

NATIONAL REAL ESTATE **Investor**®

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Turnaround Artist

Mark Toro and North American Properties are making over Atlantic Station as they capitalize on deeply discounted assets. **p. 16**

Job market is no heaven for the Class of 2011 **p. 33**

Back from the brink, Newark entices developers **p. 43**

Developers Rediscover Newark

With a new Marriott, retail, office and apartment projects, the city is poised for growth. **By Stan Luxenberg**

For four decades, no new hotels were built in the central business district of Newark, N.J. Crime rates were so high that lenders were reluctant to finance new construction.

But the city's fortunes have been changing. The number of crime incidents fell from 47,000 in 1999 to 25,400 a decade later. And there is a sense in the business community that the beleaguered city's time has come.

In April, contractors broke ground for a new \$35 million Courtyard by Marriott. Nearby, a developer is proceeding with plans for an upscale, \$23

million Hotel Indigo. But hotels are not the only sign of progress. Standard Chartered Bank, a major British institution, just completed a 12,000 sq. ft. expansion of its office space. And Pitney Bowes, a mail service firm, moved to a 76,000 sq. ft. location in Newark.

Developer Ron Beit is about to break ground on the \$120 million Teachers Village project that will include 65,000 sq. ft. of retail and 224 residential units.

At least 25 large projects are under construction or about to break ground, says Stefan Pryor, the deputy mayor for Newark. Altogether, the projects rep-

resent 1.25 million sq. ft. of new and renovated space. In what would be a major coup, the city is negotiating with Japanese electronics giant Panasonic to base its North American headquarters in Newark. Panasonic would locate 800 employees in a new building.

The arrival of the Japanese company would mark a milestone for Newark as it works to transform itself from a depressed city to a healthy urban center able to attract prominent multinational companies, notes Pryor.

While the city continues to suffer from high unemployment and blighted

HIGH STANDING: One Riverfront Center in Newark exemplifies the Class-A buildings that lend an increasingly upscale image. The office tower offers amenities such as a cafe, newsstand, and bank.



NEWARK: BY THE NUMBERS



POPULATION

276,700

Source: City of Newark

METRO UNEMPLOYMENT RATE:

9.4%

Source: U.S. Bureau of Labor Statistics

METRO AREA VITAL SIGNS

Office:

12.4% vacancy 4Q 2010

12.8% vacancy 4Q 2009

\$20.85 rent per sq. ft. 4Q 2010

\$21.18 rent per sq. ft. 4Q 2009

Source: Reis

Hotel:

66.7% occupancy 2010

60.6% occupancy 2009

\$98.61 average daily room rate 2010

\$101.20 average daily room rate 2009

Source: Smith Travel Research.

neighborhoods, brokers observe that Newark is entering a new era of growth. “For years, Newark would take two steps forward and one step back,” says Dudley Ryan, senior vice president of CB Richard Ellis, who has been a broker in Newark for 19 years. “Now I think that we are ready to take a leap forward.”

The new construction has become feasible because more people have begun traveling to downtown Newark and spending money, according to developers. Among the biggest magnets is the Prudential Center, the \$375 million arena that opened in 2007.

Besides hosting concerts for major entertainers, the 18,000-seat arena is the home for the New Jersey Devils of the National Hockey League and the New Jersey Nets of the National Basketball Association.

In 2010, 2.2 million fans attended 200 events, up from 3.5 million in the previous three years combined. In March, over 55,000 fans and players filled Newark as it hosted the NCAA Regional basketball tournament.

Demand for hotel rooms comes from teams and performers as well as their staffs. In addition, many fans

travel from out of town and need places to stay. Until now, there have been only two major hotels downtown, a Hilton and the Robert Treat Hotel, which is affiliated with Best Western. “The downtown hotels have routinely sold out, and event organizers have had to send guests out of town,” says Deputy Mayor Stefan Pryor.

Like many hotel markets, Newark suffered during the recession. The hotel occupancy rate dropped from 69.4% in 2007 to 60.6% in 2009, according to Smith Travel Research. But the market has since recovered. In 2010, occupancy spurted 10.1% to 66.7% — higher than the national occupancy rate of 57.6%.

