2010 Redevelopment Forum

New Jersey Future

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800.458.7161
Bringing Clarity* to Real Estate

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About Us: The lightning strike speed of today’s information flow has accelerated the pace of change for real estate markets. As a result, trends that previously took years to develop can now unfold in a few short months. Our mission is to assist our clients in keeping pace with that change by providing insightful analysis and cutting edge pricing skills. To accomplish this we have assembled a team of skilled professionals specializing in the complex field of real estate market analysis. With broad based experience in real estate valuation and consultation, our firm engages in a diversified practice encompassing all property types.

Appraisal Services are provided to financial & lending institutions, developers & builders, attorneys, investors, relocation management service companies, governmental agencies, corporations and the public.

Our Consulting Group provides a wide array of services with respect to market analysis, project feasibility, demographic trends, project valuation and municipal entitlement proceedings.

Litigation support is provided for matters requiring the valuation and corresponding expert testimony for eminent domain proceedings, contractual disputes, bankruptcy, tax appeals, equitable distribution, estate valuation and stigma related issues.

OTTEAU.com offers a wide range of informational content and analysis of real estate trends including published and live session formats. MarketTRAC is an online market data service available for subscription on www.otteau.com.

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As President of Otteau Valuation Group Mr. Otteau manages facets of the firm's business including serving as General Manager of www.otteau.com which is an information provider on real estate trends. He has been actively engaged in real estate consultation and valuation since 1974 and holds the State Certified General Real Estate Appraiser certification, the highest level offered. His practice is concentrated in providing project feasibility, marketing analysis, redevelopment guidance and valuation analysis to developers, financial institutions, Governmental entities and investors. Frequently quoted in the New York Times and Wall Street Journal, and having made television appearances on CNBC, Bloomberg and NBC, Mr. Otteau is widely respected for his knowledge and insight into real estate trends. His attention to detail and comprehensive fact finding has made him the go-to person for industry professionals seeking to enhance their competitive position in the marketplace. Jeffrey has provided testimony as an expert witness at the municipal, county and state levels, authored several texts on property valuation techniques and has lectured throughout the United States and in Canada. He served on the Appraisal Standards Advisory Council, which consulted with the Appraisal Foundation in Washington, D.C. on its agenda of projects and major technical issues. Mr. Otteau served as a past Chairman of the Employee Relocation Council's Appraisal Standards Council and was inducted into their distinguished Hall of Leaders in 1995.
Housing Leads the Way

Housing Slide Begins 2005 Q3
Anatomy of a Housing Decline
Waiting to Exhale in 2000

Housing Price Patterns

+14% Income
+33% House $
### Anatomy of a Housing Decline

**Why Market Efficiency Failed**

| 9-11 After Shocks | • Housing demand surges Post 9-11 as Fed cuts rates... Greenspan leaves rates too low for too long ....US Home Prices Rise 46% from 2000 – 2005 despite a 3.3% decline in Median Household Income |
| High Risk Loans | • 1995: HUD reclassifies Subprime as Affordable Housing Loans requiring Fannie & Freddie to create a secondary market to meet its affordable housing goals.  
• 2004: Despite warnings by banking regulators, HUD instructs Fannie & Freddie to increase its purchase of Subprime which rise from $81B in ’03 to $175B in ’04. |
| Failure to Regulate | • 1998: Attempt by Commodity Futures Trading Commission to regulate derivatives is squelched by Treasury Department, Federal Reserve & SEC  
• 2004: SEC allows Security Firms to raise leverage their leverage sharply. Norm goes from 12:1 to 33:1 so a 3% decline in asset values wipes out a company |
| Constricting Supply | • As developable land supply dwindles in NJ, municipalities increase minimum lot size, preserve open space and encourage age-restricted development approvals to reduce construction of All-Age housing development.  
• The effects of constricting an already undersupplied market is ever larger and more expensive new home prices which drag resale prices into the stratosphere. |

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Anatomy of a Housing Decline

