

# *2010 Redevelopment Forum*

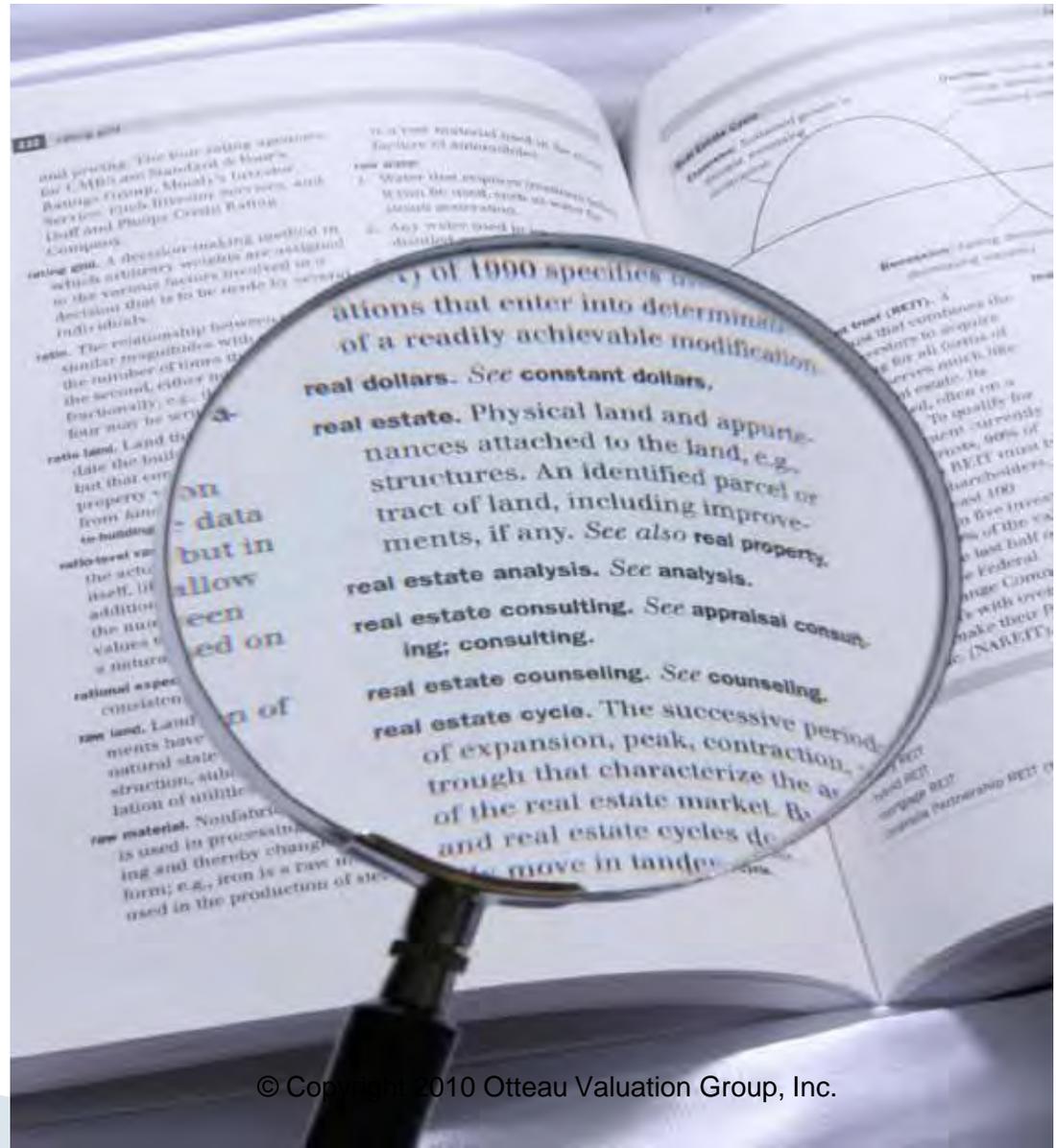
## *New Jersey Future*

[www.otteau.com](http://www.otteau.com)  
800.458.7161



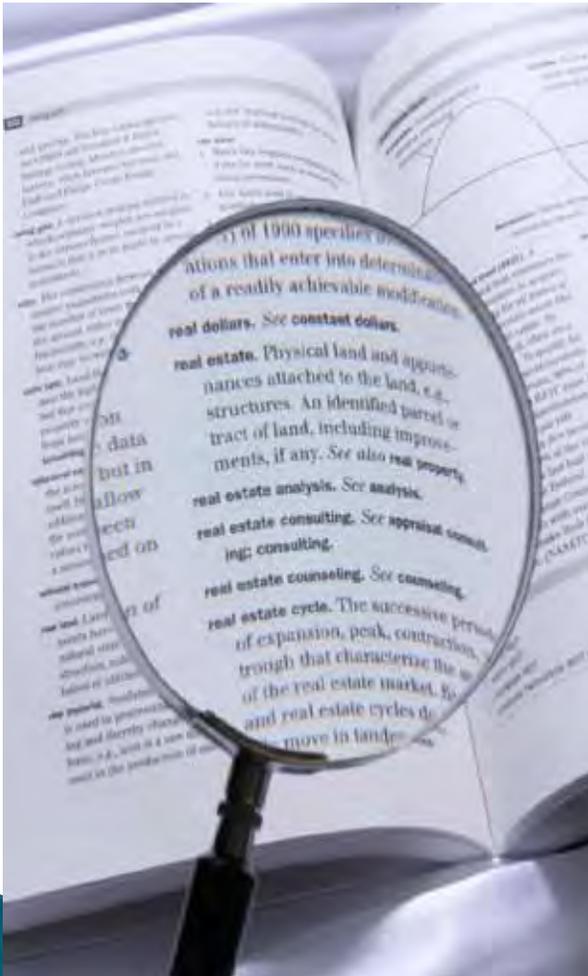
# Bringing Clarity\* to Real Estate

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# *OTTEAU Valuation Group*

## *Bringing Clarity\* to Real Estate*



**About Us:** The lightning strike speed of today's information flow has accelerated the pace of change for real estate markets. As a result, trends that previously took years to develop can now unfold in a few short months. Our mission is to assist our clients in keeping pace with that change by providing insightful analysis and cutting edge pricing skills. To accomplish this we have assembled a team of skilled professionals specializing in the complex field of real estate market analysis. With broad based experience in real estate valuation and consultation, our firm engages in a diversified practice encompassing all property types.

**Appraisal Services** are provided to financial & lending institutions, developers & builders, attorneys, investors, relocation management service companies, governmental agencies, corporations and the public.

Our **Consulting Group** provides a wide array of services with respect to market analysis, project feasibility, demographic trends, project valuation and municipal entitlement proceedings.

**Litigation support** is provided for matters requiring the valuation and corresponding expert testimony for eminent domain proceedings, contractual disputes, bankruptcy, tax appeals, equitable distribution, estate valuation and stigma related issues.

**OTTEAU.com** offers a wide range of informational content and analysis of real estate trends including published and live session formats. **MarketTRAC** is an online market data service available for subscription on [www.otteau.com](http://www.otteau.com).

