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Planner's report on
housing that meets ML 2 Standards
by Moskowitz

BSS-12
Pi # 3334

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Planner's Report

MAXIMUM SALES AND RENTAL UNIT LEVELS FOR HOUSING UNITS
MEETING MT. LAUREL II STANDARDS

Timber Property vs. Warren Township

The original of this report was signed and
sealed in accordance with N.J.S.A. 13:41-1.3.

Harvey S. Moskowitz, P.P. #12

Introduction

This report provides affordability standards for low and moderate income households in Warren Township, Somerset County, New Jersey. It is based on the guidelines set forth in the Mt. Laurel II case, as follows:

Moderate income families are those whose incomes are not greater than 80 percent and not less than 50 percent of the median income of the area, with adjustments for smaller and larger families. Low income families whose incomes do not exceed 50 percent of the median income of the area, with adjustments for smaller and larger families. (Footnote 8, 92 NJ at 221)

This report also calculates median household income for the Warren Township region,¹ discusses the percentage of family income to be used for shelter, and presents the model used in determining the affordability income limits based on family size cross-referenced to various interest levels.

Calculating Median Household Income

In the AMG and Timber Properties versus Warren Township cases, there was considerable discussion on what constituted the appropriate regions for both prospective and indigenous (present) fair share. Incorporated as part of the court record (and attached to this report) were recommendations by the three planning consultants for the Township and the plaintiffs (Chadwick, Coppola, and Moskowitz) that, for the present, the

¹The decision discusses and uses the terms "family" and "household" interchangeably. Under the Census definition, a family is "two or more persons related by blood or marriage living as a single housekeeping unit," and a household is

median family income to be used as a basis for determining low and moderate income eligibility in Warren Township could be the median family income for the Newark SMSA which includes Somerset County.² This figure for 1983 was \$31,500. However, beginning in 1984 the SMSA's have been eliminated and replaced with new statistical areas. The one most similar to the SMSA is the PMSA, or Primary Metropolitan Statistical Area. Somerset County would become part of the new PMSA of Middlesex, Somerset and Hunterdon counties. The position of the Court was that the new PMSA, because it eliminates Essex County, may result in a median household income considerably above what local conditions suggest as needed. Consequently, a new model was developed which averaged the median household income of the prospective regional share region (which in this case was a 45-minute commuted area around Warren Township), and the present need region (which was the eight-county, Region 11 from the Housing Allocation Report plus Hunterdon County, which was included because of Warren's geographic location and the commuting patterns between Somerset and Hunterdon). This figure was then weighted by the actual

defined as "one or more persons living together as a single household." Generally speaking, household income is usually less than family income since it includes single-person households who are very often elderly, retired individuals. Since households are an important part of the target population, household income is used as the standard.

²This figure is also used by the Newark office of HUD to determine eligibility requirements for federally assisted housing.

distribution of low and moderate income housing in the region. The result was a 1984 median household income of \$34,000 made current through the use of the Consumer Price Index. This was only slightly (\$500) above the proposed 1984 HUD median family income upon which they will base their assisted housing income limits. The following table was constructed by using \$34,000 as the median family income and by the same percentage that HUD uses in cross-references of median income by family size. This table in turn is used as the basis for constructing tables 3, 4, 5, and 6 which set the limits for sales and rental housing.

Percentage of Income for Shelter

Shelter costs include, for sales housing, the following: interest and principal payment, property taxes, insurance and homeowners association fees. For rental housing it is gross rental. The question as to what percentage of a family's income should be included is one of continuing discussion. The Mt. Laurel decision (Footnote 8) mentions 25 percent, but most experts agree that this is not only unrealistic but in fact it violates present federal standards for assisted housing which calls for 30 percent of a family's income for rent.³ The New Jersey Mortgage Finance Agency, which is the sole source of tax exempt bond mortgage financing in the State, has a standard of 28 percent, and this standard has been adopted by major lending

³Carla L. Lerman, P.P., Fair Share Allocation Report, Urban League of Greater New Brunswick et al., vs. Borough of Cartaret et al. Alan Mallach, Expert Report on Mt. Laurel II Issues in Urban League of Greater New Brunswick et al., vs. Borough of Cartaret et al.

institutions in the State. Since the question of which standard to use is still not decided, the affordability tables have been computed at 25, 30 and 35 percent of family income for sales housing, and 28 and 30 percent for rental.

