Analysis of the West End Redevelopment in the Township of Mount Holly

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Executive Summary

This paper reviews a fiscal impact study of the proposed West End Redevelopment in Mount Holly, N.J. A September 2008 study by Richard B. Reading Associates predicts that the redevelopment project will bring a significant amount of revenue to Mount Holly Township. But that study relies on a number of assumptions that are out-of-line with current housing market and population trends in Mount Holly, as well as other economic assumptions that impact the analysis. This paper shows that adjusting the study's analysis to reflect more realistic assumptions yields drastically different outcomes:

- Using current market prices, the proposed townhomes in the West End redevelopment would be worth roughly *30 percent less* than originally predicted.

- Using current market prices, the proposed rental units would be worth *50 percent less* than originally predicted.

- Such reductions in the value of the proposed development would mean approximately *$177,000 less* in tax revenue for Mount Holly Township, as well as lower service charges and administrative fees.

- The original report appears to underestimate the number of additional children attending local schools as well as increased educational costs as a result of the project. Drawing on data from the U.S. Census, there may be *three times* as many new schoolchildren as a result of the project. Using per pupil cost estimates from the original report, this could lead to *an increase of education costs of as much as $1.4 million per year*.

- Based on data from the Reading Associates report, the development will cost Mount Holly *an additional $341,442 annually in community support*.

- Combining these estimates of lower-than-predicted revenues and higher-than-predicted education and community support costs results in *a possible loss to Mount Holly Township of more than $1 million annually*—about 10 percent of the township's annual budget—rather than the predicted windfall.

- This paper—and the original Reading Associates study—assume no negative changes in property values, no additional unanticipated costs, and full, continued payments from the developer. Given current housing and population trends in Mount Holly, there are reasons to doubt these assumptions. If any of them change, the project could cost the township even more on an annual basis.

Introduction

The "Fiscal Impact Analysis for the West End Redevelopment: A Proposed Mixed-Use Redevelopment in the Township of Mount Holly Burlington County, New Jersey," published in September 2008 by Richard B. Reading Associates forecasts a number of fiscal benefits from the proposed redevelopment plan in Mount Holly, N.J. However, given the current state of the housing market, unemployment rates, population shifts and other economic factors, the assumptions set forth in that analysis likely create an inaccurate picture of the value of the proposed redevelopment. The following summary shows how more realistic alternative assumptions lead to a lower amount of projected revenue that is outweighed by higher costs to the township.

Estimated Value of Market-Priced Homes

Table 1 is a recreation of a table included on page 22 of the original analysis. It shows the average sales price of the proposed units as estimated by the Richard B. Reading Associates Report.

Table 1 – West Rancocas Redevelopment Plan Estimated Value of Market-Rate Townhome Construction – Reading Report

For Sale Townhomes – Market Value	# of Units	Average Sales Price	Aggregate Value
18'W – 2 Bedroom	40	$210,000	$8,400,000
20'W – 2 Bedroom	87	$230,000	$20,010,000
20'W – 3 Bedroom	84	$230,000	$19,320,000
24'W – 3 Bedroom	50	$240,000	$12,000,000
Total	**261**	**$228,851**	**$59,730,000**

The original report does not mention how the average sales prices were calculated, but a review of current real estate values suggests the originally estimated sales prices are higher than the current Mount Holly market can sustain. The average price for a two-bedroom and three-bedroom home in the Mount Holly area is $137,500 and $179,000 respectively, which is significantly lower than the prices assumed in the original analysis.[2] Furthermore, the original report states that only 1.8 percent of current Mount Holly homes (40 homes) are priced at the level assumed in the original analysis, suggesting the needs of the existing community were not considered in the redevelopment plan.[3]

Table 2 recreates Table 1 using current average housing values. Using these values, the value of the proposed townhomes would be closer to $41,448,500, roughly **30 percent less** than originally predicted.

[2] Zillow.com http://www.zillow.com/local-info/NJ-Mt-Holly-Township-home-value/r_398105/ Value based on Zillow's proprietary formula which draws on several data sources.

[3] Richard B. Reading Associates, "Fiscal Impact Analysis for West End Redevelopment: A Proposed Mixed-Use Redevelopment in the Township of Mount Holly Burlington County, New Jersey," page 12. September 8, 2008.