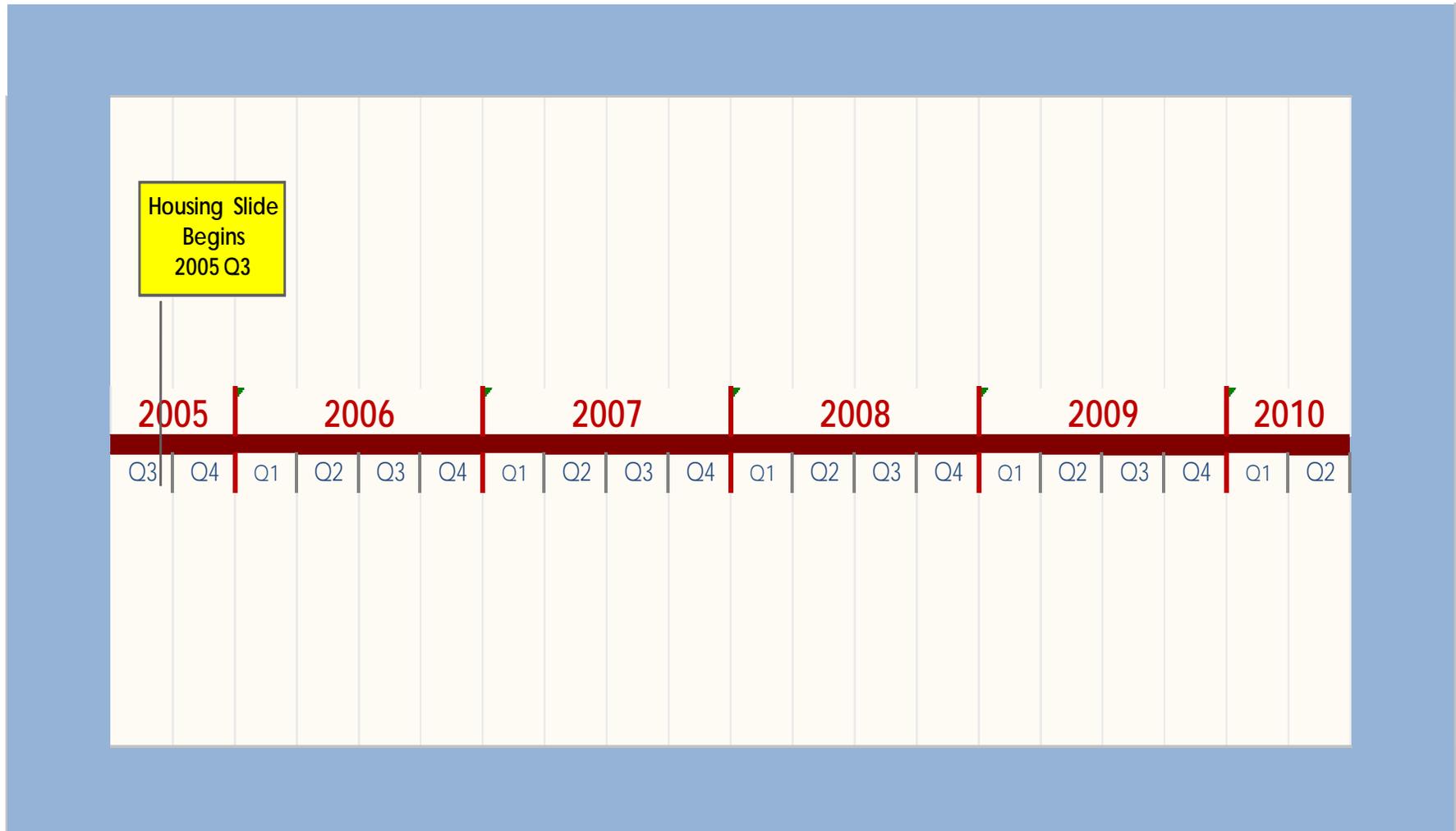
# *Bringing Clarity\* to Real Estate*

**JEFFREY G. OTTEAU**  
President



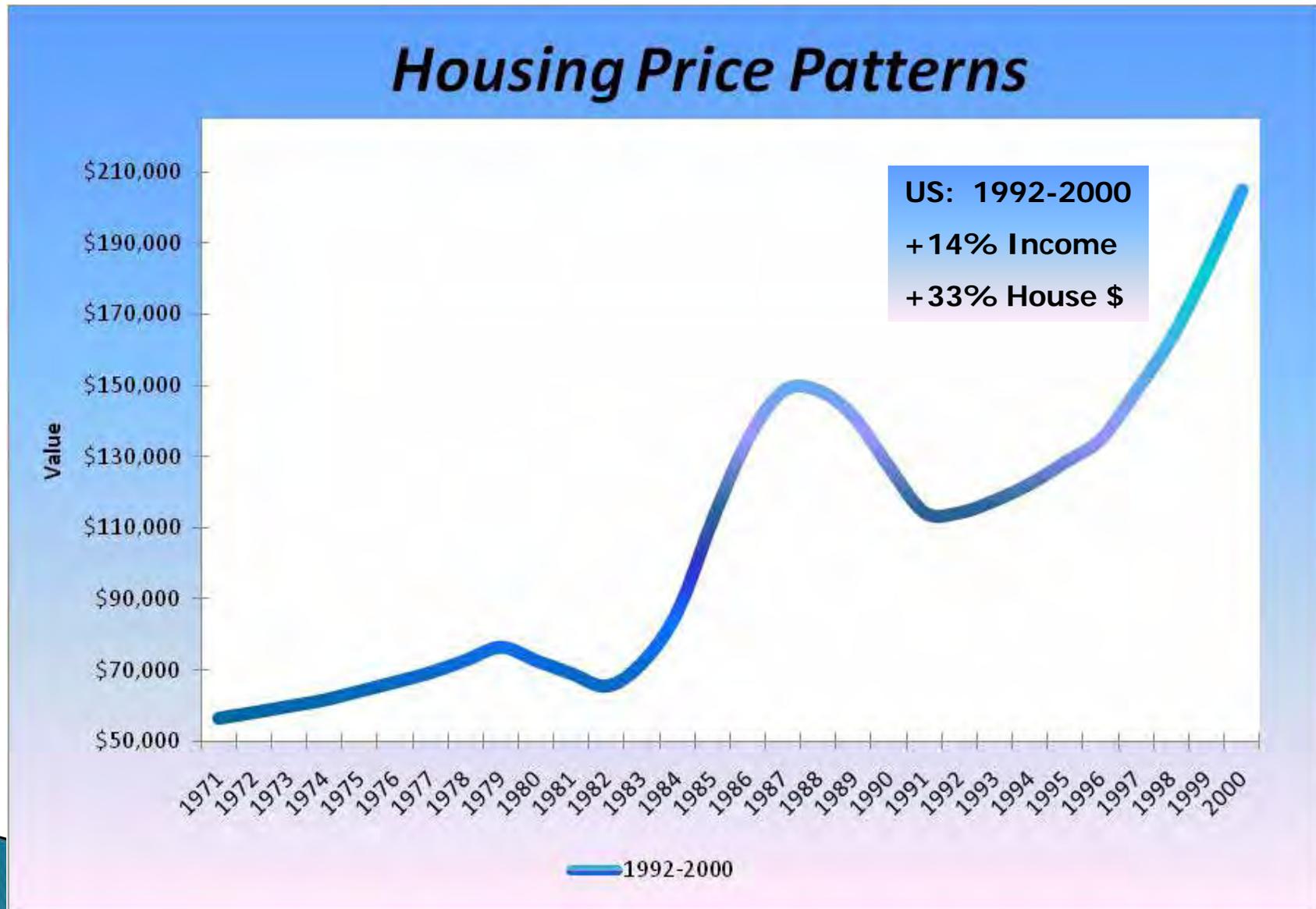
As President of Otteau Valuation Group Mr. Otteau manages facets of the firm's business including serving as General Manager of [www.otteau.com](http://www.otteau.com) which is an information provider on real estate trends. He has been actively engaged in real estate consultation and valuation since 1974 and holds the State Certified General Real Estate Appraiser certification, the highest level offered. His practice is concentrated in providing project feasibility, marketing 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, 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. Jeffrey has provided testimony as an expert witness at the municipal, county and state levels, authored several texts on property Valuation techniques and has lectured throughout the United States and in Canada. He served on the Appraisal Standards Advisory Council, which consulted with the Appraisal Foundation in Washington, D.C. on its agenda of projects and major technical issues. Mr. Otteau served as a past Chairman of the Employee Relocation Council's Appraisal Standards Council and was inducted into their distinguished Hall of Leaders in 1995.

# *Housing Leads the Way*



# *Anatomy of a Housing Decline*

## *Waiting to Exhale in 2000*



# *Anatomy of a Housing Decline*

## *Why Market Efficiency Failed*

### 9-11 After Shocks

- Housing demand surges Post 9-11 as Fed cuts rates... Greenspan leaves rates too-low for too-long ....US Home Prices Rise 46% from 2000 – 2005 despite a 3.3% decline in Median Household Income

### High Risk Loans

- 1995: HUD reclassifies Subprime as Affordable Housing Loans requiring Fannie & Freddie to create a secondary market to meet its affordable housing goals.
- 2004: Despite warnings by banking regulators, HUD instructs Fannie & Freddie to increase it's purchase of Subprime which rise from \$81B in '03 to \$175B in '04.

### Failure to Regulate

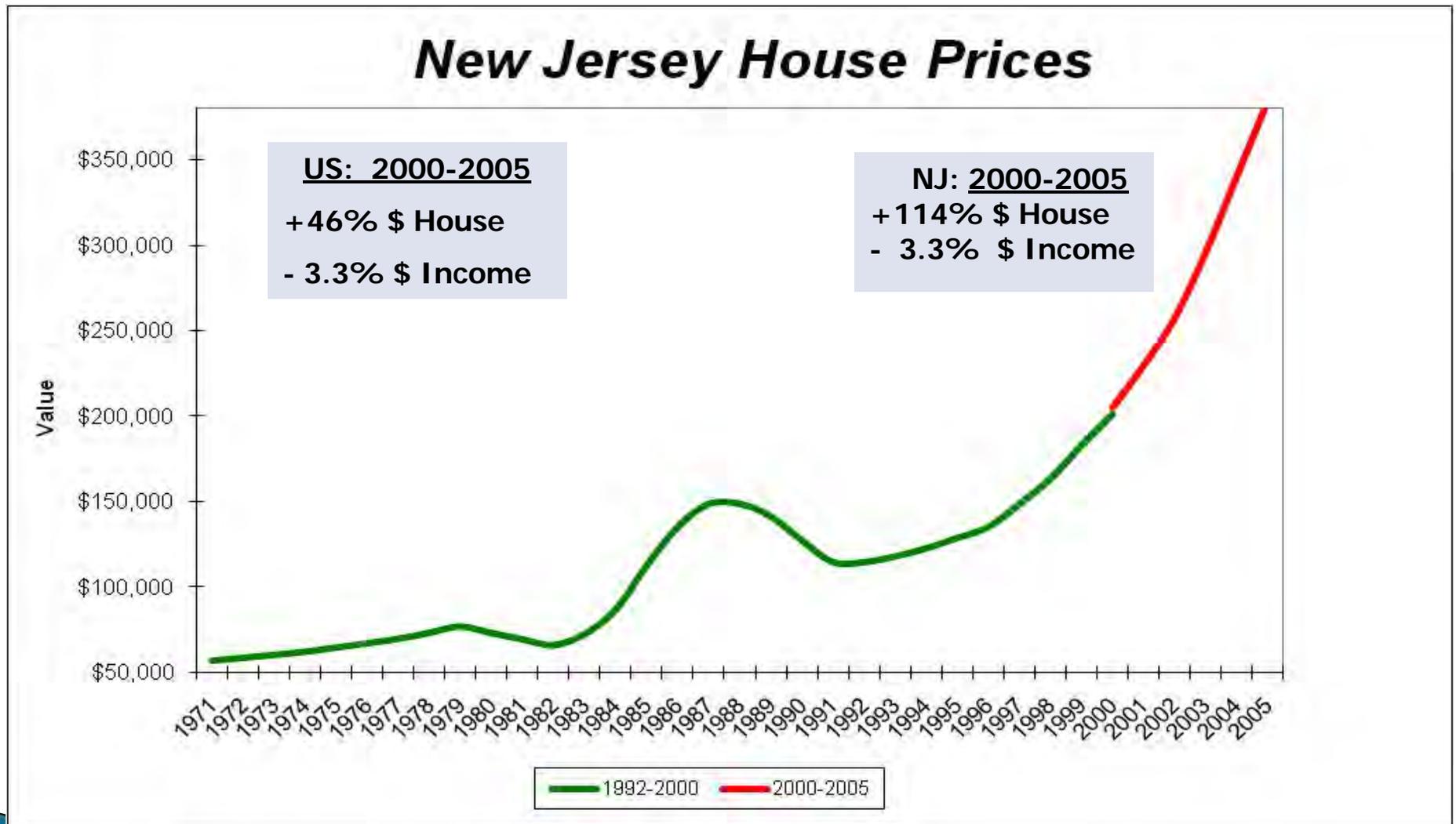
- 1998: Attempt by Commodity Futures Trading Commission to regulate derivatives is squelched by Treasury Department, Federal Reserve & SEC
- 2004: SEC allows Security Firms to raise leverage their leverage sharply. Norm goes from 12:1 to 33:1 so a 3% decline in asset values wipes out a company

### Constricting Supply

- As developable land supply dwindles in NJ, municipalities increase minimum lot size, preserve open space and encourage age-restricted development approvals to reduce construction of All-Age housing development.
- The effects of constricting an already undersupplied market is ever larger and more expensive new home prices which drag resale prices into the stratosphere.

