



# HIGHLANDS TDR PROGRAM

HDC Bank Board Meeting  
April 2, 2009

# Highlands TDR Program

- ❑ The Highlands TDR Program is a regional program that permits the transfer of development rights, termed Highlands Development Credits (HDCs), to further the goals of the Highlands Act.
- ❑ A community may utilize market forces to encourage the transfer of development potential from areas that the community wants to preserve, called **Sending Zones**, to areas that are more appropriate to accommodate increased growth, called **Receiving Zones**.
- ❑ Landowners in the Sending Zones receive HDCs for the development limitations placed on their property, which they may later sell.
- ❑ HDCs purchased to build in a Receiving Zone allow for development at a density or intensity greater than that otherwise permitted in the underlying zoning.
- ❑ Receiving Zones under the Highlands Act are voluntary.

# Highlands TDR Program

## Five main components:

- ❑ Sending Zones
- ❑ Receiving Zones
- ❑ Allocation of Highlands Development Credits
- ❑ Initial HDC Value
- ❑ Highlands Development Credit Bank

# Sending Zones

Under the goals, policies and objectives of the TDR Program, the following lands are eligible to serve as Sending Zones:

- ❑ **All lands located within the Preservation Area** except for those located in the Existing Community Zone or approved Highlands Redevelopment Areas; and
- ❑ Upon municipal conformance, all lands located within the Planning Area except for those located in the Existing Community Zone or approved Highlands Redevelopment Areas.

In addition, the parcel of land for which an allocation is sought must be at least **5 acres in size** or have **lost at least three development opportunities**. Even where these thresholds are met, it is still possible for a parcel not to receive an HDC allocation due to pre-Highlands Act environmental constraints and/or the effect of municipal zoning and development regulations.

# Receiving Zones



# Receiving Zones

- ❑ Under the goals, policies and objectives of the Highlands TDR Program, the following lands are eligible to serve as Receiving Zones upon approval of the Highlands Council:
  - ❑ Lands located in the **Existing Community Zone**;
  - ❑ Lands located with a **Highlands Redevelopment Area** designated by the Highlands Council;
  - ❑ Lands located within the **Conservation Zone** provided that designating a Receiving Zone is **consistent with the RMP** and the development **does not conflict with the maintenance of viable agriculture**; and
  - ❑ Lands located within a municipality outside of the Highlands Region but within the seven Highlands counties.
- ❑ 5 municipalities undertaking TDR Receiving Zone Feasibility Grant studies; several other municipalities have expressed interest in submitting grant applications.

# Allocation of HDCs - Residential

Residential allocation method accounts for 3 important questions:

- ❑ Where is the property located?
- ❑ How many acres is the property?
- ❑ What is the applicable zoning?

# Allocation of HDCs - Residential

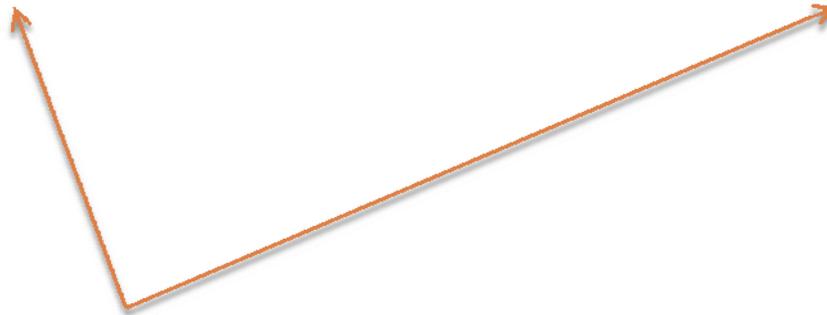
Residential allocation method has 3 components:

- ❑ Net Yield – How many lots could be sited on parcel given pre-Highlands Act environmental constraints and municipal development regulations
- ❑ Location Factor – Adjustment that accounts for relative differences in land value for similarly zoned properties across Highlands municipalities
- ❑ Zoning Factor – Adjustment that accounts for relative differences in land value due to applicable zoning (i.e. land value for homes zoned 1 unit per 5 acres different from that zoned 1 unit per  $\frac{1}{2}$  acre)

# Allocation of HDCs - Residential

Sample Allocation of HDCs to Residentially Zoned Parcel

Municipality	Zoning	Parcel Size (Acres)	Net Yield (Potential Lots)	Location Factor	Zoning Factor	HDC Allocation
West Milford	2 acre lots	12	6	1.44	1.00	8.64



Where is property located?

