Date: June 17, 2009

To: CPC Committee of the Newton Board of Aldermen

From: SEB

Re: Development & Financial Model – Summary Comparison

MEMORANDUM

You have requested that we provide financial information on alternative development options which may (or may not) require less CPA funds and may or may not include more or less units and different mixes of affordability.

Attached to this memorandum are 4 development options, as follows:

#1 Our existing originally submitted proposal: 10 units with 6 units priced for households earning up to 80% of Area Median Income and 4 units priced for HH earning up to 100% of AMI

#2 A 10 unit proposal with 4 market rate units and 6 affordable units for HH earning up to 80% of AMI (the market units are in lieu of 4 units selling to households earning up to 100% of AMI)

#3 Our alternative 40B proposal (assuming no CPA funding) which is 12 units with 3 affordable (@ 80% AMI) and 9 market rate units

#4 An 8 unit proposal with 2 tiers of affordability: 6 units priced for households earning up to 80% of Area Median Income and 2 units priced for HH earning up to 100% of AMI

We have included a brief explanation as to the key variances between the different development scenarios. This is illustrated in the attached comparison summary table.

While the following explanations focus on the differences between the development scenarios, for purposes of understanding the various options, it is also important to understand key similarities. In all of the four scenarios, the majority of the soft costs and the site work costs are the same. Whether the development has 2 units or 20 units, these costs are more or less fixed. The site is going to require some Massachusetts Department of Environmental Protection mandated clean-up as well as the construction of the roadway through to Albert Road, landscaping, etc. The only primary cost that varies across the scenarios is the building costs. It is obviously cheaper to build (from the foundation up) 8 units than 12 units.

Development Budget Scenario Overview

Scenario #2: This option is similar to the existing proposal except that the market units are larger. SEB research indicates that there have been NO newly constructed (completed since 2007) condominiums sold in the past year under 2,000sf (except one unit on Route 9). Therefore, of all recent 3BR townhome sales we averaged the 2 developments having the smallest square footage to arrive at an average market unit size of 2,034 sf. We also averaged the square foot selling price of these 2 developments @ $253/sf to arrive at our estimated market sales price of $514,602. Also note that the developer overhead/fee for the existing proposal is only 6% because there is no market risk involved; when selling market units, there is a market risk taken when personally guaranteeing a construction loan and there must be commensurate reward for any investor/developer; the State recognizes 15% as a minimum reward; anything below that is considered “uneconomic”, so we factored that market risk into the equation when determining an appropriate developer profit.

These changes to the development program would result in a CPA funding request of $1,694,622 for the 6 affordable units rather than the $2,041,000 for the 10 units in the current proposal. The per-unit request would increase 38% - from $204,100/unit to $282,437/unit. The total subsidies /unit would increase to $435,000/unit. Moreover, we would not choose to develop a condominium complex where the market rate unit owners were in the minority of the condominium association and thus could not control the voting for subsequent maintenance and repairs. In our experience, no developers choose to undertake this model and we do not believe it to be a marketable option.

Scenario #3: This option would reflect our “typical” 40B approach which would feature 12 units instead of 10, with the 9 market units sized at 2,400sf. This larger market unit would be more consistent from a size perspective with the average size of new townhouse condominiums which have sold in Newton in the past year. The average sales price of the newly constructed 3 BR condominiums sold within the last 12 months was $277/sf (as compared to the lower number in our previous model which was based on the market units being in the minority of the total development) which translates into a sale price of approximately $660,000 per market unit. In this scenario, the profit margin of 11.5% is low but can be financed. It also points out that under current market conditions, even 12 unit model would be considered “uneconomic” under 40B case law.

Scenario #4: This is an 8 unit model which has eliminated 2 units projected to sell to households earning up to 100% of AMI. This version would require almost as much CPA funding as our 10 unit model ($2,018,272 compared to $2,041,000). However, the amount of CPA funds requested on a per unit basis would increase by approximately 24% from $204,100 to $252,284 making the total per unit subsidy request $366,767 compared to $295,687 for our current plan.

- Draft Schedule of Beneficial Interest

#151-09

	Unit Price	Interest	Estimated Monthly Homeowners' Expense	Annual Homeowners' Association Budget
	$ 169,300	8.88%	236	
	$ 169,300	8.88%	236	
	$ 169,300	8.88%	236	
	$ 169,300	8.88%	236	
	$ 169,300	8.88%	236	
	$ 169,300	8.88%	236	
	$ 222,600	11.68%	310	
	$ 222,600	11.68%	310	
	$ 222,600	11.68%	310	
	$ 222,600	11.68%	310	
S	$1,906,200	100.00%	$2,656	$31,872

#151-09

April 3 2009	THE HOMES AT AUBURNDALE YARD CONDOMINIUM ASSOCIATION YEAR ENDING DECEMBER 31, 2008	192 LEXINGTON ST PROJECTED 10 UNIT CONDO BUDGET
	-	
EXPENSES		
Administrative expenses:		
Management fee	3,500	3,500
Legal	250	250
Tax return/prep work	640	650
Misc. Admin.	300	400
TOTAL ADMINISTRATIVE EXPENSES:	**4,690**	**4,800**
Maintenance expenses:		
Landscape Contract (plus additional landscaping)	8,500	5,000
Electrical Repairs	500	500
Misc. Repairs/including labor	3,000	2,000
Snow Plowing		5,000
Trash Collection		3,200
TOTAL MAINTENANCE EXPENSES:	**12,000**	**15,700**
Utility expenses:		
Electricity (common street lighting)	1,700	2,100
TOTAL UTILITY EXPENSES:	**1,700**	**2,100**
Insurance:		
Condominium Master Deed Insurance Policy	4,511	4,500
TOTAL INSURANCE EXPENSES:	**4,511**	**4,600**
TOTAL EXPENSES:	**22,901**	**27,200**
-	-	
RESERVE ACCOUNTS		
Deposit to Replacement Reserve (1)	**6,855**	**5,000**
TOTAL OPERATING BUDGET	**29,756**	**32,200**

1) Reserves for 192 Lexington are estimated based on $500 per unit per year

May 27 2009

#151-09

	THE HOMES AT AUBURNDALE YARD CONDOMINIUM ASSOCIATION YEAR ENDING DECEMBER 31, 2008	192 LEXINGTON ST. PROJECTED 10 UNIT CONDO BUDGET
	-	
EXPENSES		
Administrative expenses:		
Management fee	3,500	3,500
Legal	250	250
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