Home Prices Hyper-Extend

New Jersey House Prices

US: 2000-2005
+46% $ House
- 3.3% $ Income

NJ: 2000-2005
+114% $ House
- 3.3% $ Income

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Anatomy of a Housing Decline

Housing Decline Follows

NJ Housing Affordability

Home Price Index

NJ Monthly Foreclosures

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Housing Trends Today
NJ Prices Back to Early 2004 Levels

New Jersey Home Price Trends

NJ Housing Affordability

Mortgage Rate Trends

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Housing Trends Today
The Road to Recovery

MarketTRAC Monthly by OTTEAU.com
NEW JERSEY CONTRACT-SALES ACTIVITY
2008-2009

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Housing Trends Today
The Road to Recovery

NJ Contract Sales Performance
Monthly Year-on-Year Delta

<table>
<thead>
<tr>
<th>Month</th>
<th>Change from Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 09</td>
<td>-23%</td>
</tr>
<tr>
<td>Feb 09</td>
<td>-25%</td>
</tr>
<tr>
<td>Mar 09</td>
<td>-15%</td>
</tr>
<tr>
<td>Apr 09</td>
<td>-8%</td>
</tr>
<tr>
<td>May 09</td>
<td>0%</td>
</tr>
<tr>
<td>Jun 09</td>
<td>12%</td>
</tr>
<tr>
<td>Jul 09</td>
<td>8%</td>
</tr>
<tr>
<td>Aug 09</td>
<td>21%</td>
</tr>
<tr>
<td>Sep 09</td>
<td>29%</td>
</tr>
<tr>
<td>Oct 09</td>
<td>55%</td>
</tr>
<tr>
<td>Nov 09</td>
<td>33%</td>
</tr>
<tr>
<td>Dec 09</td>
<td>20%</td>
</tr>
<tr>
<td>Jan 10</td>
<td>21%</td>
</tr>
<tr>
<td>10-Feb</td>
<td>14%</td>
</tr>
</tbody>
</table>
Housing Trends Today
The Road to Recovery

NJ Year End Unsold Inventory

<table>
<thead>
<tr>
<th>Year</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>30,401</td>
</tr>
<tr>
<td>2005</td>
<td>42,863</td>
</tr>
<tr>
<td>2006</td>
<td>59,742</td>
</tr>
<tr>
<td>2007</td>
<td>60,516</td>
</tr>
<tr>
<td>2008</td>
<td>59,051</td>
</tr>
<tr>
<td>2009</td>
<td>54,926</td>
</tr>
</tbody>
</table>

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Housing Trends Today
Unsold Inventory

<table>
<thead>
<tr>
<th>County</th>
<th>Unsold Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middlesex</td>
<td>5.2</td>
</tr>
<tr>
<td>Bergen</td>
<td>5.9</td>
</tr>
<tr>
<td>Somerset</td>
<td>6.5</td>
</tr>
<tr>
<td>Union</td>
<td>6.6</td>
</tr>
<tr>
<td>Passaic</td>
<td>7.1</td>
</tr>
<tr>
<td>Morris</td>
<td>7.5</td>
</tr>
<tr>
<td>Essex</td>
<td>7.7</td>
</tr>
<tr>
<td>Mercer</td>
<td>7.8</td>
</tr>
<tr>
<td>Monmouth</td>
<td>8.3</td>
</tr>
<tr>
<td>Hunterdon</td>
<td>8.6</td>
</tr>
<tr>
<td>Ocean</td>
<td>8.9</td>
</tr>
<tr>
<td>Burlington</td>
<td>9.6</td>
</tr>
<tr>
<td>Gloucester</td>
<td>10.9</td>
</tr>
<tr>
<td>Hudson</td>
<td>11.2</td>
</tr>
<tr>
<td>Atlantic</td>
<td>11.5</td>
</tr>
<tr>
<td>Camden</td>
<td>11.8</td>
</tr>
<tr>
<td>Warren</td>
<td>11.9</td>
</tr>
<tr>
<td>Salem</td>
<td>12.1</td>
</tr>
<tr>
<td>Sussex</td>
<td>12.2</td>
</tr>
<tr>
<td>Cape May</td>
<td>15.0</td>
</tr>
<tr>
<td>Cumberland</td>
<td>19.2</td>
</tr>
<tr>
<td>New Jersey</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Seasonally Adjusted
House Prices
2009 Sequential Price Change

