New Jersey Needs to Get to Work

Summary of Remarks by Jeffrey G. Otteau
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Mr. Otteau opened the Regional Planning Summit with remarks addressing the challenges and opportunities present in today’s real estate markets. Mr. Otteau has been actively engaged in real estate consultation and valuation since 1974. His practice is concentrated in providing project feasibility, market analysis, redevelopment guidance, and valuation analysis to developers, financial institutions, governmental entities, and investors. Frequently quoted in the New York Times and Wall Street Journal, and having made television appearances on CNBC, Bloomberg and NBC News, Mr. Otteau is widely respected for his knowledge and insight into real estate trends. His attention to detail and comprehensive fact finding has made him the go-to person for industry professionals seeking to enhance their competitive position in the marketplace.

We continue to live in challenging economic times, but today’s constrained growth in the economy and real estate markets, in reducing our unemployment rate, and our inability to provide housing choices that match up with need and affordability are rooted not in the recent recession, but in a series of long-term structural changes that have been decades in the making.

New Jersey retains a number of substantial advantages, including our location between the major markets of New York City and Philadelphia, our diverse and highly educated workforce, student achievement 2nd only to Massachusetts in the 2014 Chance for Success Index, an economy led by logistics, life sciences and pharmaceuticals, and more than 1,400 international businesses from 40 countries that, until recently, would be 6th largest in the world if we were a nation, and has the 3rd highest median household income in the world’s largest economy.

Why is New Jersey underperforming?

• Median household income has declined by 2% while increasing nationally by 5.8%.
• Home prices are down 20% since the recession began in 2006, double that of the nation, while New York City home prices are now higher than before the recession.
• The highest share of non-current mortgages in the nation with one in ten homeowners missing 3 or more mortgage payments.
• Household incomes are now higher nationally than before the recession, but still lower in New Jersey.
• While our 2013 net office space absorption rate is now near normal at 1.2 million square feet; in 2012, 2.5 million more square feet became vacant than was newly occupied, and at normal absorption rates we now have an inventory of vacant office space that could last 50 or 60 years.
• While the total number of net jobs lost during the recession has now been recovered nationally and in New York City, New Jersey has only recovered one third of the jobs that were lost. Construction employment continues to fall, 50,000 overall and 10,000 in just 2013, five years after the recession ended.
• Government has not been able to keep up with needed investments in maintaining or expanding infrastructure.
• New Jersey has one of the highest domestic outmigration rates in the nation, for now only offset by foreign immigration.

Answers are in higher costs, increased regulatory burdens, restrictive land use policies, higher taxes, all in an era of global competition that is not so new but there are new technological and economic forces that constrain prices and punish high costs with lower profit margins. Recommended responses are complex and layered.

Smaller, lower-cost housing close to work and public transit is required to match constrained incomes. 60% of households are 1 or two persons, and 7 of 10 New Jersey households are childless. 66% of Both baby boomers and millennials want better transportation options, walkable communities, and housing that will allow aging in place. Millennials feel that access to high quality transportation is a top 3 priority in deciding where to live. Eliminating one car from a household can amortize $150,000 of mortgage principal.

We are shifting toward a European model for our economy and real estate demand that is small-lot, single family and higher density multifamily—more urban with a diverse landscape of mixed land uses, less isolated suburban and rural residential subdivisions. Restrictive municipal zoning biased toward large lots and against families has become one of the more significant obstacles to vibrant economic growth, particularly in our suburban and rural municipalities, as pent up demand for the housing types that are needed are driving up prices and rents. There is an oversupply in large lot luxury housing and suburban housing ill-suited to today’s households. The average age of housing in New Jersey has reached 50 years old. There will be an implosion of the upscale suburban housing markets within the next five years. Higher housing costs can be viewed as a tax on employers, as they need to pay higher salaries and wages for their workforce than elsewhere in the nation. Municipalities must relax their land use controls, and embrace redevelopment and adaptive re-use of vacant commercial space, especially in New Jersey’s outer ring suburbs and rural municipalities, to increase housing that will support existing non-residential ratables. Alternatively, property owners will demolish structures and remove them from the local tax base entirely.

While government must seek new efficiencies and limit tax increases, it must focus on the revenue “top line” by facilitating land development and investing in public education and in infrastructure through public-private partnerships and, possibly, by regional land use planning and regulation. Businesses are now beginning to move jobs out of suburbs to the vibrant places with housing and lifestyles that people want. A diverse landscape of mixed land uses will act as a magnet for people, retail spending, and job creation. We need to “roll up our sleeves” and get to work!

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