By Rich Fritzky

Cautiously Optimistic
Or
The Meadowlands Regional Real Estate Market

Here are seven pros who have worked the Meadowlands in good times and in bad. And we have good reason to listen to what they say and they will tell you that should all cylinders start firing on the commercial side, even the residential nightmares in the region will begin to subside.

So, there's genuine hope and that's not a bad thing at all.

The numbers on vacancy rates in the industrial and commercial real estate sectors often vary, but the stories about them are very much alike.

Alike, yes, but they also bear witness to different themes or concepts or concerns.

And as to the real estate market in the Meadowlands and Northern New Jersey, the developers and the brokers in the trenches have no shortage of demons to slay or challenges to overcome. These monsters in the closet, as it were, come in all kind of different shapes, forms, sizes, and places.

There is absolute consensus on the gut-check issue that will drive the commercial and industrial sectors forward and that is jobs—the growth of jobs—the kind of jobs that signal investment and new growth, the kind of growth that is built upon the back of new investment in real estate. But while agreeing that jobs are at the epicenter of it all, the brokers tapped for this story then focused upon one particular issue, among the wide array of divergent and uniquely focused issues challenging the real estate community.

Beyond jobs that is, which all agree is the issue at the heart of it all!

Frank Recine of Newmark Knight voiced this clearly when he said, "Until we start seeing job growth, the market is going to continue to lag and drag." He noted that the only strength in the current market is the byproduct of strong, well managed companies interested in upgrading both product and image. "It's simple," he added. "We need job growth, an end to the layoffs, and money to spend. Right now, there's movement on upgrades and retrofitting alone, so we have no blinders on and no over the top expectations."

Frank Recine of Newmark Knight

Gil Medina, former Commerce Commissioner of the State of New Jersey who is currently with Cushman & Wakefield, said, "We're fortunate that our policy makers in New Jersey know that we're at the crossroads, fortunate that both Democrats and Republicans in New Jersey agree on the same economic and business friendly objectives. They may disagree on everything else, but not on this and not now," he said.

As to holding the line on taxes, streamlining regulations, and facilitating the investment climate, there is a convergence and agreement, Medina suggested. He believes that the macroeconomic picture is improving and that there are truly positive signs for New Jersey.

"Poor public policy drove us into the morass before our brother-sister states and now, given today's better choices, we'll hopefully be one of the first states out," he added.

Gil Medina of Cushman & Wakefield

Richard Branca of Bergen Engineering, a long time Meadowlands developer and contractor, is part of a group that holds a number of hotel properties in the region and throughout the Northeastern United States. While having positive things to say about hotel occupancies, he noted that the "holy grail" for the Meadowlands is now to be found in the *American Dream Meadowlands project*. Formerly known as Xanadu, a new partnership (Triple Five) is coming in to both rescue and expand it. "They are going to refurbish the already $1 billion investment while adding a domed and themed amusement and water park to it," said Branca. "If it comes to fruition in a few years as expected, it will provide an enormous boost to both the region and the State. It will powerfully position the Meadowlands as a destination market and create more than 10,000 new jobs."

Richard Branca of Bergen Engineering

Currently working to package Meadowlands' deals for formidable retail developments, Jaime Weiss of Weiss Realty remains bullish on both his prospects and the need for additional retail in the region. To fulfill the region's promise, however, he believes that infrastructure improvements must be advanced. "There is," he said, "a compelling need to further widen and improve portions of Route 3 and to enhance Route 17, all the way from Route 3 on the southern side to Route 4 in the north. Access and transportation revitalization remains the critical component necessary to revitalizing the region itself." Like Branca, he also touted the significance of the *American Dream Meadowlands project*. "If the *American Dream Meadowlands* goes, all of the lights in the Meadowlands get turned back on," he said.

Jaime Weiss of Weiss Realty

"On the local level, it is East Rutherford alone that has maintained a position of strength by executing prudent fiscal management."

Peter Van Winkle of the Van Winkle Agency

"The real estate market, on the whole, is slow to rebound," said Peter Van Winkle of the Van Winkle Agency, "because of endemic problems in both Washington D.C.

