Introduction

The issuance of a building permit is the first step in the process of constructing a new building, or rehabilitating an existing one. As such, building permit activity serves as a leading indicator of construction activity, which is itself a leading indicator of population change. Geographic patterns in building permit activity can offer insights into underlying macroeconomic forces that are influencing people’s residential location decisions. They provide a preview into what types of places will be gaining population in the coming years.

With the decade of the 2000s drawing to a close, we now have 10 years’ worth of building permit data – 2000 through 2009 – to summarize and compare with the previous decade (1990 through 1999). The comparison reveals several interesting trends that are worthy of closer inspection:

- Building permit activity increased significantly in the 2000s in municipalities that have already developed most or all of their developable land; a change in New Jersey’s building code at the end of the previous decade that made redevelopment easier is likely a major contributing factor to this increase.
- Construction activity in these same locations has not been affected as adversely as the rest of the state by the recession of the late 2000s.
- The issuance of permits for multi-family housing became much more geographically widespread in the 2000s as compared to the previous decade.

These trends combine to form a persuasive argument that there is substantial latent demand for redevelopment in New Jersey’s already-built communities, and that if state agencies think creatively about how to channel that demand, their actions can have a tremendous impact on the state’s future settlement patterns.

The Post-Rehabilitation Subcode World

New Jersey’s Rehabilitation Subcode1 (NJAC 5:23-6) was added to the state building code in 1998 so that renovation or partial reconstruction of an old building would not necessarily entail conformance to the same standards as new construction. Prior to the subcode’s adoption, the standard was that if the cost of renovation was projected to exceed a certain percentage of the building’s replacement value, the entire building would have to be brought up to the existing code, with respect to such characteristics as corridor widths, staircase steepness and the like. The difficulty or practical impossibility of meeting the new-construction code requirements in an old structure often rendered the total cost of the project prohibitive. Prospective redevelopers also typically faced substantial uncertainty regarding which sections of the overall code they would actually be required to abide by, complicating their cost projections. As a result, the potential costs of rehabilitating an older building served as a major deterrent to redevelopment (the reuse of previously developed land and buildings) in already-built communities.

The Rehabilitation Subcode replaced the one-size-fits-all cost-based approach with safety standards that were tailored to the proposed use of the building (e.g., residential vs. commercial use). By both loosening and systematizing the requirements that apply to rehabilitation projects, the new subcode removed two major barriers to redevelopment. The subcode received a 1999 “Innovations in American Government” award, co-sponsored by the Ford Foundation and Harvard University, in recognition of its positive effect on urban revitalization.

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activity ensued in places that had seen little development activity in a long time. These are places with little to no developable land remaining and where most new development is thus necessarily redevelopment.

For example, in the first two years that the subcode was in effect (1998 and 1999), rehabilitation spending in New Jersey’s five largest cities – Newark, Jersey City, Paterson, Elizabeth and Trenton – increased by 90 percent; in contrast, rehabilitation spending in those cities had increased by just 1.6 percent in 1997, the year before the code’s implementation. Two-thirds (67 percent) of the building permits issued in Hoboken in the 1990s were issued just in 1998 and 1999. In Jersey City, 36 percent of total 1990s building permit activity was in 1999 alone.

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The resurgence has continued through the decade of the 2000s. By a variety of measures, development activity in built-out places represented a much bigger slice of total statewide development in the 2000s than it did in the 1990s:

- The 204 municipalities\(^2\) in New Jersey that were already at least 90 percent built-out\(^3\) as of 2002 together accounted for 15.1 percent of total building permits issued statewide in the 1990s, but more than doubled their share of the total, to 33.6 percent, in the 2000s. The pre- vs. post-subcode breakdown within the 1990s further illustrates the pattern, with the built-out municipalities making up 13.2 percent of the state total for 1990-1997 but 20.3 percent for 1998-1999. (See Figure 1.)

- In the 1990s, the eight “urban centers” designated by the State Plan – Newark, Jersey City, Paterson, Elizabeth, Trenton, Camden, New Brunswick and Atlantic City – accounted for only 3.9 percent of total building permits issued statewide. In the 2000s, their share of the state total tripled, to 11.8 percent.

- Similarly, the 30 “distressed cities” identified in the Housing and Community Development Network (HCDN) of New Jersey’s 2006 Cities in Transition report\(^4\) accounted for only 5.9 percent of total statewide building permits in the 1990s, but 16.6 percent of the total in the 2000s. When restricting the analysis only to the pre-subcode period of 1990-1997, the 30 HCDN distressed cities’ share of total statewide activity had been even smaller – only 4.9 percent, less than a third of their share in the 2000s. (NOTE: All eight of the State Plan urban centers are among the 30 HCDN distressed cities.)

