

HARRY L. SCHWARZ & CO.

Established 1897

Licensed Real Estate Broker - New Jersey

Appraisals - Property Management –Consulting

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Licensed Real Estate Broker – NJ & PA
Robert G. Schwarz, MAI, NJ-SCGREA
President / Broker of Record

January 23, 2012

Mr. Steven Ward
Business Administrator,
Township of Denville
1 St. Mary's Place
Denville, NJ 07834

Dear Mr. Ward:

RE: Appraisal of 292 Properties
Openaki / Franklin Road
Upper / Lower Kitchell Road
Sewer Expansion Project
Township of Denville
Morris County, New Jersey

The purpose of this letter is to more thoroughly explain our appraisal process and role in the Openaki / Kitchell sewer expansion project, and hopefully clarify some of the issues that were raised at the public hearing held in October 2011. Please feel free to post this on the Denville Township website or to distribute it to the residents as you see fit.

The installation of sewers is considered a special improvement, and as such, the cost of the project is only assessed against those who benefit from it, as per New Jersey municipal land use law, as noted in NJSA 40:56-27. This why the cost of the project cannot be spread over the entire Township, but must be borne by those who benefit from it. The assessed cost for each property must be proportionate to the actual benefit received; the assessment cannot exceed the benefit. In NJSA 40:56-27, benefit is defined as: "the increment in value to the land affected by the improvement for which assessment is made, and represents the difference between market value of the lands before improvement and market value of lands immediately after improvement." The purpose of our appraisal was to determine the increment in market value for each property in the project. The cost of the project cannot simply be split evenly by the properties involved, because the courts require the assessment to be proportionate to the actual benefit received.

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The methodology handed down by the courts for sewer enhancement appraisals dictates that we value only the vacant land, without any consideration of buildings or improvements, site improvements, landscaping, and existing septic systems. Some may feel that this is not a realistic approach, and that we should be comparing a house on a lot with a septic system to the same house on a lot with sewers. Please understand that this is not our choice; it is the methodology we must utilize. The methodology, then, looks at all properties as vacant land, and two values for each lot are estimated: the value of the lot benefiting from the availability of sewers, and the value of the lot if a septic system is required for development. These two values are accomplished through analysis of comparable land sales. The value of the lot requiring a septic system for development is subtracted from the value of the lot benefiting from the availability of sewers, and the difference is the **enhancement**, or the increase in market value due to the availability of sewers. The value date is the date sewer service became available to *all* the properties in the project, which was December 14, 2010. Our valuations reflect the subject ownerships as of a current date, per the direction of the client. Any transfers after the date of value necessitate working out the assessment process on an individual basis between the current and prior owners.

It is important to understand that our function, due to the number of properties involved, was to conduct a mass appraisal, and to report our findings in a summary format. To do a full narrative "before and after" appraisal for 292 properties would be cost prohibitive. The goal is to be consistent and assess everyone fairly. We inspected all the properties from the street and utilized the Township tax maps and records and published sources of data to determine the general characteristics for each property. These data sources included: zoning records; soil maps from the Morris County Soil Survey, as published by the United States Department of Agriculture Soil Conservation Service; flood insurance rate maps as published by the Federal Emergency Management Agency; and wetland maps from the Atlas of National Wetlands Inventory Maps for New Jersey, as published by the United States Department of the Interior, as well as wetlands delineated on the New Jersey Department of Environmental Protection's i-Map.

We then conducted a comprehensive analysis of vacant land sales in central Morris County. We researched sales with and without sewer service, in order to establish the increase in market value due to the availability of sewers. There are very few land sales in Denville without sewer availability. Additionally, there have been few lot sales of any kind in the last three years due to the downturn in the economy and the real estate market. Thus, our research includes older sales. All arm's length vacant lot sales in Denville for the last several years are summarized in our appraisal. These sales are unadjusted, and significant cognizance is given to the downturn in the market since 2007. Also included in our report are some of the sales outside of Denville that we utilized for determining the market recognition of the increase in value due to the availability of sewers. We did not utilize sales in Randolph or Roxbury to value lots in Denville; only to determine a range in incremental value due to sewer availability. Due to the lack of activity, we also utilized a land extraction technique. We analyzed sales of improved properties in the subject neighborhoods in Denville, and extracted land value indications from these transfers.

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The enhancement was estimated for each property and reported in our appraisal. Again, this is the value of each property with sewers available for development less the value of the property requiring a septic system for development. Subsequent to this, Denville Township officials provided us with a certified construction cost for the sewer improvement project. Because the property owners cannot be assessed for more than the project cost, an assessment ratio is calculated, to be applied to each enhancement. We do not determine what is included in this cost. The total enhancement to all properties in the project is arrived at completely independently from the project cost; the calculation of an assessment ratio is an independent mathematical calculation certified by the Assessment Committee, separate from our determination of enhancements. The certified project cost was \$6,216,803.49. The total of the enhancements for all the properties was \$8,206,000. An assessment ratio was then arrived at as follows:

$$\$6,216,803.49 \text{ project cost} / \$8,206,000 \text{ total enhancement} = .7576$$

The enhancement for each property is multiplied by this assessment ratio to establish the **assessment** for each property, which represents that property owner's share of the cost of providing sewer service. An example of the calculation of the assessment is as follows:

$$\begin{array}{r} \text{Enhancement: } \$30,000 \\ \text{Times Ratio} \quad * .7576 \\ \hline = \text{Assessment: } \$22,728 \end{array}$$

We have no involvement in the establishment of the payment terms for this assessment. It is important to recognize that this is a one-time special assessment, and should not be confused with a property's assessment for tax purposes.

Again, our job was to produce a mass appraisal utilizing a summary format. Our report does not include the detailed descriptions, explanations, analyses and documentation customarily included in a complete appraisal report. Adjustments can be made to the valuations and to the report before it is certified by the Sewer Assessment Committee, and accepted by the Denville Township Council. Special circumstances for certain properties that were beyond our purview can be brought to light and given consideration accordingly. Please note that any change in any individual enhancement does change the total enhancement for the project, which in turn changes the assessment ratio, and therefore, the individual assessments for each property.

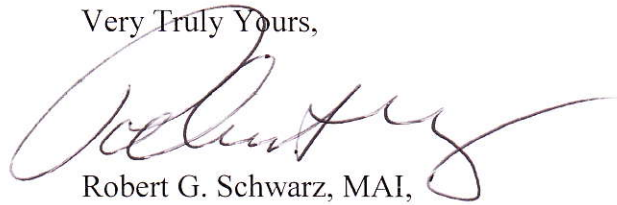
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We hope this clarifies the appraisal process for sewer enhancements. If you have any questions, please contact our office.

Very Truly Yours,



Robert G. Schwarz, MAI,
NJ SCGRE # 42RG00017000



Dawn McDermott
NJ SCGRE # 42RG00026200

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