay neighborhood. Once an old wharf district, the South End is characterized by a blend of low-income housing, newly constructed high-priced condominiums, and commercial office space that primarily serves educational and health care institutions.

Originally controlled by the Boston Redevelopment Agency, the Rollins Square site was awarded to POUA in the mid-1970s. POUA initially planned and programmed the 1.9-acre (0.8-hectare) site for an expansion of an adjacent Catholic high school. As time passed and the demand for affordable and moderate-income housing escalated, the developer changed the plans.

The agency, which retained a fee ownership interest in the property until construction was completed, also gave the developer an ultimatum to "use it or lose it," accelerating predevelopment efforts for the project. In the early stages of development planning, POUA worked closely with the office of Boston's Mayor Menino to craft a creative and attractive mixed-income development program for the site.

Like most urban infill sites, the Rollins Square property faced numerous challenges, including the need to build around three historic rowhouses and to solve significant environmental contamination issues. Considered a brownfield site, the property contained both lead and petroleum contamination. The Massachusetts Brownfields Fund provided \$1 million to fund the project's environmental remediation.

Planning, Entitlements, and Development Program

Given the rapid gentrification of the South End and limited housing opportunities, serving a middle-income population was a major objective of the Archdiocesan Housing Office. Considerable neighborhood—and even citywide—support existed for the development of the Rollins Square site as a mixed-income community. Early in the approval process, the city of Boston identified local community groups for the developer to meet with and discuss the community's thoughts and concerns.



Courtesy of CBTRobert Benson Photography

Rollins Square is an urban mixed-income community of condominium units, rental apartments, and ground-floor retail space.

The Washington Gateway Main Streets Association, a community-based group formed to preserve the historic and urban settlement patterns of the Washington Street Corridor in Boston's South End, facilitated this public meeting process. The newly created neighborhood group identified several important land use, urban design, and architectural issues for the developer to consider—including the use of traditional vernacular architecture, the creation of a streetscape and building massing consistent with the historic neighborhood's character, open space designed to ensure the safety of pedestrians, and retail uses on the ground floor. The developer shared the vision that the city and local community proposed, resulting in a remarkably efficient and effective approval process.

Financing

To accomplish a wide variety of public purpose objectives, POUA assembled a complex mosaic of debt, equity, and grants, totaling 13 financing sources. The developer's vision of creating an inclusive urban mixed-income community that contained both for-sale condominiums and rental apartments dramatically increased the complexity of Rollins Square's project financing. To succeed with this ambitious development program, which was unparalleled in the city of Boston, it was critical to have a highly committed, focused, and professional financing team. The key participants in that team were the city of Boston, the commonwealth of Massachusetts, Fleet Bank,

and the AFL-CIO. This partnership of public agencies and unusual private sector leadership focused on finding creative and flexible approaches to financing.

Because the proposed project included both for-sale and rental housing, a number of challenges emerged. First, it was necessary to apply for funds twice—once for each component. Other factors were the need to address issues of collateral and the difficulty of structuring the legal entities to cover all parties concerned. The application process significantly increased the project's pre-development period.

The Boston Redevelopment Agency played an invaluable role in the project's site assembly and financing by writing down the project's land value to \$1.5 million and deferring payment of that amount until construction was complete. This purchase price represented the market land value for 74 units of market-rate housing, while zero land value was attributed to the project's affordable units.

POUA secured several scarce financing resources available to developers of low- and moderate-income for-sale housing in the Boston marketplace: \$1.17 million in state-administered HOME funds, \$2 million in Massachusetts affordable housing trust funds, \$2.9 million in permanent financing from MassHousing, \$1.17 million in Leading the Way funds (a discretionary affordable housing fund controlled by the Boston mayor's office), and more than \$2.5 million in funding from Boston's Neighborhood Housing Trust. The Neighborhood Hous-

Sixteen of the townhouses front directly on the new street and small park that were created in the center of the site.



Courtesy of CBTR/Robert Benson Photography



Courtesy of CBTR/Robert Benson Photography

ing Trust is directly funded by Boston's housing linkage program.

