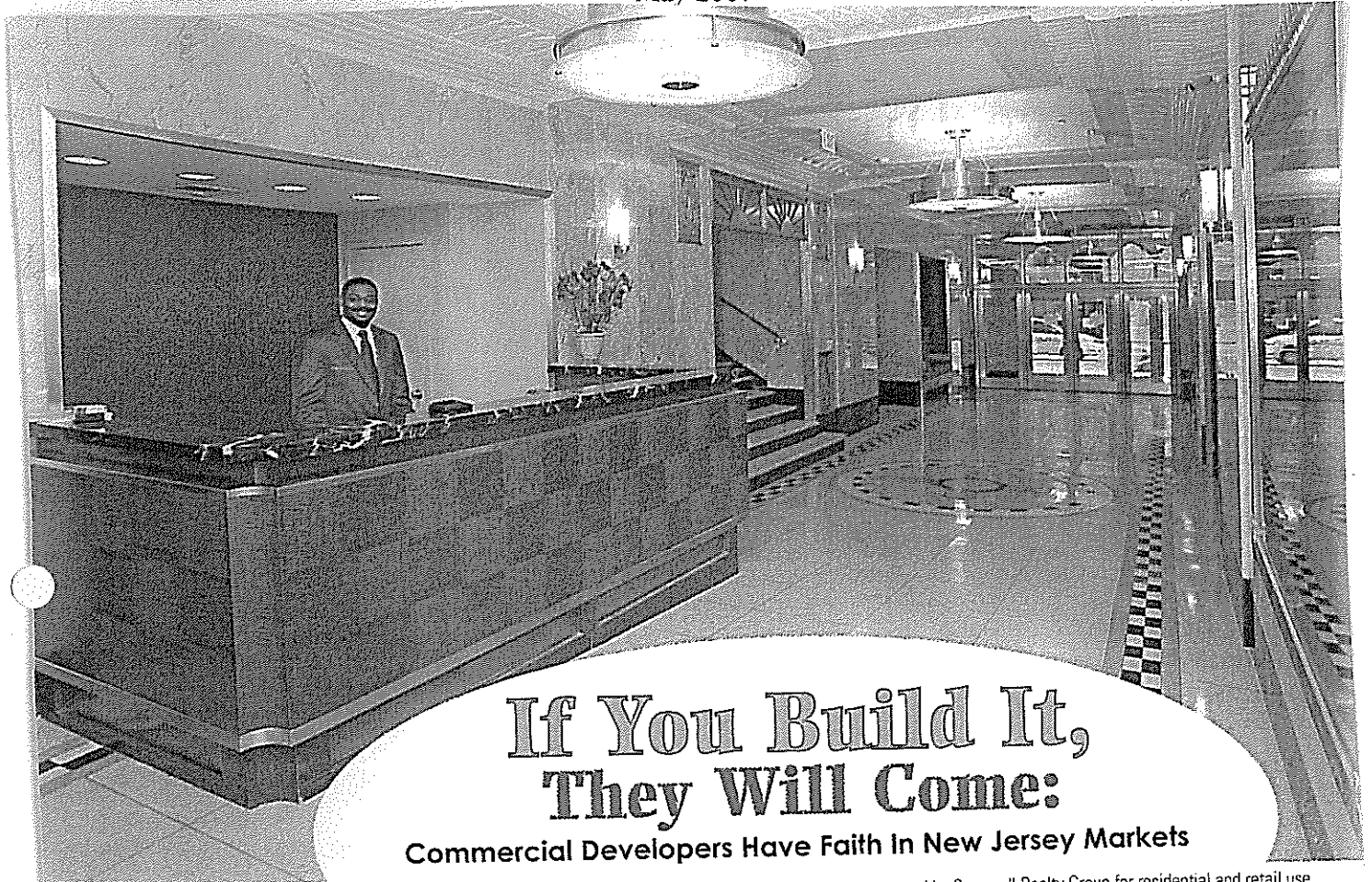


# NEW JERSEY BUSINESS

The Magazine of the New Jersey Business & Industry Association

May 2007



## If You Build It, They Will Come:

Commercial Developers Have Faith In New Jersey Markets

The lobby of 1180 Raymond Boulevard, Newark, the landmark 441,000 square-foot, 35-story building that was converted by Cogswell Realty Group for residential and retail use.

