Real Estate

Recession threatens to derail transit hub tax credit

Developers praise expansion to residential projects, but fear economy, limitations will blunt impact

BY EVELYN LEE

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REAL ESTATE AND development experts are calling the expansion of the Urban Transit Hub Tax Credit program to include residential development a significant change that will make more projects financially feasible, while encouraging investment in urban areas. However, some requirements in the legislation, as well as current economic conditions, may blunt its impact, they said.

Under the state Economic Stimulus Act, the tax credit program has been amended to allow developers of residential projects in an urban transit hub to receive a credit of up to 20 percent of its capital investment. To qualify, the developer must make capital investments of at least $50 million and demonstrate through a pro-forma analysis that the project would be unfeasible without the credit.

Typically, mixed-use projects that include a residential component "have pro-formas with gaps in them," where the project's estimated costs will exceed the anticipated revenues, said **Stefan Pryor**, deputy mayor of economic development in Newark. Through the residential tax credit, "state and municipal government partners would be enabling private developers to make projects happen that otherwise would not."

Although large developers have taken on projects in urban areas, most midsized firms have not, said **George Jacobs**, president of **Jacobs Enterprises**, a developer in Clifton.

"There's hundreds of developers who were not even looking at downtown redevelopment projects," he said. "Now they're incentivized to take a look."

The credit will help advance projects with narrow financing gaps, Jacobs said.

The expansion "has the potential for the cost savings to developers to pass through to lower housing pricing," said **Jeffrey Otteau**, president of East Brunswick-based **Otteau Valuation Group Inc.** This would be good news for employers, for which "New Jersey's high housing costs [have] become a secondary tax ... due to the need to pay higher wages to employees in order for them to be able to afford housing."

Also, the residential tax credit would help to meet future demand for housing near rail stations, he added. With the aging of the baby boomers and the emergence of the so-called "echo boomer" generation, "an increasing portion of New Jersey's housing demand and household formation will be childless households who are more likely to live in downtown settings that offer lifestyle advantages and transportation efficiencies."

Encouraging the building of more homes near train stations makes sense, given the construction of the new trans-Hudson commuter rail tunnel, said **Chris Sturm**, senior director of state policy at New Jersey Future, a Trenton-based research and policy organization.

"We're spending billions to build this new tunnel," she said. "We should complement that investment by making it easy to get on the train."

But even with the tax credit, "the timing is such that right now, the rental market is fairly saturated, so there probably wouldn't be a lot of interest for a couple of years," Sturm said. "But once our economy is back on track, there would be a lot of interest."

While allowing the transfer of credits and relieving residential projects of the 250-job requirement will encourage some development in urban transit hubs, certain requirements may hinder participation in the program, said **Ron Ladell**, vice president of development at **AvalonBay Communities Inc.**, in Woodbridge.

Restricting an urban transit hub to a one-half mile radius around a rail station, for example, makes it challenging to find suitable sites. "Smart-growth benefits can still be achieved within a benefitted municipality, even if the development is outside the one-half mile distance," he said. "Since the developer has to spend at least $50 million to be eligible, it makes sense to have some geographic flexibility."

But even more problematic is the fact that the program still applies to only nine municipalities, Ladell said. Especially in this economy, "we should be doing as much as possible to promote smart growth, jobs and capital investment."

E-mail to elee@njbiz.com