Table 1
1984 Low and Moderate Income Ceilings
for Warren Township, Somerset County

| <u>Number of Persons</u> | <u>Low</u> | <u>Moderate</u> |
|--------------------------|------------|-----------------|
| 1 | \$11,900 | \$19,040 |
| 2 | 13,600 | 21,760 |
| 3 | 15,300 | 24,480 |
| 4 | 17,000 | 27,200 |
| 5 | 18,360 | 28,560 |
| 6 | 19,720 | 30,260 |
| 7 | 21,080 | 31,960 |

Source: Harvey S. Moskowitz, Ph.D., derived HUD figures using \$34,000 as median income.

The four components of housing cost are principal and interest on the mortgage, taxes, insurance and homeowner association fees. Based on certain assumptions on down payment, insurance and association fees, and using the actual 1983 Warren Township tax rate, it is possible to compute annual carrying costs for these components. These in turn can be related to various mortgage interest rates and family size. These are shown in Table 2.

For purposes of this analysis, homeowner association fees were estimated to be approximately \$50 per month for each

W. S. Moskowitz *Independently*

\$10,000 of house value, insurance was considered calculated at \$40 per \$10,000 of house value, property taxes were computed based on the 1983 equalized valuation of \$2.14 per \$100 of assessed valuation (which at the present time is 100 percent). The mortgage constant, available from standard tables, assumed a 10 percent down payment and 90 percent, 30-year mortgage. Table 2 below relates these components of housing cost as a percentage of the price of the housing unit. This in turn can be used to determine the maximum unit price affordable to various income levels.

Table 2
Annual Carrying Costs by Interest Rate
as a Percentage of Total Sales Price

| <u>Interest Rate</u> | <u>Mortgage Payment</u> | <u>1983 Tax Rate</u> | <u>Insurance</u> | <u>Association Fees</u> | <u>Total</u> |
|----------------------|-------------------------|----------------------|------------------|-------------------------|--------------|
| 7 | .07186 | .0214 | .004 | .015 | .11226 |
| 8 | .07925 | .0214 | .004 | .015 | .11965 |
| 9 | .08960 | .0214 | .004 | .015 | .13000 |
| 10 | .09478 | .0214 | .004 | .015 | .13518 |
| 11 | .10285 | .0214 | .004 | .015 | .14325 |
| 12 | .11109 | .0214 | .004 | .015 | .15149 |
| 13 | .11947 | .0214 | .004 | .015 | .15987 |
| 14 | .12797 | .0214 | .004 | .015 | .16837 |

Source: Harvey S. Moskowitz, Ph.D., analysis. Mortgage payment constant from Alan Mallach, Expert Report on Mt. Laurel II Issues.

The use of the table is illustrated by the following example. But first, it is necessary to express the various factors relating to cost, maximum percentage of income for shelter and household income in a formula as follows:

$$(\text{Price of Unit}) \times (\text{Housing Cost}) = \frac{\text{Maximum percent of income for shelter} \times \text{household income}}{\text{income}}$$

We have already broken down housing cost into the four components set forth in Table 2 above and expressed them as a percentage of total housing costs. For example, referring to Table 2, a 13 percent mortgage (the present prevailing rate for a 90 percent, 30-year conventional mortgage) would result in annual shelter costs of 0.15957, or about 16 percent of the unit price. Assuming we are trying to determine the maximum price of a dwelling unit affordable to a moderate income family of four paying no more than 30 percent of household income for rent, we can rearrange the formula as follows:

$$\text{Price of Unit} = \frac{\text{Maximum percentage of income for shelter} \times \text{household income (from Table 1)}}{\text{Housing cost (from Table 2)}}$$

$$\text{Price of Unit} = \frac{.30 \times \$27,200}{.15987}$$

$$\text{Price of Unit} = \underline{\underline{\$51,041}}$$

The formula indicates that housing units costing \$51,041 would be the maximum affordable to a family of four earning \$27,200, paying no more than 30 percent of income for housing with a 30-year, conventional mortgage with 10 percent down. These are spelled out in tables 3, 4 and 5 on the following pages.

Table 3

Maximum Price of Dwelling Unit, by Mortgage Interest Rate
and Household Size, Affordable to Low and Moderate Income Households
 (25% of Annual Income)