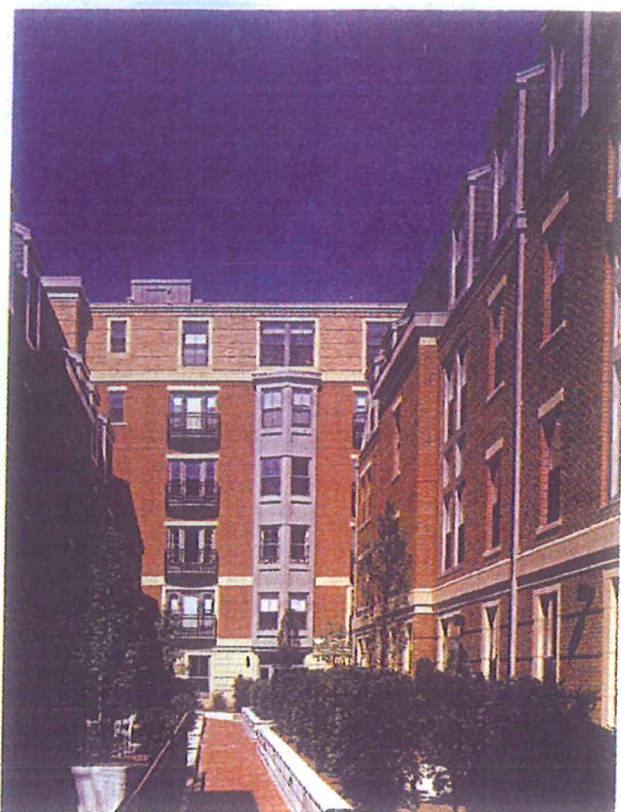
These funding sources financed only the portion of the development costs attributable to the for-sale workforce housing. POUA's mission and nonprofit status enabled the developer to internally subsidize the project's workforce housing condominium units. This internal subsidy was funded by the net revenue that was generated by the sale of the project's market-rate condominium units, representing approximately \$11 million in for-gone development fees.

Perhaps one of the most unusual elements of the financing was the prominent role played by a private sector commercial bank, FleetBoston, in this project with a very high public purpose. FleetBoston was the lead lender of the \$52 million construction loan (with MassHousing as a 50 percent participating lender) and provided more than \$3.8 million in tax credit equity. The unusual approach created underwriting challenges for the construction loan, which FleetBoston met by suggesting creative collateral for the loan.

In the early stages of the project's buildout, the lender required the developer to inventory and not sell a significant percentage of the project's moderate-income workforce condominium units. These "escrowed" units offered additional security that compensated for the limited guarantees the nonprofit developer was able to provide. Under this arrangement, the developer agreed to a discharge schedule that released workforce units for sale as market-rate units successfully sold over time. If the sale price of the market-rate units did not meet pro forma projections, some of the workforce housing units (whose sale prices were significantly written down) would have been sold at market rates. This creative approach allowed both the developer and the lender to recognize the unrealized economic value of the subsidized workforce housing units in the project financing.

Rollins Square's affordable rental units were spread throughout the project rather than consolidated in one building or on a single floor, creating a true mixed-income community. This component was central in the developer's mission not to isolate low-income households in only one area of the new community. Though the units were interspersed in the community, separate funding was required to finance them, and a limited partnership was formed to buy the 37 individual condominiums. POUA secured both low-income housing tax credits and Section 8 vouchers to finance the project's rental component.

To further assist with project financing, the developer used its status as a 501(c)(3) nonprofit organization and received an exemption from sales tax on all building materials, saving the project \$1.5 million. This strategy required the developer to control all partnership entities during the construction period, thus maintaining the developer's nonprofit status. As a result, the project's limited partners placed their investments as debt that converted into an equity position upon completion of construction.



Courtesy of Cliff Robert Benson Photography

Rollins Square is made up of small buildings that form a series of open spaces.

Financing for Rollins Square became increasingly complicated after the events of September 11, 2001. As a result of uncertain market conditions and the loss of a significant number of presale commitments in the days immediately following, the developer was unable to close the construction loan committed to the project and was forced to seek bridge financing. POUA approached the AFL-CIO Housing Investment Trust, a national leader in pension real estate investment for the development of housing. The trust was able to design a customized \$28 million bridge loan that provided the essential capital necessary to maintain construction progress during remarketing of the development. This arrangement also resulted in the creation of 644 union jobs during the project's construction.

Architecture and Design

The residences at Rollins Square occupy two city blocks bordered by Washington Street and Harrison Avenue on the north and south, Savoy and Waltham streets on the east and west, and the newly created Rollins Street through the center of the site. At the principal street corners, the project contains four six-story buildings and rows of four-story townhouses that fill in the street elevations between them. A small, well-landscaped park occupies the center of the site. The project includes a two-level underground parking garage with a total of 277 parking spaces.

Sixteen of the 20 townhouses front directly on the park. Adjacent pairs of townhouses share private front

and rear entrances and have direct access to the garage below. The remaining 164 residential units are located in the project's four six-story buildings. Each of these buildings has a private ground-level entrance lobby and an elevator serving the residences and garage. Ground-floor residences facing the park include private raised patios, while many upper-floor residences include French-style balconies or roof terraces.

