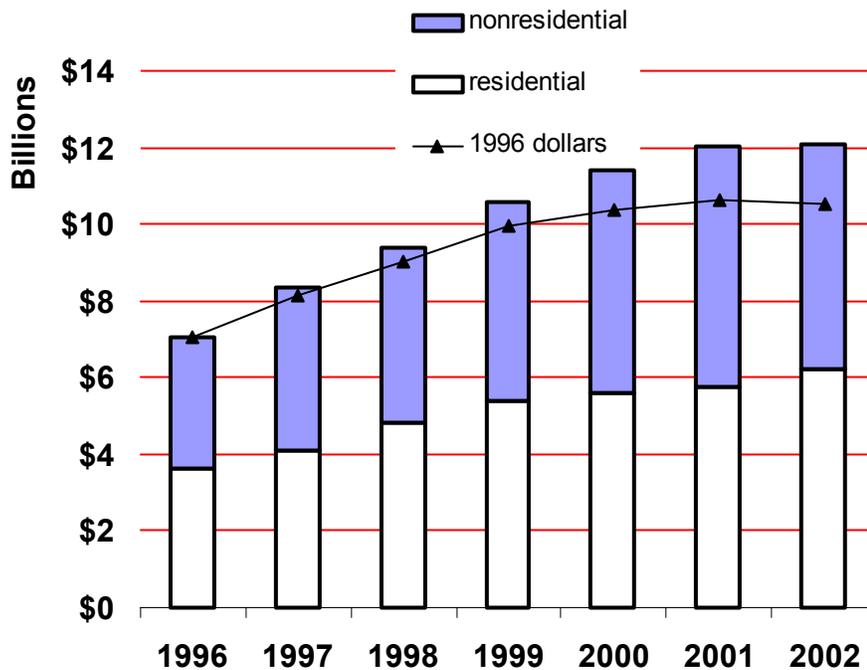


## 2002 HIGHLIGHTS

New Jersey's construction industry had another strong year in 2002, but there are signs that the boom beginning in the late 1990s has peaked. Estimated construction costs authorized by building permits in 2002 reached \$12.1 billion. This was \$72 million more than the record level set last year, an increase of less than one percent. In real terms, assuming consumer prices increased by about 1.6 percent between 2001 and 2002, the estimated cost of construction authorized by building permits actually declined by about one percent.

**Estimated Cost of Construction Authorized by Building Permits, 1996-2002**



Houses had a key role in the construction industry. Residential construction amounted to \$6.2 billion, 51.4 percent of all activity. Office, retail, schools, and other nonresidential uses accounted for \$5.9 billion, or 48.6 percent of the estimated construction costs reported on all building permits issued in 2002 for new structures, or additions and alterations to existing ones. In the seven years that the Department of Community Affairs has published construction statistics, the yearly increase in estimated construction costs had ranged between \$600 million and \$1.2 billion. This year, however, was the first time the annual increase was less than \$100 million.

Two other important indicators of the State's construction industry were down in 2002. The number of new houses authorized by building permits declined by nearly

1,100 units compared to last year. There were 34,589 authorized housing units in 2002. This was 3.1 percent less than the 35,680 authorized last year and 9.1 percent less than the 38,065 authorized dwellings in the year 2000; the latter has been a high-water mark for over ten years.

<b>New Jersey Construction Indicators: 1996-2002</b>				
	<b>Estimated Construction Costs</b>	<b>Authorized Housing Units</b>	<b>Authorized Office Space (square feet)</b>	<b>Authorized Retail Space (square feet)</b>
<b>1996</b>	\$7,028,424,990	27,577	6,229,515	4,880,139
<b>1997</b>	\$8,346,533,144	30,017	10,409,171	5,688,955
<b>1998</b>	\$9,396,755,517	35,676	12,703,824	7,921,892
<b>1999</b>	\$10,584,167,530	37,536	13,237,891	6,229,471
<b>2000</b>	\$11,387,683,514	38,065	15,531,039	6,063,412
<b>2001</b>	\$12,007,456,630	35,680	19,134,533	7,244,833
<b>2002</b>	\$12,079,942,099	34,589	9,261,054	7,560,913
<i>Change between 2001 and 2002</i>				
<b>2001- 2002</b>	\$72,485,469	-1,091	-9,873,479	316,080
<b>Percent Change</b>	0.6%	-3.1%	-51.6%	4.4%
Source: N.J. Department of Community Affairs, 5/7/03				