*By Sharon Sheridan, Contributing Writer*

Commercial developers are finding profitable areas to build and renovate facilities in the Garden State. Among the keys to success in today's markets - office, industrial and retail - are persistence, patience and knowledge, especially when it comes to dealing with government regulations, permitting and locating the perfect site.

"I really think that real estate development is part art and part science," comments Craig Guers, Opus East senior vice president and general manager. "I think the art side is to try to understand the markets and try to understand where the expansion or absorption is going next, where it's occurring and why." The "science" involves the nuts and bolts of designing and financing a building.

Opus East is part of Opus Corporation, with its Mid-Atlantic regional headquarters in Plymouth Meeting, Pennsylvania. It entered the New Jersey market in the late 1990s, building three warehouses totaling 1.1 million square feet on a South Brunswick property. At Exit 7A, Opus East built two 90,000-square-foot office buildings. It plans to build another six buildings, totaling about 740,000 square feet on 102 acres, at the Princeton South Corporate Center in Mercer County

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along I-95. "Then we're looking at various amenity components, like restaurants and hotels and banks that can also go on that site," Guers says. "We've got the first building under roof, and we have it about 55 percent leased to Computer Associates ... and we've started a second building.

"We know Princeton is a pretty magical place," he says. The center actually is about six miles south of the city, near the 1.2 million-square-foot Merrill Lynch campus. "I think what's happened is that traffic has been excruciating on Route 1 around Princeton, and a lot of the people working in the older office parks up there are complaining about traffic and commuting." I-95, with I-295 joining it, provides a great commuter route, he says. "So it's a good place to park a building and attract a workforce."

Opus East just signed documents to acquire land in Hamilton Township just off I-95 and is in negotiations in Salem County "for a huge distribution park that will be around 4 million square feet," Guers says. "So we've made an investment of more than \$300 million in New Jersey in the last seven years."

Among Opus' unique aspects are that it has its own architectural company and its own construction



Arthur Stern, CEO of Cogswell Realty Group

company. "Most development companies don't have that, so we can adjust to a market or design something pretty quickly," says Guers.

Other developers tackling projects throughout the Garden State include Mack-Cali, Edison, which has an agreement to build a 250,000-square-foot corporate headquarters for Wyndham

Worldwide at the Mack-Cali Business Campus in Parsippany. The company also is developing Red Bank Corporate Plaza, a four-story Class A office building in downtown Red Bank, for Hovnanian Enterprises; and a 120,000-square-foot Class A office building for AAA Mid-Atlantic in Hamilton Township.

"Mack-Cali has grown to be the dominant owner and manager of office space in New Jersey," asserts Mitchell Hersh, president and CEO of the company.

Mack-Cali acquired The Gale Company in 2006 and now owns interests in 176 office and office/flex properties totaling more than 23 million square feet and employs 438 people in New Jersey. The company also owns and manages properties elsewhere in the Northeast, from Boston to Washington, D.C.

"While Mack-Cali's mission is to provide superior workplaces for

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businesses, our guiding principles are simple: to conduct ourselves in an honorable manner, with the highest level of integrity and build long-term relationships," Hersh says. "These have helped contribute to the many successes we've had over the years - successes such as developing award-winning office properties, acquiring trophy office towers and serving the office space needs of blue-chip global companies. We have also been successful as a Real Estate Investment Trust (REIT), providing our investors with returns that often exceed market indices.

"As with other real estate developers, we continue to confront challenging real estate markets and economic environments that aren't always business-friendly," he continues. "In New Jersey, there has been limited new job growth and no catalyst for stimulating new office-space

demand, notwithstanding the exuberant market conditions in Manhattan. Also, many businesses have found our state's tax and regulatory environment difficult and at times discouraging to their growth.

"We do see urban communities making strides to become true 24/7 communities with quality-of-life advantages," Hersh says. "As a

result, we're seeing strong demand for office space in submarkets like the Jersey City waterfront. Jersey City is also benefiting from an increased outflow of tenants from midtown Manhattan due to its high rents. Strategically, Mack-Cali will look to grow in select submarkets in the state, as well as in surrounding Northeast markets."

