

Stimulus Funds Help, but Real Construction Recovery Depends Upon a Massive Influx of Private Spending

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Whether you are a "glass is half empty" or "glass is half full" person, there appears to be enough evidence to support either your pessimism or cautious optimism regarding the state of the building industry in New Jersey. On one hand, overall employment and new contracts continue to decline, albeit at varying degrees. On the other hand, there are market sectors and pockets of the state where work seems to be picking up, again at varying degrees.

The national unemployment rate hit 10.2% in October, the first time in more than a quarter century that it has reached double-digits. In fact, only twice since World War II has unemployment topped 10%. All told, 15.7 million Americans are out of work. Add in workers forced to settle for part-time work, and those who have given up even looking for work, and real unemployment is a staggering 17.5%.

The Bureau of Labor Statistics reports the national unemployment rate for the construction industry rose to 17.1% in September as another 64,000 construction workers lost their jobs. Since December 2007, residential and nonresidential construction employment shrank by 1.5 million workers, meaning that one out of five people who were working in construction in 2007 have now lost their jobs.

In New Jersey, there was a loss of 12,000 private-sector jobs in September, pushing the state's unemployment rate to 9.8%, up from 4.7% at the beginning of the recession in early 2008 and the highest in over three decades. Economists predicted the state's jobless rate would exceed 10% and match national rates when updated figures were released in late November. Meanwhile, construction employment in New Jersey dropped by 31,000 jobs (18%) between January 2008 and June 2009.

Construction spending in August 2009 totaled \$942 billion nationwide, or some 12% below the August 2008 level. Private nonresidential spending was off by 10% over the course of the year, while private residential spending plunged 27%. Many contractors are reporting dwindling backlogs and fierce competition for what work does appear, and bank financing remains difficult, if not impossible, for developers to obtain.

"While there's little doubt construction employment would have been worse without the (federal) stimulus, there's no question that the industry continues to shed jobs at an alarming rate," said Ken Simonson, chief economist for the Associated General Contractors of America. "The stimulus is an important measure, but until private-sector demand for construction resumes, there's little chance the current construction employment decline will turnaround or stop."

Simonson's assessment is backed up in a recent report by Rutgers University economists James Hughes and Joseph Seneca, who contend that the first 10 years of the new century will be known as "The Lost Employment Decade," because the nation will exit it with fewer jobs than when it began.

"As of August 2009, the nation had 1.3 million fewer private-sector jobs than in December 1999," Hughes and Seneca report. "This is the first time since the Great Depression of the 1930s that America will have an absolute loss of jobs over the course of a decade. As a consequence, it now looks like the United States will have to spend a good portion of the second decade of the Twenty-First Century (until 2017) recovering from an unprecedented employment deficit."

Most industry representatives are depending upon the federal stimulus package and state capital spending programs to provide the funding boost needed to stimulate employment and trigger a widespread economic recovery. And, here and there, shafts of sunlight are actually breaking through the overcast.

It's estimated New Jersey will receive some \$17.5 billion over the next three years from the American Recovery & Reinvestment Act (ARRA). More than \$7 billion will go into the pockets of state residents and businesses in the form of tax cuts and approximately \$10 billion will be allocated for critically needed services, assistance and infrastructure investment. Of the latter total, nearly \$652 million will go into infrastructure investment (highways and bridges).

At the state level, the administration has been accelerating an estimated \$5.1 billion in road, school and mass transit projects since last winter to drive employment and spur economic recovery. Some \$3.3 billion in transportation

spending could create up to 28,000 jobs; \$1.8 billion in school construction funding could result in 15,600 new jobs.

And the news was not all bad at the NJ Alliance for Action's Annual Construction Forecast Seminar in November. The two-year estimate for 2010-2011 public and private construction in New Jersey was projected to be \$36.2 billion. While the total represents a 1.5% *decrease* from 2008's record total, the relatively slight decline was considered encouraging in light of the current state and national economic trends.

Alliance President Philip K. Beachem emphasized the forecasts could be affected by future events – such as renewals of the state Transportation Trust Fund and passage of the federal transportation funding bill – and stressed the need for regulatory reforms to eliminate needless impediments to development.

