

# Sitar–Rutgers

## Regional Report

James W. Hughes and Joseph J. Seneca, editors

### The Lost Employment Decade

By James W. Hughes and Joseph J. Seneca

**T**he great 2008 global credit crisis continues to unfold, America's financial markets remain in turmoil, and fears are intensifying that the United States will experience a deep post-credit crisis recession rivaling the deep post-oil-shock recession of the early 1980s. Unfortunately, before the current national and global economic turmoil, New Jersey's labor markets were already stuck in low gear, with private-sector employment growth flatlining in 2007, and then turning substantially negative in 2008. Thus, we were not well positioned when the financial storms gathered force, and economic weakness prevails as we enter the final stages of the decade.

#### The New World Financial Order

A tsunami of abundant, seemingly risk-free, cheap global credit available at extraordinarily low interest

rates drove the national economy during the 2000–2006 period. This led to unprecedented wealth on Wall Street—record deals, record profits, record pay, and record bonuses. In retrospect, economic gravity was defied, with New Jersey gaining above-average benefits, especially with respect to income gains. But this debt-driven era is now history.

The five great Wall Street investment banks are no more! Lehman Brothers was dissolved, Goldman Sachs and Morgan Stanley became bank holding companies, Merrill Lynch was bought by Bank of America, and Bear Stearns was acquired by JPMorgan Chase. Broad financial-institution de-leveraging and recapitalization are now supplanting what was an unprecedented lending and borrowing binge. Wall Street and the nation's financial markets are now undergoing a long-term fundamental structural *(continued, page 2)*

### Eastern Trade Winds Impact State's Commercial Real Estate Market

By Sachiyo Asakawa

**N**ew Jersey's Asian population has been growing rapidly since the 1990s; in fact, it nearly doubled between 1990 and 2000. According to U.S. Census Bureau demographic data released in August for New Jersey, the Asian American population in the state in 2007 totaled 643,900, a 32 percent increase over the 2000 figure. Asian Americans represent the largest percentage increase of all racial/ethnic groups in New

Jersey. The state as a whole experienced a double-digit percentage increase in its Asian American population between 2000 and 2007. The largest increase, at 113 percent, occurred in Warren County, and the lowest in Essex County, at 10 percent. Middlesex County, at 145,500, has the largest Asian American population, followed by Bergen County, at 124,900. Except for these two counties, which traditionally *(continued, page 5)*

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## 2 Lost Decade, continued

*Recessionary conditions will prevail in the United States and New Jersey throughout 2009. . . . A strong economic rebound is just not likely.*

transformation. A new era of lower returns, thinner profits, fewer financial jobs, lower compensation, and more rational bonuses is now emerging. The reverberations of this restructuring are already being felt throughout New Jersey, both through fewer New Jerseyans working on Wall Street and fewer financial-sector jobs in the state. New Jersey lost 7,900 financial activities jobs in 2007, and an additional 5,700 jobs were lost in 2008 (through September). And this appears to be just the tip of the financial-restructuring iceberg.

### Costs Again Matter

But New Jersey may be buffered somewhat from the harsh fate awaiting Wall Street. The economic prosperity of New Jersey in the 1980s and 1990s was bolstered by the state's regional cost advantage: we were the low-cost place of doing business in the broader New York metropolitan region. However, during the financial industry boom years, costs seemingly didn't matter. Midtown Manhattan rents of \$70 to \$100 per square foot appeared trivial in the context of exorbitant record profits. As the entire financial system recalibrates, costs again matter. New Jersey's much lower office rents may again gain relevance—significant relevance. This was the case during the 1989–1992 Wall Street meltdown. Even though the “Street” was hemorrhaging jobs, financial employment grew on the New Jersey side of the Hudson River.