While the Newark occupancy fluctuates, there were six months in 2010 when the rate was around 70%. That is a healthy figure, says Jan Freitag, a vice president of Smith Travel Research.

“If the city is selling seven out of 10 rooms every night for six months, then developers might figure that there is room for another property in the market,” he says.

The new Marriott will be adjacent to the arena and within walking distance of Penn Station, which is serviced by Amtrak and NJ Transit commuter lines.

Scheduled to open in 2012, the hotel will have 150 rooms and 14,000 sq. ft. of ground floor retail space. The hotel will be based on Marriott’s newest urban prototype, offering business meeting rooms, a swimming pool and fitness center. The 106-room Hotel Indigo is also near the arena.

Schools fuel growth

Besides catering to sports fans, the hotels aim to reach the growing number of Newark visitors whose travel is related to expanding businesses and educational institutions.

Downtown Newark accounts for 50,000 jobs. The city is the third largest insurance center in the U.S. after New York City and Hartford, Conn.

Insurance giant Prudential Financial, which occupies about 2 million sq. ft. in the city, has long been an important employer and downtown pillar. Other big employers include a large Anheuser-Busch brewery and Public Service Enterprise Group, a utility.

The city’s University Heights district houses six educational institutions, including Rutgers University-Newark and Seton Hall University Law School. The institutions account for 50,000 students and employees.

The university population is likely to grow since several schools plan to expand dormitories and build more classrooms. The new Teachers Village project will aim to serve some of the more than 15,000 people who staff the city’s educational institutions.

Besides providing residential units, the project will include 100,000 sq. ft. for charter schools and a day care center. A second phase of the development will include 300,000 sq. ft. of office space. Altogether the developer will build seven new buildings and rehabilitate a nine-story shell.

Making the city safer

The growing demand for hotel rooms represents an enormous change from the past. In 1996, *Time* magazine called Newark “the most dangerous city in America.” Around the same time, the state government took control of the

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“The downtown hotels have routinely sold out, and event organizers have had to send guests out of town.” —Deputy Mayor Stefan Pryor

city’s school system because it had become dysfunctional. Throughout the period, real estate development languished.

But now, instead of having the highest crime rate in the country, Newark is 23d on the list with a better record than such cities as St. Louis, Cleveland, and Baltimore, according to publisher CQ Press, which analyzes FBI data.

With crime declining, hardy developers started building housing and retail properties. Even so, when Cory Booker became mayor in 2006 the city was having little success in attracting new employers.

“When we entered office, brand-name companies would not consider locating to Newark,” says Deputy Mayor Pryor. “City hall had a reputation for not being friendly to business.”

Booker set about using the city’s resources to spur development. In 2007, he established Brick City Development

Corp., a nonprofit that contracts with the city to encourage growth. Besides helping developers cut through red tape, the development corporation borrows money and lends it to finance projects.

To head the corporation, Booker recruited Lyneir Richardson, who had been vice president of urban development for General Growth Properties, the big mall real estate investment trust (REIT).

At General Growth, Richardson focused on bringing shopping centers to underserved ethnic neighborhoods. He was responsible for building the first Target store in Baltimore and began an 800,000 sq. ft. development in the Harlem section of New York.

Lower costs draw tenants

Despite the new construction, Newark still faces considerable hurdles. Most developers in the city have continued

to struggle to obtain financing. As a result, prime locations are dotted with parking lots and outdated buildings, eyesores that wait to be transformed. During the recession, the unemployment rate skyrocketed, and it remains at 9.4% for the metro area.

But Mayor Booker says that the pieces are in place for Newark to continue growing. Last year, Booker achieved a milestone as the city regained control of its schools, which had been in the hands of the state for 15 years.

At a press conference to announce the education transition, Booker also said that the city schools had received a \$100 million donation from Mark Zuckerberg, founder of Facebook.

Booker says the city will continue to attract new investment because of its relatively low costs. Prime office leases cost around \$35 per sq. ft., half the figure for comparable space in Manhattan, says Dudley Ryan of CB Richard Ellis.

Besides being cheap, Newark also has some of the best transportation facilities nationally. Port Newark is a major container shipping facility, and Newark airport is one of the 10 busiest in the U.S.