Major construction plans and funding from public agencies were dominated by school and transportation infrastructure projects, while the private sector was well-represented by utility, pharmaceutical and medical facility building projects.

Utilities & “Green” Jobs

The NJ Board of Public Utilities (BPU) has approved \$1 billion in infrastructure spending for five major utilities, which could provide a major boost to the state's economy: industry representatives believe the spending could result in up to 14,000 jobs.

In February, PSE&G introduced its \$775 million “Solar 4 All” program to bring 120 megawatts of solar power to communities around the state over the next five years. If approved by the BPU, solar panels could be installed atop hundreds of schools, government buildings, affordable housing complexes and even utility poles.

In line with this, “green” jobs are emerging as a potential bright spot in the economic outlook. The Obama Administration is targeting some \$70 billion of the ARRA for renewable energy and energy-efficiency measures. Of the 3.5 million jobs the stimulus package hopes to save or create overall, the number of “green” job estimates include one million for the weatherization of homes. In New Jersey, the revised Energy Master Plan seeks to create 20,000 “green” jobs by 2020, as it attempts to reduce energy consumption by 20% through conservation and efficiency.

Transportation Infrastructure

NJ Turnpike Authority officials broke ground in July on a \$2.7 billion, five-year project to widen 35 miles of the NJ Turnpike from Exit 6 in Mansfield Township to Exit 9 in East Brunswick. Called the “most ambitious” expansion in the roadway's history, the project is part of a larger \$7 billion, 10-year capital plan announced earlier this year that also includes a widening of the Garden State Parkway. The

Authority has designated \$355 million for bridge work in 2010; \$120 million for interchange improvements, and \$65 million for other roadway improvements.

Another huge project was launched in July with the official groundbreaking for the \$8.7 billion ARC (Access to the Region's Core) Mass Transit Tunnel beneath the Hudson River, connecting New Jersey and New York. The largest infrastructure project in the nation, the rail tunnel is being built by a partnership of the state (\$2.75 billion), the Port Authority of NY/NJ (\$3 billion), and the federal government (\$3 billion). The project, which will double both train and passenger capacity, is scheduled for completion in eight years and could create up to 6,000 construction jobs and 50,000 permanent jobs.

Expansion and renovation work worth \$250 million on the second phase of the Route #52 Causeway project in Somers Point, and a \$200 million Route 1&9 bridge project in Jersey City are other examples of the jobs and economic growth being created in construction and related industries. The DOT awarded \$1.06 billion in projects during the last fiscal year and, with bids coming in lower than expected, the department hopes to award some \$900 million in new projects in both 2010 and 2011.

The Port Authority of NY/NJ is reporting that it will expend up to \$4 billion for infrastructure projects over the next two years. In addition to its funding share for the ARC Tunnel, the Authority plans extensive projects on the Lincoln Tunnel, George Washington Bridge, Goethals Bridge and at Newark Liberty International Airport.

Meanwhile, the Delaware River Port Authority anticipates spending up to \$1 billion over the next five years on bridge, transit and facility upgrades. The Delaware River Joint Toll Bridge Commission is earmarking \$235 million for capital expenditures in the next two years, and New Jersey TRANSIT is targeting \$4.7 billion in station, tunnel and bridge repairs and rail line expansions and upgrades.

School Construction

A building sector that holds great promise for increased growth and employment is school construction. Bolstered by 2008 legislation authorizing an additional \$3.9 billion for the state's schools improvement program, the Schools Development Authority (SDA) has been fast-tracking approvals for construction and renovation projects throughout the state as a means of “mitigating the effects of the national recession.” It is the largest state school construction program in the country.

All told, the revamped SDA has invested some \$5.29 billion in school improvements since January 2006, completed 144 major construction projects (including 45 new schools) and generated an estimated 45,800 jobs. It will begin preliminary

or full construction on 27 capital plan projects in 2009 alone, investing some \$1.3 billion in these projects and creating or saving up to 11,000 jobs. Another 50 construction projects could be authorized in 2010 and 2011 worth approximately \$1.2 billion.