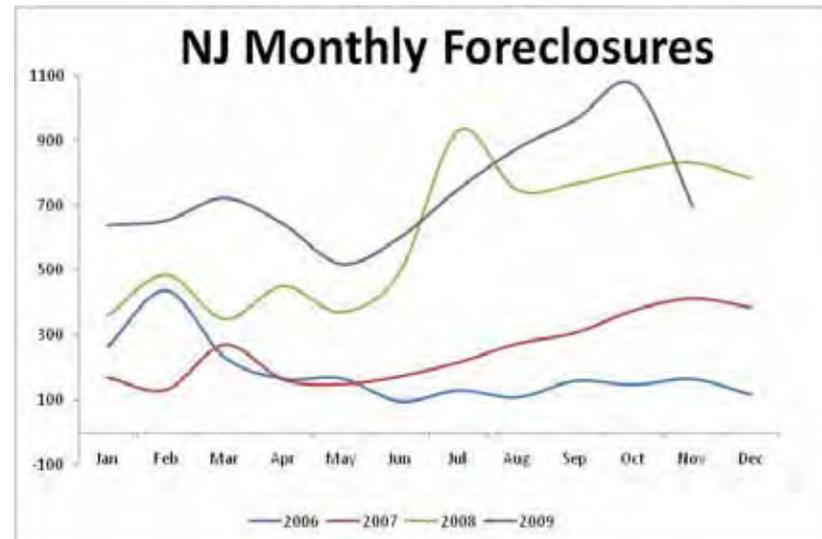
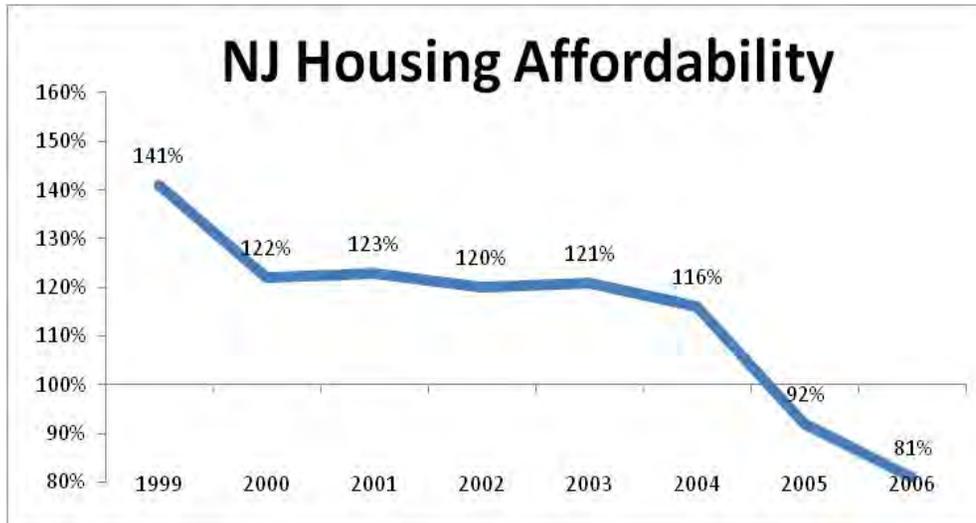
# Anatomy of a Housing Decline

## Home Prices Hyper-Extend



# Anatomy of a Housing Decline

## Housing Decline Follows



# *Today's Trends*

## *The Long Road Back*



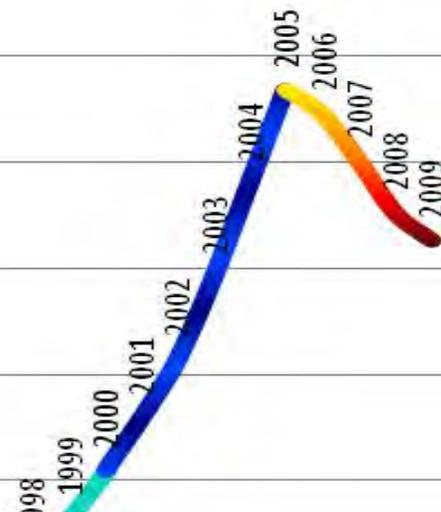
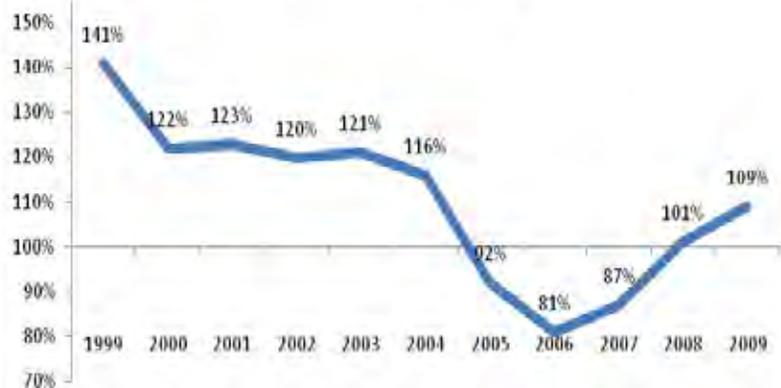
# Housing Trends Today