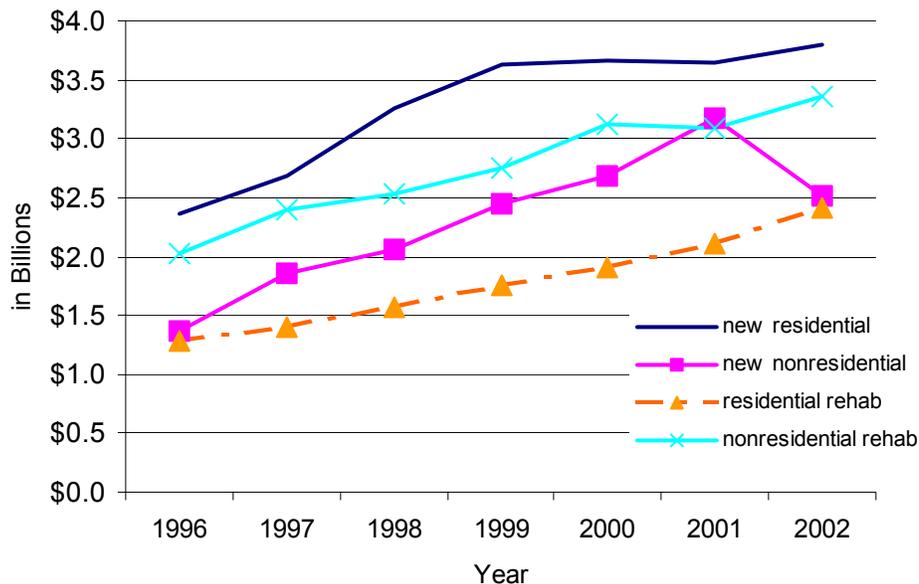
The production of new office space declined sharply in 2002. Last year was a banner year for new office buildings. Construction officials issued permits for more than 19 million square feet of structures in the business use group, which includes commercial and public sector office buildings. Jersey City in Hudson County stood out with 4.1-million square feet, more than one-fifth of all the State's new office space. The Goldman Sachs tower on the Jersey City waterfront broke ground in 2001. The 1.5-million-square-foot building is across from New York City's financial district. When complete, the office tower will be reputedly the tallest man-made structure in New Jersey. In 2002, construction officials issued building permits for only about 9.2-million square feet of new office space. This was less than half the level of activity reported last year.

Retail uses showed modest gains in 2002. The amount of new retail area authorized by building permits for new construction or additions to existing buildings in the mercantile use group totaled 7,560,913 square feet. This was 4.4 percent more than last year.

Although office and other business uses had large and significant declines in 2002, total activity measured by the estimated dollar amount of construction stayed at about the same high level reached last year because of strong performances in other sectors of the construction industry. The market for new houses remained strong and increases in the amount of money spent to add to or alter existing homes, as well as to make improvements to nonresidential structures, compensated for the decline in office production.

The estimated cost of all permits issued for office and other business uses declined by \$780.7 million in 2002 compared to last year. Increases in residential construction (\$453.9 million over 2001), educational uses (which include schools for students in grades K through 12 -- \$115.3 million more than last year), institutional uses (which cover such buildings as jails, hospitals, nursing homes, and assisted-living facilities -- up by \$131.1 million), and retail uses (up by \$116.4 million) offset the decline in office construction.

**Estimated Cost of Construction Authorized by Building Permits**



The graph above tells several things about the dynamics of New Jersey's construction industry. New houses have a vital role in the industry's performance. In the late 1990s, the estimated cost of construction reported on building permits issued for new houses grew sharply, as did the number of new dwellings. In the early years of the 21<sup>st</sup> century, the number of new houses authorized for construction declined, but the cost of these houses continued to grow, albeit at a much slower pace, supporting the notion that the new houses that were approved were larger and more expensive. New

housing construction increased by 3.8 percent over last year, a modest increase but still a force in the industry, considering the estimated cost of all new housing was nearly \$3.8 billion.

The graph also shows the steep decline in building permits issued for new, nonresidential structures. As discussed earlier, the drop-off in new office buildings accounts for much of this loss. After experiencing five years of double-digit increases, the estimated cost of construction reported on new construction permits for nonresidential structures declined by nearly 21 percent between 2001 and 2002.

In contrast was the performance of that part of the industry devoted to the rehabilitation of existing buildings. Permits for additions and alterations include tenant fit-ups. No doubt this was an important part of the level of activity in 2002, as contractors built to customize the new office space constructed in past years. Addition and alteration permits also were issued to repair older houses and improve nonresidential structures. In 2002, the estimated cost of construction for additions and alterations totaled \$5.8 billion. This was 48 percent of the estimated cost of all work reported on building permits. Last year, permits for additions and alterations accounted for only 43.2 percent of all work authorized. Between 2001 and 2002, rehabilitation work grew by \$590.6 million, or 11.4 percent. Additions and alterations to existing houses were especially strong, increasing by 14.9 percent, while nonresidential rehab grew by 9 percent over the 2001 level. Rehabilitation of houses and other existing buildings had a much more prominent role in New Jersey's construction industry in 2002.