Meanwhile, the nine-school NJ Association of State Colleges & Universities says the institutions have \$500 million in urgent facility improvements ready to go, if they can capture sufficient federal and state stimulus money. Association members are encouraged by recent legislation that allows them to enter into public-private partnerships with outside entities to fund development. Between them, the schools are set to spend \$100 million for capital construction projects in 2010 and another \$125 million in 2011. It's estimated the collective projects could create or help support about 10,000 new jobs.

New Jersey's 14 independent and private colleges are projecting some \$345 million in project funding in 2010 and another \$102 million in 2011; a total \$447 million over two years. The state's 19 county or community colleges are estimating another \$40 million for building expansion and upgrades in 2010.

Rutgers University is embarking on a \$1 billion capital construction program to create new housing, academic and student facilities, and fund more than 20 building projects on the university's Camden, Newark and New Brunswick campuses. School administrators are projecting some \$750 million in capital spending over the next two years.

Hospitals/Medical Facilities

Despite the financial struggles afflicting New Jersey, the healthcare sector is continuing to generate a significant amount of building and economic activity in different areas of the state. In 2008, the state's 73 acute-care hospitals produced 145,000 jobs and \$18 billion in spending, according to a report from the NJ Hospital Association.

Groundbreaking for the new, \$440 million University Medical Center of Princeton at Plainsboro took place in November 2008 and is scheduled for opening in 2011. The 636,000 sq.ft., seven-story medical center is a replacement hospital and will occupy 50 acres and serve as the hub of a 160-acre health campus off Route #1 in Plainsboro, Middlesex County. Being constructed by the Princeton Healthcare System, the campus will include the hospital, attached medical office building, education center, skilled nursing facility and a 32-acre park.

In Hopewell, Mercer County, Capital Health has awarded preliminary contracts to construct what will be a \$236 million hospital to replace the aged Mercer Hospital in Trenton. Construction on the 297,000 sq.ft. facility began in August and is expected to be complete in October 2011. The

structure includes two buildings to be linked by an atrium and lobby area and will house 237 beds.

The Hackensack University Medical Center is building a 155,000 sq.ft. cancer center in order to consolidate the center's existing facilities, now spread over 11 locations. According to reports, the project will cost more than \$100 million and include state-of-the-art radiation therapy, including a first-in-kind clinical heavy-ion program.

In South Jersey, Virtua, a multi-hospital healthcare system headquartered in Marlton, is constructing a huge 657,110 sq.ft. facility, which will be the centerpiece of a 120-acre campus along Route #73 in Voorhees. Totalling approximately 370 beds, the new facility consists of an eight-story, 330,000 sq.ft. patient tower with private rooms, and a five-story, 350,000 sq.ft. ancillary building to house various surgical procedures. Estimated to cost up to \$2 billion, the massive project is currently on track to open in March 2011.

Nearby, Cooper University Hospital recently opened a \$220 million, 312,000 sq.ft., 10-story pavilion in Camden, and its plans for a new Cooper Medical School were announced in June. That joint venture between Cooper and Rowan University is tentatively scheduled to open by 2012.

Other notable hospital projects include: a \$300 million expansion and renovation project at Meridian Health's Jersey Shore University Medical Center in Neptune; a new \$100 million, 170,000 sq.ft. critical-care facility for St. Joseph's Medical Center in Paterson; a \$150 million expansion of Community/Kimball Medical Center in Ocean County, and a \$125 million expansion of Shore Memorial Hospital in Somers Point.

Pharmaceuticals & the Life Sciences

In addition to direct employment, New Jersey's Life Sciences industry has a substantial impact on the creation of jobs. The investment by biopharmaceutical and medical technology companies in capital projects provides an estimated \$29 billion annually in economic development and supports about 19,000 construction jobs.

Proclaiming an ongoing "unique partnership with the labor community in New Jersey," industry officials at the recent Alliance for Action Construction Forecast predicted the state's 35 pharmaceutical companies would continue their contributions to the state's economy over the next two years by dedicating some \$3.2 billion to maintenance and renovation projects. They caution, however, that the outcome of the healthcare reform debate now consuming Congress could alter their projections, depending upon its impact on Big Pharma.

Atlantic City & Southern Jersey

Gaming has been one of New Jersey's hardest hit industries over the past two years, with declining revenues, layoffs and project shutdowns. It wasn't too long ago the industry was flush with profits and prospective projects and touting itself as one of the major engines driving New Jersey's economy ... with good reason.

