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Market Profile | New Jersey

Jersey Whirl

Port Growth Sparks Big Development Plans, But Will Demand Be There?

By Paul Rosta

At first glance, the New Jersey industrial market does not appear to add up. Leasing activity has slowed considerably since last year, in part because of a spike in industrial property sales and new product coming on line. In fact, corporate consolidation put 3.4 million square feet of industrial space back on the market in central and northern New Jersey during the second quarter of this year alone, according to Grubb & Ellis Co.

Yet appearances can be deceiving. By most accounts, New Jersey's industrial market is on the verge of tremendous expansion, driven by a combination of dwindling space and economic growth. "I think the amount of potential new development ... is probably greater now than it has been any time over the last five to 10 years," said Ed Russo, president & COO of Russo Development. Observers estimate that over the next several years, developers could bring as much as 15 million square feet of new warehouse, logistics and distri-

bution industrial facilities on line in northern and central New Jersey.

"From a broker's point of view, you have probably the best of all worlds," said Stanley Danzig, executive director for Cushman & Wakefield Inc. of New Jersey. "The demand out there by corporate America has been phenomenal. There's enough supply to keep the rents in line, yet there's enough demand out there to keep the developers happy and wanting to build."

The New Jersey market is considered so attractive that some executives believe it was a key factor in the blockbuster ProLogis acquisition of Catellus Development Corp., completed last month. "Catellus ... came into town having nothing under control, and when they eventually sold to ProLogis, they had several million buildable square feet under contract," said Mitch Katz, a vice president at Trammell Crow Co.

Indeed, last year Catellus announced one of the market's largest new investments—a \$175 million, 3.6



October 16, 2005

million-square-foot buildout over the next five to seven years on a 315-acre site in Woodbridge, N.J.

Meanwhile, there is plenty of new construction in the pipeline, with Cushman & Wakefield tracking 17 industrial projects totaling 5.5 million square feet. In particular, developers and tenants are focusing on sites along

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the New Jersey Turnpike, with its easy access to the ports of New York and New Jersey—and to New York City itself. The turnpike is such an important industrial corridor, in fact, that executives typically refer to submarkets by the nearest exit numbers.

“The opportunity is clearly to achieve development in close infill sites that will never, ever be able to be developed again,” said Tom Sullivan, senior vice president at CB Richard Ellis Inc. As for the leasing slowdown, Cushman & Wakefield attributes much of it to a pick-up in industrial property sales, which the firm estimates will surpass 4 million square feet by the end of the year.

Digging Deep

Much of the development is linked to expected growth of trade through the New York-New Jersey port complex over the next couple of decades. To get ready for the anticipated demand, the Port Authority of New York and New Jersey is deepening all port channels to 50 feet at a cost of \$1.6 billion, scheduled for completion in 2014. In addition, the Port Authority is spending \$600 million to install rail terminals and related infrastructure at all the region’s marine terminals.

But some developers question how much trade in the region will actually expand. “There is absolutely no question that the port is going to continue to grow,” Russo said. “The question is, how much will it grow?”

Others question whether the investment will ultimately be justified, given rising construction costs and relatively flat rents. “As you move away from the perfect location ... the ability to be met



October 16, 2005

in the short term is to be determined," said Kossar. "You don't know."

While time and the market will determine the ultimate buildout, the sales market is indisputably robust. "Some of it is due to developers needing to keep themselves in inventory," Danzig said. "Some of it is driven by new developers coming into the market.

And then some of it is developers offloading what they had built for their own use."

One of the largest parcels to change hands in the past year is a 1 million-square-foot build-to-suit site at Central Crossings Business Park, located near Exit 7 on the New Jersey Turnpike in Bordentown. Rockefeller Group Development Corp. and Industrial Developments International Inc. purchased the property for an undisclosed price last November from KOR Cos., which is retaining 1.3 million square feet of development rights at the location.

Brownfield Bonuses

However, many industrial projects move forward, most, if not all, will take shape on sites that already are contaminated by previous industrial use. "With the brownfield redevelopment and our legislation here in New Jersey, there's been a lot of developers who have been able to take control of properties in close proximity to the port," said Rob Kossar, principal at Lee & Klatskin Associates, a brokerage firm specializing in industrial properties. Much of the development will take place on the northernmost stretch of the New Jersey Turnpike, between exits 10 and 14. Danzig noted, as developers strive for locations as close to the port as possible.

Yet brownfield sites present significant challenges for development, potentially adding time and cost to the process. Because the extent of underground contamination cannot fully be determined in advance, cleanup often takes longer than expected, potentially delaying projects and ratcheting up costs. However, developers now con-

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October 16, 2005



Two separate teams are developing the 2.3 million-square-foot Central Crossings Business Park in Bordentown, N.J.

sider these cleanups as part of the cost of doing business. "The way I see it," said Mitch Katz, vice president for Trammell Crow, "it's getting to the point where it's just a line item."

Today, one positive aspect is an increasing flexibility toward cleanup on the part of regulators. No longer is a thorough excavation and treatment of contaminated soil the only acceptable strategy for every industrial site.

"Part of the remediation of the brownfield site is the fact that you are going to cap it with a parking lot, storage areas and concrete slab floor," Sullivan explained. "Now there's more of an awareness that there's really a better way to do this."

Two local agencies, the Port Authority of New York and New Jersey and the New Jersey Economic Development Authority, are attempting to boost brownfield redevelopment through a program dubbed the Portfields Initiative. Eligible sites must be at least 25 acres in size—enough space for a 350,000-

square-foot distribution facility—and offer good port access. EDA offers developers assistance for such tasks as feasibility analysis, securing permits, financing remediation and infrastructure improvements; low-interest bond financing for site development; tax incentives; and workforce training grants.

Earlier this year, the Port Authority identified 20 potential Portfields sites.



October 16, 2005

The agencies' goal is to get at least six of those sites ready for development, but they have not established a definite timetable for starting work because of the uncertainties of site remediation, a Port Authority spokesperson said. The first project, which could begin this fall, will be a 1.2 million-square-foot distribution facility in Elizabeth, a project started by Catellus before its acquisition by ProLogis. At this early stage, some are reserving judgment about the program's potential. "The Portfields Initiative has created a tremendous amount of hype," Russo said. "Whether or not that hype will prove to be correct remains to be seen."

Something Old, Something New

Much as in other parts of the country, many tenants are in the market for new space because they want features

that can provide a competitive advantage. In particular, the larger building category is underserved, said Harry Kantor, KOR's president & CEO.

Typically, these tenants are looking for 500,000 square feet, 36-foot ceilings and extensive loading and docking space. And these buildings are not necessarily available in all locations. "If you want a new 500,000-square-foot building, you're not going to get it in the Meadowlands," said Kossar, referring to the popular submarket located across the Hudson River from Manhattan.

However, not every tenant is jumping on the new-facility bandwagon just yet. "We see so many customers who are very attracted to our new development projects," said Russo, "but they ultimately end up making a deal in an existing building if they feel they can get away with it." ■