Table 2 – Estimated Value of Market-Rate Townhome Construction – Current Values

For Sale Townhomes – Market Value	# of Units	Average Sales Price	Aggregate Value
18'W – 2 Bedroom	40	$137,500	$5,500,000
20'W – 2 Bedroom	87	$137,500	$11,962,500
20'W – 3 Bedroom	84	$179,000	$15,036,000
24'W – 3 Bedroom	50	$179,000	$8,950,000
Total	**261**	**$169,997**	**$41,448,500**

Estimated Value of Rental Units

Similar to homes for sale, the planned rental units have been estimated well over the Mount Holly market value. Census data from 2005 to 2009 show that 79 percent of rentals units in Burlington County are priced below $1,249 per month, which is the starting rate for units proposed in the redevelopment plan. Furthermore, data from the original fiscal impact analysis cited an even lower number; only 4.8 percent of rental units in Mount Holly were priced above $1,000 per month, with the median rental price at only $635 per month. The rental units proposed through redevelopment likely would not serve the existing community.

Table 3 shows the Richard B. Reading Associates estimates and Table 4 shows estimates based on current market conditions. The value of the rental units **falls by roughly 50 percent** using estimates based on current market conditions.

Table 3 – West Rancocas Redevelopment Plan Estimated Value of Market-Rate Rental Unit Construction – Reading Report

Rental Units – Market Value	# of Units	Average Monthly Rent	Estimated Value	Aggregate Value
Apartment – 1 Bedroom	102	$1,248	$112,320	$11,456,640
Apartment – 2 Bedroom	101	$1,840	$156,600	$15,816,600
Total	**203**	**$1,543**	**$134,351**	**$27,273,240**

Table 4 - Estimated Value of Market-Rate Rental Unit Construction – Current Values

Rental Units – Market Value	# of Units	Average Monthly Rent[4]	Estimated Value[5]	Aggregate Value
Apartment – 1 Bedroom	102	$635	$57,727	$5,888,181
Apartment – 2 Bedroom	101	$948	$86,181	$8,704,281
Total	**203**	**$791**	**$72,088**	**$14,592,462**

[4] The median rental price is used for the one-bedroom apartment. The rate for the two-bedroom apartment is the proportion between the two units from the original analysis applied to the new one-bedroom rate.
[5] The Richard B. Reading Associates Plan estimated the total property value at 1.1 percent of the monthly rental rate. The same formula is used here.

Total Value of Project and Discussion

Table 5 shows the total estimated value of the project based on the Richard B. Reading Associates' fiscal analysis and the total estimated value based on an alternative analysis that factors in current housing market conditions.

Table 5 – Summary of Differences Between West Rancocas Redevelopment Plan Estimates and Current-Value Estimates

For Sale Townhomes – Market Value	**# of Units**	**Original Average Sales Price**	**Updated Average Sales Price**	**Original Estimated Aggregate Value**	**Updated Aggregate Value**
18'W – 2 Bedroom	40	$210,000	$137,500	$8,400,000	$5,500,000
20'W – 2 Bedroom	87	$230,000	$137,500	$20,010,000	$11,962,500
20'W – 3 Bedroom	84	$230,000	$179,000	$19,320,000	$15,036,000
24'W – 3 Bedroom	50	$240,000	$179,000	$12,000,000	$8,950,000
Subtotal	*261*			*$59,730,000*	*$41,448,500*
Rental Units – Market Value	**# of Units**	**Original Average Monthly Rent**	**Updated Average Monthly Rent**	**Original Estimated Aggregate Value**	**Updated Aggregate Value**
Apartment – 1 Bedroom	102	$1,248	$635	$11,456,640	$5,888,181
Apartment – 2 Bedroom	101	$1,840	$948	$15,816,600	$8,704,281
Subtotal	*203*			*$27,273,240*	*$14,592,462*
For Sale Townhomes – Affordable	**# of Units**	**Original Average Sales Price**	**Updated Average Sales Price**	**Original Estimated Aggregate Value**	**Updated Aggregate Value**
18'W – 2 Bedroom	8	$105,783	$66,114	$846,984	$528,912
20'W – 2 Bedroom	8	$105,783	$66,114	$846,984	$528,912
20'W – 3 Bedroom	11	$122,531	$93,332	$1,347,841	$1,026,652
24'W – 3 Bedroom	4	$122,531	$93,332	$90,124	$373,328
Subtotal	*31*			*$3,531,933*	*$2,457,804*
Rental Units – Affordable	**# of Units**	**Original Average Monthly Rent**	**Updated Average Monthly Rent**	**Original Estimated Aggregate Value**	**Updated Aggregate Value**
Apartment – 1 Bedroom	12	$623	$317	$673,308	$345,818
Apartment – 2 Bedroom	13	$753	$388	$881,374	$458,545
Subtotal	*25*			*$1,554,682*	*$804,363*
Commercial Space	**Square Feet**	**Original Annual Rent/Square Foot**	**Updated Annual Rent/Square Foot**	**Original Estimated Aggregate Value**	**Updated Aggregate Value**
Drug/Pharmacy	13,500	$30.00		$3,847,500	$3,847,500
Bank	5,500	$60.00		$3,135,000	$3,135,000
Retail	35,000	$18.00		$5,985,000	$5,985,000
Subtotal	*54,000*			*$12,967,500*	*$12,967,500*
GRAND TOTAL				**$105,057,355**	**$72,270,629**
Estimated Assessment (.4502)[6]				**$47,296,800**	**$32,536,237**