To maintain the street activity along the busy Washington Street commercial corridor, Rollins Square includes approximately 6,000 square feet (560 square meters) of ground-floor retail space, which is leased to a bank and a convenience store.

The project, with its varying building heights and diverse exterior materials, gives the appearance that it was constructed over time. Buildings are faced with a variety of materials, including brick, natural and synthetic stone, and precast concrete, and feature synthetic slate mansard roofs and metal-clad window bays. The result is an attractive streetscape that emulates and complements the project's historic surroundings.

A primary goal for the developer was to create a family- and neighborhood-friendly residential community in an urban setting. The design of Rollins Square achieved this end by avoiding long double-loaded corridors; instead, it is made up of small buildings constructed around a tighter core. The project includes 16 separate building entries rather than a central lobby and elevator core. The developers felt that the smaller building, which contains fewer units per floor, created a greater sense of community among the residents. This design concept resulted in the creation of seven building types and 24 different floor plans. While successful from the perspective of planning and design, however, this approach limited many of the considerable development and construction efficiencies often gained in multifamily production housing, thus increasing the overall cost of the project.

Each building's structural system is made of reinforced concrete block bearing walls and precast concrete planks.

The developer chose this "block-and-plank" method of construction over steel and concrete to differentiate its product in the marketplace. The significant marketing advantage achieved included greater sound attenuation and higher ceilings. This construction methodology, however, reduced design flexibility in the residential units and also limited the ability to combine units.

Marketing and Operations

Given the high demand for workforce housing, the developer established a lottery system to fairly market the subsidized units. Initial marketing for the project included advertising in neighborhood and minority newspapers. The result was more than 1,500 requests for applications. Five hundred prospects completed the application and submitted prequalification letters from lenders in time to participate in the lottery, and applications continued coming in long after the lottery. The city of Boston and commonwealth of Massachusetts oversaw the lottery, in which each of the 500 applicants was randomly chosen and assigned a number. The developer gave applicants with the lowest numbers first priority.

To ensure long-term affordability, a series of deed restrictions was established for Rollins Square's workforce housing units. Under these restrictions, residents are permitted to exceed affordability restrictions over time, but affordability covenants require that future residents who purchase Rollins Square workforce units have incomes that do not exceed 120 percent of area median income. The city of Boston enforces these deed restrictions and will also help residents to find and qualify income-eligible buyers for the resale of their workforce units.

Rollins Square's homeowners' association took into account the development's blend of low-income, workforce, and market-rate housing. Before completion of construction, the developer devised an assessment schedule for the homeowners' association in which each unit's owner pays a prorated share of operating expenses, based on the market value of the unit, regardless of a future

The project occupies two city blocks. It includes a two-level underground parking garage with 277 parking spaces.



Courtesy of UST/Mark C. Flannery

resident's income level. Units were appraised to determine their market value, and each home's share of operating expenses and the association's budget was calculated per square foot, according to the appraised, not the subsidized, value. Thus, subsidized units pay condominium fees on the same basis that market-rate units do to avoid tension that could arise between income groups if operating expenses were not allocated equally across all units. The developer used projected association dues in calculating the monthly rent level and condominium sale prices for the low-income and moderate-income workforce housing units (keeping in mind that a resident's housing expenses, including association dues, should not exceed 30 percent of gross income).

Homeowners' association documents for Rollins Square also give the limited partnership that owns the rental apartments the same rights as condominium owners in the management and operation of the property. This arrangement addresses the concerns of low-income housing tax credit investors regarding the predictability and cost of future capital improvements and the resulting impact on investment returns. In turn, the limited partnership agreed to allow apartment residents limited rights to represent their interests in the operations of the association, including the right to vote for homeowners' association officers and trustees.