A September 2008 report found that casinos funneled more than \$7 billion into Atlantic City's economy and created some 55,000 jobs since their inception in 1975. Casinos were drawing nearly 5,000 conventions, trade shows and meetings annually, and a tax on casino gross revenue was providing \$300 million for state programs for seniors and the disabled. Just as important, more than \$10 billion in casino expansion and renovation work was either in the ground or on the books.

What a difference a year can make! Today, casino revenues are down significantly and increasing competition from Connecticut, Pennsylvania and New York could make recovery even more difficult than might be expected. Multi-billion dollar projects have either been delayed or shut down altogether by MGM Grand, Pinnacle Casino, Margaritaville Casino, Gateway Casino and Penn National Gaming Casino.

Work continues only at the huge Revel Casino complex rising adjacent to the Showboat, although at a significantly reduced level. One of the casino's two proposed towers has been topped-off and interior systems work should kick into high gear following the first of the year. The fate of the proposed billion dollar-plus second tower is still unknown. All of this is cause for concern for the area's building trades unions, which are enduring drastically reduced man-hours in what has traditionally been their "bread and butter" work sector.

But the news is not all bad in Atlantic City or the rest of South Jersey, not by a long shot. Indeed, with available land for development, a skilled workforce, and a shore location within driving distance of millions of people, the region has the resources and momentum to lead a statewide economic recovery in New Jersey's building industry.

While acknowledging at the Alliance for Action Forecast that ongoing work at the Revel "may be the last great casino project in Atlantic City for some time," Tom Carver, head of the Casino Reinvestment Development Authority (CRDA), nonetheless expressed great faith in the future of the region.

"The greatest potential for future economic growth and development in New Jersey is in the South," Carver said. "As part of this, a long-term, regional growth plan - AC Right (Atlantic City Regional Implementation Group for Housing and Transportation) - has been initiated to coordinate and facilitate implementation of transportation infrastructure and workforce housing projects for the region."

Altogether, the CRDA is expected to submit \$140 million worth of projects to bid in 2010.

In October, CRDA joined the Cordish Co. of Baltimore, in announcing plans for the next two phases of "The Walk," an urban retail and entertainment project with nationally recognized outlet retailers, restaurants and interactive entertainment. Development of "The Walk" shopping district was launched in April 2000 at the foot of the Atlantic City Expressway. It links the Convention Center with the Boardwalk and casino district and is meant to draw visitors for reasons other than gaming.

Phase III of the multi-year project will be comprised of 45,000 sq.ft. of factory outlets with a pedestrian walkway linking the project to CRDA's new parking garage. Phase III is expected to create 400 new construction jobs and 400 permanent jobs. Ultimately, capital investment in the fourth phase of the project - called Atlantic City Live! - could exceed \$100 million and create thousands of construction and permanent jobs.

Meanwhile, Atlantic City International Airport's long-term improvement program includes an expansion of gate capacity from seven to 14; construction of a \$26 million, 1400-space parking garage; \$10 million in airport terminal lobby improvements, and a \$10 million airfield/apron expansion. Additional enhancement projects either in progress or underway include a \$23 million Federal Inspection Station for international service, and a \$30 million Airport Rescue and Fire Fighting Station.

Shovels are already in the ground for construction of a 400,000 sq.ft., NextGen Aviation Research & Technology Park in Pomona, adjacent to the FAA's William J. Hughes Technical Center and the Atlantic City airport. The multi-million dollar project is expected to create more than 2,000 new jobs and provide opportunities for research, development, testing, integration and verification of new technologies for the aviation industry, including development of a new Internet-based traffic control system.

NJ Manufacturers Insurance Co. has started construction on a new \$48 million, 146,000 sq.ft. headquarters facility in Hammonton, Atlantic County, scheduled for completion by the end of next year.

One of Gloucester County's most prominent developments now underway is the new \$300 million Rowan Blvd. project, a 100-foot wide corridor encompassing 26 acres and extending a third of a mile from Rowan University to the city center. When completed, local officials say the project will attract up to 125 new retail stores and restaurants and infuse the local economy with more than \$225 million annually. It is also expected to generate \$1.2 million in annual property taxes and create more than 700 permanent jobs.