New Jersey Home Prices
Sequential Quarterly Change

-2.8% 2008 Q1
-2.6% 2008 Q2
-0.5% 2008 Q3
-2.7% 2008 Q4
1.5% 2009 Q1
3.0% 2009 Q2
1.2% 2009 Q3
-3.8% 2009 Q4

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# U.S. Foreclosure Filings by State – 2009

<table>
<thead>
<tr>
<th>State</th>
<th>Total Properties with Filings</th>
<th>1 Year Change</th>
<th>2 Year Change</th>
<th>Foreclosure Filing Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>9,002</td>
<td>1</td>
<td>3</td>
<td>1.78% 17.8</td>
</tr>
<tr>
<td>Alabama</td>
<td>19,896</td>
<td>2</td>
<td>13</td>
<td>0.93% 9.3</td>
</tr>
<tr>
<td>Mississippi</td>
<td>5,402</td>
<td>3</td>
<td>10</td>
<td>0.43% 4.3</td>
</tr>
<tr>
<td>West Virginia</td>
<td>1,479</td>
<td>4</td>
<td>15</td>
<td>0.17% 1.7</td>
</tr>
<tr>
<td>Idaho</td>
<td>17,161</td>
<td>5</td>
<td>7</td>
<td>2.72% 27.2</td>
</tr>
<tr>
<td>New Mexico</td>
<td>7,212</td>
<td>6</td>
<td>26</td>
<td>0.84% 8.4</td>
</tr>
<tr>
<td>South Dakota</td>
<td>765</td>
<td>7</td>
<td>1</td>
<td>0.21% 2.1</td>
</tr>
<tr>
<td>Oregon</td>
<td>34,121</td>
<td>8</td>
<td>9</td>
<td>2.12% 21.2</td>
</tr>
<tr>
<td>Utah</td>
<td>27,140</td>
<td>9</td>
<td>12</td>
<td>2.93% 29.3</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>35,252</td>
<td>10</td>
<td>20</td>
<td>1.38% 13.8</td>
</tr>
<tr>
<td>Florida</td>
<td>516,711</td>
<td>18</td>
<td>17</td>
<td>5.93% 59.3</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td><strong>2,824,674</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td><strong>2.21% 22.1</strong></td>
</tr>
<tr>
<td>Delaware</td>
<td>3,034</td>
<td>25</td>
<td>18</td>
<td>0.78% 7.8</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>44,732</td>
<td>26</td>
<td>23</td>
<td>0.82% 8.2</td>
</tr>
<tr>
<td><strong>New Jersey</strong></td>
<td><strong>63,208</strong></td>
<td><strong>39</strong></td>
<td><strong>31</strong></td>
<td><strong>1.81% 18.1</strong></td>
</tr>
<tr>
<td>New York</td>
<td>50,369</td>
<td>40</td>
<td>43</td>
<td>0.63% 6.3</td>
</tr>
<tr>
<td>Connecticut</td>
<td>19,679</td>
<td>45</td>
<td>36</td>
<td>1.37% 13.7</td>
</tr>
</tbody>
</table>

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Commercial Markets
Commercial Trends Today
MBS Delinquencies Still Rising

Monthly Delinquencies (in billions)

Source: Realpoint

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Commercial Trends Today
Retail Market