- As a group, the 204 municipalities that were already at least 90 percent built-out as of 2002 issued 2.7 times more building permits in the 2000s than in the 1990s. Only 33 of the 204 issued fewer permits in the 2000s than in the 1990s. On the other end of the scale, 68 of the 204 saw their permit activity more than triple. (NOTE: This group of 204 municipalities includes 21 of the 30 HCDN distressed cities, including seven of the eight State Plan urban centers.)

- The eight State Plan urban centers issued, on average, 3.67 times more annual building permits in the 2000s than in the 1990s. The 30 HCDN distressed cities issued 3.42 times more.

Figure 1. Percent of Total Statewide Building Permit Activity Taking Place in Already-Developed Communities

Built-out places of all types accounted for a much larger share of total statewide building permit activity in the 2000s than they had in the 1990s.

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• The balance of the state (after the urban centers, other distressed cities and other built-out municipalities are removed), consisting of 353 municipalities, actually issued fewer total building permits in the 2000s than in the 1990s – only 93 percent as many. (See Figure 2.) In other words, the entirety of the statewide increase in building permit activity in the 2000s, as compared to 1990s levels, was attributable to the sharp increase in permits in built-out areas.

All of these data illustrate that the 2000s were a much more active decade than the 1990s for places where most new development is redevelopment. More specifically, the ramping up of building activity in the already-built places coincided precisely with the adoption of the Rehabilitation Subcode. The obvious implication is that if you make redevelopment easier, you get more redevelopment.

Another implication of the data is that a lack of developable land cannot be interpreted as a signal that no further (re)development will take place. If fully one-third of all building permits issued in the entire decade of the 2000s were issued in places that had already developed at least 90 percent of their developable land, then undeveloped land is clearly not a prerequisite for new residential growth. Among other things, this finding casts doubt on the legitimacy of offering a “vacant land adjustment” to a municipality’s affordable-housing obligation – that is, a reduction in the number of low- and moderate-income housing units a municipality is expected to provide under the state’s affordable-housing rules. The rationale behind the adjustment is that a lack of developable land implies ipso facto that there is no room left to build affordable housing, but this assertion is not borne out by the data.

The Recession
Another phenomenon that emerges from the full decade’s worth of building permit data is that construction activity in already-built places has not been as adversely affected as the rest of the state by the recession that began in 2008. Comparing average annual building permit activity for 2008-2009 to the annual average for earlier in the decade (2000-2007), the statewide ratio is 0.474 – that is, annual building permits for 2008-2009 averaged only 47.4 percent of what they had been averaging from 2000 through 2007. For the 204 municipalities that were at least 90 percent built-out as of 2002, the ratio was a more robust 0.594 (i.e. 59.4 percent as much annual average activity in 2008-2009 as in 2000-2007). The eight State Plan urban centers’ ratio was 0.620 (62 percent as much annual activity as earlier in the decade), and for the 30 HCDN distressed cities it was 0.647 (64.7 percent as much). Meanwhile, for the balance of the state (i.e. excluding the built-out municipalities and distressed cities) the ratio was only 0.392. (See Figure 3.)

Looking only at 2009, by which time the recession was in full force, the difference becomes even more pronounced, with the different groups of already-developed communities experiencing typically only about half as much building permit activity as they had been averaging earlier in the decade, but with the rest of the state

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dropping even more drastically, to only one-third of earlier levels.

Looking from another angle, while the 204 municipalities that were at least 90 percent built-out accounted for a third of all statewide building permit activity in the 2000s (already up from 15 percent in the 1990s, as discussed earlier), they accounted for an even bigger share – 39.8 percent of the state total, or two of every five permits issued – in 2009 alone. Construction activity in already-built places of all stripes – not just the biggest cities – seems to be weathering the recession better than the state as a whole.

These results would appear to support the contentions of analysts such as Christopher Leinberger who argue that “smart growth” is more recession-resistant than sprawl. The resilience of older, built-out places is probably at least somewhat attributable to longstanding unmet demand for compact growth; when zoning restrictions and other regulatory barriers inhibit the housing market from producing a sufficient supply of housing in traditional walkable, mixed-use neighborhoods, the resulting backlog of demand for housing in such places will provide something of a cushion when the market drops off elsewhere.

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There are also longer-term demographic and cultural shifts – shrinking household size, retiring Baby Boomers in search of cultural amenities, increasing awareness of the greenhouse-gas effects of a car-dependent lifestyle – that are conspiring to generate new demand for more urban living (including in older suburbs). And 2008’s $4-per-gallon gasoline served as a reminder that trading a longer commute for a bigger house in a farther-out suburb looks like a good deal only as long as gas prices remain low. With the recession taking a bite out of disposable incomes across the board, it is perhaps not surprising to see home values and building activity holding up better in towns whose development patterns enable residents to spend less on transportation.