The South Jersey Port Corp. is preparing for 2010-2011 construction of a new omni-port marine terminal in Paulsboro. The agency will invest more than \$50 million to transform a former tank farm into the terminal's platform and is earmarking \$100 million for wharf, back lands and equipment installation in 2011 and 2012.

Salem County's Riverwalk project in Penns Grove is scheduled for completion in 2014. The \$65 million, 195,500 sq.ft. development will feature a museum, offices, restaurants and retail shops.

In addition to the development of new healthcare facilities in Camden County, the Campbell Soup Company is currently expanding its world corporate headquarters on the Camden waterfront. A new \$90 million, 80,000 sq.ft. expansion of its headquarters building is expected to be completed in the spring. It anchors a \$113 million project that will give the conglomerate control over some 110 acres of land. Sixty acres will be used for open space and construction of a 200,000 sq.ft. office tower on Admiral Wilson Blvd. to be leased to another corporate tenant.

Camden County also plans to add rail lines between Camden and Glassboro in Gloucester County, which could provide significant opportunities for new development at transit stops. The recently completed transit villages surrounding the Morristown and South Orange train stations are examples of successful retail/restaurant/entertainment developments that are generating needed economic growth in those communities.

Other notable building projects either underway or planned in the south include a \$65 million student center at Stockton College, part of a 20-year capital plan; an \$81 million regional high school in Egg Harbor City, and a 25-story hotel planned for Wildwood.

The 3,700-square-mile region, which makes up the southern one-third of the state, has been identified as the section of New Jersey with the most significant economic development potential. "By designing, planning, building and reinvesting responsibly, we have positioned our region to accommodate new growth – where it is needed and where it makes economic and environmental sense," says Marlene Z. Asselta, President of the Southern NJ Development Council.

Meadowlands and the North

Building activity and prospects in the Meadowlands and northern part of the state are not as rosy, as the economic downturn and sparse financing have taken a toll. The area's signature project – the \$2 billion, 4.8 million sq.ft. Xanadu shopping and entertainment complex in the Meadowlands – has been forced to postpone its opening indefinitely as developer/partners have either pulled out or failed to obtain needed financing, and retailers have not finalized on leases.

The giant Cabela's outdoor equipment outlet most recently announced it has delayed the opening of its 160,000 sq.ft. store – a cornerstone of the huge complex – until late 2010, stating that it has slowed its planning "to match progress of the development." At the same time, Colony Capital, the project's parent company, is seeking \$500 million in financing to complete the \$2 billion project. As of August, the site was more than 90% finished and 70% leased.

When it finally opens, the massive project will have created an estimated 25,000 construction and 20,000 permanent full and part-time jobs and is expected to generate \$100 million in annual tax revenues. The developers have also committed to spend tens of millions of dollars as their share of \$300 million in road and utility improvements taking place around the location.

In line with this, NJ Transit recently completed and opened a \$182 million rail line from the Secaucus Transfer Station to the Meadowlands Sports and Entertainment site, which can ferry up to 10,000 visitors an hour and take as many as 4,000 cars off the highways during game days at the new Meadowlands Stadium. The nearly completed \$1.6 billion, 82,500-seat stadium is expected to be open for the 2010 season.

Elsewhere, a failed landfill-to-golf links redevelopment project in three south Bergen County communities resulted in passage of the so-called EnCap legislation in October, setting up increased oversight for public-private projects that rely on government financial support. The \$1 billion EnCap Golf, a residential/retail/hotel/office center project, went bankrupt in 2008, costing the state some \$50 million.

A year-long investigation by the State Inspector General concluded EnCap won a \$300 million loan package and other concessions by misleading state regulators. The new law requires developers of projects that receive more than \$50 million in government loans and tax breaks to provide a certain percentage of their own money toward project costs.

Robert Ceberio, Executive Director of the NJ Meadowlands Commission, which oversees a 30.4 square mile, 14-town district in Bergen and Hudson counties, says the region's future focus is on redevelopment. "We have decided that the regulatory processes and the environmental concerns of trying to fill in wetlands for development don't work," he observed. "We have decided to redevelop 12 to 16 zones through the district."

