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Hopeful despite crash

Russo says market pressure won't derail Kearny development, set for summer groundbreaking

By Evelyn Lee
3/9/2009



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The demolition site of Kearny's mixed-use Schuyler Crossing, Russo Development's first such construction project. [Courtesy of Russo Development]

KEARNY — A proposed retail and residential project in this Hudson County town is proceeding at a time when all other development in the municipality is at a standstill. Those familiar with the mixed-use project say a limited housing supply in the area and a focus on neighborhood retail, rather than big-box stores, may keep the venture viable even in an adverse economic climate.

Hackensack-based **Russo Development** is moving ahead with Schuyler Crossing, a mixed-use development of about 21,000 square feet of retail space and 232 apartment units that will go up on a former industrial site of seven acres.

Kearny has five proposed projects in two redevelopment zones that encompass more than 200 acres of the town, said Mayor **Alberto Santos**, but "the tailspin of the economy and credit freeze in the last quarter of 2008 has put a significant damper on a lot of those proposals," he said.

Those redevelopment efforts — which include conversions of old factories into condominiums and new residential and retail construction — have stalled primarily because developers have been unable to obtain financing or large retail tenants, Santos said.

With Schuyler Crossing, Russo, which has primarily built industrial properties in its 30-year history, is embarking on its first retail and residential project. The decision was driven in part by the company's desire to continue developing in Kearny and the Meadowlands region. In 2005, Russo began building its first project in Kearny, Saw Mill Park, an industrial park comprised of two distribution facilities totaling 346,533 square feet for tenants **HD Smith** and **Pepsi**; the third and final building is expected to begin construction in April and be completed by the end of the year, the company said.

"Instead of going to other marketplaces, we've decided to really stay in this market, where we've had a lot of experience," said **Michael Pembroke**, Russo's senior vice president of leasing and marketing. Still, "it's difficult to be successful with large-scale industrial development in this marketplace at this time." Sites for big-box industrial facilities are difficult to find, and industrial

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rental rates have not risen at the same pace as construction costs, making such projects less economically feasible, he said.

Russo has completed demolition on the Schuyler Crossing site, and is now working to obtain approvals for the project, Pembroke said. The developer plans to begin construction on the retail portion of the development by the summer, and break ground on the first of three apartment buildings in early to mid-2010, he said. Leasing activity at the first apartment building will determine the construction timeframe for the remainder of the project, he said.

But developing retail and multifamily buildings poses other challenges, Pembroke said. "The retailers certainly are pulling back from where they were a year ago because of market conditions," he said. Given slow demand, Russo will likely have to accept lower rents or make rent concessions to retailers, said **Chuck Lanyard**, president of **The Goldstein Group**, a retail real estate brokerage firm in Glen Rock.

Although Russo has yet to land any retail tenants, Pembroke does not expect retail leasing to be a major challenge, since retail is not a major component of the project. Also, Schuyler Crossing is located at the intersection of Bergen and Schuyler avenues, which some 23,000 cars pass through daily, he said. "We feel that just because of the location and the activity at that intersection that we should do well on retail."

Russo also is going after smaller, neighborhood tenants rather than big-box retailers, a strategy that should work in the developer's favor, Lanyard said.

"There's demand for the smaller spaces," he said. "If there's any kind of retail activity, it's all generated around these smaller tenants taking spaces less than 4,000 square feet who are out there still looking, even in today's tough market."

As for residential, Pembroke said a lack of multifamily product in the Meadowlands area should help raise demand for the apartment units at Schuyler Crossing. At the same time, he has been seeing signs of weakness in the state's traditionally strong apartment market, including a slowdown in leasing activity, more incentives being offered and less substantial increases in rents. "Depending on what happens with the economy over the next couple of years, that could certainly impact apartment leasing," he said.

The current level of residential demand is insufficient to support the pricing needed to make a project like Schuyler Crossing profitable, Santos said. But "when you're planning residential development, you're not planning six months out, you're planning a couple of years out," Santos said. When the market recovers, Schuyler Crossing will benefit from Kearny's location — eight miles west of New York and one mile from Harrison's PATH station.

"Eventually, there will be pent-up residential demand," he said. Russo wants "to be ready for whenever that happens."

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