# Allocation of HDCs - Residential

Sample Allocation of HDCs to Residentially Zoned Parcel

Municipality	Zoning	Parcel Size (Acres)	Net Yield (Potential Lots)	Location Factor	Zoning Factor	HDC Allocation
West Milford	2 acre lots	12	6	1.44	1.00	<b>8.64</b>

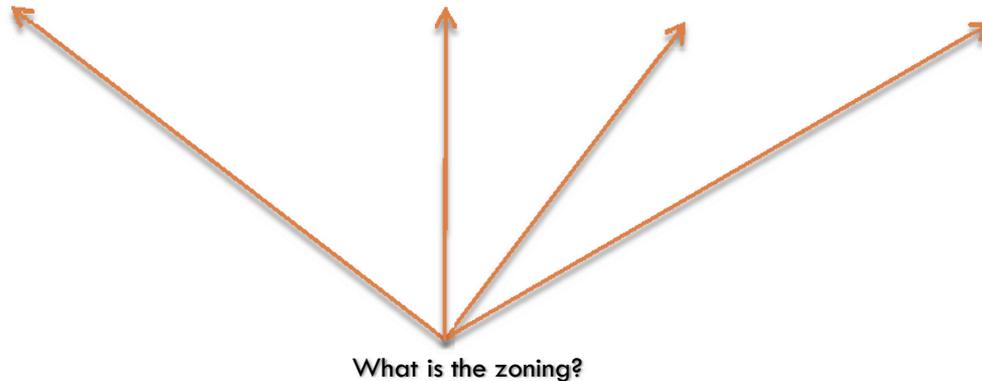


How many acres is  
parcel?

# Allocation of HDCs - Residential

Sample Allocation of HDCs to Residentially Zoned Parcel

Municipality	Zoning	Parcel Size (Acres)	Net Yield (Potential Lots)	Location Factor	Zoning Factor	HDC Allocation
West Milford	2 acre lots	12	6	1.44	1.00	8.64



# Allocation of HDCs - Residential

Sample Residential Allocation Calculations

Parcel Example	Municipality	Zoning	Parcel Size (Acres)	Net Yield (Potential Lots)	Applicable ZF (see Appendix A)	Applicable LF (see Appendixes B & C)	HDC Allocation	Value of HDC Allocation*	HDC Value Per Lot	HDC Value Per Acre
A	Chester Twp	3 acre lots	20	6	1.37	3.23	<b>26.55</b>	\$ 424,809.60	\$ 70,801.60	\$ 21,240.48
B	Bethlehem	3 acre lots	16	5	1.37	1.45	<b>9.93</b>	\$ 158,920.00	\$ 31,784.00	\$ 13,243.33
C	Tewksbury	12 acre lots	84	7	2.44	9.07	<b>154.92</b>	\$ 2,478,649.60	\$ 354,092.80	\$ 34,425.69
D	West Milford	2 acre lots	12	6	1.00	1.44	<b>8.64</b>	\$ 138,240.00	\$ 23,040.00	\$ 11,520.00
E	Chester Twp (5 acres of wetlands)	3 acre lots	20	6.25	1.37	3.23	<b>27.66</b>	\$ 442,510.00	\$ 70,801.60	\$ 22,125.50
Examples A through D assume no pre-Highlands Act environmental constraints										
Example E assumes that property located in High Value Conservation Priority Area										
* HDC Price = \$16,000 per HDC										

# Allocation of HDCs – Non-Residential

Non-residential allocation method accounts for 3 important questions:

- ❑ How many acres is the property?
- ❑ What is the applicable zoning?
- ❑ What type of non-residential development can be constructed on the property?