New Jersey Retail Vacancy vs US Retail Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>NJ Retail Vacancy%</th>
<th>US Retail Sales (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 1Q</td>
<td>5.5%</td>
<td>0.92</td>
</tr>
<tr>
<td>2008 2Q</td>
<td>5.6%</td>
<td>0.91</td>
</tr>
<tr>
<td>2008 3Q</td>
<td>5.7%</td>
<td>0.91</td>
</tr>
<tr>
<td>2008 4Q</td>
<td>5.9%</td>
<td>1.00</td>
</tr>
<tr>
<td>2009 1Q</td>
<td>6.5%</td>
<td>0.92</td>
</tr>
<tr>
<td>2009 2Q</td>
<td>6.3%</td>
<td>0.92</td>
</tr>
<tr>
<td>2009 3Q</td>
<td>7.4%</td>
<td>0.94</td>
</tr>
<tr>
<td>2009 4Q</td>
<td>7.8%</td>
<td>0.94</td>
</tr>
</tbody>
</table>

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Commercial Trends Today

Retail Market

Top Retailers Looking to Grow

- Quiznos Sub
- Dollar General
- Anytime Fitness
- Five Guys Famous Burgers and Fries
- A&W Restaurants
- Dollar Tree
- Family Dollar
- Cartridge World
- Walgreens
- Burger King
- CashStore
- Subway
- Starbucks
- 7-Eleven
- Baskin Robbins
- T-Mobile
- Ace Cash Express
- Jimmy John’s
- Autzone
- CVS
- Chase Bank
- O’Reilly Automotive
- Aaron Rents & Sales Furniture
- Cold Stone Creamery
- Rita’s Ices, Cones Shakes & Other...
- Sherwin-Williams
- Penn Station — East Coast Subs
- Chipotle
- Great Clips
- Merle Norman Cosmetic Studio

RetailSails Monthly Store Sales Index (YoY % Chg)

Source: Retail Lease Tree & RBC Capital Markets

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Commercial Trends Today
Office Market

Overall Office Vacancy vs Cumulative Job Change

- 2008 1Q: 11.0%
- 2008 2Q: 13.1%
- 2008 3Q: 13.2%
- 2008 4Q: 13.3%
- 2009 1Q: 13.6%
- 2009 2Q: 13.5%
- 2009 3Q: 12.6%
- 2009 4Q: 12.5%

Southern NJ
Northern NJ
Cumulative Job Change

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Commercial Trends Today

Warehouse Market

New Jersey Warehouse Vacancy

- Southern NJ
- Northern NJ

2008 Q1: 8.8%, 7.4%
2008 Q2: 9.5%, 8.1%
2008 Q3: 10.2%, 8.1%
2008 Q4: 10.1%, 8.5%
2009 Q1: 10.9%, 9.1%
2009 Q2: 10.5%, 9.6%
2009 Q3: 10.6%, 10.1%
2009 Q4: 11.8%, 10.3%

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US Job Losses Slowing
7.9 Million Lost, 9.7% Unemployment

US Economy
Quarterly GDP Change

US Monthly Job Change


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NJ Jobs Still Unstable
228,300 Jobs Lost, 9.9% Unemployment

NJ Monthly Job Change

NJ Employment
Jobs a Longer Term Issue

NJ Nonfarm Jobs
2000 - 2007

<table>
<thead>
<tr>
<th></th>
<th>Dec 2000</th>
<th>Dec 2007</th>
<th>Change</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>3,430,200</td>
<td>3,437,100</td>
<td>6,900</td>
<td>0.2%</td>
</tr>
<tr>
<td>Government</td>
<td>594,000</td>
<td>649,900</td>
<td>55,900</td>
<td>9.4%</td>
</tr>
<tr>
<td>Total</td>
<td>4,024,200</td>
<td>4,087,000</td>
<td>62,800</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

} **Highest Business & Personal Taxes in US**
} **Lost & Found**

- Traded more than 100,000 *High-Pay* for *Low-Pay* jobs
- Annual net Loss of $1.5 billion personal income
- *NJ Household Income Fell @ 100X US Rate* (‘05- ’08)

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Housing Trends Today
By Home Price Range

