



MEMORANDUM

TO: Members of the Authority
FROM: Tim Sullivan, Chief Executive Officer
DATE: May 10, 2023
Subject: Approval of Policy for Stranded Assets Repositioning Investment

Summary:

Members of the Board are requested to approve:

1. Policies for establishing the Stranded Assets Repositioning Investment to invest in the redevelopment and repositioning of underutilized commercial properties and other stranded assets into viable commercial or mixed-use properties which advance Statewide or regional strategies and objectives and strengthen local communities; and
2. The use of the \$25 million appropriated in the 2023 State Budget in accordance with the policies.

Background:

Across New Jersey and throughout the country, various demographic, economic and work-life trends have led to many vacated corporate campuses, underutilized malls and shopping centers, and empty office buildings. Many towns and municipalities across New Jersey now have vacant malls or retail centers and half-empty office buildings due to changes in work and shopping habits.

Development of large suburban offices/complexes and shopping malls boomed during the 1980s and 1990s, when the supply of cheap land and easy access to highways were a strong attraction. Now these buildings are typically over thirty years old and are often outmoded and less desirable. The office and commercial real estate market has changed and evolved also with many corporations seeking office locations close to transit and some returning to urban centers and downtown locations. Sizing and layout of offices and the need for space has changed as telecommuting and remote work options have multiplied. The pandemic dramatically increased online shopping which has greatly impacted and decreased the number of actual physical stores and overall retail.

This has resulted in many of these buildings now being vacant or partially vacant. Once thriving but now empty or only partially occupied, many of these buildings from corporate headquarter

complexes to local retail malls are no longer economically viable and have become a drain on many New Jersey communities.

As a result, these often large (ranging in size up to a million+ square feet) stranded assets are not only eyesores but often mean that communities are dealing with the loss of tax revenues, the costs of maintaining infrastructure and roads around these properties, and a lack of resources to solve the issues. Repositioning these large, stranded assets and extending the productive life of these properties will help reinvigorate communities, better serve current market needs, and keep or return properties to the tax rolls.

But repositioning these stranded assets can be challenging. Many of these properties were built on large properties developed with ease of highway car access and parking opportunities foremost in mind. Reuse strategies to meet today's business market needs and lifestyle trends will entail repurposing and repositioning. Reimagining the possibilities of these stranded assets will often require modifying the building(s) with a mix of uses, layouts, and thoughtful planning to make connections to the community.

To address the need to invest in repositioning these key stranded assets and repurpose vacant buildings into productive economic assets that benefit the community, EDA will utilize \$25 million from funds Governor Murphy and the legislature included in the 2023FY budget for real estate project funding to establish policies for this Stranded Assets Repositioning Investment.

The EDA has authority to undertake real estate projects, which includes acquiring equity interests in private corporations as is envisioned here. Similar to how EDA established policies for ERF Innovation Centers of Excellence investments, this Board Memo describes the policies for EDA's establishing the Stranded Assets Repositioning Investment to invest in the redevelopment and repositioning of underutilized commercial properties and other stranded assets.

Defining Stranded Assets Repositioning

Staff proposes defining Stranded Assets as underutilized commercial or other property(ies) of at least 50,000 square feet and could include, but is not limited to, vacant office parks, partially occupied retail malls, former healthcare facilities, or similar vacant or partially vacant building(s). For this investment policy, Stranded Assets do not include vacant land. Stranded Assets are properties that at one time served a useful function but have now become vacant or partially vacant and are in need of repositioning to meet current market needs/demands. Stranded Assets would be those that have a minimum 50% vacancy and a minimum length of vacancy/partial vacancy of one year.

Repositioning would include projects that undertake redevelopment and reuse of a Stranded Asset with a total project redevelopment cost of a minimum \$25 million and which results in a new project with a modified or different use such as one of the following types of real estate development projects:

- Commercial (including office)
- Industrial Use/Manufacturing (excluding warehouse)
- Mixed-use developments; any residential portion must comply with the 20% reservation for low- and moderate-income households required by N.J.S.A. 52:27D-329.9(b)

Repositioning would not include a simple renovation or redevelopment of a building/property which resulted in the same use as the original building. Repositioning would also not include a complete demolition of the Stranded Asset.

Policies for investing in Stranded Assets Repositioning

NJEDA staff will consider investment opportunities as staff become aware of such opportunities. In most instances, these arise through receipt of unsolicited proposals for redevelopment of real estate properties. In other cases, staff may become aware of potential Stranded Assets through the regular course of promoting the State and investment and development in the State. While some proposals and potential investments could yield opportunities that would benefit the State and be a good fit for the Authority, the Authority has not had the framework to review and offer to invest in such projects. Given the recent FY 2023 budget appropriation for Real Estate Project Funding (as described below), staff is proposing the parameters below for review of Stranded Assets Repositioning proposals and potential investments to ensure all current and future opportunities are reviewed equitably.

