

U.L. v. Carteret

Nov. 18, 1985

Plainsboro.

Tammara Low Income Condominiums (5)

Forestar Village Lower Housing ... (5)

Pgs 10

PI # 5149

~~CA000576~~

CA0009076

November 18, 1985

Mr. Peter Heckenbleichner
Township Administrator
Township of Plainsboro
Municipal Building
Plainsboro, New Jersey 08536

RE: Tammarron Low Income Condominiums

Dear Peter:

As we discussed in our meeting last Thursday, I have analyzed the potential shortfall to Linpro based on the changes in pricing assumptions that took place during 1984. As we discussed, I have made no attempt to determine what might be the "real cost" to Linpro to provide these units, since making such a determination inevitably results in disputes about definitions, standards, and the like, which are both unnecessary and inappropriate.

It is my understanding that three changes took place in the pricing basis for the lower income units, between the point at which Linpro agreed to provide 40 low income condominiums, and the point when the settlement was agreed upon between Plainsboro Township and the Urban League, as follows:

[1] The income baseline was changed from that of the Middlesex-Hunterdon-Somerset PMSA to one encompassing a larger North Jersey 11 county region; for analytical purposes, the latter has been held to be .94 of the former.

[2] The standard of affordability was reduced from the ceiling income, for each household size, to a figure of 90% of the ceiling income; and

[3] The household size figure to determine affordability for a two bedroom unit was changed from the figure for a 4 person household, to the average of the figures for 3 and 4 person households; i.e., 3.5 person.

Each of these changes can be quantified, and I have done so in the attached analysis. The conclusion, using what are, in my judgment, the most reasonable assumptions, is that the differential to Linpro from the changes in assumptions summarized above is approximately \$208,000. This figure does not change significantly as various assumptions are changed. Changes in the condominium fee, for example, do not change the differential, since they are considered to be the same across the board. Changes in mortgage interest rate affect the differential; an increase in rates reduces the differential, while a reduction increases it. Still,

Mr. Peter Heckenbleichner [2]

November 18, 1985

the differences tend to be small ones. I believe that this represents a reasonable position for the township to take.

Please let me know if you have any questions.

Very truly yours,

Alan Mallach

AM:ms

enc.

cc: J. Stonaker, Esq.

CALCULATION OF EFFECT OF PRICING CHANGES ON PRICE/INCOME FOR 40
TAMMARRON LOW INCOME CONDOMINIUMS [24 1 BEDROOM AND 16 2 BEDROOM
UNITS]

	INITIAL PRICING	MODIFIED PRICING	

A. ONE BEDROOM UNITS			
PMSA INCOME CEILING [1]	\$13,500	\$13,500	
ADJUSTMENT FOR 11 COUNTY REGION [X .94]	NA	12,690	
ADJUSTMENT FOR 90%	NA	11,421	
28% OF INCOME [2]	\$ 3,780	\$ 3,198	
LESS CONDOMINIUM FEES [3]	[648]	[648]	
AVAILABLE FOR PAYMENTS	<u>3,132</u>	<u>2,550</u>	
Mortgage Payment [4]	2,512	2,046	
Property Taxes [5]	412	335	
Insurance [6]	95	77	
Mortgage Insurance [7]	113	92	
MAXIMUM HOUSE PRICE	\$22,620	\$18,417	
PRICE DIFFERENCE			\$ - 4,203
NUMBER OF UNITS			x 24
TOTAL PRICE DIFFERENCE FOR CATEGORY			<u>\$ 100,872</u>

TAMMARRON LOW INCOME CONDOMINIUMS [2]

