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RUTGERS

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September 1, 2004

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NEW OFFICE MARKET REALTIES – the latest *Sitar-Rutgers Regional Report* looks at fundamental changes that are now profoundly reshaping New Jersey's office markets.

During the second quarter of 2004, the New Jersey economy fully recovered all of the jobs lost during the past recession and then set new record job peaks. At the same time, office-employment also returned to the peak levels achieved in the fourth quarter of 2000, just before the recession hit. Office vacancy rates, however, remain mired close to their recession lows, seemingly unaffected by recent job growth.

In fact, while office employment has surpassed previous record levels, there has actually been a significant reduction in the amount of occupied office space. The total occupied Class "A" office inventory has declined by 11.2 million square feet, from 95.1 million square feet in the fourth quarter of 2000 to 83.9 million square feet in the second quarter of 2004. Thus, an approximately equivalent number of office workers now occupy 11.2 million *fewer* square feet of space – nearly 12 percent less – than in 2000. On an employee base, there has been an approximate 12 percent reduction in square footage per worker!

Does this reflect a new office market reality, spurred by the aftershocks of the past recession, when the overleasing and overhiring of the late 1990s was painfully exposed?

Extreme sensitivity to costs now dominates corporate behavior in an unrelentingly competitive global economy. This powerful factor may well be reshaping fundamental office dynamics, such as the amount of space allocated per worker and the amount of space “bankrolled” for future expansion. Thus, new disciplined office consumption protocols may now be emerging. One ramification is that office absorption today may be considerably less linked to employment expansion than in the past, and that it may take much more vigorous and sustained job growth before office markets substantially improve.

This represents a second major transformation of the office market during the past generation. The first transformation stemmed from the overbuilding excesses of the 1980s; as a result, a new office *construction* discipline was imposed in the 1990s. The second transformation stemmed from the corporate overleasing and overhiring excesses of the 1990s; as a result, a new office *consumption* discipline is now emerging. Business as usual in the office market has been rendered history, again!

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