# Allocation of HDCs – Non-Residential

**(Permitted Square Footage) ÷ (Non-Residential SF for Specified Use) = HDC Allocation**

<u>Use</u>	<u>\$/SF FAR Range</u>	<u>Average \$/SF</u>	<u>Ratio</u>
Industrial	\$10 - \$20 FAR	\$15/SF	1.0
Office	\$20 - \$40 FAR	\$30/SF	2.0
Retail	\$25 - \$60 FAR	\$42.50/SF	2.83

A “conversion factor” is applied based on the type of non-residential use. Industrial uses tend to support employees at a ratio of 1 per 1,500 SF. This becomes the basis for establishing the conversion factors to account for value/price variations in the end use. Consequently, HDCs are allocated to the above uses at the following square foot intervals:

$$\begin{aligned} \text{Industrial Use} &= (1,500/1 = 1,500) &= 1,500 \text{ SF} \\ \text{Office Use} &= (1,500/2 = 750) &= 750 \text{ SF} \\ \text{Retail Use} &= (1,500/2.83 = 530) &= 530 \text{ SF} \end{aligned}$$

Thus, an allocation of HDCs to an undeveloped lot zoned for non-residential use would be as follows:

$$\begin{aligned} 10,000 \text{ SF industrial building} &\div 1,500 \text{ SF} = 7 \text{ HDCs} \\ 10,000 \text{ SF office building} &\div 750 \text{ SF} = 13 \text{ HDCs} \\ 10,000 \text{ SF retail building} &\div 530 \text{ SF} = 19 \text{ HDCs} \end{aligned}$$

# Initial HDC Price Assessment

- ❑ Under Highlands Act section 13.h, Highlands Council charged with establishing the initial value of a development right.
- ❑ Establishing initial value requires balancing of two critical interests:
  - ❑ HDC price must be sufficient for sending zone landowners to realize an economic return on sale of HDCs;
  - ❑ HDC price cannot be so great that it reduces a developer's profit to such an extent that it renders a receiving zone development project uneconomical.
- ❑ Overtime, value of HDCs will increase as more opportunities to use credits arise.

# Initial HDC Price Assessment

- ❑ Fundamental principle underlying any TDR program is that, for each additional unit on a given lot, the increase in revenues is greater than increase in development costs.
- ❑ Main source of cost savings when building bonus units in a receiving zone is reduced land costs.
- ❑ Generally, the higher the permitted residential density or non-residential FAR, the lower the per unit land costs.
- ❑ Must account for “developer’s willingness to pay.”

# Initial HDC Price Assessment

## ❑ Methodology:

- ❑ Highlands Council sought to predict the added value of a lot where a fifth unit to the acre is added.
- ❑ Data set comprised of Class 2 MOD IV parcels that are residentially developed and cannot be further subdivided.
- ❑ Four mathematical functions used to predict added value of fifth lot.
- ❑ Reduced municipal per lot values by 30% because values reflect lots in an approved and improved condition.
- ❑ Adjustment of 75% applied to regional lot value to reflect “developer’s willingness to pay” – programs with mandatory receiving zones have applied a 50% adjustment for this factor.

# Initial HDC Price Assessment

- ❑ Results:
  - ❑ Regional lot value average is **\$64,657.25**.
  - ❑ *Target* HDC price of \$16,164.31; Highlands Council rounded down to **\$16,000**.
- ❑ Current average price per right in Pinelands PDC Program is \$18,000. Prices have ranged from \$2,500 per right to as high as \$40,000 per right.
- ❑ Regional Plan Association and Environmental Defense Fund 2006 study of potential developer's willingness to pay for Highlands credits found that values ranged from \$14,000 in Warren County to \$108,000 in Bergen County.

# Initial HDC Price Assessment

- Next Steps:
  - HDC Bank will need to determine under what circumstances it will purchase HDCs to alleviate unique and extenuating financial circumstances (hardship cases), and what amount it will pay per HDC.