

Back To The Cities: A Room For A Million

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It's a bright spring morning at the (fictional) New Jersey Development Company, and the Marketing Manager is going over the presentation boards to her boss. "Joe, "these units are moving so fast that we are going to have no problems selling everything we have before the end of September," the Marketing Manager remarked brightly.

"Well", said the CEO, handing her some pictures of two downtown urban New Jersey locations, "let's see how well you do marketing these."

Indeed, if the current state policy is successful, that is what many New Jersey development companies are going to be doing. Current New Jersey state policy highly disfavors exurban expansion. Even though Governor DiFrancesco has put the kibosh on the watershed rules which his predecessor had approved, the DEP has still enacted regulations which make it nearly impossible for developers to build large lot developments on septic; and even if there are no water shed regulations, Executive Order 109 is still in place, requiring extensive, detailed analysis before sewer lines can be extended beyond existing sewer areas. There is no doubt that the current environmental policy highly discourages exurban expansion.

Couple that with the fact that the New Jersey State Planning Commission has just adopted the current version of the New Jersey State Development and Redevelopment Plan (March, 2001), which discourages development outside of metro areas and centers, and add to that the well developed suburban municipal attitudes against further growth, it is no wonder that the CEO of our mythical New Jersey development company has turned to the area which appears to be favored by New Jersey State policy: the revitalization of the urban areas.

A Good Market?

There are several elements which are needed for a "hot" development market. First – and foremost – is customers. For that, New Jersey has plenty. As we learned from the census reports, in the last decade the state population grew at a nearly 9% rate, and even our urban areas, which have traditionally lost population since the 1950's, actually gained population. Demographers tell us that we are likely to get more than 800,000 new citizens over the next twenty years with much of that coming from new inter-nation migration. These new citizens, particularly, have traditionally shown an affinity for urban areas, since job opportunities and transportation facilities are frequently more available for immigrants in urban areas than in ex-urban areas. Secondly, where a group of immigrants from a specific culture find a compatible area to live, they frequently create a network of social, cultural, religious and employment opportunities which compatriots find attractive, such as

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the Ironbound district of Newark.

So the first element of a housing market – customers – is likely to be present in New Jersey, and many of those new customers are likely to be willing to go to urban areas. But there are real problems in doing urban development. They include:

1. *Inferior Schools* – If one looks at the top 10 public school systems in New Jersey, you will find them to be suburban school districts and not urban districts. When the state has to take over the school systems of the state's larger areas because of alleged incompetence on the part of the school administrators, it doesn't send a positive message to people who value education as the primary reason for buying a home.

2. *Crime* – Like it or not, there is both the perception and the reality that the state's urban areas are more unsafe, both for persons and property, than the suburban areas. If, for example, one accesses the Insurance Institute's list of the top 25 areas for car theft, Jersey City, Newark, and Trenton, feature prominently.

3. *Difficulty in Obtaining Land* – If one accesses the New Jersey State website and goes on the Brownfields map, one can find lots of land within the urban areas, much of it contaminated and requiring extensive remediation. Other land within the urban areas, is "improved", with decaying, abandoned, or otherwise obsolete buildings. While the land may be contaminated, the owners of the land and the buildings may still think it has value, and the suburban-oriented builder finds the acquisition of land in urban areas frequently a very stiff challenge.

4. *Infrastructure* – While the State Development and Redevelopment Plan tells us to go to the cities because that is where the infrastructure is, the sad fact of the matter is that most of the infrastructure in urban areas is old, frequently compromised, and unable to accept a lot of additional use without expensive repairs.

Finally, one of the big challenges marketing specialists will face is the image of the cities. Many current suburban residents were urban dwellers and left because they perceived that urban areas did not offer much hope for the future and that they could achieve a better life for themselves and their children in suburbia.

Is Help On The Way?

The Whitman administration talked much, but did not actually do a lot to assist urban areas to "pull themselves up" by the bootstraps. Fortunately, there were other players on the field. As a result of the very long *Abbott v. Burke* litigation and its progeny, the state has committed billions of dollars for construction, reconstruction and replacement of many of the 429 school buildings in the now 30 Abbott districts. The Educational Facilities Construction and Financing Act will provide up to 100% funding for new educational facilities to serve the state's most needy districts; and the legislation requires that these facilities not only meet the educational needs of the students, but also serve the broader community as well. Over the next few years, more than \$6 billion will be spent on improving the #1 problem which faces many urban areas, namely, inadequate, obsolete and in many cases, unsafe educational facilities.

Secondly, the legislature has made substantial efforts to reform the state's Brownfields or environmentally contaminated areas by the passage of legislation which

makes it easier for these areas to become converted into more contemporary uses. This does not apply to residential uses, however, since bringing these facilities into residential standards will require maintenance of a very substantial effort. And, while the state has set up a Redevelopment Authority with some funding which is available for commercial and industrial buildings, the monies are not yet available for redevelopment of housing.

