RULS - AD - 1983 - 150

17 Nov. 1983

Letter from Mallach to Cernie w/ two purposes

Pgs 4

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12/5/84 - EDS

Alan Mallach
27 W Patcong Ave
Linwood NJ 08221

November 17, 1983

RULS - AD - 1983 - 150

Ms. Constance B. Gibson
Acting Executive Director
New Jersey Mortgage Finance Agency
1180 Raymond Boulevard
Newark, New Jersey 07102

RE: The Hills
Bedminster, New Jersey

Dear Connie:

The purpose of this letter is two-fold: first, to confirm the intention of The Hills Development Company to provide the entire 260 low and moderate income housing units in The Hills as sales housing, and, therefore, to request that the setaside of mortgage funds from the New Jersey Mortgage Finance Agency be increased to $9.4 million, and second, to provide you and your staff with the additional information requested at the time of our meeting with regard to the nature of the proposed resale controls and recapture provisions to govern this development.

I have attached a revised pro forma for 260 low and moderate income condominium units, which will be provided according to the following unit type distribution:

	LOW	MODERATE
1 bedroom	68	
2 bedroom loft	44	24
2 bedroom		80
3 bedroom	18	26
	130	130

The total projected development cost for the 260 units is $10,424,676, and the projected mortgage requirement, on the assumption that the average mortgage amount will be 90%, is $9,382,208, or rounded, $9.4 million.

With regard to resale controls and recapture provisions, I am having sent to you under separate cover detailed information, including preliminary drafts of the proposed covenants and restrictions. I would like to provide you here with a short description of the salient points for each of the two areas

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under discussion. The central substantive provisions to govern the resale controls will be as follows:

(1) The resale price will be based on the base price adjusted by 50% of the increase in the Consumer Price Index, as well as the value of improvements as determined by the Corporation;

(2) Resale controls will be in effect for a period of 30 years from the time of purchase, by both the initial and any subsequent buyer; i.e., it will be a rolling, rather than a single, 30 year period.

(3) The Corporation will have the exclusive right to purchase the unit, or find a qualified buyer for the unit, for a period of 90 days after it is notified by the owner of his/her intent to sell;

(4) In the event that the Corporation neither buys the unit nor finds a qualified buyer, the owner may sell on the open market, but (a) he/she must sell at the approved resale price, and (b) the new buyer, whether or not of low or moderate income, will be subject to the resale controls in any subsequent sale.

These provisions will ensure that the units remain a part of the low and moderate income housing stock for an extended period, even if, as a result of provision (4) above, there is an occasional hiatus. That provision will ensure, unlike the controls that have been used in most communities, that the unit will eventually return to the lower income stock.

With regard to recapture provisions, the standard is that recapture will be keyed to the market differential between the price at which the unit will be sold, and the market price as determined by the market analysis. In the case of low income units, 25% of the market differential will be subject to recapture, and in the case of the moderate income units, 50% of the differential will be subject to recapture.

The other substantive provisions governing the recapture will be as follows:

(1) Owners will be subject to recapture if their income increases above a threshold proposed to be 125% of the ceiling income for the appropriate income category and household size category, at the time of initial occupancy. There is still some continuing discussion regarding this threshold level, and it may be modified, or left to the determination of the Corporation;

(2) Any recapture collections through the fifth year of

occupancy of the development will be retained by the Corporation; collections from then on will be divided between the developer and the Corporation on a 75/25 basis;

(3) For purposes of payment, the recapture will be structured as a 30 year loan at 10% interest, subordinated to the first mortgage. The following schedule indicates (a) the estimated total recapture amount for each unit and income category; and (b) the maximum monthly payment under the recapture provision:

	LOW		MODERATE	
	Recapture Amount	Maximum Monthly Payment	Recapture Amount	Maximum Monthly Payment
1 Bedroom	$ 6,175	$ 58.55	NA	NA
2 BR Loft	$ 7,300	$ 64.18	$ 5,100	$ 44.76
2 Bedroom	NA	NA	$ 8,750	$ 76.36
3 Bedroom	$11,575	$101.75	$12,150	$106.63

(4) Owners are subject to recapture payments only to the degree that their income exceeds the threshold income, <u>and</u> the sum of the recapture payment and the payments for mortgage, property taxes, and homeowners association fees do not exceed 28% of gross household income.

(5) Any balance of the recapture amount not paid at the end of 30 years is to be forgiven.

The detailed materials being sent separately also contain proposed provisions to protect the interest of the Mortgage Finance Agency in the event of a default by a mortgagor in the development.

We are moving ahead in our negotiations with the Township, with George Raymond, the court-appointed master, and the courts, and are optimistic that the local approvals will be in place prior to the next Mortgage Finance Agency board meeting. In the meantime, if you would like any further information, or have any questions, please let me know.

Sincerely,

Alan Mallach

AM:ms
cc: J.Kerwin
H.Hill, Esq.
T.Hall
G.Raymond
K.Meiser,Esq.

COST ANALYSIS FOR PROPOSED VILLAGE GREEN LOW AND MODERATE INCOME CONDOMINIUM PROJECT (260 UNITS)

Land		0
Site Improvements @ $5000/DU		$ 1,300,000
Landscaping, hookups, etc. @ $3000/DU		780,000
Construction (198,800 SF @ $28/SF)		5,315,632
Architecture & Engineering @ 3.4%	$180,731	
HOW warranty & service	143,000	
Legal & consulting fees	75,000	442,131
Property taxes during construction	13,400	
Permits, fees & misc.	30,000	
		$ 7,837,763
Construction financing @ 13% for 8 months		404,403
Financing fees & contingency @ 4%		373,582
Supervision & administration @ 3%		280,187
Marketing & advertising @ 3%		280,187
Closing & title @ 1%		93,396
Nonprofit corporation fee @ 0.75%		70,047
DEVELOPMENT COST		$ 9,339,565
Buydown		244,550
Profit, risk & contingency @ 9%		840,561
TOTAL PROJECT COST		$10,424,676