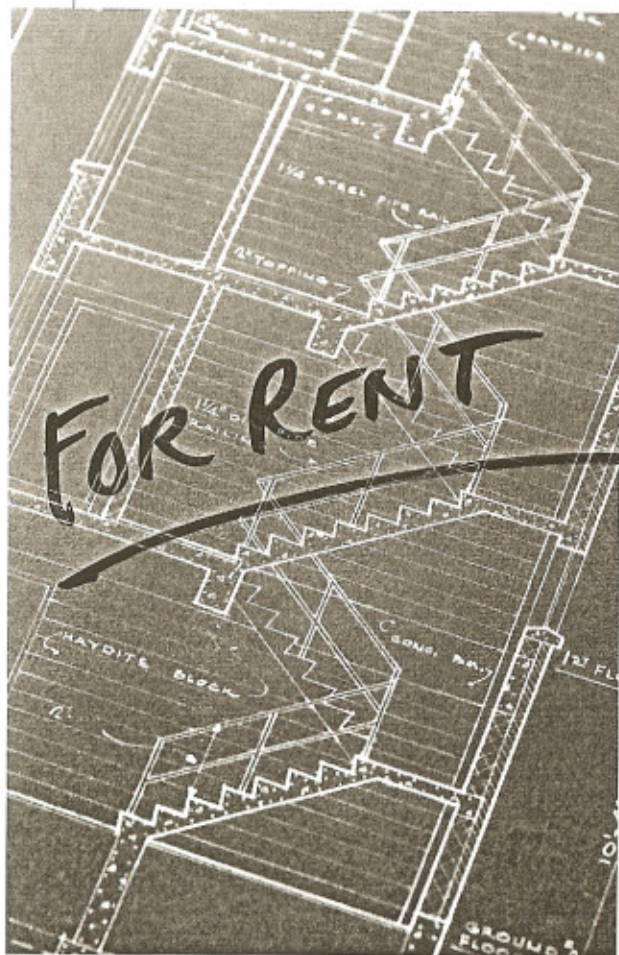


Taking a Closer Look

By David A. Kelso



Despite the sage motto, "seeing" should not always mandate "believing."

Literally a mountain of surveys and reports pose a chilling requiem for the office and industrial real estate market, not only in Somerset County, but in business centers across the nation.

The bad news literally includes the following:

A new report by Stevens Institute of Technology warns that New Jersey is losing its technology base, particularly in start-up businesses, to hungry regions like California and Texas. This is triggering a brain- and job-drain in the Garden State. A subsequent domino impact would wipe out tax revenues the state can ill afford to lose.

One poll finds that less than 30 percent of executives cite New Jersey as a good place to do business.

The above conclusion is consistent with national surveys that count New Jersey as one of the five worst states for business operations.

The Associated Press has just reported the state's economic growth has declined to the slowest rate in five years, measured by increasing initial unemployment claims and falling housing permits.

Expensive housing is driving young people away and slows the influx of others. Construction costs and materials have soared. A big bite of the building price tag is compliance with the onerous regulatory process. Simply put, we are seeing a lot of bad news.

But remember, seeing is not always believing. The good news side of the ledger has a positive presence, as well. While recent years have presented a difficult leasing market, the last three quarters have demonstrated

positive office space absorption in Somerset County. This past summer has been quite active, with inquiries from prospective tenants and leasing activity. A big note of encouragement has been space requirements from existing tenants.

Tenant retention is just as vital as signing new tenants. A key to retention, in addition to controlling costs, is effective property management. At Ilva Saronno we manage our own buildings and firmly believe this gives us a solid advantage in maintaining ongoing healthy relationships with our tenant base. Tenants like the idea of "hands on owners," because they can communicate directly with the ownership and get faster responses to problems or questions.

On the local level we see a positive increase in those shopping for office space from a diverse community of business segments, including insurance, finance, medical uses, tech/computer software developers and communications. These range from smaller firms to Fortune-pedigree companies. Regional and local companies are visible in the mix for space requirements.

There is no question the office vacancy rate in Somerset County is still high, in the 20 percent range. But it is improving thanks to a number of recent leasing transactions in the 40,000-square-foot to 100,000-square-foot range. This is proof that decision-makers still are pushing forward despite worrisome factors, such as the spike in oil prices and the ongoing terrorism menace.

In a perfect world a booming economy would generate substantial employment and put workers in those empty office buildings. But in this imperfect world, job growth has been consistent, but slow. The state also has lost some long-revered major employers and the recent Lucent merger threatens to significantly further whittle down the New Jersey payroll.

However—and perhaps as a result—one trend taking shape is the conversion of obsolete, surplus office buildings to other uses. That has already begun to trim the office inventory.

We also have said for years that government must help the commercial real estate industry recover by becoming a facilitator rather than an

obstacle. The good news is that is happening as Governor Corzine has recently announced the launching of public/private investment partnerships designed to have a \$1 billion impact on the state economy without additional taxes or public borrowing.

New Jersey has a virtually untapped reservoir of brainpower in our outstanding college and university community. With government cheerleading, we could harness such resources to address some of the state's economic problems.

It was heartening to read in the press, again just recently, that Hackettstown-based Centenary College will now host the Small Business Development Center. This facility will provide management assistance to current and prospective business owners in Morris, Sussex and Warren Counties. This is part of a network administered by the U.S. Small Business Administration.

This welcomed public/private partnership marks the first time a private institution has housed such a regional center. Obviously, the real estate

industry applauds small business expansion, which has the potential for using both offices and industrial space when growth occurs.

Despite the "slings and arrows" of changing market conditions, the value of commercial real estate assets is continually on the rise. My firm recently unveiled an offering for private and institutional investors. Our goal was to capitalize in order to fund acquisitions for future real estate investment. The response is enthusiastic because savvy investors realize that despite periodic red tides, good real estate assets will weather any storm.

And that you can both see and believe. ▲

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