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Piscataway

16-Oct-1984

Letter from Allan Mallach - re:
Humanian Affordable Housing Proposal
for Society Hill at Piscataway,
Comments and Recommendations.

pgs = 4

ML000553L

Alan Mallach

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October 16, 1984

Bruce Gelber, Esq.
General Counsel
National Committee against
Discrimination in Housing
733 15th Street, N. W.
Washington, D.C. 20005

RE: Hovnanian Affordable Housing Proposal
Society Hill at Piscataway

Dear Bruce:

As per your request, this letter will set forth my comments with regard to the affordable housing proposal made by K. Hovnanian and Company to the Township of Piscataway, and my recommendations with regard to the position that we should take with regard to the proposal. Although this is, in many ways, a reasonable proposal, I believe that there are still major concerns which must be resolved, largely in the area of determining what price will be considered affordable to lower income households, before the project can reasonably be considered a workable Mount Laurel development.

Since the determination of price is a function of a number of separate elements, it is worth discussing each element which does not, in my judgement, provide a reasonable basis for determining the price of the proposed units:

(1) Median Income: The authors of the proposal have apparently not understood the basis on which it was determined that it would be more appropriate to use a 'regional' median income, rather than the PMSA median income. This has nothing to do with the fair share housing allocation methodology. It is based on the premise that, when building in a PMSA with a high median income, such as Middlesex County, housing designed to meet the needs of a much larger region, it is inappropriate to penalize lower income households in the balance of the region by using the higher PHSA figure. For that reason the consensus group recommended using the median income determined for the entire 11-county region, for the purpose of determining affordability and sales price. The use of a figure of 94% of the PMSA median is a shorthand to arrive at the regional median. I believe use of the regional median is well founded, and should be substituted. The argument that "the median income of Piscataway is equal to the median income of the Middlesex County PMSA, therefore, no such adjustment is necessary", whether or not true, is utterly irrelevant.

<2) Family Size: I strongly object to the use of the income figures for a four person household to determine affordability of a two bedroom unit. By so doing, the range of affordability of that unit is drastically reduced, and virtually no household other than a four person household will be able to qualify for that unit. The square footage of the unit is irrelevant to this issue.

Furthermore, the author of the proposal is in error with regard to the use of this standard. Although it is true that the East Brunswick settlement (which was negotiated prior to the preparation of Ms. Lerman's report) uses the figure of 3.5 for this purpose, all subsequent settlements have embodied this figure. The Lincoln Park settlement has since been modified to correct this point, and now reflects the consensus position, as will other settlements entered into in both Middlesex and Morris Counties.

(3) Housing Cost Coefficients: In addition to the above more fundamental issues, which significantly impact on the maximum allowable sales prices and rentals, there are some questions with regard to the particular cost coefficients used. Specifically, the figures for both insurance and condominium association fees are substantially below typical levels; if the developer is in a position to ensure that those costs will indeed apply, then they can be used. There is, as well, an error in the table of interest rates and cost coefficients; specifically, the row marked '14%', in actuality provides the coefficients based on a 13% mortgage, that marked '*13%' provides the coefficients for a 12% mortgage, and so forth. This, too, affects the maximum affordable price.

Based on calculations given on an attached sheet, I have computed the maximum affordable prices and rentals for the lower income housing units in this development, which are as follows:

MAXIMUM SALES PRICES BASED ON 14% MORTGAGE INTEREST RATE:

	LOW INCOME	MODERATE INCOME
2 BEDROOM	\$22,900	\$36,500
3 BEDROOM	\$27,400	\$43,200

MAXIMUM RENTS (EXCLUDING UTILITIES):

2 BEDROOM	\$251	\$444
3 BEDROOM	\$295	\$517

It is understood that, if mortgage interest rates decline, if a reasonable buydown is provided, or if NJHMFA mortgage funds are available, it may be possible to increase these sales prices.

Although I have not conducted a thorough review of all of the provisions in the affordable housing plan submitted by the developer, there are some other points which should be noted:

(1) The provision that the developer have the option of further reducing the selling price, or renting the units if the mortgage interest rate exceeds 14% is a reasonable one, and reasonably balances the interests of the developer and the needs of lower income households;

(2) The general approach to resale controls and to maintenance of continued lower income affordability in

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the lower income units appears reasonable. Two questions which arise are:

- the basis for determining the resale price does not appear to be clearly set forth in the documents;
- * has the Township of Piscataway agreed to establish the affordable housing agency described in these documents?

I would suggest, furthermore, that these documents be reviewed by an attorney.

(3) The proposed standard for allowing buyers to qualify on the basis of a buydown. Sec. 1.01(A)(1), is excessive. I believe that the standard we have proposed; specifically, that the rate of increase not exceed 0.55% per year, should not be exceeded if the long-term interests of the lower income homebuyers are to be protected.

I hope you find these comments useful. Again, I feel that this proposal represents a considerable step toward a sound lower income housing program consistent with Mount Laurel II. I am hopeful that the developer will be able to accommodate the above changes into his plan, so that, in addition to the units better meeting lower income housing needs, it will be possible for the Township of Piscataway legitimately to claim credit for these 110 units toward their fair share housing allocation.

Sincerely,

Alan Hallach

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DETERMINATION OF AFFORDABLE SALES PRICES AND RENTALS FOR PROPOSED SOCIETY HILL AT PISCATAWAY DEVELOPMENT

(1) MAXIMUM AFFORDABLE SALES PRICE WITH 14% MORTGAGE

	LOW INCOME		MODERATE INCOME	
	2 BR	3 BR	2 BR	3 BR
HOUSEHOLD SIZE	3	5	3	5
PMSA CEILING INCOME	\$15200	\$18200	\$24300	\$28700
PMSA CEILING X .94	14288	17108	22842	26978
.94 CEILING X .28	4001	4790	6396	7554
MAXIMUM SALES PRICE*	\$25400	\$30400	\$40600	\$48000
MAXIMUM PRICE X .90	22900	27400	36500	43200

*Based on 14% 30 year mortgage with 10% downpayment (annual mortgage coefficient .12797; total factor .15747)

(2) MAXIMUM AFFORDABLE RENTAL

PMSA CEILING X .94	\$14288	\$17108	\$22842	\$26978
.94 CEILING X .30	4286	5132	6853	8093
ANNUAL TOTAL / 12	357	428	571	674
MONTHLY TOTAL X .90	321	385	514	607
LESS UTILITY ALLOWANCE	C 703	C 901	C 703	C 903
MAXIMUM NET RENT	\$251	\$295	\$444	\$517