Newark’s low costs and transportation facilities helped to attract Audible.com, which supplies audio books for iPods or MP3 players. The company had been based in the New Jersey suburbs, but in 2007 it decided that a Newark location at One Washington Park would be cheaper and more efficient.

The site is near the Amtrak station and eight miles from Newark Airport. It’s a 20-minute drive to Manhattan. That makes it easy for Audible to bring actors from New York to record books in the Newark studios.

After arriving in Newark, Audible.



CULTURAL MAGNET: The New Jersey Performing Arts Center has drawn more than six million fans to shows featuring Bob Dylan to the Vienna Boys Choir.

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Newark, New Jersey

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Pointe Plaza
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Chicago, IL

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Marketplace**
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Yorkville Marketplace
Yorkville, IL



MOMENTOUS EVENT: A new \$35 million Courtyard by Marriott is being built in Newark. With 150 rooms, it is the city's first new downtown hotel in 40 years.

com grew rapidly. In 2008, the company was acquired by Amazon.com for \$300 million. Audible.com recently unveiled plans to expand its office space from 50,000 sq. ft. to 75,000 sq. ft.

Matthew Thornton, Audible senior

editor, says many employees have embraced the Newark location, attending sporting events and supporting charter schools and other local causes. Intrigued by the reviving city, some employees have moved into renovated

lofts near the company headquarters.

The new employers have made a dent in Newark's office vacancy rate. Vacancy peaked at 12.9% in the fourth quarter of 2008, according to real estate research firm Reis. By the fourth quarter of 2010, the vacancy rate had fallen to 12.4%.

The city has about 14 million sq. ft. of office space, including 6 million sq. ft. of Class-A space. Dudley Ryan of CB Richard Ellis says that demand is greatest for Class-A space, which has a vacancy rate of about 10%. The vacancy rate is about 20% for older Class-B or Class-C properties.

There has been little office construction in recent years. But city officials are hopeful that new projects will begin soon. Word is getting out, says Lyneir Richardson of the development corporation. "People are beginning to understand the advantages of Newark."

—Stan Luxenberg is a New York-based writer

City plays vital role in securing hotel financing

As they tried to attract developers in recent years, Newark officials recognized that financing was a special problem for hotels. Since the market for commercial mortgage-backed securities collapsed during the recession, few hotels have been completed around the country.

To overcome the problem in Newark, the development corporation assembled a government-backed package for the city's new Marriott. The corporation provided a \$500,000 loan and helped facilitate state financing that includes \$6 million in redevelopment bonds and a \$3 million economic recovery grant.

The Marriott is being developed by Tucker Development Corp., based in Highland Park, Ill. The company oversees 4 million sq. ft. of shopping centers and mixed-use facilities. Richard Tucker, president of Tucker, says the Newark

project took two years to assemble. "It was very complicated to arrange the financing," he says. "We were able to move forward because people in the city administration worked to make it happen."

Tucker is now working to develop a 250,000 sq. ft. mixed-use project in Newark that will include offices and 120,000 sq. ft. of retail space. Newark suffers from a shortage of prime shopping centers, the firm contends.

Samer Hanini, developer of the Hotel Indigo, says that the city is helping him put together the last portion of financing for his project. He plans to do a gut rehab of a 12-story property that was built in 1912. The goal is to build a fashionable boutique hotel with high ceilings and hardwood floors.

Although this is his first hotel project in Newark, Hanini has worked on other

downtown renovations. He is completing work on a historic building that will house the Dinosaur Bar-B-Que, part of a restaurant chain that draws crowds in Harlem. The new restaurant will feature the building's original mosaic floors, pressed tin ceiling and exposed brick.

Among the most notable projects recently announced is a 20,000 sq. ft. expansion of Newark Screens, the city's only movie theater. The developers are Boraie Development and The O'Neal Group, headed by NBA legend Shaquille O'Neal, a Newark native.

The \$7 million project will double the number of screens from six to 12. The Newark development corporation is providing a \$1.2 million loan for the project. Other financing will come from the state and Goldman Sachs' Urban Investment Group.

—Stan Luxenberg