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Looking for light at tunnel's end

Insiders: Canceling project will put squeeze on property values

Monday, October 18, 2010 12:00 AM

By [Evelyn Lee](#)

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As the fate of the trans-Hudson rail tunnel hangs in limbo during Gov. Chris Christie's stay of execution for the Access to the Region's Core initiative, project supporters said there's more than commute times at stake: Canceling the project will mean residential and commercial buildings along rail lines won't benefit from growing demand as a result of enhanced train access.

"The consequences of killing the ARC tunnel project would be devastating," said U.S. Sen. Frank Lautenberg (D-Cliffside Park) in a statement, one day before Christie said the state would consider options to salvage the project. "Property values can now be added to the list of casualties, along with jobs, the environment and quality of life."



Making it easier for New Jersey residents to work in New York would offer a bigger boost to commercial development in Manhattan than in the Garden State, says Gus Milano, of Secaucus-based Hartz Mountain Industries. [Christina Mazza]

and advocacy group. Cumulatively, the project could boost home values by \$18 billion, generating \$375 million a year in new property tax revenues for municipalities.

"Without this project, there's no question future growth in property value and in tax revenues would be reduced," said Jeffrey G. Otteau, president of Otteau Valuation Group Inc., an East Brunswick-based appraisal and consulting services firm.

The ARC tunnel is aimed at doubling the number of New Jersey residents living within a 50-minute train ride of midtown Manhattan. That could raise residential property values by an average of \$19,000 per home, and up to \$29,000 for homes within a half-mile of train stations, according to a July report released by the Regional Plan Association, a New York-based urban research

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In general, residential and commercial properties located near mass transit are valued at 5 to 15 percent higher than comparable buildings not proximal to transportation. For example, he said, towns with Midtown Direct service on the Morris and Essex lines have seen a 6 percent increase in property values over the past year. The rest of New Jersey's housing market has seen a decline of about 1 percent.

Towns located along other rail corridors in New Jersey have not experienced the same benefit, because commutes on those lines are about twice as long as commutes on the Midtown Direct, which tend to be 35 minutes or less, Otteau said. ARC, though, would bring speedier service to some 50 towns in northern and central New Jersey, benefiting property values.

"With a project like the ARC tunnel, the convenience and mobility of people in locations where there [are] mass transit hubs ... makes this entire region that much more attractive," said Jim Kirkos, CEO of the Meadowlands Regional Chamber of Commerce, in Rutherford.



As the tunnel would make rail service more predictable, "that convenience factor weighs heavily on the mind of someone looking to relocate their business or purchase residential property in the area," he said.

Gus Milano, executive vice president at Hartz Mountain Industries, a Secaucus-based commercial real estate developer, had a different perspective. "Any multifamily or residential development will be more valuable" as a result of the ARC tunnel, he said, but the project "won't do anything for the commercial asset class in New Jersey."

While the tunnel would make it more attractive for some companies to locate in New Jersey towns along rail corridors, "the commercial base of New York will benefit more greatly than that of New Jersey," he said. Making it easier for New Jersey residents to work in New York "will aid in the commercial development within the city more so than it would in New Jersey."

Milano said Christie made the right decision to stop construction of the ARC tunnel, because "New Jersey is bearing the total burden of cost overruns," with the federal government and Port Authority each on the hook for a set dollar amount that New Jersey must match. He said he expects the project to move forward, but "the financing of it will change, and I think the cost will be shared more equitably among prospective beneficiaries."



While the ARC tunnel isn't driving any investment decisions for Hartz — which began acquiring multifamily assets this year to add to its existing retail, hotel, office and industrial portfolio — the

project may have a longer-term impact on the company's decisions, Milano said.

"There are certain commercial properties that I think, in future generations, will be converted to residential uses," he said. "We've identified certain areas where we think that the highest and best use five, 10, 15 years from now will be multifamily, and not necessarily commercial."

The one upside of not building the tunnel would be removing the additional tax burden on residents and businesses to pay for the project, Otteau said. While the tunnel would also help to generate additional revenue for the state, "that's a longer-term payback," he said. "You have to pay for it before you realize the economic benefits."

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