| Interest Rate | Household Size | | | | | |
|---|----------------|----------|----------|----------|----------|----------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| <u>Low Income (50% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$26,500 | \$30,287 | \$34,073 | \$37,859 | \$40,887 | \$43,916 |
| 8% | 24,864 | 28,416 | 31,968 | 35,520 | 38,362 | 41,204 |
| 9% | 22,885 | 26,154 | 29,423 | 32,692 | 35,308 | 37,923 |
| 10% | 22,008 | 25,152 | 28,296 | 31,440 | 33,955 | 36,470 |
| 11% | 20,768 | 23,735 | 26,702 | 29,668 | 32,042 | 34,415 |
| 12% | 19,638 | 22,444 | 25,249 | 28,055 | 30,299 | 32,543 |
| 13% | 18,609 | 21,267 | 23,926 | 26,584 | 28,711 | 30,838 |
| 14% | 17,669 | 20,194 | 22,718 | 25,242 | 27,261 | 29,281 |
| <u>Moderate Income (80% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$42,402 | \$48,459 | \$54,516 | \$60,574 | \$63,602 | \$67,388 |
| 8% | 39,783 | 45,466 | 51,149 | 56,832 | 59,674 | 63,226 |
| 9% | 36,615 | 41,846 | 47,077 | 52,308 | 54,923 | 58,192 |
| 10% | 35,212 | 40,243 | 45,273 | 50,303 | 52,818 | 55,962 |
| 11% | 33,229 | 37,976 | 42,723 | 47,469 | 49,843 | 52,810 |
| 12% | 31,421 | 35,910 | 40,399 | 44,887 | 47,132 | 49,937 |
| 13% | 29,774 | 34,028 | 38,281 | 42,535 | 44,661 | 47,320 |
| 14% | 28,271 | 32,310 | 36,349 | 40,387 | 42,407 | 44,931 |

Note: Based on 1983 Warren Township property tax rate.

Source: Analysis, Harvey S. Moskowitz, Ph.D.

Table 3A

Maximum Price of Dwelling Unit, by Mortgage Interest Rate
and Household Size, Affordable to Low and Moderate Income Households
 (28% of Annual Income)

| Interest Rate | Household Size | | | | | |
|---|----------------|----------|----------|----------|----------|----------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| <u>Low Income (50% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$29,681 | \$33,921 | \$38,161 | \$42,402 | \$45,794 | \$49,186 |
| 8% | 27,848 | 31,826 | 35,804 | 39,783 | 42,965 | 46,148 |
| 9% | 25,631 | 29,292 | 35,108 | 36,615 | 35,545 | 42,474 |
| 10% | 24,649 | 28,170 | 31,691 | 35,212 | 38,029 | 40,846 |
| 11% | 23,260 | 26,583 | 29,906 | 33,229 | 35,887 | 38,545 |
| 12% | 21,995 | 25,137 | 28,279 | 31,421 | 33,935 | 36,449 |
| 13% | 20,842 | 23,319 | 26,796 | 29,774 | 32,156 | 34,538 |
| 14% | 19,790 | 22,617 | 25,444 | 28,271 | 30,533 | 32,794 |
| <u>Moderate Income (80% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$47,790 | \$54,274 | \$61,058 | \$67,843 | \$71,235 | \$75,475 |
| 8% | 44,557 | 50,922 | 57,287 | 63,652 | 66,835 | 70,813 |
| 9% | 41,009 | 46,868 | 52,726 | 58,585 | 61,514 | 65,175 |
| 10% | 39,438 | 45,072 | 50,706 | 56,340 | 59,151 | 62,678 |
| 11% | 37,216 | 42,533 | 47,849 | 53,166 | 55,824 | 59,147 |
| 12% | 35,192 | 40,219 | 45,247 | 50,274 | 52,788 | 55,930 |
| 13% | 33,347 | 38,111 | 42,875 | 47,639 | 50,021 | 52,998 |
| 14% | 31,664 | 36,187 | 40,710 | 45,234 | 47,495 | 50,323 |

Note: Based on 1983 Warren Township property tax rate.

Source: Analysis, Harvey S. Moskowitz, Ph.D.

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Off. of Housing, a division of the Dept. of Community Development, Warren, NJ

Table 4

Maximum Price of Dwelling Unit, by Mortgage Interest Rate
and Household Size, Affordable to Low and Moderate Income Households
 (30% of Annual Income)

| Interest Rate | Household Size | | | | | |
|---|----------------|----------|----------|----------|----------|----------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| <u>Low Income (50% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$31,801 | \$36,344 | \$40,887 | \$45,430 | \$49,065 | \$52,699 |
| 8% | 29,837 | 34,099 | 38,362 | 42,624 | 46,034 | 49,444 |
| 9% | 27,462 | 31,384 | 35,308 | 39,231 | 42,369 | 45,508 |
| 10% | 26,400 | 30,182 | 33,955 | 37,727 | 40,746 | 43,764 |
| 11% | 24,921 | 28,482 | 32,042 | 35,602 | 38,450 | 41,298 |
| 12% | 23,566 | 26,932 | 30,233 | 33,666 | 36,359 | 39,052 |
| 13% | 22,331 | 25,521 | 28,711 | 31,901 | 34,453 | 37,005 |
| 14% | 21,203 | 24,232 | 27,261 | 30,290 | 32,714 | 35,137 |
| <u>Moderate Income (80% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$50,882 | \$58,151 | \$65,420 | \$72,688 | \$76,323 | \$80,866 |
| 8% | 47,739 | 54,559 | 61,379 | 68,199 | 71,609 | 75,871 |
| 9% | 43,938 | 50,215 | 56,492 | 62,769 | 65,908 | 69,831 |
| 10% | 42,255 | 48,291 | 54,328 | 60,364 | 63,382 | 67,155 |
| 11% | 39,874 | 45,571 | 51,267 | 56,963 | 59,816 | 63,372 |
| 12% | 37,705 | 43,092 | 48,478 | 53,865 | 56,558 | 59,925 |
| 13% | 35,729 | 40,833 | 45,937 | 51,041 | 53,594 | 56,784 |
| 14% | 33,925 | 38,772 | 43,618 | 48,465 | 50,888 | 53,917 |