[6] The Richard B. Reading Associates Report estimated 0.4502 as the assessment rate.

Affordable units (which have not previously been discussed in this report) are valued at an average percentage of the market rate units equal to that percentage in the original analysis. While challenging the estimates for the residential units, this analysis uses the commercial real estate prices as set out in the original report due to a lack of other available data. However, given that residential real estate estimates in the original report were overstated, there is a significant chance commercial real estate values were overstated as well.

As Table 5 shows, including current market conditions in the estimates **decreases the estimated assessment by more than $14 million.**

Additionally, using the alternative estimates, the amount the township can expect to receive from the Annual Service Charge and Administrative Fees[7] **drops from $1,051,347 to $713,485[8]** for the first five years. After the fifth year, the township would receive payments for the rental and commercial spaces ($346,493) and ordinary property taxes on the for sale units ($237,199),[9] for a total revenue of $583,692 per year.

Occupancy Rates

The original analysis did not address occupancy rates of the proposed units. As of the 2000 Census, the vacancy rate in the township was 8.1 percent. Although numbers from the 2010 Census are not available, it seems likely the current vacancy rate is even higher due to the burst of the housing bubble in recent years. Even assuming a vacancy rate of 8.1 percent, 42 of the newly constructed units can be expected to remain empty after completion. Aside from the challenges of having high numbers of unoccupied housing in a community, this would impact the amount of money the township can expect to receive in property tax revenue.

In addition to high vacancy rates, New Jersey is seeing its population shift to other states.[10] More specifically, Mount Holly Township's population has consistently decreased since the 1960s. These negative population changes may further drop the demand for housing, driving average prices down even further.

Although the project will create a number of construction jobs, they will not be permanent positions and therefore are not likely to attract new permanent residents. Only a small number of permanent jobs (98 retail jobs) are expected to be generated by the new development. **Fewer than 100 new low-level jobs cannot be counted on to generate demand for more than 500 upscale housing units.**

Furthermore, it is unclear if the retail space will be successful and these jobs will materialize. The number of retail establishments in Mount Holly fell by 17.6 percent over a five-year period (2003-2008) from 130 to 107,[11] suggesting the township does not have enough demand to support the retail establishments that already exist in the area. This creates serious

[7] See Appendix A.
[8] Amount calculated as specified on pages 37-38 of the Richard B. Reading Associates Report with updated estimates.
[9] A local use property tax rate of $1.002 per $100 of assessed valuation as stated in Richard B. Reading Associates Report, page 40.
[10] United States 2010 Census. New Jersey lost one Congressional seat due to population shifts.
[11] United States Census, Zip Code Business Patterns for 08060. Accessed January 28, 2011. http://www.census.gov/econ/cbp/index.html.

doubt as to whether the new retail establishments will be successful and add any jobs at all to the local economy.

Impact on Schools

The original analysis states the newly constructed housing units will result in an additional 86 children attending local schools. The analysis gives no indication how this number was derived, and it seems to be underestimated given other information put forth in the Richard B. Reading Associates Report.

According to 2000 Census information for Mount Holly,[12] there are approximately 2.75 people per household in the township. Taking estimated vacancy rates of 8.1 percent into account, this means the new units would house roughly 1,315 people. The 2000 Census data indicate 19.7 percent of the total Mount Holly population is made up of school-aged children. Applying this percentage to the expected number of new residents results in 259 additional children attending local schools—three times higher than the original estimate.

The report gives two different figures for per pupil, per year costs to the township.[13] These two figures have been averaged for an estimated cost of $5,440 per pupil, per year. Using the averaged Reading per-pupil cost estimate and assuming more school-age children, the total education cost of these additional children could be as much as $1.4 million per year. Under the assumptions in this report, which suggest lower revenues and higher educational costs, the educational cost alone is greater than the increased property revenue the township can expect.