With a "land bank" to develop



Cogswell Realty Group completed a \$55-million rehab of 744 Broad Street, Newark, for commercial office space in 2000. It is now over 85 percent occupied.

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Russo development constructed this 211,000 square-foot office/warehouse facility in Kearny, which is being leased by HD Smith.

another 11 million square feet - including just under 9.8 million square feet in New Jersey - Hersh concludes, "our company is also poised to capitalize on new growth opportunities as the markets improve."

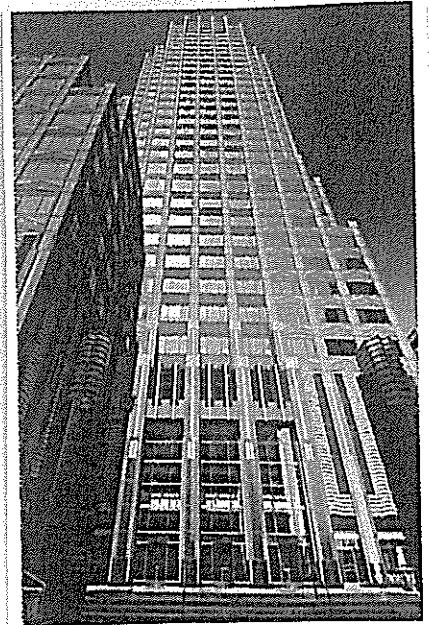
While Hersh notes New Jersey conditions that "aren't always business friendly," Guers of Opus East says New Jersey's regulatory climate is representative of conditions in neighboring states as well. Whether you're looking at New Jersey, Pennsylvania or New York, he says, "none of them, from a regulatory standpoint, are easy. Approvals and entitlements are taking longer and [are] more difficult to get."

Still, he says, "I cannot lose sight of the fact that the population center is still huge." Look at the area from Boston to Washington, D.C., and the middle is probably Exit 8A of the New Jersey Turnpike. "The retailers especially are very keyed into truck distances, particularly with today's fuel prices: How far do they have to haul to get to their store, how many driver's hours can a driver be on the road?" Geographically, he says, New Jersey is "located in an excellent position."

Concerning infrastructure, he says, "I don't think it'll ever be perfect, but people are starting to address it." Discussion is underway, for example, about adding rails between Port Elizabeth and Exit 8A.

Some developers concentrate on a geographic "niche." New York-based Cogswell Realty Group, for example, has invested in Newark for more than nine years. "It's my understanding we are the largest private landlord there," says CEO Arthur Stern.

Cogswell's first acquisition, 744



Mack-Cali's 101 Hudson Street, Jersey City, which consists of 1.25-million square feet in 42 stories.

Broad Street, was a 642,000-square-foot, 35-story Art Deco tower built in 1930. The firm completed a \$55-million rehab of the building for commercial office space in 2000. "At the time we purchased the building, it was 19 percent occupied," Stern says. "It is now over 85 percent."

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Soon afterward, Cogswell acquired 765 Broad Street, a 200,000-square-foot building catty-corner from 744. "The remainder of our focus has largely been residential," Stern says. Cogswell converted another former Art Deco office building into 317 luxury apartments - the first market-rate, luxury rental project in Newark in 42 years, he says.

"In addition to that, on the west side of Military Park, we have 17 acres of mixed parking lots, abandoned properties, retail stores, and small office buildings that we own," Stern says. "We are finishing up our master plan to develop 3,200 units in that location along with 222,000 square feet [of] retail space and 1,750 parking spaces." It will be a \$1.2 billion redevelopment, he says.

"From a planning perspective, if you were looking at a model

place to develop, Newark would be the top of the list," Stern says. "It has fantastic transportation, it's a wonderful college town, a strong corporate presence, [and has] an international airport two miles away."

"The only thing that held Newark back was the local government and the (negative) perception," he says. "The perception is changing every day, and there is absolutely no reason why people wouldn't want to live in Newark."