## NJ Prices Back to Early 2004 Levels

### New Jersey Home Price Trends

\$450,000

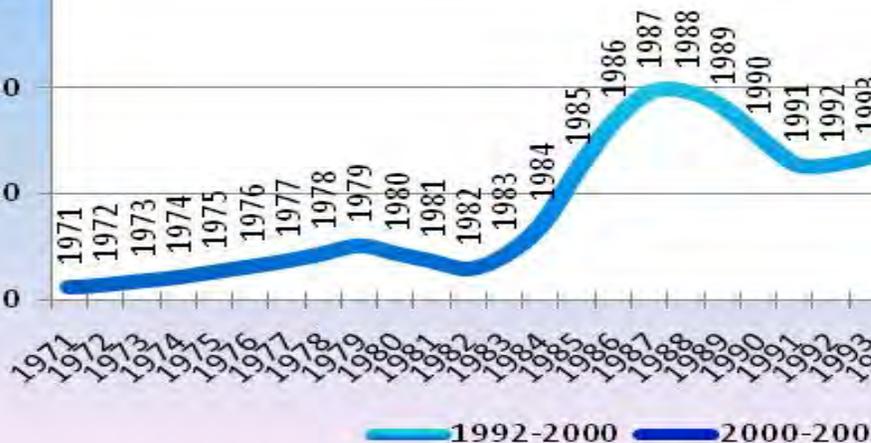
NJ Housing Affordability



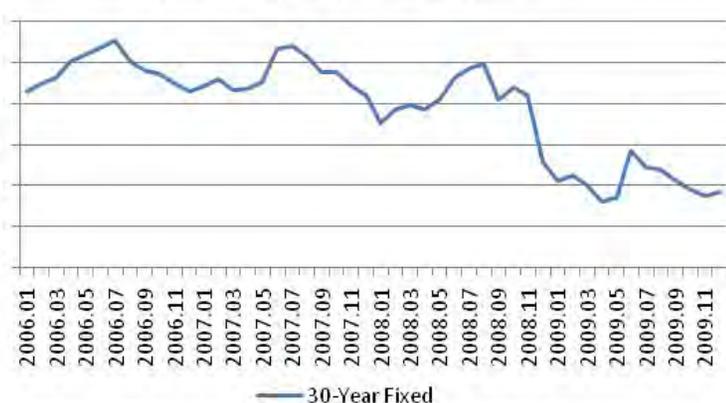
\$150,000

\$100,000

\$50,000



Mortgage Rate Trends



# *Housing Trends Today*

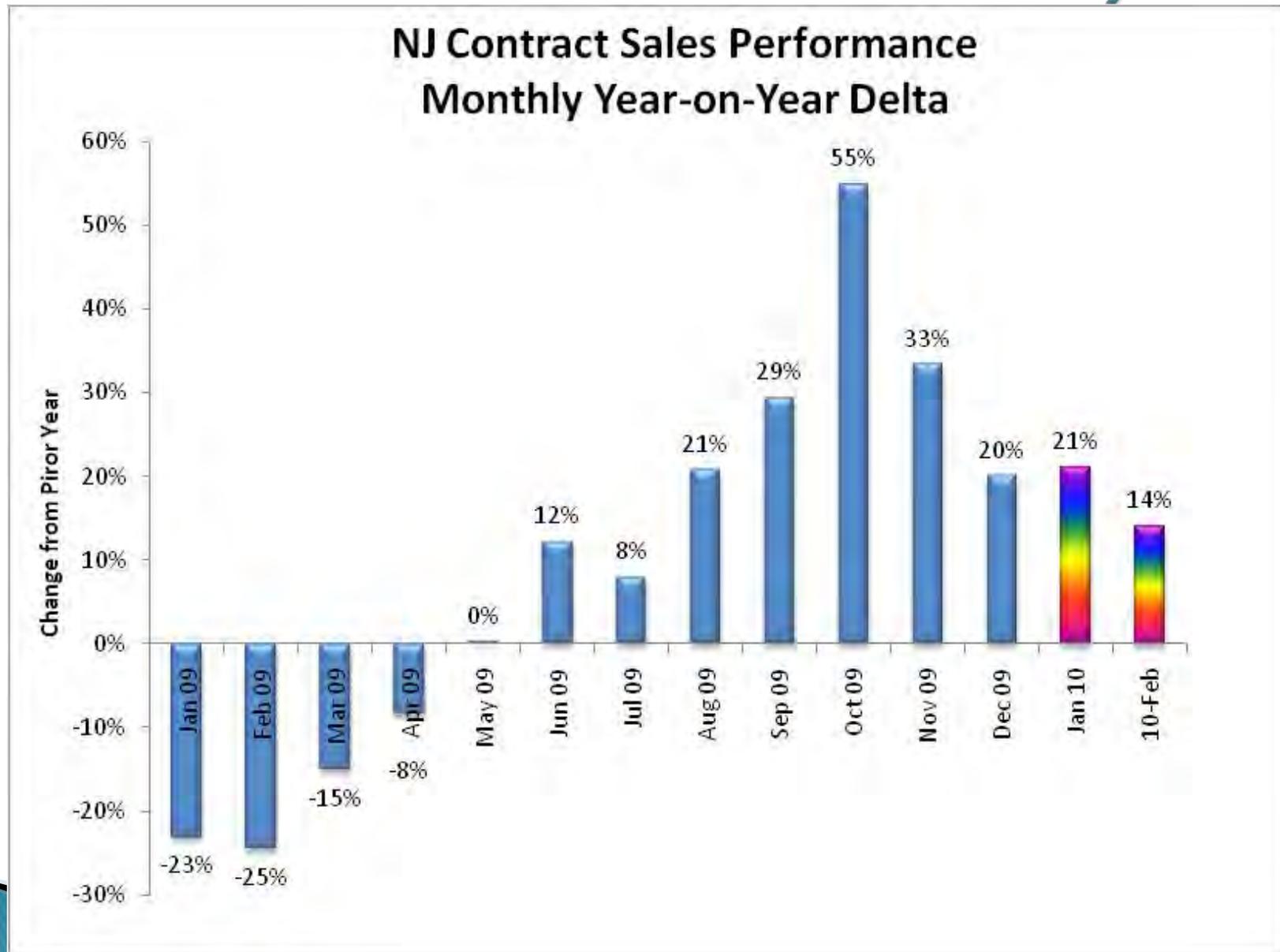
## *The Road to Recovery*

**MarketTRAC Monthly by OTTEAU.com**  
**NEW JERSEY CONTRACT-SALES ACTIVITY**  
**2008-2009**



# Housing Trends Today

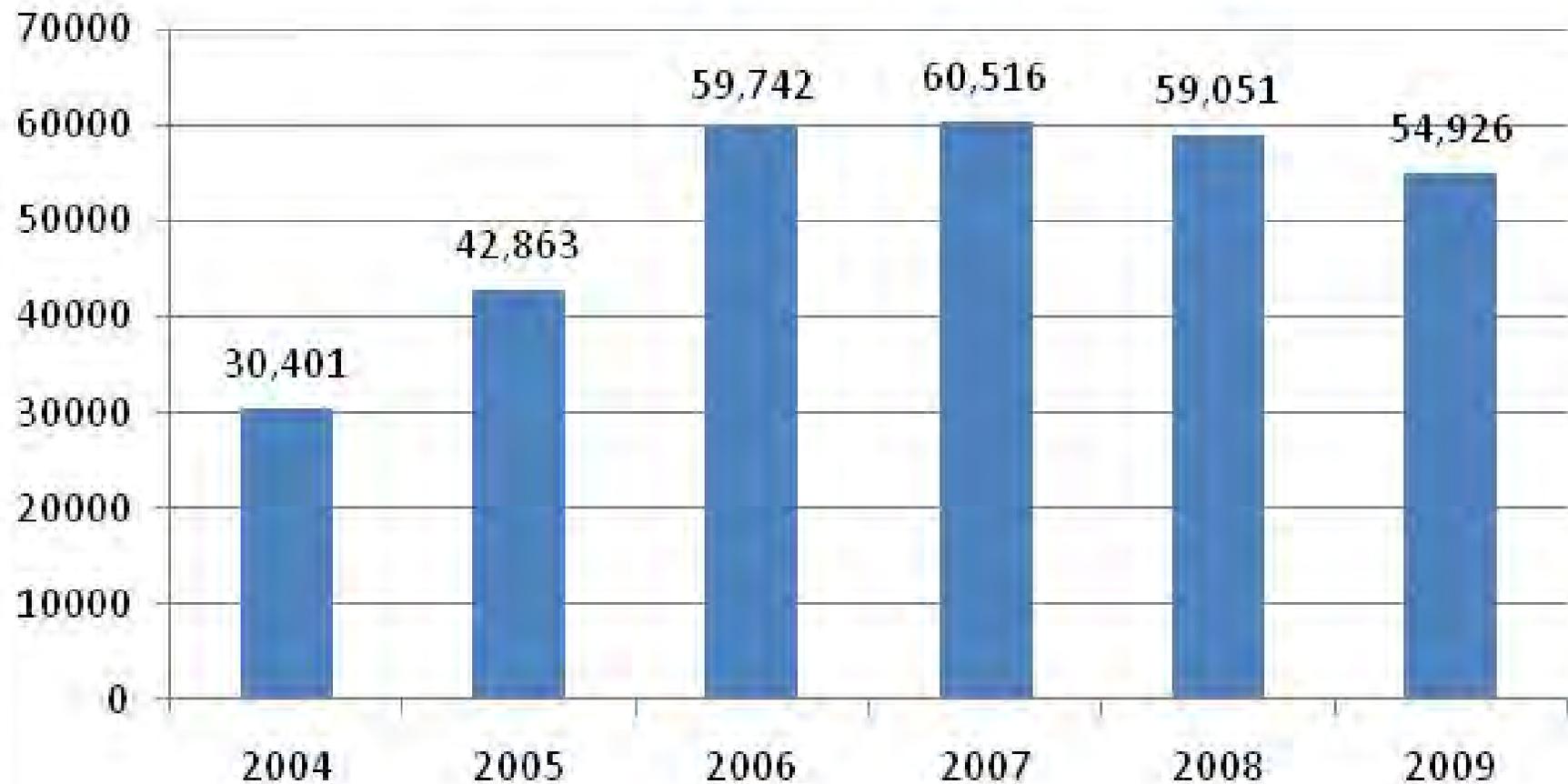
## The Road to Recovery



# *Housing Trends Today*

## *The Road to Recovery*

### NJ Year End Unsold Inventory



# Housing Trends Today

## Unsold Inventory

- - 8 mos or less
- - 9 - 12 mos
- - 12 mos or more



Middlesex	5.2
Bergen	5.9
Somerset	6.5
Union	6.6
Passaic	7.1
Morris	7.5
Essex	7.7
Mercer	7.8
Monmouth	8.3
Hunterdon	8.6
Ocean	8.9
Burlington	9.6
Gloucester	10.9
Hudson	11.2
Atlantic	11.5
Camden	11.8
Warren	11.9
Salem	12.1
Sussex	12.2
Cape May	15.0
Cumberland	19.2
<b>New Jersey</b>	<b>8.5</b>

Seasonally Adjusted

# House Prices

## 2009 Sequential Price Change



# Foreclosure & Delinquency

## NJ Foreclosure Filings Flat in 2009

U.S. Foreclosure Filings by State – 2009							
State	Total Properties with Filings	1 Year Change		2 Year Change		Foreclosure Filing Rate	
		Rank	%	Rank	%	%	per 1000
Hawaii	9,002	1	183%	3	832%	1.78%	17.8
Alabama	19,896	2	156%	13	257%	0.93%	9.3
Mississippi	5,402	3	140%	10	283%	0.43%	4.3
West Virginia	1,479	4	116%	15	222%	0.17%	1.7
Idaho	17,161	5	102%	7	371%	2.72%	27.2
New Mexico	7,212	6	94%	26	141%	0.84%	8.4
South Dakota	765	7	90%	1	3088%	0.21%	2.1
Oregon	34,121	8	90%	9	303%	2.12%	21.2
Utah	27,140	9	83%	12	265%	2.93%	29.3
Wisconsin	35,252	10	79%	20	191%	1.38%	13.8
Florida	516,711	18	34%	17	213%	5.93%	59.3
<b>United States</b>	<b>2,824,674</b>	<b>-</b>	<b>21%</b>	<b>-</b>	<b>120%</b>	<b>2.21%</b>	<b>22.1</b>
Delaware	3,034	25	21%	18	204%	0.78%	7.8
Pennsylvania	44,732	26	20%	23	173%	0.82%	8.2
<b>New Jersey</b>	<b>63,208</b>	<b>39</b>	<b>1%</b>	<b>31</b>	<b>103%</b>	<b>1.81%</b>	<b>18.1</b>
New York	50,369	40	1%	43	30%	0.63%	6.3
Connecticut	19,679	45	-10%	36	66%	1.37%	13.7