Other Impacts

The original analysis estimated the cost to the township of supporting each resident at $256 per year.[14] Given this, the expected new 1,315 residents will cost $336,640 to support each year. For non-residential properties, it is estimated that support costs for the township are $49 per employee. The estimated 98 jobs created by this development, if they materialize, would cost the township $4,802 per year to support. Thus, drawing on the estimates of the Reading report, **the total increase in community support required for the development would be $341,442 per year.**

In addition, it can be expected that a large scale construction project such as the one proposed will have support costs associated with it, and these were not estimated in the original analysis. While this analysis will not attempt to estimate these costs (because of numerous uncertainties), it can be assumed the construction phase will cost the township money above and beyond what has been allocated thus far.

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[12] As cited in Table 1 of the Richard B. Reading Associates Report.
[13] The Richard B. Reading Associates Report, page 33. It is assumed the remaining funds come from federal, state and county grants.
[14] The Richard B. Reading Associates Report, page 32.

Costs and Benefits

Table 6 shows the costs and benefits to the township over time. Basing assumptions on current market conditions and more fully accounting for costs, **the township likely would lose about $1 million annually, or about 10 percent of its annual budget.**[15]

Table 6 – Total Costs and Benefits of Redevelopment

	Year 0[16]	Year 1[17]	Year 2	Year 3	Year 4	Year 5	Years 6+
Outlays to date	($18,500,000)[18]						
Revenue from sale of land	$9,800,000						
Payment from developer		$713,485	$713,485	$713,485	$713,485	$713,485	$346,493
Ordinary tax revenue on new property							$217,986[19]
Additional education costs		($1,408,960)	($1,408,960)	($1,408,960)	($1,408,960)	($1,408,960)	($1,408,960)
Community Support costs		($341,442)	($341,442)	($341,442)	($341,442)	($341,442)	($341,442)
Total	($8,700,000)	($1,036,917)	($1,036,917)	($1,036,917)	($1,036,917)	($1,036,917)	($1,185,923)

This analysis—as well as the Reading analysis—assumes there are no negative changes in property values as the units age, no additional money will need to be spent on the project, and that the payments to the township from the developer will continue indefinitely on the rental and commercial space. In other words, this analysis may also be too optimistic. If any these assumptions are violated, the redevelopment project could cost the township an even greater amount on an annual basis.

Conclusion

The Richard B. Reading Associates report predicts that the proposed redevelopment project will generate significant revenue for Mount Holly Township, but as this alternative analysis shows, there are a number of reasons to believe its predictions are overly optimistic. Bringing just a few of the original report's assumptions into line with current market conditions and population trends in Mount Holly, while retaining that report's basic calculations, changes the outcomes drastically. Rather than a windfall, Mount Holly could see a loss of more than $1 million a year—–about 10 percent of its annual budget—and significantly more in the initial stages of the project.

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[15] Mount Holly Township Budget, 2010. http://www.mountholly.info/town_council.php.
[16] Year 0 represents the sum total of all financial action before the project is completed.
[17] Year 1 represents the first year after the project is completed.
[18] Mount Holly Township Meeting Minutes. November 22, 2010.
[19] This figure is calculated by applying the 8.1 percent vacancy rate proportionally to the total number of each type of for-sale unit and then determining the property tax using assessment and tax rates found in the Richard B. Reading Associates Report.

Appendix A
Table 11 from the Richard B. Reading Associates Report (Page 38) with Current Market Real Estate Values[20]

RENTALS								
	Unit Type	Number of Units	Average Rent	Annual Gross Revenue	Annual Service Charge (10%)	Municipal Annual Service Charge	Municipal Admin Fee	
	1BR	102	635	7,620	762	77,724	1,554	
	2BR	101	948	11,376	1,138	114,898	2,298	
	Affordable	25	354	4,248	425	10,620	212	
Totals						203,242	4,065	
FOR SALE								
	Unit Type		Average Price	Annual Mortgage Payment	Annual Maintenance Fee	Annual Service Charge (10%)	Municipal Annual Service Charge	Municipal Admin Fee
	2BR	127	137,500	9,893	1,375	1,127	143,098	2,862
	3BR	134	179,000	12,878	1,790	1,467	196,557	3,931
	Affordable	31	79,284	5,704	793	650	20,141	403
Totals							359,795	7,196
COMMERCIAL								
	Retail	Average Rent/sf	Annual Gross Revenues	Annual Service Charge/sf	Municipal Annual Service Charge	Municipal Admin Fee		
	54000sf	25	1,364,580	253	136,458	2,729		
TOTALS								
	Municipal Annual Service Charge	Municipal Admin Fee	Total					
	699,495	13,990	713,485					

[20] See the Richard B. Reading Associates Report (page 38) for calculation notes.