Plainsboro

(1986)

Letters regarding Amberwood Development, preliminary feasibility analysis of Amberwood

6 pgs

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Alan Mallach, AICP
15 Pine Drive Roosevelt New Jersey 08555

609-448-5474

November 20, 1986

Barbara Stark, Esq.
Constitutional Litigation Clinic
Rutgers University Law School
15 Washington Street
Newark, N.J. 07102

RE: Amberwood Development
Plainsboro Township

Dear Barbara:

I have attached a preliminary feasibility analysis of the Amberwood development in Plainsboro Township. The salient features are (1) use of current median income levels, as promulgated by the Council on Affordable Housing; (2) inflation of development and operating costs from those submitted by Linpro in 2/85 by 15%; and (3) use of the provisions of the low income housing tax credit established in the 1986 Tax Reform Act to raise equity for the project. Based on the range of variation in potential equity raised, the project should be economically viable without additional subsidy with a mortgage interest rate between 9.4% and 9.9%.

I am looking forward to discussing this further with you and with Plainsboro Township representatives next wednesday.

Sincerely,

Alan Mallach

AM:ms
cc: C.R.Epps

FEASIBILITY ANALYSIS FOR PROPOSED AMBERWOOD DEVELOPMENT
PLAINSBORO, NEW JERSEY [November 1986]

Alan Mallach, AICP

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1. DEVELOPMENT PRO FORMA

125 low income units [91 1 BR and 34 2 BR]
288 moderate income units [211 1 BR and 77 2 BR]

All projected development costs and operating expenses taken from Linpro 2/85 pro forma and inflated by 15%.

Land acqusition @ $2500/DU	$ 1,032,500
Site work	1,329,400
Construction	9,116,050
Recreation facility	287,500
Gen. requirements & overhead @ 7%	751,300
Gen. overhead, soft costs and contingency	1,710,050
Total development cost	$14,226,800
10% equity [from syndication proceeds]/1	[1,422,700]
Mortgage requirement	$12,804,100
Annual debt service requirement [based on 9% mortgage with 30 year amortization]	$ 1,236,308
Year 1 operating & maintenance cost	$ 770,500
TOTAL YEAR 1 REVENUE REQUIREMENT	$ 2,006,808
Year 1 rental revenue [from Table 2]	$ 2,046,382
Net surplus/deficit	+ 39,574

1/projected equity available to be raised from syndication proceeds, based on provisions of 1986 Tax Reform Act, estimated to be between $1,481,253 and $2,067,437 [see Table 3].

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2. DETERMINATION OF PROJECT RENT ROLL

a. Calculation of monthly rents by unit category

	LOW INCOME		MODERATE INCOME	
	1 BR	2 BR	1 BR	2 BR
MEDIAN INCOME/1	$30880	$34740	$30880	$34740
TARGET INCOME/2	13124	14765	20998	23623
GROSS RENT [30% of target income]	3937	4430	6299	7087
UTILITY ALLOWANCE/3	[600]	[840]	[600]	[840]
NET ANNUAL RENT	3337	3590	5699	6247
NET MONTHLY RENT	278	299	475	521

b. Computation of year 1 rental revenue

$278 x 91	$ 25,298	
299 x 34	10,166	
475 x 211	100,225	
521 x 77	40,117	
	$175,806 x 12 =	$2,109,672
less 3% vacancy & collection loss		x .97
Year 1 rental revenue		$2,046,382
Year 1 revenue requirement [from pro forma]		[2,006,808]
Net surplus/deficit		+ 39,574

1/Uncapped median income for PMSA including Middlesex County as provided by Council on Affordable Housing

2/85% of ceiling income based on uncapped median adjusted for family size:

Low income [.5 x .85] = 42.5% of median
Moderate income [.8 x .85 = 68% of median

3/Cost of utilities estimated at $50/month for one bedroom unit and $70/month for two bedroom unit.

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3. CALCULATION OF PROJECT TAX BENEFITS

a. value of tax credit

Total development cost	$14,226,800
less land cost	[1,032,500]
Depreciable basis	$13,194,300
qualified percentage/1	x .302663
Qualified basis	$ 3,993,432
Annual low income tax credit/2	x .09
Annual value of low income tax credit	$ 359,409

b. Value of depreciation

Depreciable basis	$13,194,300
depreciated on 27.5 year straight line basis	/ 27.5
Annual depreciation	$ 479,793

c. Estimated equity value from tax benefits/3

	LOW ESTIMATE	INTERMEDIATE ESTIMATE
Annual depreciation	$ 479,793	$ 479,793
tax rate	x .28	x .34
cash value of depreciation	$ 134,342	$ 163,130
cash value of tax credit	359,409	359,409
Total annual cash value/4	$ 493,751	$ 522,539
Years of benefit for pricing/5	x 6	x 7
Total cash value for pricing	$2,962,506	$3,657,773
pricing discount/6	/ 1.2	/ 1.15
Total price	$2,468,755	$3,180,672
adjustment for syndication and borrowing costs/6	x .6	x .65
NET SYNDICATION PROCEEDS	$1,481,253	$2,067,437

NOTES ON FOLLOWING PAGE

NOTES TO TABLE 3

1/The qualified percentage is that percentage of the total basis that is devoted to low income units; it is the lower of either (a) the % of low income units or (b) the % of floor area devoted to the low income units.

2/The value of the tax credit is 9% of the qualified basis per year for 10 years if the project is placed in service in 1987. If the project is placed in service after 1987, the value of the tax credit is to be determined by the Treasury.

3/The intermediate estimate is based on the best available expert advice, at present, as to what low income tax credits and depreciation should realistically bring in the market. The low estimate is an extremely conservative estimate based on further discounting all factors potentially affected by marketplace considerations. We have made no effort to calculate a high estimate.

4/The calculation of tax benefits here is the sum of depreciation benefits and low income rental housing tax credits. We have not included the mortgage interest rate deductions that may be available.

5/In this example, we are calculating the price for tax credits on the basis of the cumulative value of the credits over the first six (or seven) years during which those benefits are taken, as is common practice. It should be noted that this represents only a part of the total; assuming 15 years of ownership, slightly over 1/2 of the tax benefits are taken in the first six years.

6/The pricing discount reflects the additional margin of benefits over payout, during the payout period, anticipated to be required by the investor. The figure of 115% is based on the experience with syndication under the ACRS provisions of the 1981 act.

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December 11, 1986

John C. Pidgeon, Esq.
Pidgeon & Pidgeon
60 North Main St.
Cranbury, N.J. 08512

Dear John:

This shall confirm our telephone conversation yesterday in which we agreed to meet on Wednesday, December 17, 1986 at 2:30 p.m. at the Civic League office in New Brunswick to discuss the Plainsboro settlement.

Very truly yours,

Barbara Stark

cc: C. Roy Epps
Alan Mallach