# *Commercial Markets*



# Commercial Trends Today

## MBS Delinquencies Still Rising



# Commercial Trends Today

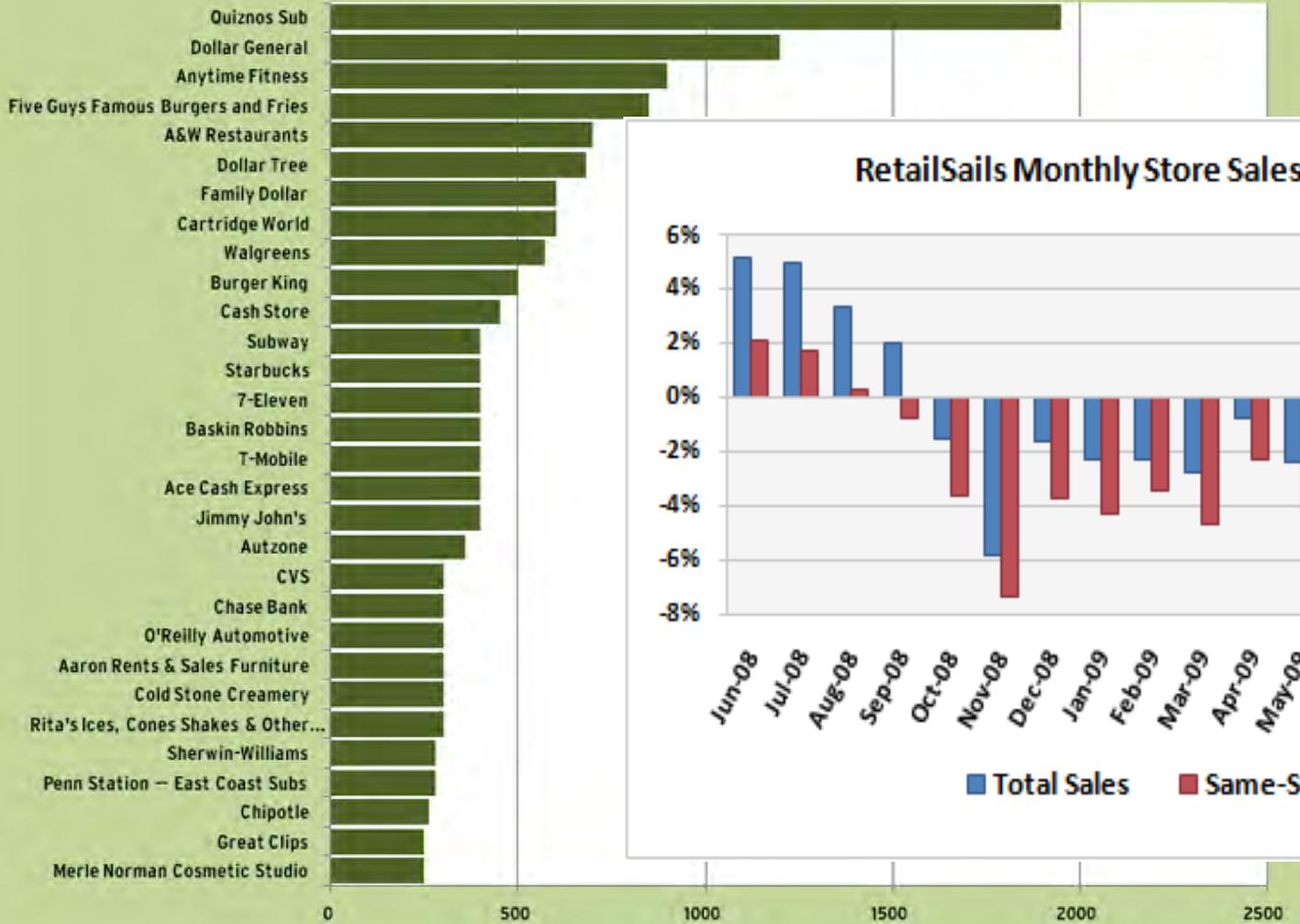
## Retail Market



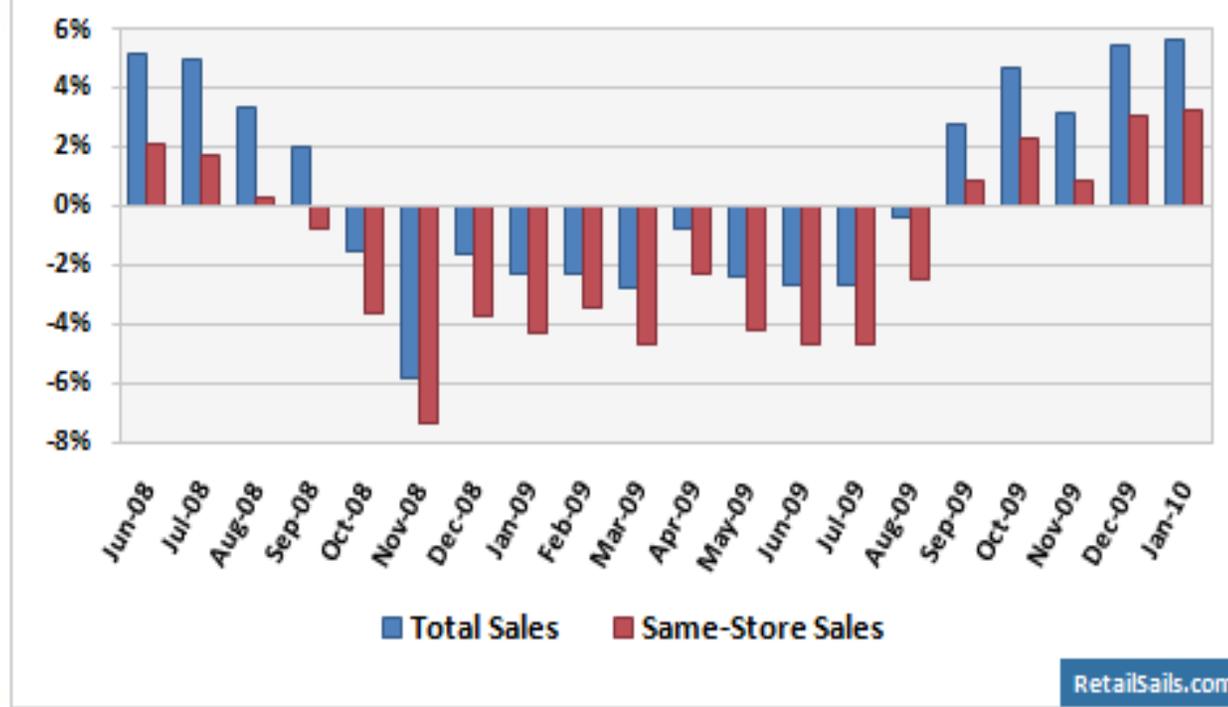
# Commercial Trends Today

## Retail Market

Top Retailers Looking to Grow



RetailSails Monthly Store Sales Index (YoY % Chg)