### **Activity by Region**

The geography of New Jersey construction activity shows that the central part of the State accounted for most of the new houses, new office buildings, and new stores. But, viewed in terms of dollars, northern New Jersey communities rose to the top. The dominance of central New Jersey in the housing market has been a trend for many years. In 2002, three of the top four counties with the most new houses were in the central part of the State. Ocean County was at the top with 3,949 authorized units, 11.4 percent of all the new housing in New Jersey. Middlesex and Monmouth Counties had 2,500 and 2,468 authorized units, respectively. Over one in four new houses were in those three counties.

<b>Major Construction Indicators by Region: 2002</b>				
<b>Region</b>	<b>Estimated Cost of Construction</b>	<b>Authorized Housing Units</b>	<b>Authorized Office Space (square feet)</b>	<b>Authorized Retail Space (square feet)</b>
North	\$4,958,039,635	12,557	2,655,202	1,815,521
Central	\$4,233,550,469	13,549	4,313,927	3,817,621
South	\$2,544,101,033	9,561	2,062,512	1,766,806
State Buildings	\$344,250,962	13	229,413	160,965
<b>New Jersey</b>	<b>\$12,079,942,099</b>	<b>34,589</b>	<b>9,261,054</b>	<b>7,560,913</b>
<i>Percent Distribution by Region</i>				
North	41.0%	33.2%	28.7%	24.0%
Central	35.0%	36.9%	46.6%	50.5%
South	21.1%	29.9%	22.3%	23.4%
State Buildings	2.8%	0.029%	2.5%	2.1%
<b>New Jersey</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Source: N.J. Department of Community Affairs, 5/7/03				
Northern New Jersey: Bergen, Essex, Hudson, Morris, Passaic, Sussex, Union, and Warren Counties				
Central New Jersey: Hunterdon, Mercer, Middlesex, Monmouth, Ocean, and Somerset Counties				
Southern New Jersey: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, and Salem Counties				

Nearly 47 percent of all new office space and more than half of all new retail space were in the central part of the State. Despite this concentration, a higher proportion of the estimated dollar amount of construction was in northern New Jersey. Communities in the northern part of the State had just under \$5 billion of activity (41 percent), while central New Jersey had \$4.2 billion (35 percent) and southern New Jersey accounted for \$2.5 billion (21.1 percent). Northern New Jersey communities were the site of several of the bigger permits issued during the year. These included two new construction permits for light rail transit systems in Hudson County, one in North Bergen Township with an estimated cost of \$150 million and the other in Weehawken Township with an estimated construction cost of \$100 million. Three new medical facilities were among the other large developments in 2002. Work began on a new hospital in the City of Vineland, Cumberland County. The construction cost of the facility exceeded \$125 million thus far. The Jersey City construction office issued a permit update for work begun last year for a new medical center. The estimated cost of construction in 2002 exceeded \$98 million. The City of Hackensack in Bergen County reported an \$80 million permit for a new medical center.

### **Big Cities Continue to Shine**

The municipalities with the most work in 2002 were the State's largest cities. This continued a trend of recent years. Jersey City and the City of Newark (Essex County) ranked first and second with the most activity measured by the estimated cost

of construction authorized by building permits. Jersey City had \$314.2 million and Newark had \$307.5 million. Strong housing markets were evident in both communities, only this time Newark ranked first with the most new houses (1,223 authorized units) and Jersey City was second among all localities with 907 authorized dwellings. In Jersey City, tenant fit-up work continued on the Goldman Sachs tower which, along with the new medical center, were among the largest projects in 2002. In addition to new housing, some of the larger developments in Newark included a new bank and several projects to expand facilities at the New Jersey Institute of Technology.

<b>Construction Indicators Top New Jersey Municipalities: 2002</b>					
<b>Municipality</b>	<b>County</b>	<b>Estimated Cost of Construction (Dollars)</b>	<b>Authorized Housing Units</b>	<b>Authorized Office Space (square feet)</b>	<b>Authorized Retail Space (square feet)</b>
Jersey City	Hudson	\$314,154,029	907	157,198	430
Newark City	Essex	\$307,466,068	1,223	479,267	21,413
Atlantic City	Atlantic	\$256,518,474	201	972	8,000
Vineland City	Cumberland	\$188,442,308	251	150,176	8,700
North Bergen Twp.	Hudson	\$169,933,154	63	0	0
Montgomery Twp.	Somerset	\$139,845,765	607	0	0
East Brunswick Twp.	Middlesex	\$131,385,919	230	142,834	467,844
Hamilton Twp.	Mercer	\$123,381,049	421	283,439	1,055,656
Weehawken Twp.	Hudson	\$122,481,081	0	0	0
Jackson Twp.	Ocean	\$117,257,632	599	0	20,951
Top Municipalities		\$1,870,865,479	4,585	1,213,886	1,582,994
<b>New Jersey</b>		\$12,079,942,099	34,589	9,261,054	7,560,913