Because potential project opportunities are highly context specific, the appropriate structure for the investment for each Stranded Assets Repositioning will vary significantly. Therefore, instead of proposing specific types of investment, staff proposes parameters to review proposals. Should staff determine that a proposal or opportunity (1) qualifies as a Stranded Assets Repositioning and (2) satisfies the parameters below, staff will work with the relevant party to determine the appropriate investment approach in order to move forward into a fully defined investment and bring the investment to the Board for consideration.

Framework for Reviewing Unsolicited Proposals or Investment Opportunities for Stranded Assets Repositioning

NJEDA staff will review unsolicited proposals as they are submitted to NJEDA. Staff may also review other investment opportunities if the initial information staff is presented demonstrates that the project would satisfy the criteria below. In both instances, staff may determine that additional information is necessary. If so, staff will request the information from the relevant party. NJEDA staff will then use the following evaluation criteria, which add more specificity to the above required factors and several additional criteria, to determine if an investment should be made based on an unsolicited opportunity. These evaluation criteria will also be used to drive the type and sizing of an investment opportunity for a given potential project. Justification for the type and

sizing of an investment opportunity will be included as part of the selected project's submission to the Board for approval.

- The degree to which the project advances Statewide and/or regional strategies and objectives.
- The location of the project, where, at a minimum, the Stranded Asset must be located in New Jersey.
- Qualifications and experience of the entities that will be involved in developing and operating the project, where partners with demonstrable experience executing similar projects in terms of approach or scale and size are significant factors for consideration.
- The level of support and quality of commitments from other entities, such as private sector corporations, academic partners, local non-profits, local government entities, etc.
- The project's development and operational readiness, where opportunities that can deliver an economic benefit quickly or are ready to be developed will be considered more highly.
- The economic feasibility of the project, such as:
 - Whether the project's business model is realistic and sustainable, with a sustainable model being one that will require minimal further State assistance
 - Whether the project will be competitive in the locality, state, or region
 - Whether the quantity of financial support requested from the Authority is both reasonable for the scale of potential impact and adequate to achieve the projected outcomes.
- The degree to which the project maximizes the leveraging of other sources of funding.
- The degree to which the project promotes economic development, the creation or retention of jobs, and the stimulation of private sector investment and expansion.
- The degree to which the project supports the State's ambition to strengthen its position as the most diverse and inclusive innovation ecosystem in the country, for example by providing opportunities to woman-, minority-, or veteran-owned business.
- The degree to which the project will engage with the local community and existing industries.
- The degree to which the project supports development in historically underserved communities.
- The anticipated return of investment for NJEDA for the given investment structure.

Proposal Review, Project Development, and Board Approval Process:

While staff does not anticipate actively soliciting proposals, moving forward, staff will publish information about the Authority's consideration of unsolicited proposals for Stranded Assets

Repositioning, a courtesy version of the above criteria, and basic contact information on the Authority's website.

Should staff determine that a proposal satisfies the above criteria and presents a high-quality opportunity, staff will work directly with the submitter to further define the project as a potential investment opportunity for the Board's consideration.

Staff anticipates that the \$25,000,000 appropriated for strategic investments in Stranded Assets Repositioning will support at least 2-3 projects. While each Stranded Assets Repositioning Investment opportunity will be evaluated based upon its unique project characteristics, staff anticipates that approved projects will generally require \$8,000,000 to \$15,000,000 of investment funding and that no single project would receive more than \$15,000,000 nor would Stranded Assets Repositioning investment funding to a project be more than 50% of total project costs.

Investment opportunities could take a variety of forms, including, but not limited to, joint ventures, real estate partnerships, operating partnerships, and equity investments. Where applicable, NJEDA will first look to use existing programs to support the Stranded Assets Repositioning. If these existing programs alone are not sufficient to provide the most appropriate support for a given project, staff will evaluate the proposal for an investment under this framework in this memorandum.

Entities with whom the Authority may enter into an agreement under this framework will be subject to all normal legal review, ethics review, State Ethics Commission approval (when required), good standing with the New Jersey Department of Environmental Protection and Department of Labor and Workforce Development, and tax clearance certificate verification from the Department of Treasury's Division of Taxation that are typical for projects progressed for the Board's consideration.

Fiscal Year 2023 State Appropriation

On June 30, 2022, Governor Murphy signed the Fiscal Year 2023 Appropriations Act ("Act") into law. The Act allocates significant State funding for numerous strategic economic development investments to support key industries, advance the innovation economy, continue to bolster recovery, and spur statewide growth. These strategic investments include \$70 million for Real Estate Project Funding. Staff proposes utilizing \$25 million from that budget line-item appropriation to provide funding to create the Stranded Assets Repositioning Investment. \$23,750,000 will be used to fund investment projects and the Authority will utilize up to \$1,250,000 (5%) for program administrative costs.

Recommendation

I recommend the Members approve: (1) policies for establishing the Stranded Assets Repositioning Investment to invest in the redevelopment and repositioning of underutilized commercial properties and other stranded assets into viable commercial or mixed-use properties which advance Statewide or regional strategies and objectives and strengthen local communities; and (2) the use of the \$25 million appropriated in the 2023 State Budget in accordance with the policies.



Tim Sullivan, CEO

Prepared by: Liza Nolan