	INITIAL PRICING	MODIFIED PRICING	
A. TWO BEDROOM UNITS			
PMSA INCOME CEILING [1]	\$16,900	\$16,050	
ADJUSTMENT FOR 11 COUNTY REGION [X .94]	NA	15,087	
ADJUSTMENT FOR 90%	NA	13,578	
28% OF INCOME [2]	\$ 4,732	3,802	
LESS CONDOMINIUM FEES [3]	[648]	[648]	
AVAILABLE FOR PAYMENTS	<u>4,084</u>	<u>3,154</u>	
Mortgage Payment [4]	3,275	2,530	
Property Taxes [5]	537	414	
Insurance [6]	124	96	
Mortgage Insurance [7]	148	114	
MAXIMUM HOUSE PRICE	\$29,496	\$22,779	
PRICE DIFFERENCE			\$ - 6,717
NUMBER OF UNITS			x 16
TOTAL PRICE DIFFERENCE FOR CATEGORY			<u>\$ 107,472</u>
Price difference for 1 bedroom units [from (1)]			100,872
TOTAL PRICE DIFFERENCE			<u>\$ 208,344</u>

TAMMARON LOW INCOME CONDOMINIUMS [3]

NOTES/ASSUMPTIONS:

[1] Income figures used are HUD 1984 figures for PMSA (1985 figures are not yet available).

[2] Basic working assumption that household may spend no more than 28% of gross income for mortgage payments, property taxes, insurance (including mortgage insurance), and condominium fees.

[3] Twice condominium fees shown in letter of William Weihenmayer, Jr. of November 11, 1985. This adjustment was based on the reservations, both legal and policy, about the proposal of charging levying condominium fees based on the price of the unit. It should be noted that the change in condominium fees does not affect the price differential between the units.

[4] Mortgage based on 12% interest rate and 30 year term. Mortgage amount is 90% of unit price [10% down payment assumed].

[5] Property taxes are at 1.82% of sales price [from Weihenmayer letter]. Since these units will be subject to deed restrictions on resale, it is assumed that market value for tax purposes will be equal to sales price.

[6] Insurance at \$42 per \$10,000 [based on Weihenmayer letter].

[7] Mortgage insurance estimated at \$50 per \$10,000.

November 25, 1985

Mr. Peter Heckenbleichner
Township Administrator
Plainsboro Township
Municipal Building
Plainsboro, New Jersey 08536

RE: Forrestal Village
Lower Income Housing Contribution

Dear Peter:

You have requested an analysis and recommendation with regard to the amount of lower income housing contribution that should be established as a condition of acquisition and future condominium conversion of the Forrestal Village apartments. The purpose of this letter is to present you, and Township Committee, with such an analysis and recommendations.

It is our position that the size of the contribution should be related to the benefit created for the developer. In this case, there are three possible sources of benefit to the developer, which are the following: (a) the appreciation resulting from the conversion of the units to condominiums; (b) potential tax benefits, principally those associated with depreciation; and (c) the incremental rental cash flow associated with bringing the rents on the units to market levels.

The tax benefits, given that the project closing will not take place until after January 1, 1986 (after the effective date of many proposed tax reform provisions), are highly uncertain. Indeed, they may turn out to be only nominal. The appreciation at the time of condominium conversion is more likely to be substantial, but is highly unpredictable, in that it requires an assessment of market values during the period from 1989 through 1992. In any event, it is this appreciation which represents the developer's rationale for acquiring the project, and for making substantial investments and assuming substantial cash flow losses during the intervening period.

Since the incremental rental income is a secondary benefit, from the developer's standpoint, and since it is directly linked to the removal of affordable units from the housing stock, we consider it appropriate to recapture that incremental income, appropriately adjusted, in the form of a lower income housing contribution. The following analysis presents our best estimate of the appropriate amount to be recaptured.

[1] The incremental rental income is the difference between the rents that would be charged, assuming the units remained affordable as moderate income housing, and those that will be charged under the developer's proposal. That proposal is to bring the units up to market rent levels, with no annual increase of more than 10%. It should be noted that units currently occupied by low or moderate income households will not be brought up to market rents, but will be retained as affordable housing.

It is unreasonable to assume that the rent levels on these units will increase by 10% per year, since that would result sooner or later in rents well beyond market levels. We consider a more reasonable assumption that rents will be increased at 10% per year for the next two years, bringing them approximately to market levels, and at 6% per year for the remaining five years until 1990.