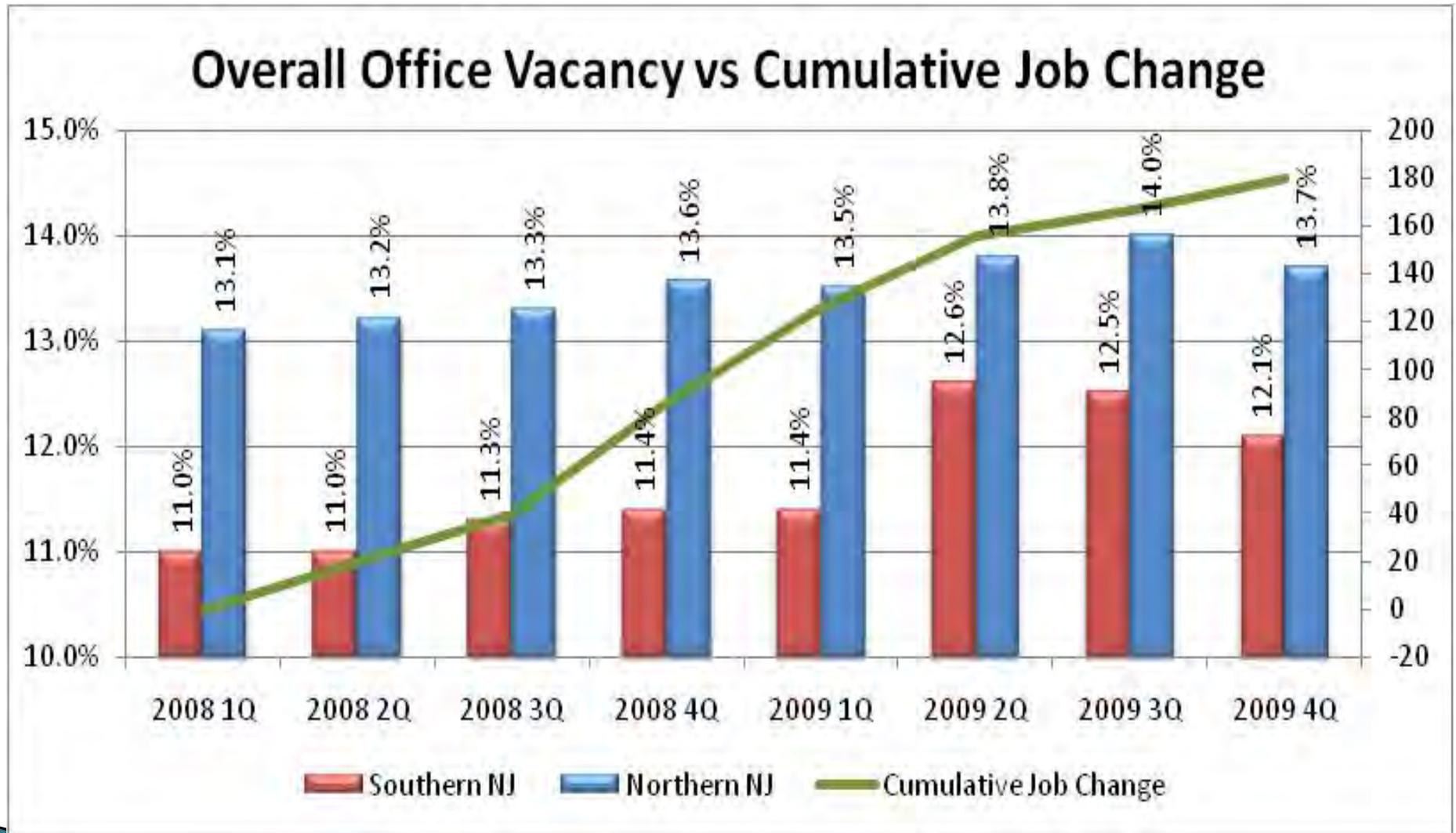
RetailSails.com

Source: Retail Lease Trac & RBC Capital Markets

retailtrafficmag.com

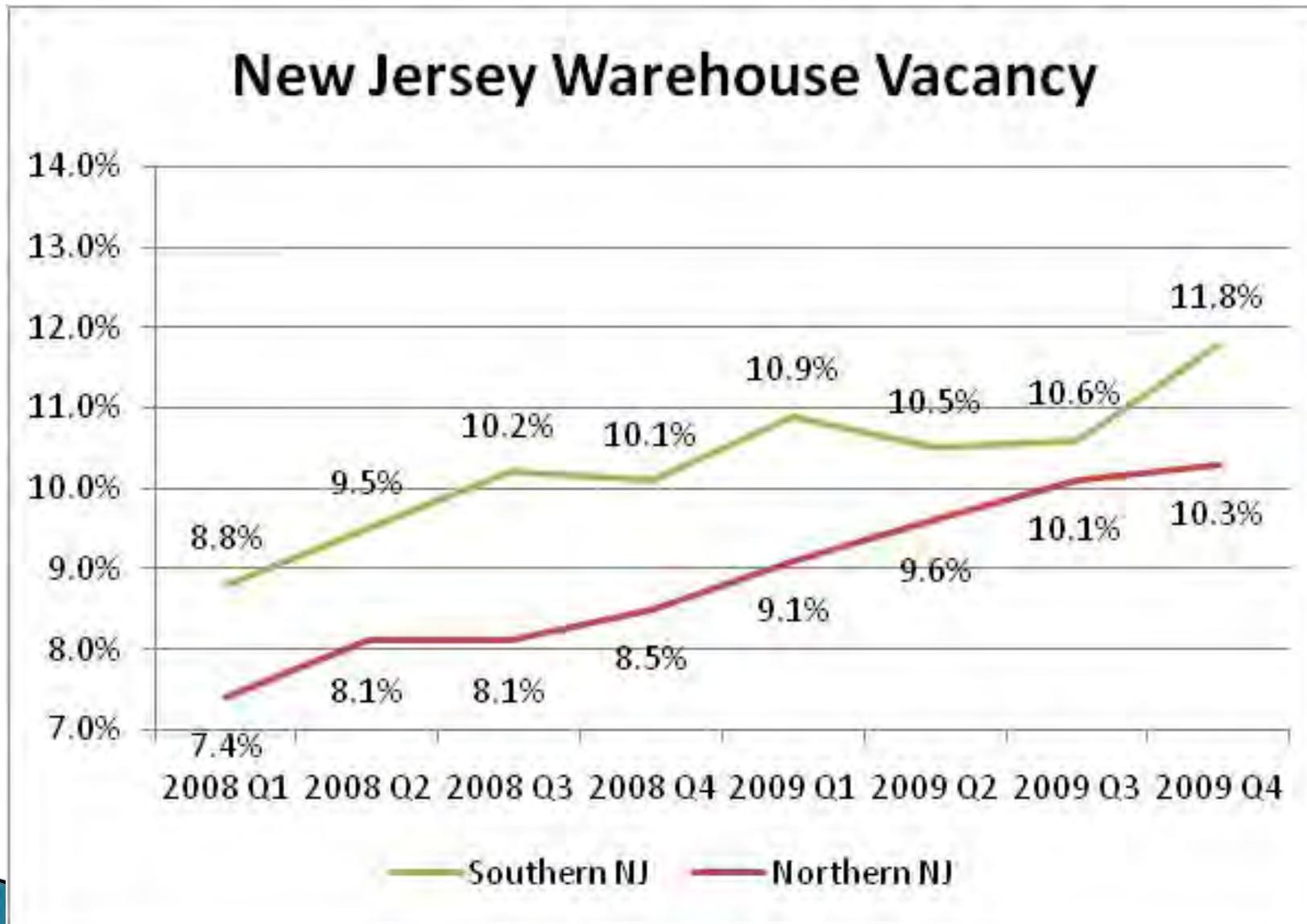
# Commercial Trends Today

## Office Market



# Commercial Trends Today

## Warehouse Market



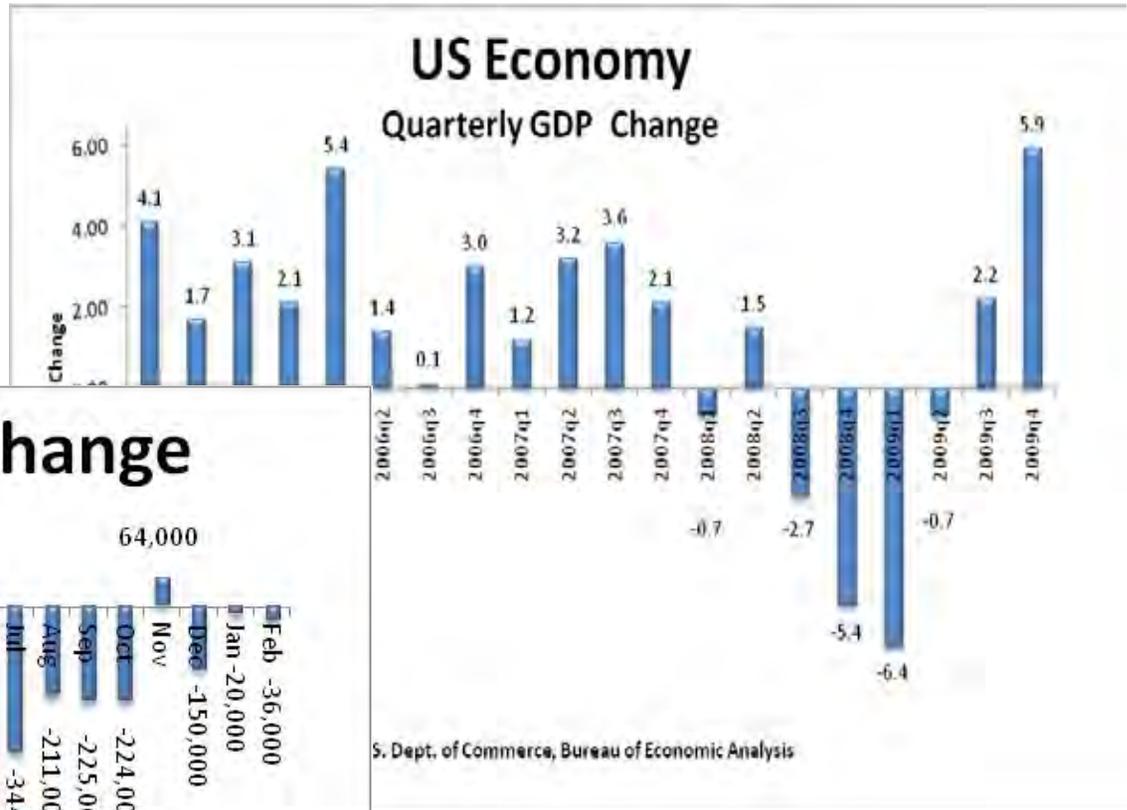
# *The ECONOMY*

## *Uneven Temperatures*

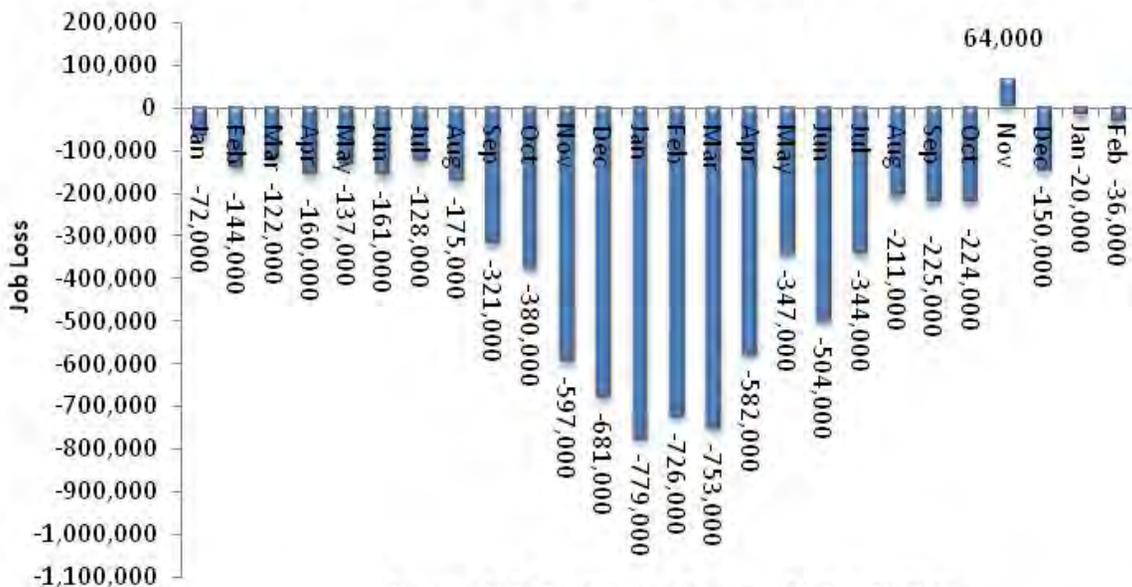


# US Job Losses Slowing

7.9 Million Lost, 9.7% Unemployment



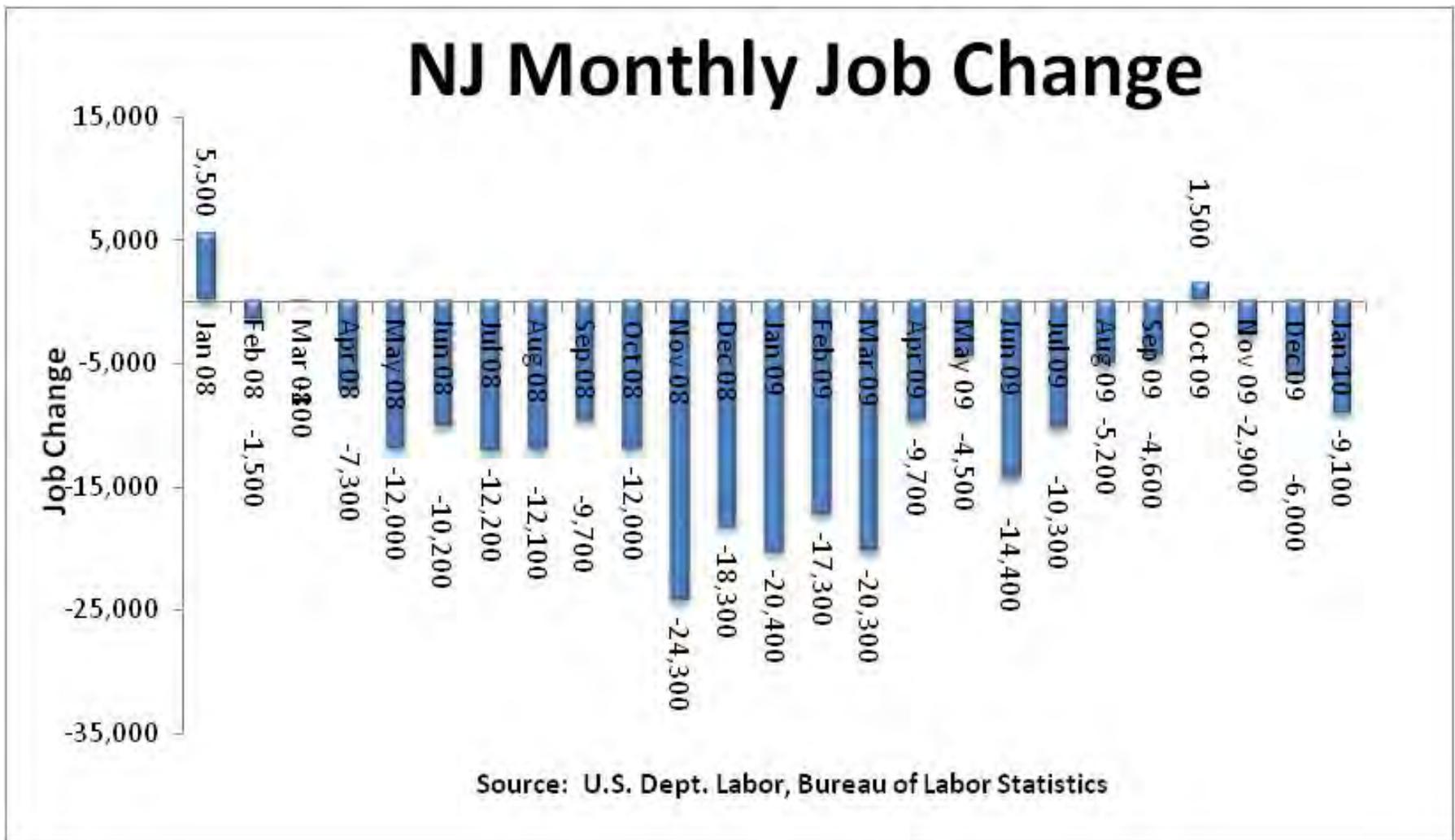
### US Monthly Job Change



Source: U.S. Dept. Labor, Bureau of Labor Statistics

# *NJ Jobs Still Unstable*

*228,300 Jobs Lost, 9.9% Unemployment*



# *NJ Employment*

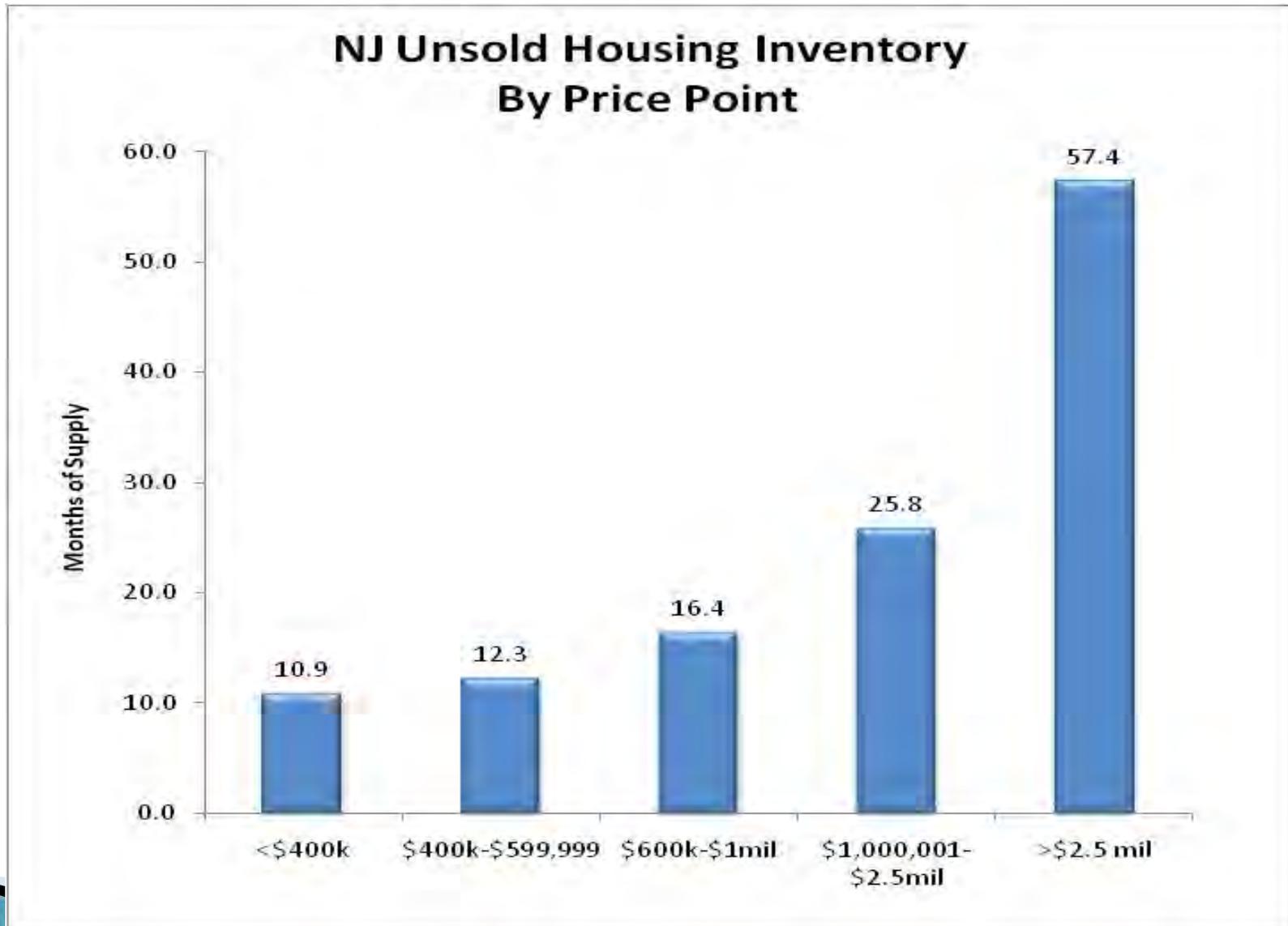
## *Jobs a Longer Term Issue*

<b>NJ Nonfarm Jobs</b>				
<b>2000 - 2007</b>				
	Dec 2000	Dec 2007	Change	
Private Sector	3,430,200	3,437,100	<b>6,900</b>	<b>0.2%</b>
Government	594,000	649,900	<b>55,900</b>	<b>9.4%</b>
Total	4,024,200	4,087,000	<b>62,800</b>	<b>1.6%</b>

- } *Highest Business & Personal Taxes in US*
- } *Lost & Found*
  - *Traded more than 100,000 **High-Pay** for **Low-Pay** jobs*
  - *Annual net Loss of \$1.5 billion personal income*
