UE v. Carteret

Plainsboro

31 July 1983

Letter re: credit from housing trust fund

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PI # 5143

CA000519L

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July 31, 1985

John M. Payne
Constitutional Litigation Clinic
Rutgers Law School
15 Washington Street
Newark, NJ 07102

Dear John:

Linpro still wants a credit from the housing trust fund provisions. They have submitted the enclosed to justify such credit.

Please review and call me at my office.

Sincerely

Joseph L. Stonaker

JLS/smh
c.c Alan Mallach

Linpro expects to lose close to $300,000 on the sale of low income units. This assumes, of course, that the profit margins hold on the conventional units. There will be no problem in selling low income units at $19,250 for a one bedroom unit and $24,250 for a two bedroom unit (subject to change as interest rates and income levels change). In fact, these 40 units will be commited as fast as they can be delivered. However, for each three (3) conventional units, we need to sell one additional unit to offset partially the loss from the low income units. No one is guaranteeing that the conventional units can be sold at the indicated margins, i.e. there is considerable risk attached.

The following is an analysis:

PER UNIT

Average Sales Price of Conventinal Units	$ 71,000
Profit Plus Unallocated Land Cost*	16,500
Average Cost	$ 54,500
Cost Savings - Low Income Units	1,000
Average Cost - Low Income Units	$ 53,500
Weighted Average Low Income Sales Price	21,250
Loss Per Low Income Unit	$(32,250)

40 Units @ (32,250) Loss	=	($1,290,000)
60 Units @ $16,500 Pofit	=	990,000
Net Loss		$ (300,000)

A credit of $7,000 per low income unit provided as an offset against housing trust fund commercial development tax would offset up to $280,000 or 560,000 square feet of non-residential at $.50 per square foot. This would be close to the total build-out of Enterprise Center, the Shopping Center expansion, and the remainder of the Office Center. (Those buildings which do not have building permits.)

* No land cost has been assigned to the 40 low income units or 60 conventional units to offset.

Per the Rutgers Constitutional Litigation Clinic letter of November 1, 1983, Linpro formulated a plan for the 40 low income units. We used the 28% guideline for sales, assuming 80% mortgage, $50 per month condo association fee, and an annual insurance rate of $400. Our calculations were as follows:

Median Income	$ 32,000
50% Median Income	16,000
28% Requirement	$ 4,480
Available for Annual Payment	$ 4,480
Less: Condo Association Fee	600
Insurance	400
Available for Mortgage & Taxes	$ 3,480

Real Estate Rax Rate = $.0154

Mortgage Constant = .125 Annually

Let x = Sales price of low income unit

Mortgage Payment plus real estate taxes equal available payment

.125 (.8x)	+	.0154 x	=	$ 3,480
		.1154 x	=	3,480
		x	=	$30,155

Cost Per Low Income Unit	$ 53,500
Sale Price Per Low Income Unit	30,150
Loss Per Low Income Unit	$ 23,350
Contingency	1,150
Net Loss Per Low Income Unit	$ 24,500
Net Loss 40 Low Income Units	$980,000

Profit Plus Land Cost - Conventional Units	$ 16,500
Profit 60 Conventional Units	$990,000

Our offer was made in February 1984 and confirmed in telephone meeting on March 8, 1984 between Linpro and Township Committee. The Settlement Package was announced at the end of May 1984. The major changes were as follows:

(1) Median income was defined as 11 county area, not the HUD standard (11 county area is lower)

(2) 90% ceiling imposed

(3) Household size became a factor in determining median income

Take a two bedroom unit with an allowable family of three persons:

	(Per Settlement Press Release)	(Per Linpro)
Median Income	$ 27,700	$ 32,000
50% Median Income	13,850	16,000
90% Median Income	12,465	-
28%	3,490	4,480
Condo Fees & Insurance	1,000	1,000
Available Mortgage & Taxes	2,490	3,480
Allowable Sales Price	21,500	30,150
Loss Per Unit	$ 32,000	$ 23,350

On the rental side, we had offered to build 413 units, and had proposed the concept of a Redevelopment Authority to either take title or to be the mortgagee with title remaining with Linpro so that there would be a possibility of selling the tax shelter to reduce the overall requirement for funds. This was predicated on the fact that the restricted period would be reasonable so that there would be an economic justification for the tax shelter. Once the Settlement agreement called for a 30 year restriction (instead of 10-12 years in HUD projects), the economic justification was no longer viable.

considers factors such as total employment, amount of vacant, developable land, and net employment growth, our preliminary calculations show that Plainsboro Township's fair share of the regional need for lower income housing through 1990 is approximately 425 low income and 229 moderate income units.

The Township's fair share plan may be accomplished either by allowing high density residential developments with a mandatory set-aside as a conditional use in any non-environmentally sensitive zone or by zoning specific tracts for this type of development. Assuming that a 20% set-aside for low and moderate income housing is used, the amount of land zoned for high density residential development must be sufficiently ample to accommodate five times the fair share requirement since only 20% of the units will be earmarked for low and moderate income housing. In addition, as the Supreme Court noted in Mount Laurel II, it may be necessary to "overzone" for high density development since not all property zoned for a particular use results in development of that use and a failure to set aside enough land may cause an increase in land costs and thus an increase in the overall cost of development.

5. Provisions must be enacted to insure that units set aside for low and moderate income households will in fact be occupied by such households and that future sales or rentals will also be to low and moderate income families. In this regard, the Township might require the developer to use restrictive covenants for sales, formulate appropriate rent control provisions for rentals, and establish or contract with an independent agency to regulate future transfers.

To determine what housing costs are affordable to low and moderate income families, we suggest adopting prevailing governmental and trade guidelines which provide that housing costs should not exceed 28% of family income for sales and 30% of family income for rentals. Housing costs are defined as principal, interest, taxes, insurance, and association fees for purchases, and rent and utilities for rentals. Moreover, it must be demonstrated that the units are actually affordable, not only to persons at the top of each income range, but also to a reasonable cross-section within each category. Use of simplistic formulae to determine affordable costs, such as multiplying family income by 2.5 to yield sales prices, are clearly inappropriate for these purposes.

Elimination of cost-generating features. The ordinances should provide procedures that are both streamlined and free of any cost-producing requirements and restrictions that are