

SUBURBAN MARKETS

The state of New Jersey: 2010 and beyond

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To understand New Jersey today in its most basic form, one needs to simply Google "New Jersey open space."

You will quickly see many articles that address New Jersey being 99% built out. When it comes to the northern part of the state, that number would 100%, thus joining its big brother, New York City, as a place where land has become scarce.

This is both a positive thing and a challenging one.

While I have done a few hundred million dollars in projects throughout the state, as a 40-year resident of northeastern Bergen County, I am admittedly "Bergen-centric."

Jersey cuts two ways: The northern residents who mostly work in New York and the south, which has the same relationship to Philly.

As the major cities go, so goes Jersey. With New York real estate stabilizing and even rising, North Jersey will eventually benefit, but not until later next year.

Philly usually trails New York by two to three years, so the southern portion of the state may have to wait a little longer.

But no matter where you invest, it is clear that you are buying a commodity that is in scarce supply ... the question as usual is, how long do I have to hold on to it?

The plays for the near future are few and far between because Jersey, like the rest of the country, is experiencing a change of control of real estate from companies and individuals to lenders.

As lenders are not in any hurry to sell off foreclosures, a lot of us are left wasting time bidding on things that never sell and there are certainly no basement prices to be found (unless you're friends with the FDIC or the treasury, which seem to cut great deals for a select few mega lenders). Back to Jersey 2010 and beyond...

The next big play will be the rebuilding and replanting of downtowns big and small, around transit hubs, hospitals and city and state headquarters.

This work will require smart, patient and seasoned developers who know how to work with government and communities.

New buildings will have to tie into the neighborhood better, and renovation and restoration will become a bigger part of the work of developers in this state. Of course, the cities that fell the farthest will have the most upside (and risk). So, look into Paterson, Passaic, parts of Hackensack, Trenton,



Camden and, of course, Newark, if you have the stomach and the skill.

The days of the McMansion, the massive high-density townhouse developments and carving up every farm are over for at least five years.

The biggest opportunity will be renovating the hundreds of thousands of foreclosures that will eventually be released from the big national banks. Little new housing will get built until this product is reabsorbed.

While requiring a lot of handyman-type work, the folks of the New Jersey Homebuilders Association will hopefully direct their energies toward it. Next will be finishing what's been started. That will require banks to bite the bullet and get those assets out of their servicing/reo groups and into private hands.

As I have written about extensively, the longer they wait, the more the asset deteriorates. Both of these should keep residential folks busy for three or four years.

While New Jersey's retail story is similar to the rest of the county (we need jobs), the good news is that the barriers to entry for

new retail are extreme. New construction in the future will be very limited. Cosmetic improvements will be the play while the REITs fight it out over the malls.

New Jersey will continue to be a great location for industrial warehousing because of its location in the northeast corridor. And, since none of this will be built in the near future, asset values will hold. He (she) who has tenants is king (queen).

It has always dumbfounded me why Jersey office space doesn't do better, but I do believe over time, as people drive less and less, that the Jersey office market will pick up. At least we know they're not making more of it. We have seen some major Korean companies make big commitments on Bergen County office space, so expect that to continue.

In summary, as the market improves, jobs return and the population grows, New Jersey should be poised to have a stable escalation in value.

We should all pray for Gov. Christie, because he holds the keys to how much properties escalate: property taxes.