  - *NJ Household Income Fell @ 100X US Rate ('05-'08)*

# *Housing Trends Today*

## *By Home Price Range*



# *NJ Employment*

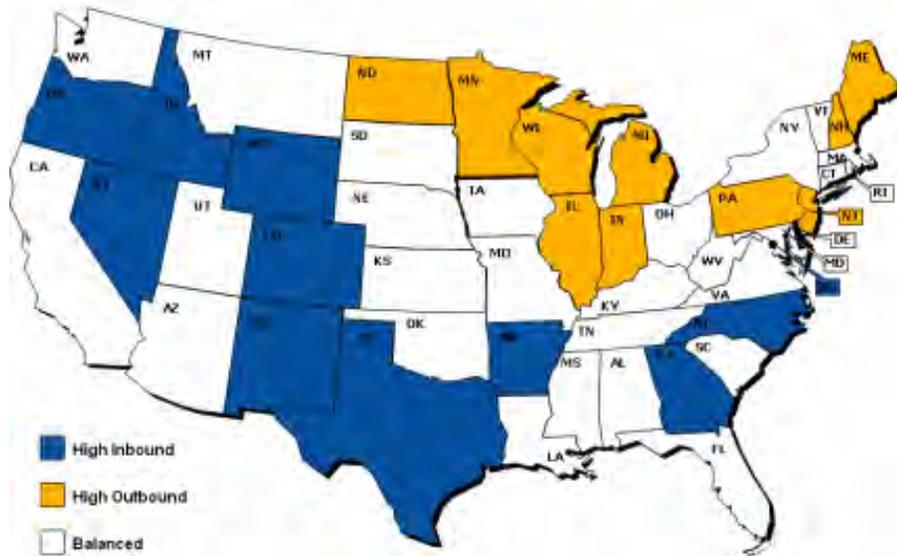
## *Jobs a Longer Term Problem*

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<b>NJ Nonfarm Jobs</b>				
<b>2007 - 2009</b>				
	Dec 2007	Dec 2009	Change	
Private Sector	3,437,100	3,207,400	<b>(229,700)</b>	<b>-6.7%</b>
Government	649,900	651,300	<b>1,400</b>	<b>0.2%</b>
Total	4,087,000	3,858,700	<b>(228,300)</b>	<b>-5.6%</b>

# NJ Jobs

## Jobs a Longer Term Problem



NEW JERSEY OUTBOUND MIGRATION					
Rank	State		2005-2006	2006-2007	2007-2008
1	NY	NEW YORK	19,964	20,243	21,575
2	PA	PENNSYLVANIA	18,081	17,134	16,584
3	FL	FLORIDA	17,568	14,467	12,857
4	NC	NORTH CAROLINA	5,724	6,235	5,874
5	CA	CALIFORNIA	5,683	5,258	5,440
6	VA	VIRGINIA	4,355	4,117	3,891
7	GA	GEORGIA	3,960	3,967	3,563
8	TX	TEXAS	3,537	3,374	3,563
9	MD	MARYLAND	3,055	3,013	2,817
10	FR	Foreign	2,872	2,828	2,754

- } *Job Losses, High Taxes, Expensive Housing*
- } *49,000 Yearly Migration Loss (net) since '02*
- } *13% of 2009 NJ Job Seekers Relocated Out-of-State*
- } *\$70 Billion Loss in Personal Wealth ('04-'08)*
  - o *Note: gained \$98 Billion from 1999-2004*