Where Has This Worked? Where Might It Work In The Future?

Redevelopment of the State's urban areas for residential purposes has been a "happening event" in Hudson County, where property values on lands without access to the Hudson River have skyrocketed. Old, decaying freight yards, abandoned obsolete buildings, the remnants of the 19th century which served the City of New York, have been swept away by new development, which has added hundreds of new housing units, rehabilitated thousands of older buildings, and generally given cities like Hoboken and Jersey City a whole new lease on life. In fact, in the development community, Hudson County is referred to as the "Gold Coast," and pointed to as an illustration of what happens when demand and location get together. Even in these areas which have not experienced any shortage of crime, e.g., Jersey City, the sheer attractiveness of the area and its convenience to New York City have outweighed any other kinds of concerns. But beyond the Gold Coast, where can a developer go to reap the rewards which are inherent in meeting the housing needs of the new wave of New Jerseyans?

One illustration is Perth Amboy, New Jersey. Twenty years ago, Perth Amboy, once the proud colonial capital of East Jersey, was characterized by all the urban ills which plagued other urban areas in New Jersey. Empty factories, shut down smelters, vacant land, high unemployment, not much of a future: but this was Perth Amboy, 1980.

Earlier this year, Joseph Vas, the current Mayor of Perth Amboy, unveiled a striking plan for the total redevelopment of this Middlesex County city. Instead of boarded up buildings, there were new apartment buildings, shops, restaurants, fountains, historic banners and flags. And, unlike many illustrations of bold new redevelopment plans, this was accompanied by a real New Jersey developer, plunking down real hard cash. The Kushner Companies had agreed to spend upwards of \$600 million as part of the first phase of the redevelopment of Perth Amboy. In exchange, some 2,000 housing units, thousands of square feet of shops and restaurants, a new ferry connection – all very real, all backed by real money and real engineering, real planning, real agreements. This ambitious public/private partnership, with leadership from the city, state money, federal dollars, and most importantly, private dollars, will transform Perth Amboy over the next ten years. And this is merely the first phase of an ambitious citywide redevelopment plan, for which there is upwards of \$1 billion in state and private money already committed. What happened in Perth Amboy? Why? And for the development community, can it continue to happen elsewhere?

Perth Amboy demonstrates creative use of the state's investment, local redevelopment agency effort, but most of all, committed and dedicated leadership on the part

of the key political leaders. The same problems that confront every other urban area, including contaminated soil, poor schools, high crime rate, infrastructure difficulties and a bad image, confronted Perth Amboy, but in that municipality, the problems are being addressed and investments are being made.

Where Do We Go From Here?

We have a building industry which is capable of building as many units per year as there is demand; we have plenty of demand; but we have not had much in the way of available, developable land. The environmental community and the state policy makers want ex-urban growth closed off, and that growth directed towards the cities. There are enough examples of how this can be accomplished to give some policy makers and business leaders hope. But the illustrations also indicate the difficulties and underscore what needs to be done.

1. *The costs of clearance and rebuilding are much higher than people care to admit.* Yes, Perth Amboy is the recipient of approximately \$1 billion in state, federal and private investment funds. It is going to make a difference in that community, but in reality, that is only a fraction of what is needed in order to complete the rehabilitation of the city and make it a destination for the future. Yes, it is a good start. But it is only a start, and in order to replicate the Perth Amboy experience statewide, very substantial enhancements would have to be made in funding levels for both state and local expenditures for the development community to be incentivised to make the kind of investments which the Kushner organization has made in Perth Amboy.

2. *Political leadership has got to be available.* There were many local political leaders who had been elected, governed, and retired in Perth Amboy. Many of them had articulated a vision of rebirth of the City. Mayor Vas has been able to carry it off, which is a tribute to his political skills and determination. However, in order to do this in the remainder of New Jersey's urban areas, local governments will need to find equivalent political leadership. There really is no magic here, but firm, dedicated, committed and intelligent political leadership is an absolutely key ingredient if redevelopment is to take place.

3. *The State has to provide better training and more tools.* Redevelopment is a time consuming, difficult, demanding process. Most urban and first tier suburban communities don't have the in-place technical team available to help do the job. The Department of Community Affairs would really need to put together a team of experts who could come in to any municipality and provide technical assistance, information, advice, and patient assistance over an extended period of time for any community that needed the help to redevelop.

Will we accommodate nearly one million new people in New Jersey via a process of urban revitalization alone? Probably not. New Jersey needs a balanced growth policy to include development of additional opportunities throughout the state, but urban areas can serve as a means of meeting some of New Jersey's housing and employment needs, and certainly far more than has been the case over the last two decades. But no one should downplay the complexities, difficulties or costs of such an effort.

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