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October 24, 2007

Hueston McNulty, PC
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Attn: Stephen H. Shaw, Esq., as Warren County Special Counsel, Highlands Litigation
Re: Appraisal & Consulting Services, Commentary on the “Highlands Council Analysis of Highlands Act Exemptions”

Dear Mr. Shaw:

In accordance with your request, I have reviewed the “Highlands Council Analysis of Highlands Act Exemptions” found at

www.highlands.state.nj.us/njhighlands/ specifically the press releases for 10/12/07.

Within this Press Release (10/12/07) the Highlands Council states that there are 20,914 parcels of undeveloped land within the Highlands Region that have the potential to exercise one of the exemptions to allow (or facilitate) construction of a single family home.

The Press Release goes on to state that 17,900 of the said parcels are currently zoned for residential use and may be able to exercise the single family dwelling exemptions without having to seek a zoning change or use variance.

It may be inferred from the above, as verified from actual review of the reported study, that:

1. of the total (20,914) parcels, 3,014 are non-residential.

What is not clear from the Press Release is the disposition of all 20,914 parcels.

The spread sheets included on the Highlands Council’s web site within the above-cited release date (10/12/07) confirm that, of the total:

1. 10,181 residential parcels are located within the **Planning District**
2. 7,719 residential parcels are located within the Preservation District
3. 2,395 non-residential parcels are located in the **Planning District**, and
4. 619 non-residential parcels are located in the Preservation District.

Therefore, only 7,719 parcels of ground are residentially zoned lands that currently lie within the Preservation District. The Council suggests that these 7,719 parcels are among those (parcels cited as being 17,900 in total) that,

“...may be able to exercise the single family dwelling exemptions without having to seek a zoning change or use variance.”

Further in accordance with your request, I have reviewed the prior reports produced by Holzhauer & Hostenstein, LLC (02/14/06 & 09/01/07) for consistency or revision in reaction to the Highlands Council’s Analysis of Highlands Act Exemptions.

Within the Holzhauer & Hostenstein, LLC Letter Report of September 1, 2007 at page # 11 is found the following “response-rebuttal”:

Department Response:

- 5. *“The Department’s rules contain several exemptions to permit single-family dwellings so the estimated loss of 215,000 units is an obvious overestimate. To date, the Department has confirmed 351 exemptions.”*

H&H Rebuttal:

The Department’s inability to be specific about the numbers and types of exemptions as differentiated from stating “some exemptions” highlights the utterly picayune relief that the exemptions offer affected property owners. The 351 confirmed exemptions reflect 0.20% (that’s 1/20th of a percent) impact on the cited numbers. The reader is reminded that the number of units cited (@ 215,000) was taken directly from the Act Rules document (@ page 215) and was rounded down from the stated build-out numbers of 215,421 units. The confirmed exemptions (351) fall firmly within the rounding error (421) of the analysis and are therefore inconsequential.

In light of the Highlands Council’s current analysis, the Council is apparently taking the position that general Exemptions #1 & #2 will facilitate development of a single unit of housing on *up to* 7,719 plats of residentially zoned ground within the Preservation District.

The impact that such development may have on the conclusions previously cited by H&H is limited to the following:

- 1. **The 7,719 “possible” exemptions may reflect a 3.6% impact on the H&H conclusions (calculated as 7,719 / 215,421).**

As the impact cited by H&H is \$80 Billion Dollars of lost development having a gross economic impact of \$160 Billion Dollars, it follows that Exemptions #1 & #2 **may** have the effect of reducing the impact on lost **residential** development potentials and economic conditions by the same 3.6%.

However, the Highlands Council's current analysis also provides, for the first time, a calculation for the numbers of non-residential parcels that will be affected by the Act and Act Rules. Re-cited from above, 3,014 parcels (of the 20,914 total) are "non-residential".

Differentiated further, of the 3,014 non-residential parcels, 619 are located within the Preservation District. The Act and Act Rules effectively reduce these parcels to having utility as/for a single family dwelling subject to Highlands' Exemption and zone district variance approvals.