Source: N.J. Department of Community Affairs, 5/7/03

Atlantic City in Atlantic County ranked third among localities with the most work in 2002. The Showboat Casino Hotel had a \$55-million hotel addition. Work continued on the Borgata Hotel Casino and Spa. Other big permits reported for the year in Atlantic City were issued for a new thermal energy plant and a new middle school.

Vineland had \$188.4 million of construction in 2002, ranking fourth among all communities. In February, work began on a new hospital that will be a regional center for much of southern New Jersey. Permit updates for the complex were still being reported in November 2002.

North Bergen had \$169.9 million of construction. As mentioned earlier, excavation and construction of a light rail system for New Jersey Transit accounted for \$150 million of this total.

In Montgomery Township, Somerset County new housing, much in the form of assisted living, along with a new high school, accounted for a large part of the \$139.8 million of construction. The new high school will have 350,000 square feet and an estimated construction cost of over \$35 million. The assisted-living complex will have nearly 200 units, and is part of a larger medical complex that will include a nursing home and hospital for seniors. Estimated costs to build these facilities also will exceed \$35 million.

Construction activity in East Brunswick Township, Middlesex County was split between residential and nonresidential structures. Hamilton Township in Mercer County reported \$123.4 million of construction. Much of this consisted of several large, new retail stores, like Kohl's department store and a Lowe's Home Improvement Warehouse. Hamilton issued building permits for over one million square feet of new retail space in 2002, tops among communities. As mentioned earlier, \$100 million of the \$122.5 million reported in Weehawken was for a new light rail facility. Much of the work in Jackson Township, Ocean County was for new housing. Jackson had 599 authorized dwellings in 2002, ranking eighth among all municipalities. Of the \$117.3 million reported for the year, nearly 72 percent was for residential work. Jackson also had a \$12.3-million permit for a new elementary school.

In addition to Newark and Jersey City, two other New Jersey cities were among the top 20 communities with the most new houses: the City of Hoboken in Hudson County and the City of Camden in Camden County. Hoboken had 576 authorized housing units in 2002, ranking ninth among all municipalities. Most of this was multifamily housing. Camden had 534 authorized units, of which 340 will be new, market-rate apartments resulting from the conversion of the old RCA factory. Because these units are from a conversion of an existing building, they are not counted by the United States Census Bureau, which looks only at new construction to report authorized housing. The New Jersey Department of Community Affairs, however, includes these dwellings in its tally of authorized dwellings. All told, Newark, Jersey City, Hoboken, and Camden accounted for 3,240 authorized dwellings in 2002. This was 9.4 percent of all the new housing units authorized by building permits.

### **New House Prices**

The median sales price of the 23,647 new houses that began enrollment in a new home warranty program in 2002 was \$274,705. This was 8.3 percent more than the median sales price last year. Bergen County had the most expensive new houses. Half of the 1,122 new houses that started enrollment in a warranty program in 2002 cost more than \$478,000. Hunterdon and Somerset Counties had median sale prices of \$441,070 and \$405,490, respectively. The least expensive new houses were in Cumberland County. Half of the 231 new houses that began enrollment in a warranty program cost more than \$155,244. Most new houses built in New Jersey are required to enroll in a warranty program. The exceptions are apartments and other rental units, and new houses built by homeowners who acted as their own general contractors.

<b>New House Prices</b>			
<b>Period</b>	<b>Number of New Houses</b>	<b>Median Sales Price</b>	<b>Percent Change in Sales Price</b>
1996	20,903	\$183,300	
1997	21,640	\$190,000	3.7%
1998	23,884	\$209,980	10.5%
1999	24,479	\$224,496	6.9%
2000	25,058	\$231,728	3.2%
2001	23,372	\$253,670	9.5%
2002	23,647	\$274,705	8.3%
1 <sup>st</sup> Quarter 2002	5,645	\$259,900	
2 <sup>nd</sup> Quarter 2002	6,381	\$274,612	5.7%
3 <sup>rd</sup> Quarter 2002	5,894	\$279,900	1.9%
4 <sup>th</sup> Quarter 2002	5,737	\$282,500	0.93%
1 <sup>st</sup> Quarter 2003	4,018	\$290,900	2.9%

Source: N.J. Department of Community Affairs, 5/7/03