**Multi-Family Resurgence**

Perhaps reflecting the same demographic shifts that have helped temper the impact of the recession on many built-out towns, the 2000s have also seen a rise in the prevalence of multi-family housing (units in structures containing three or more units). Units in multi-family structures made up only 13 percent of total statewide building permits from 1990 to 1999, but accounted for a full 30 percent of the state total for 2000 to 2009. (See Figure 4.) Multi-family units made up a much larger percent of the total in the 2000s than in the 1990s because the number of multi-family permits issued grew much faster; while total building permit activity in the 2000s was up by 22 percent over the 1990s, the increase for multi-family permits was 175 percent.

Part of the reason multi-family building permits increased their share of the state total was simply that more municipalities issued them. From 1990 to 1999, a sizeable two-thirds of all the municipalities in New Jersey (375 out of 566) did not issue any multi-family building permits at all; the other 191 municipalities accounted for the state’s entire supply of multi-family permits.
permits. In the 2000s, the division was closer to 50/50 rather than one-third/two-thirds – 277 municipalities (49 percent) issued at least one multi-family building permit between 2000 and 2009, and 289 municipalities (51 percent) didn’t issue any. New multi-family housing was welcomed into many more communities in the 2000s than in the 1990s.

A full 200 municipalities issued at least twice as many multi-family permits in the 2000s as in the 1990s. This total includes 129 municipalities that issued no multi-family permits in the 1990s but did issue some in the 2000s. (Only 43 municipalities went in the other direction, issuing no multi-family permits in the 2000s after having issued some in the 1990s.)

Overall, the state’s 566 municipalities break out as follows, in terms of multi-family building permit activity in the 2000s as compared to the 1990s:

- 225 municipalities issued more multi-family building permits in the 2000s than in the 1990s.
  - 96 municipalities issued some multi-family permits in both decades and issued at least as many in the 2000s as in the 1990s.
  - 129 municipalities issued none in the 1990s but issued some in the 2000s.

- 95 municipalities issued fewer multi-family building permits in the 2000s than in the 1990s.
  - 52 municipalities issued some multi-family permits in both decades but issued fewer in the 2000s than in the 1990s.
  - 43 municipalities issued some in the 1990s but issued none in the 2000s.

The remaining 246 municipalities issued no multi-family permits in either decade.

With average household size continuing to decline,9 both in New Jersey and nationally, an increase in the production of multi-family housing is probably a natural result; smaller households don’t need as much space. What is encouraging is that the increase occurred across such a large number of municipalities. New Jersey’s supply of multi-family housing is becoming less geographically concentrated, making more of the state accessible to more types of household configurations. (It is still highly concentrated, however – a mere 23 municipalities together accounted for fully half of the multi-family building permits issued statewide over the entire decade.)

### Conclusion

The 2000s were a much better decade for redevelopment, and for construction activity in built-out places, than the 1990s were, thanks in no small part to the introduction of the Department of Community Affairs’ Rehabilitation Subcode, which made the rehabilitation of existing buildings much cheaper and easier. In the wake of the subcode’s adoption, building permit activity took off in many municipalities that had seen little activity in decades. This unlocking of redevelopment potential happened at a particularly opportune time, too, as the 2000s witnessed the emergence of several important demographic trends that point in the direction of a revival of demand for the more compact, mixed-use, center-based patterns of development that are characteristic of many of the state’s built-out cities, towns, and older suburbs.

One clear sign that these trends are already taking shape is the more widespread issuance of building permits for multi-family housing in the 2000s than in the previous decade. Another sign is the relative resilience of “smart growth” places in the face of the economic recession that hit New Jersey in 2008. Yet despite the movement toward more compact development and greater reuse of already-developed lands, the
development of open lands has not subsided. Between 2002 and 2007, an annual average of more than 16,000 acres of open space in New Jersey was converted to urbanized uses; this is actually a 7 percent increase over the rate between 1995 and 2002. Demographics alone are apparently not going to solve New Jersey’s sprawl problem.

New Jersey is the most developed state in the nation and is on course to be the first of the 50 states to reach full build-out, at which point most new development is necessarily going to be redevelopment. New Jersey should thus be looking for ways to make redevelopment easier, which will also have the effect of helping to channel development away from our remaining open lands. The adoption of the Rehabilitation Sub-code was an important move in that direction, but we should be examining other state agency regulations and incentives that affect where and how development happens, to see if there might be other barriers to redevelopment that could be dismantled. If the future of development in New Jersey is redevelopment, then our future depends on making it easier.

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Endnotes

1 NJ Department of Community Affairs, Division of Codes and Standards, Rehabilitation Subcode, http://www.nj.gov/dca/divisions/codes/codreg/pdf_regs/njac_5_23_6.pdf


3 Percent built-out is developed land as a percentage of “developable” land, where developable is the total land area minus permanently preserved or environmentally constrained land.


7 New Jersey Future, NJ Future Facts: Demographic Changes May Mean Big Redevelopment Opportunities, http://www.njfuture.org/index.cfm?fuseaction=user.item&ThisItem=1041&ContentCat=3&ContentSubCat1=27&ContentSubCat2=14 (March 25, 2010)