In August, several proposals by large developers were submitted to the Borough of Fort Lee for development of 16 acres of land adjacent to the entrance to the George Washington Bridge. Included among the proposals are development of a town center that offers retail, housing, hotel and office space. Others include cluster housing, a shopping

center, rental apartments and condominiums, a 250-room hotel and 100 hotel-condominium units. The borough hopes to complete an agreement by mid-January.

In Newark and vicinity, officials are promoting the city's proximity to regional and international transportation hubs and generous state financial incentives to promote development and economic growth.

Tucker Development, a large Illinois-based developer who submitted one of the proposals for the Fort Lee project, says it plans to take advantage of tax credits from the NJ Economic Development Authority to build a \$150 million, 22-story office and retail tower (Liberty Plaza) next to NJ Transit's Broad Street Station. The developer has received approvals to build more than one million sq.ft. on the 3.5 acre site.

Cogswell Realty, which has enjoyed prior development success in the city, is looking to undertake a 3,200-unit residential project (Military Park West) that would also include 220,000 sq.ft. of retail space and more than 1,750 parking spaces.

Mayor Cory Booker has announced a pair of major development projects: the mixed-income Richardson Lofts, a \$17 million conversion of a former retail outlet to include 67 apartments, and a 25-story condo tower near NJ PAC, backed by basketball star Shaquille O'Neal.

In late October, the Port Authority of NY/NJ also awarded a \$58.9 million contract for modernization work on Newark Liberty International Airport's Terminal B. The work is to include installation of new check-in counters, baggage handling systems and airline offices and is part of the PA's overall \$324.6 million expansion of Terminal B facilities. Project completion is scheduled for mid-2012.

Also, US Senator Frank Lautenberg has announced that up to \$100 million in federal stimulus money will be made available for major renovations to the federal building on Broad Street in order to bring the facility up to "green-built" standards.

Other proposed or ongoing building projects around the state that should help spur employment and economic growth include:

- The US Department of Defense's merging of McGuire Air Force Base, Fort Dix and Lakehurst Naval Base into the nation's first joint Army/Air Force/Naval facility - to be based at McGuire in Ocean County - should provide numerous private-sector business opportunities. Some \$500 million was originally allocated for construction at the three sites in 2005, with an additional \$179 million included as part of the 2009 defense spending bill passed by Congress.

- In Monmouth County, the Fort Monmouth Economic Revitalization Authority has been developing a reuse plan for the military base's 1,100 acres in preparation for the scheduled closure in 2011.

- Construction of a \$130 million Health-Agricultural Research Laboratory facility on the State Police Headquarters site in West Trenton.

- A \$329 million, multi-project building program at Schering-Plough's campus site in Summit that involves multiple facility renovations, office construction, a new clinical manufacturing facility, laboratory and other upgrades.

- The City of Elizabeth is currently undertaking a sweeping \$250 million redevelopment plan in its midtown that is expected to create more than one million sq.ft. of new commercial, retail and residential space.

- In New Brunswick, the Rutgers University Board of Governors has voted to clear the way for the \$150 million Gateway Transit Village Project by ceding ownership of an Easton Avenue site to the New Brunswick Development Corp. The proposed project would include 200 condominiums, retail stores and a 650-space parking facility. Plans are also being made for a \$250 million cultural center.

So, though New Jersey and other states continue to suffer through the worst economy since the Great Depression, there are pockets of potential that hold the promise of a better tomorrow for the building industry. Yet, government cannot generate long-term economic growth on its own. At best, it can only provide a short-term stimulus through public infrastructure funding. To create long-term growth, it must reform taxation and the regulatory process and clear the rails for a private-sector recovery.

As outlined in a recent *Engineering News-Record* editorial: "The debate over the number of economic stimulus jobs created or saved by the \$787 billion ARRA will continue long after the recession is over. But, no matter what the ARRA job count is, the number is far less than the 6.9 million jobs that the private sector has shed since the recession began in December 2007. As government coffers run dry, the only way to end the financial crisis is for Washington to start building real public confidence in the US economy and help move massive amounts of private money off the sidelines and into productive parts of the economy. This amount is far more than the government could ever muster and will be allocated by more effective means."