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and Trenton, New Jersey. There is a direct correlation between heavy debt, burdensome taxes, poor public policy and the inability of markets to truly rebound." He noted that it's not just the question of the near $14 trillion debt on the macro or national level, but the question of what recent expenditures in North Arlington and Lyndhurst will do to drag down or weigh heavily on municipal markets. "On the local level," he said, "it is East Rutherford alone that has maintained a position of strength by executing prudent fiscal management.

As to residential real estate, Kathleen Savino of the Savino Agency reports that "prices are still dropping and that what is moving is on the lower end of the market. We also have a lot of short or pre-foreclosure sales now as the banks are trying hard not to impact negatively now." While every area is different, she notes that the problem seems to be universal. "Even on the lower end, the buyers are negotiating, taking their time, and driving prices down even further," she added. As a result, we have to work harder, the market moves slowly, and the banks keep conservatively squeezing their customers.

"When the wizards of smart in Washington finally do something which gives people some confidence, things should improve," said Steve Leitner of NAI Hanson in Hackensack. "While I am not concerned about the industrial market, I do wonder if, with companies continuing to upgrade technology and realizing how that affects the number of employees required—will the commercial market ever get back to pre-recession occupancy levels? I have

Kathleen Savino of the Savino Agency

Steve Leitner of NAI Hanson

mydoubts." While everyone's numbers vary slightly, those provided by NAI Hanson are as follows:

The Meadowlands industrial sector shows a vacancy of 8% versus 9% in Bergen County, 9.5% in Northern NJ and 9% in the State. Average pricing (per square foot) is $5.57 in the Meadowlands versus $6.02 in Bergen, $5.56 in Northern NJ, and $5.16 in the State. The Meadowlands office sector shows a vacancy rate of 18% versus 14% in Bergen, 14.4% in Northern NJ, and 15% for the State. Average pricing is $25.79 for the Meadowlands, $25.12 for Bergen, $23.40 for Northern NJ, and $23.39 for the State.

The overall market, they report, is sluggish in both categories with tenants reluctant to make moves at a time when uncertainty is so prevalent.

Medina of Cushman and Wakefield does report that the Northern New Jersey office market is stabilizing and that leasing activity is strengthening. In the first half of 2011, there has been a 10.4 percent increase in activity. There also is good news on that all important job growth front. Back in the glory days, New Jersey peaked at roughly 80,000 new jobs per year, yet before the late great recession, it was sluggishly tracking at 20,000 new jobs per year, indicative of its poor performance before the nation tanked. "The good news," Medina said, "is that we were at 30,000 plus new jobs in the first half of 2011." A conservative forecast of 50,000 plus, therefore, is projected, which would place New Jersey way out front nationally.

Yet Medina hedges his bets and expresses "cautious optimism". "We are", he said, "hesitant to get exuberant."

"Our Meadowlands," added Jaime Weiss, "has been growing less industrial and more retail and more residential. Despite all the bad news of late, opportunity continues to abound in the district. Avalon is going forward with its residential project and the Meadowlands Race Track is being redeveloped and the *American Dream Meadowlands* looms large in the looking glass. There is tremendous change and all roads, like Rome, lead to the Meadowlands. I am a believer."

"The formula," said Rich Branca, "has always been and is investment equals construction equals jobs. One follows the other. So as goes the *American Dream*, so go the Meadowlands! For it means new restaurants and new hotels and both direct and indirect job growth." Branca also added two positive notes. The first—that the lenders, while demanding larger down payments, are back and willing to make commercial deals again; and the second—that there was an 8 to 9 percent increase in hotel occupancies in the region and beyond last year and that they are up by more than 5 percent to date in 2011. "I have no crystal ball," said Branca, "but there are, at least, positive signs."

Kathleen Savino, again on the residential side, argued that "We have a long way to go to before leveling off and until we clean this mess up (the fiscal woes of government), we can't right the ship."

But Frank Recine, Steve Leitner, and Peter Van winkle, like Branca, Weiss, and Medina are all cautiously optimistic. And given their respective tones, we can go so far as to say that Medina is optimistic and that Weiss is more than optimistic.

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