RexCorp Realty - a different company - concentrates its holdings along the Route 24 corridor of Short Hills through Madison and Chatham, with half a million square feet on JFK Parkway and development rights for another 1.25 million square feet at Giralda Farms in Madison, says Todd Rechler, senior executive vice president, managing director and partner. The company also has a 315,000-square-foot building on spec in West Windsor in the Princeton market that should be available soon for leasing.

RexCorp Realty has been in New Jersey since 1996 and has about 3.5 million square feet of Class A office space in the state. Originally, Reckson Associates Realty went public in 1995. It was then was acquired by SL Green Realty Corp. The private company RexCorp then was founded this year by former Reckson members who bought back certain portions of the firm.

The Madison site features the former Schering-Plough building, which RexCorp acquired "knowing that it needed to be fully redeveloped," Reckler says. That included building an underground garage, renovating the entrance and building infrastructure, addressing the HVAC equipment and adding amenities such as a café, health club and multimedia meeting rooms.

The 150,000-square-foot building should be finished this spring, and a law firm already has leased the top floor, Rechler says. "We're having great activity and are exactly where we want to be with it."

"New Jersey has seen some tough cycles," Rechler says. "We've been very fortunate and very successful, even in down cycles. I think it's the quality of the assets, the location of the assets and the reputation and quality of our firm.

"I think every market has submarkets that are different," he notes. "We're in some of the premier markets in New Jersey... Part of our success has been [being] able to identify the markets that are those premier markets and to be able to secure real estate or development rights in those areas."

Since its founding in 1969, the second-generation private company Russo Development, LLC, has "probably built well over 55 projects, primarily in Northern New Jersey, totaling a little more than 7 million square feet," says Michael Pembroke, senior vice president of leasing and marketing. Russo owns and manages 2.5 million square feet of space, primarily in the Meadowlands area.

"We are a fully-integrated firm," he says. "We do all of our own in-house leasing and in-house construction. We have our own contracting wing. We have our own heavy equipment, field crews and architects on staff.

"We're looking to try to grow our portfolio and expand our development in the future to really grow in the area and maybe outside the area as well," Pembroke says. "We've probably built close to a million square feet in the last six years or so."

Russo primarily is an industrial developer. "We try to build

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industrial buildings that look more like office buildings," Pembroke says. The 2.5 million square feet, for example, included 50 percent built out as office space. "A lot of our tenants are comfortable with the facilities, so they locate their offices and their warehouse space in the same building."

Last year, Russo completed a 211,000 square-foot project for H.D. Smith at the Saw Mill Park in Kearny. It had built 150,000 square feet on spec, then expanded it for H.D. Smith, Pembroke says. A 135,000-square-foot distribution facility for Pepsi will be completed by the end of 2007 at the site. In Totowa, Russo is about to begin a 120,000-square-foot spec project.

While the Meadowlands has been Russo's core market, it is acquiring properties elsewhere, including 28 acres in Mahwah and 42 acres in Rockaway, and has looked as far west as Pennsylvania. "We are starting to look for some other development opportunities outside of our traditional core market, frankly because there is not a lot left that we can build in this area," he says.

A key to Russo's success is constructing buildings that provide flexibility in terms of types of users and configurations, he says. "We've always had a reputation for building high-quality facilities." The company is able to stay competitive by building the facilities itself. "We know what things cost, and we know what you can build a building for," says Pembroke.

Smaller developers are doing well also. V.J. Scozzari and Sons in Lawrenceville is primarily involved with general contracting and construction management work, but does some construction development as well. In Washington Township, Mercer County, the family firm recently designed and built a three-story, 43,000-square foot headquarters, branch and

support office building for Roma Bank.

Scozzari's current projects include a 30,000-square-foot shopping center in Burlington County and a 16,000 square-foot on-spec office building the firm is pursuing approvals for near Hopewell.

The company employs 35 workers in New Jersey, including 15 in the office, plus dedicated field personnel, says Vince Scozzari, executive vice president. His grandfather started work in the construction business after emigrating from Italy in the 1940s. Scozzari's father started the contracting firm in 1961, with Scozzari and his brother, Greg, joining in 1984.

"There are always challenges: the economy, regulatory processes, the price of property," he says. "But I guess we've managed to have the right plan in place and been able to navigate through most of the challenges."

The challenges are many, but developers continue to have faith in the New Jersey marketplace.

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