[2] Based on conservative assessments of actual cost increases, and on estimated rates of income growth as well, we suggest that the average annual rent increase that would take place if the units were to be retained as moderate income housing operated on a nonprofit basis would be 4%. The comparative rent increase assumptions are shown in the table below:

COMPARATIVE RENT INCREASE ASSUMPTIONS: MARKET AND AFFORDABLE UNITS

	MARKET	AFFORDABLE
1986	10%	4%
1987	10	4
1988	6	4
1989	6	4
1990	6	4
1991	6	4
1992	6	4

[3] Based on the best information available at present, approximately 25% of the households in the development are low or moderate income households. The developer has agreed that they will be able to remain in the development until 1992, during which time their rent will be limited to 30% of income, following the HUD standard. As lower income households vacate the development, however, the developer will not be obligated to re-rent those units as lower income housing, but may rent them at the market rent (or sell them, once the condominium conversion has taken place).

Accepting the 25% figure for current lower income occupancy, the extent to which the subsidy will offset the incremental rental income will be less than 25%, since we can reasonably anticipate some turnover in these units, reducing the level of lower income occupancy over time. For this analysis, we have assumed that

turnover will reduce the offset to 20%, as the average level of lower income occupancy over the seven year period.

[4] The incremental rental income is further offset by that part of the property improvements to be made which can reasonably be held to benefit the rental units, during the period prior to conversion, and thus appropriately amortized from the rental income. Clearly, the greater part of the value of improvements should be treated as a part of the basis for the condominium sales; on that basis we have assumed that 25% of a project \$1.2 million in property improvements should be considered an offset against incremental rental income.

The attached worksheet presents the calculations for the four factors discussed above. In summary form, they come out as follows:

TOTAL INCREMENTAL RENTAL INCOME TO 1992	\$868,128
less 20% lower income unit subsidy	[173,626]
ADJUSTED INCREMENTAL RENTAL INCOME	\$694,502
less 25% of projected value of improvements	[300,000]
NET INCREMENTAL RENTAL INCOME TO 1992	\$394,502

This income, it should be noted, is largely realized during the latter part of the 1986-1992 period¹. If this figure were established as the contribution requirement, the developer could reasonably argue that he should not be liable for the lion's share of the contribution until 1989 or 1990. This, in turn would be less than desirable from the Township's perspective.

Assuming an annual discounting of 10%, we have computed the present value of this figure to be \$240,646. Thus, the developer could reasonably be required to pay that amount now, based on the above projected seven year incremental rental income. From the developer's standpoint, however, that would be potentially burdensome, since the period immediately after closing is financially the most problematical - the developer must acquire the project, must initiate property improvements, and must initiate subsidization of the lower income units, but has yet little or no benefit from the opportunity to accelerate rental increases. Thus, a middle ground position, in which the contribution will be accelerated to some extent, but not paid entirely up front, is most appropriate.

¹/Specifically, the percentage distribution of the incremental rental income by year is as follows:

1986	4.5%	1990	17.0%
1987	9.7	1991	19.8
1988	12.0	1992	22.8
1989	14.3		

Mr. Peter Heckenbleichner [4]

November 25, 1985

As an appropriate middle ground, we recommend that a lower income housing contribution of \$300,000 be required, to be paid to the Township according to the following schedule:

Within 30 days of closing	\$ 25,000
1 year from initial payment date	50,000
2 years from initial payment date	75,000
3 years from initial payment date	150,000

This represents, based on the same assumptions as used earlier, a present value of \$245,135, comparable to that given on the preceding page. Since it is anticipated that closing will take place in January or early February 1986, the entire amount will be paid into the Township's lower income housing program on or about the end of February 1989, or slightly more than three years from now.

We believe that this represents a reasonable position to be adopted by the Township of Plainsboro. Please let me know if you need any further information, or have any further questions.

Very truly yours,

Alan Mallach, AICP

AM:ms

TONKIN VILLAGES LEFT INCUBANT OVULES / LARVAH 197

[illegible]