# *Redevelopment Forecast*

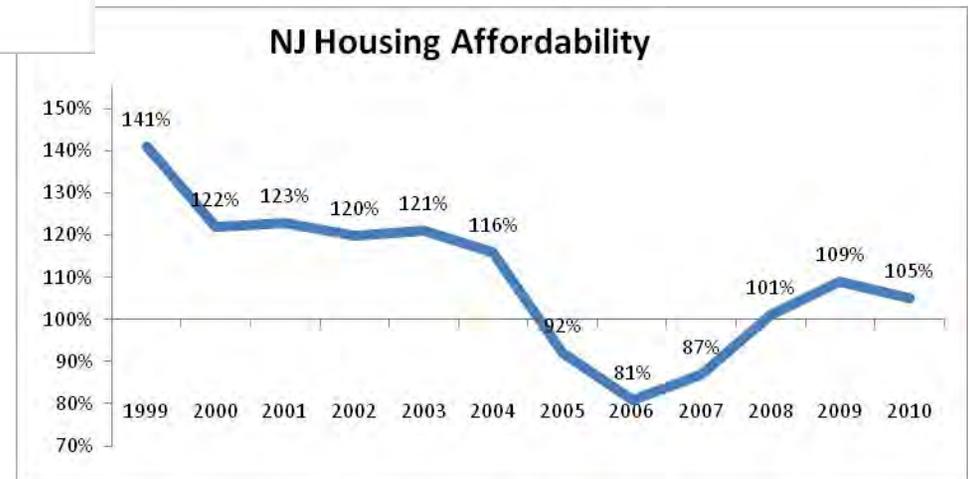
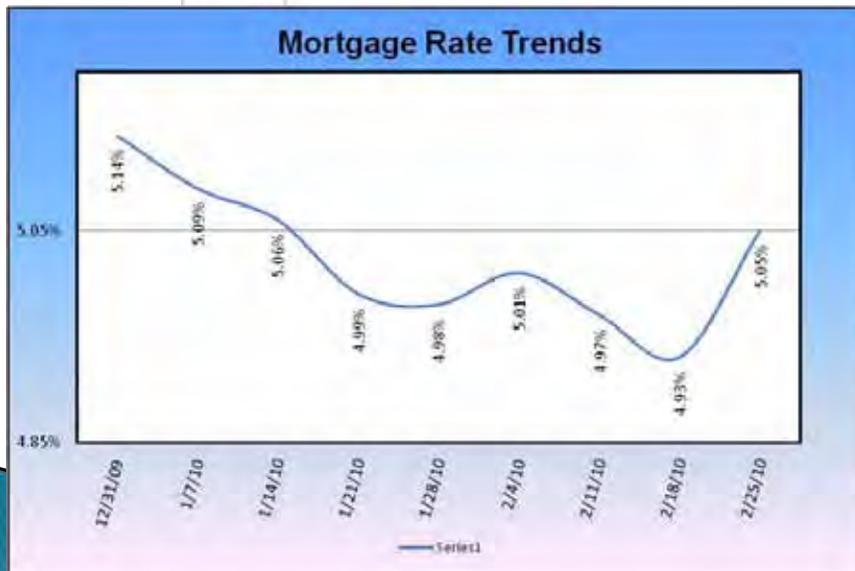
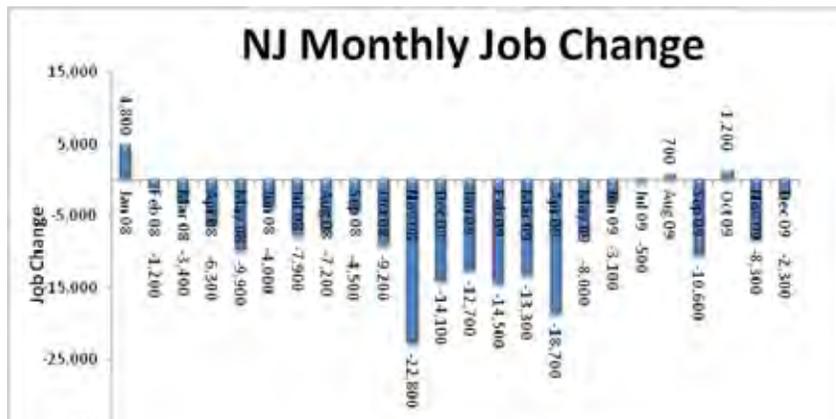
*Looking to the Future*



# Redevelopment Forecast

## Housing Heading for 2nd Half Slump

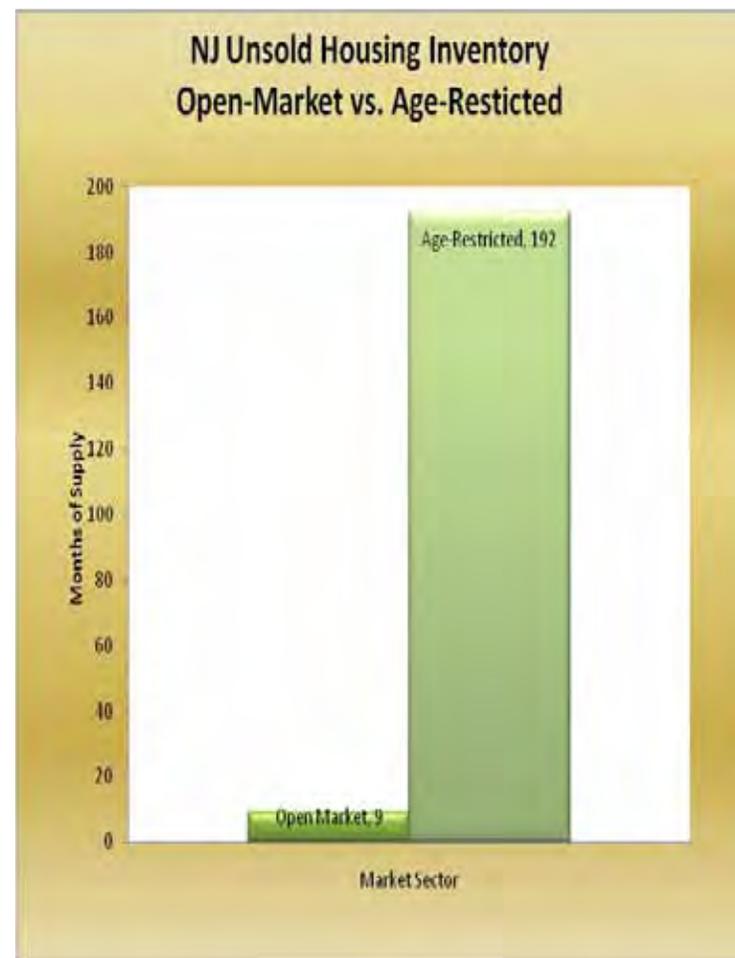
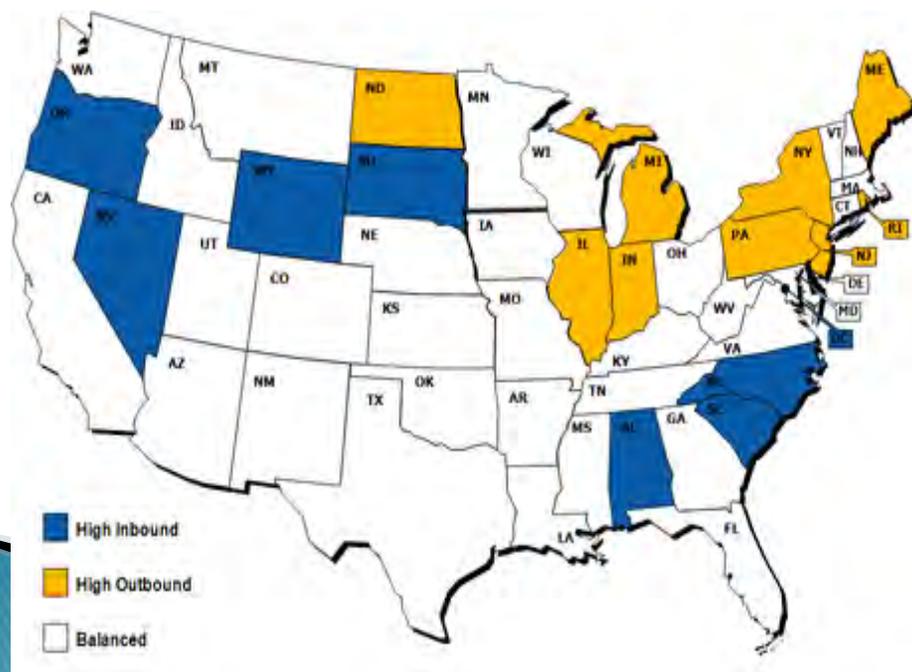
### Home Buyer Tax Credit



# Housing Forecast

## Baby Boomers & Outmigration

- } *Underfunded Retirements*
- } *Aging in Place*
- } *Out-Migration*
- } *16 Years of Inventory*
- } *More Trouble Ahead*



# *Housing Forecast*

## *Gen Y & Childless Households*

- } Deconstructing the School Enrollment Myth*
- } 3 out of 4 Future Homebuyers will be Childless*
  - 1985 - 50% with children*
  - 2009 - 35% with children*
  - 2025 - 25% with children, 50% single hshlds*
- } Future Household Formation*
  - Brooking Institute Puts it at 85% NET*

# *Redevelopment Forecast*

## *NJ Constrained Spending Power*

- } Trading High-Paying for Low-Paying Jobs*
- } Lost \$70 Billion in Personal Wealth ('04 - '08)*
- } Household Income Falls @ 100X National Rate*
- } Gen-Y @ -17%*
- } Higher Mortgage Rates & Stricter Lending*
- } It's Expensive to be Here*

# *Redevelopment Forecast*

## *A European Market Model*

- } Housing Demand Will Seek Efficiency*
  - Smaller, Less Expensive Designs*
  - Near Jobs & Transportation*
  - Concern About Energy Costs*
  - Trading Cars for Lifestyle*
  - A Rental Rebound – overcoming the stigma*
  - Multi-Generational Housing Plans*
- } Downtown Delivers These Efficiencies*
- } Demand Shifts from Drivable to Walkable*

# *Redevelopment Forecast*

## *Defining Trends.....*

### *} Luxury Market Under Threat*

- Less Income*
- Smaller & Childless Households*
- Moving from Drivable Suburban to Walkable Urban*
- Virginia Tech Forecast - 22 million surplus (40%) of large lot suburban luxury homes by 2025*

### *} Rural Markets Challenged*

- Increasing concern about commuting time & cost*
- No Growth = Loss of Commercial Tax Ratables*
- Regionalization is Unavoidable*

# *Redevelopment Forecast*

## *Finding Solutions*

- } Developing Efficient Housing is a Mandate*
  - Density = Affordability*
  - Overcome Regulatory & Entitlement Obstacles*
  - Retail Markets Will 'follow the money'*
- } NJ Rail System a Critical Asset*
  - Creating Density Along Transportation Corridors*
  - Direct Linkage to Job Retention & Growth*
  - Office Demand Shifting to Transportation Hubs*
- } No Longer a 'Field of Dreams'*
  - Redevelopment Zoning must be preceded by forward – thinking Market Demand Analysis*