To assess the financial impact that the Act and Act Rules has on these 619 non-residential parcels, H&H, LLC has conducted an analysis of the relationship between the worth of improved residential and improved non-residential parcels within the affected Counties of Hunterdon, Morris, Passaic, Sussex, and Warren.

Within this analysis, the relationship between the value of residential and non-residential premises is expressed as a factor rather than as a dollar amount because the factors are derived from the aggregate assessed values within the respective Counties that can therefore only be compared, one to the other, as a factor given the myriads of equalization ratios for each municipality within each county.

The results of this study are attached hereto.

Based on the residential/non-residential relationship study, it is evident that, on average, non-residential premises range from approximately three to five times the worth of residential premises. The average relationship among the Study Counties is (Factor = 3.87X).

I conclude that a factor of four (Factor = 4X) is reasonable for discussion purposes. Setting aside one unit for the base unit of residential that is created by a lost non-residential unit (one for one, 619 = 619) each lost non-residential unit will eclipse (by value) three residential units.

Therefore, the net result (H&H impact opinion) of the Act and Act Rules can be further revised by concluding that any positive benefit incident to the speculative residential exemptions (7,719) will be significantly offset by a loss of non-residential development having an effective unit worth of 1,857 units (3 X 619). The number 1,857 is approximately 25% of 7,719.

As the exemptions total, if fully manifest @ 7,719 units, will only result in revision of the H&H Conclusions by approximately 3.6%, seventy-five percent of that amount (2.70%) is evident in consideration of the offsetting impact on non-residential parcels.

Where a calculation of 3.6% is regarded as “possibly significant” (albeit within the purview of rounding error), I conclude that a result of 2.7% is virtually inconsequential and within the realm of reasonable rounding error.

Although duly noted, I conclude that the Highlands Council Analysis of Highlands Act Exemptions has no net impact on the prior reported opinions rendered by H&H, LLC.

Thank you for this opportunity to have continued our service to the Warren County Board of Chosen Freeholders.

Respectfully submitted,
HOLZHAUER & HOLENSTEIN, LLC
By:

MEH/tps via Electronic 10/24/07
MICHAEL E. HOLENSTEIN, MAI, CTA
SCGRE: NY, NJ-RG01234, PA-GA1733R

MEH/tps
Enclosures
File #1073-10-07 Exemptions Summary

Hunterdon County Real Property				
	Number	Valuation	Value/Unit	
Residential	40,542	\$ 13,087,698,900	322,818	
Commercial	2,031	\$ 1,873,126,823	1,026,202	
Industrial	155	\$ 370,149,710		
Ratio of Non-Residential to Residential =				3.18
Morris County Real Property				
	Number	Valuation	Value/Unit	
Residential	146,236	\$ 45,689,330,230	312,436	
Commercial	6,726	\$ 10,455,808,911	1,686,187	
Industrial	996	\$ 2,564,928,201		
Ratio of Non-Residential to Residential =				5.40
Passaic County Real Property				
	Number	Valuation	Value/Unit	
Residential	105,522	\$ 15,485,021,573	146,747	
Commercial	7,023	\$ 3,384,685,240	572,733	
Industrial	1,415	\$ 1,448,039,753		
Ratio of Non-Residential to Residential =				3.90
Sussex County Real Property				
	Number	Valuation	Value/Unit	
Residential	53,050	\$ 8,748,339,330	164,907	
Commercial	2,173	\$ 981,004,712	470,713	
Industrial	194	\$ 133,172,300		
Ratio of Non-Residential to Residential =				2.85
Warren County Real Property				
	Number	Valuation	Value/Unit	
Residential	32,909	\$ 6,420,991,477	195,114	
Commercial	1,835	\$ 919,463,503	779,306	
Industrial	197	\$ 664,085,450		
Ratio of Non-Residential to Residential =				3.99
Average Ratio of Non-Residential to Residential =				3.87 *
* 2006 New Jersey Municipal Data Book, Real Property Valuation - parcels 2005				