NJ Unsold Housing Inventory
By Price Point

Months of Supply

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Months of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $400k</td>
<td>10.9</td>
</tr>
<tr>
<td>$400k-$599,999</td>
<td>12.3</td>
</tr>
<tr>
<td>$600k-$1mil</td>
<td>16.4</td>
</tr>
<tr>
<td>$1,000,001-$2.5mil</td>
<td>25.8</td>
</tr>
<tr>
<td>&gt; $2.5 mil</td>
<td>57.4</td>
</tr>
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### NJ Nonfarm Jobs - 2000 - 2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>Dec 2000</th>
<th>Dec 2007</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>3,430,200</td>
<td>3,437,100</td>
<td>6,900</td>
<td>0.2%</td>
</tr>
<tr>
<td>Government</td>
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<td>649,900</td>
<td>55,900</td>
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<td>4,087,000</td>
<td>62,800</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

### NJ Nonfarm Jobs - 2007 - 2009

<table>
<thead>
<tr>
<th>Sector</th>
<th>Dec 2007</th>
<th>Dec 2009</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>3,437,100</td>
<td>3,207,400</td>
<td>(229,700)</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Government</td>
<td>649,900</td>
<td>651,300</td>
<td>1,400</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total</td>
<td>4,087,000</td>
<td>3,858,700</td>
<td>(228,300)</td>
<td>-5.6%</td>
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</tbody>
</table>
Job Losses, High Taxes, Expensive Housing

49,000 Yearly Migration Loss (net) since ‘02

13% of 2009 NJ Job Seekers Relocated Out-of-State

$70 Billion Loss in Personal Wealth (‘04- ‘08)

Note: gained $98 Billion from 1999-2004
Redevelopment Forecast
Housing Heading for 2nd Half Slump

Home Buyer Tax Credit

New Jersey Home Prices
Sequential Quarterly Change

NJ Monthly Job Change

Mortgage Rate Trends

NJ Housing Affordability

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Housing Forecast

Baby Boomers & Outmigration

- Underfunded Retirements
- Aging in Place
- Out-Migration
- 16 Years of Inventory
- More Trouble Ahead

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Deconstructing the School Enrollment Myth

3 out of 4 Future Homebuyers will be Childless

- 1985 - 50% with children
- 2009 - 35% with children
- 2025 - 25% with children, 50% single households

Future Household Formation

- Brooking Institute Puts it at 85% NET
Trading High-Paying for Low-Paying Jobs
Lost $70 Billion in Personal Wealth (‘04- ‘08)
Household Income Falls @ 100X National Rate
Gen- Y @ -17%
Higher Mortgage Rates & Stricter Lending
It’s Expensive to be Here
Housing Demand Will Seek Efficiency
- Smaller, Less Expensive Designs
- Near Jobs & Transportation
- Concern About Energy Costs
- Trading Cars for Lifestyle
- A Rental Rebound – overcoming the stigma
- Multi-Generational Housing Plans

Downtown Delivers These Efficiencies

Demand Shifts from Drivable to Walkable
Redevelopment Forecast
Defining Trends .................

} Luxury Market Under Threat
  ◦ Less Income
  ◦ Smaller & Childless Households
  ◦ Moving from Drivable Suburban to Walkable Urban
  ◦ Virginia Tech Forecast - 22 million surplus (40%) of large lot suburban luxury homes by 2025

} Rural Markets Challenged
  ◦ Increasing concern about commuting time & cost
  ◦ No Growth = Loss of Commercial Tax Ratables
  ◦ Regionalization is Unavoidable
Developing Efficient Housing is a Mandate
- Density = Affordability
- Overcome Regulatory & Entitlement Obstacles
- Retail Markets Will ‘follow the money’

NJ Rail System a Critical Asset
- Creating Density Along Transportation Corridors
- Direct Linkage to Job Retention & Growth
- Office Demand Shifting to Transportation Hubs

No Longer a ‘Field of Dreams’
- Redevelopment Zoning must be preceded by forward-thinking Market Demand Analysis