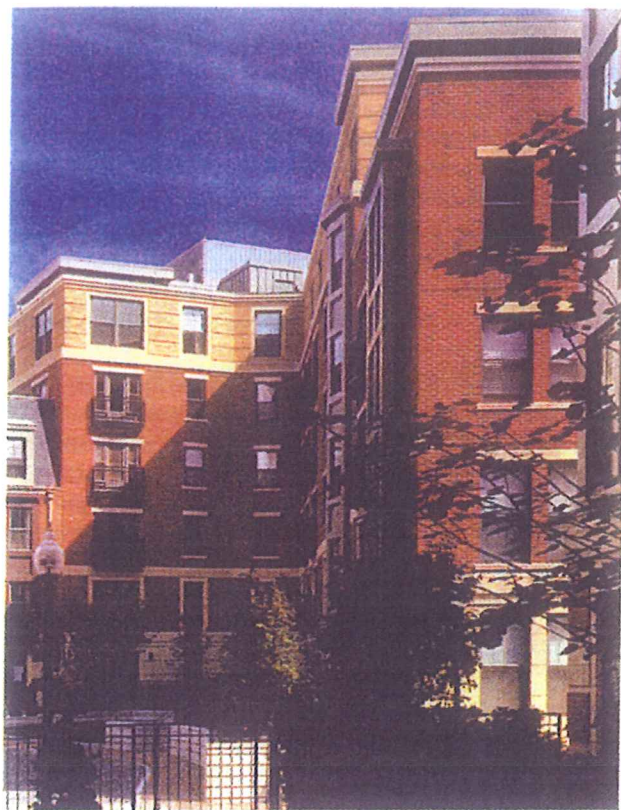
Experience Gained

As with many urban housing projects, parking was a critical design and development issue for Rollins Square and the surrounding neighborhood. The project included the development of 275 parking spaces, many of which were intended for sale to neighborhood residents to ease the pressure for parking in the area. Indeed, parking, which was sold separately, represented approximately 20 percent of the project's gross proceeds from sales. Although 98 percent of the residential units have been sold and occupied and the developer anticipates meeting both its social and financial goals for the project, the project's financial success was perhaps too dependent on the income derived from the sale of parking spaces to nonresidents of the development.

Income qualification for the moderate-income workforce housing units can be a time-consuming process. To avoid delaying closings, it is critical to allocate a reasonable amount of time for proper income qualification and documentation early in the process.

The mission of a nonprofit development entity can conflict with market dynamics. For example, the developers of Rollins Square could have accelerated the project's absorption by meeting the market's strong demand for one-bedroom units. POUA's development mission, however, is to create housing opportunities for families rather than single-person households. As a result, the developers chose to reduce the number of one-bedroom units while increasing the number of three-bedroom units.

The project's diverse and varied architectural styles resulted in seven building types and 24 different floor



The project, with its varying building heights and diverse exterior materials, gives the appearance that it was constructed over time.

plans, creating complications for the development, construction, and marketing teams. Limiting the number of unit types would have increased efficiency, decreased cost, and enhanced marketability.

The sale of market-rate units was initially spearheaded by a high-end "boutique-style" real estate sales and marketing group. The developer eventually changed marketing approaches and hired a marketing agency with significantly more experience in merchandising and sales of newly constructed housing, dramatically increasing preconstruction absorption. Approximately 50 percent of the market-rate units were presold early in the construction process.

The complexity of mixing uses (condominiums, apartments, and retail space) and incomes in a single condominium association has significant implications for both marketing and transactional expenses. In this instance, the high-quality design and amenities associated with the development and the developer's ability to forgo traditional development profits made this compromise work for all parties.



Site plan.

Project Data: Rollins Square

Land Use and Building Information

Site Area	2.2 acres (0.9 hectare)
Multifamily Residential Units	184
Retail Space	6,000 square feet (560 square meters)

Land Use Plan

	Square Feet/ Square Meters	Percent of Site
Housing	249,337/23,173	71.5%
Parking Garage	99,488/9,246	28.5
Total	348,825/32,419	100.0%

Residential Unit Information

Multifamily Units

Unit Type	Unit Size (Square Feet/ Square Meters)	Sale Price/ Rent Range
Moderate-Income Condominium	600-1,900/56-177	\$140,000-260,000
Market-Rate Condominium	600-1,900/56-177	\$280,000-720,000
Low-Income Apartment	600-1,900/56-177	\$354-1,022

Affordable Units

Unit Type	Number of Affordable Units	Targeted Income Group	Sale Price/ Rent Range
Condominium	25	80% MAI	\$140,000-160,000
Condominium	48	120% MAI	\$210,000-260,000
Affordable Apartments	37	30-60% MAI	\$354-1,022

Development Cost Information

Site Acquisition Cost	\$1,500,000
Construction Costs	53,000,000
Soft Costs	11,151,000

Total Development Cost \$65,651,000

Owner/Developer

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Marketing/Sales

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Development Consultant

Peter J. Roche, Real Estate and Community Development
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Winthrop, Massachusetts 02152
617-846-5326

Development Schedule

2/2001	Site purchased
11/1999	Planning started
10/2000	Sales/leasing started
3/2001	Construction started
1/2003	First phase completed
6/2003	Project completed