Note: Based on 1983 Warren Township property tax rate.

Source: Analysis, Harvey S. Moskowitz, Ph.D.

Table 5

Maximum Price of Dwelling Unit, by Mortgage Interest Rate
and Household Size, Affordable to Low and Moderate Income Households
 (35% of Annual Income)

| Interest Rate | Household Size | | | | | |
|---|----------------|----------|----------|----------|----------|----------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| <u>Low Income (50% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$37,101 | \$42,402 | \$47,702 | \$53,002 | \$57,242 | \$61,482 |
| 8% | 34,810 | 39,783 | 44,756 | 49,728 | 53,707 | 57,685 |
| 9% | 32,038 | 36,615 | 41,192 | 45,769 | 49,431 | 53,092 |
| 10% | 30,811 | 35,212 | 39,614 | 44,015 | 47,537 | 51,058 |
| 11% | 29,075 | 33,229 | 37,382 | 41,536 | 44,859 | 48,182 |
| 12% | 27,494 | 31,630 | 35,349 | 39,277 | 42,419 | 45,561 |
| 13% | 26,052 | 29,774 | 33,496 | 37,218 | 40,195 | 43,173 |
| 14% | 24,737 | 28,271 | 31,805 | 35,339 | 38,166 | 40,993 |
| <u>Moderate Income (80% of Median Adjusted for Family Size)</u> | | | | | | |
| 7% | \$59,362 | \$67,843 | \$76,323 | \$84,803 | \$89,043 | \$94,343 |
| 8% | 55,696 | 63,652 | 71,609 | 79,565 | 83,544 | 88,517 |
| 9% | 51,262 | 58,585 | 65,908 | 73,231 | 76,892 | 81,469 |
| 10% | 43,297 | 56,340 | 63,382 | 70,425 | 73,946 | 78,347 |
| 11% | 46,520 | 53,166 | 59,812 | 66,457 | 69,780 | 73,934 |
| 12% | 43,990 | 50,274 | 56,558 | 62,842 | 65,985 | 69,912 |
| 13% | 41,684 | 47,639 | 53,594 | 59,548 | 62,526 | 66,248 |
| 14% | 39,579 | 45,234 | 50,888 | 56,542 | 59,369 | 62,903 |

Note: Based on 1983 Warren Township property tax rate.

Source: Analysis, Harvey S. Moskowitz, Ph.D.

Rent Standards

Rent standards are somewhat different. The gross rent includes all utilities. The maximum rent figure is calculated by multiplying the total household income (Table 1) by the maximum percentage of income to be permitted to be spent for shelter. Since this is still under discussion, both 28 percent and 30 percent maximums are shown in Table 6.

Table 6

Maximum Rent Levels by Income and Household Size

| Household Size: Number of Bedrooms: | 1 | 2 | 3 | 4 | 5 | 6 |
|--|----------|----------|----------|----------|----------|----------|
| | 1 | 1 | 2 | 3 | 4 | 4 |
| <u>LOW INCOME</u> | | | | | | |
| Maximum Gross Rent | | | | | | |
| 28% of income | \$277.66 | \$317.33 | \$357.00 | \$396.66 | \$428.40 | \$460.13 |
| 30% of income | 297.50 | 340.00 | 382.50 | 425.00 | 459.00 | 493.00 |
| <u>MODERATE INCOME</u> | | | | | | |
| Maximum Gross Rent | | | | | | |
| 28% of income | \$444.26 | \$507.73 | \$571.20 | \$634.67 | \$666.40 | \$706.07 |
| 30% of income | 476.00 | 544.00 | 612.00 | 680.00 | 714.00 | 756.50 |

Source: Analysis, Harvey S. Moskowitz, Ph.D.

APPENDIX

Memorandum to Eugene D. Serpentelli, J.S.C.
discussing approach to regional determination