### The Current Economic Situation

The only job growth in New Jersey during the current decade occurred between 2003 and 2007 (figure 1). In the first three years of this period (2003 to 2006), New Jersey's employment growth totally and absolutely refused to grow at a pace that had historically accompanied previous economic expansions in the state. Part of this was due to weak national employment growth, but part was also because we grew far slower than the nation. During the previous two expansions—1982–1989 and 1992–2000—New Jersey on average added 74,000 private-sector jobs per

year (table 1). But during 2004, 2005, and 2006—all expansion years—New Jersey on average added 23,300 private-sector jobs per year, less than one-third of that expected. To put this into perspective, North Carolina, a key competitor and roughly the same size as New Jersey, on average gained 92,000 private-sector jobs per year during 2004, 2005, and 2006, quadruple New Jersey's performance.

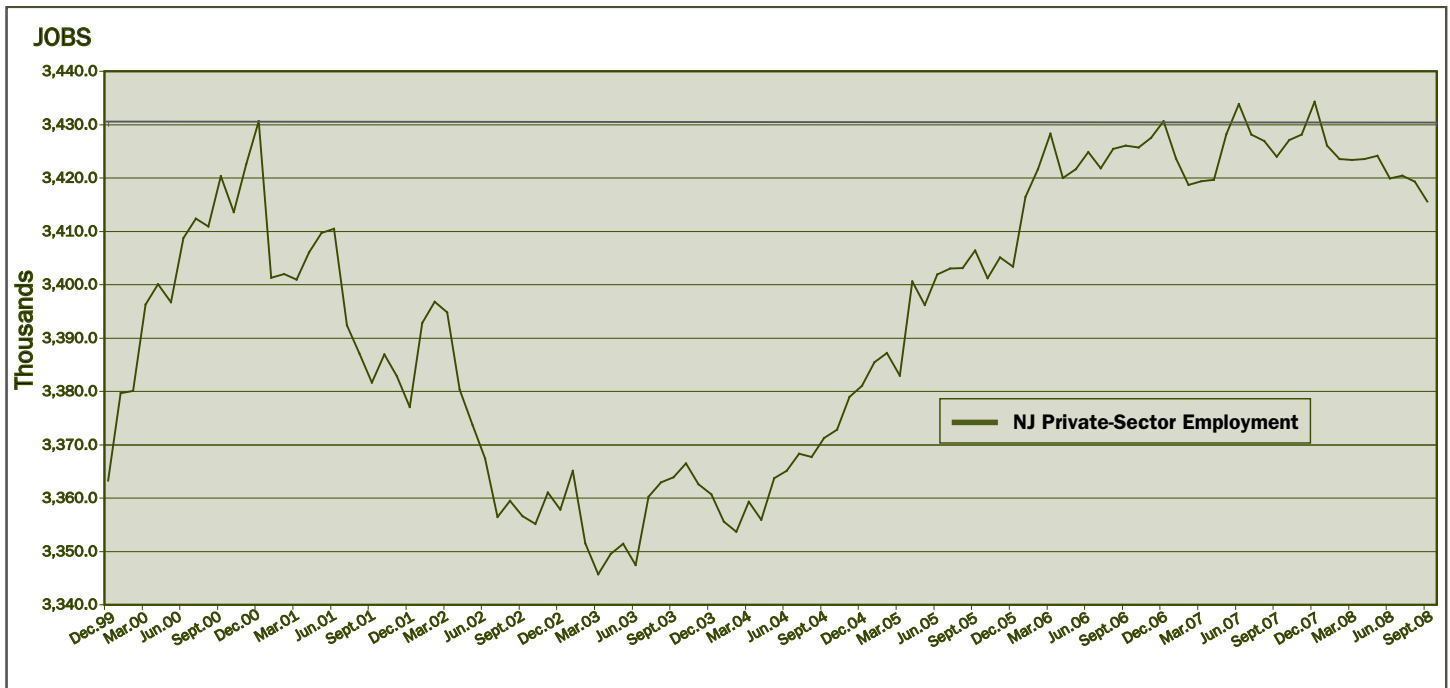
Following these three sub-par years, in 2007 the state unexpectedly and surprisingly flatlined. Private-sector employment growth came to a virtual halt as New Jersey gained only 3,700 jobs for the entire year. To put this total into perspective, New York State—driven by Wall Street-based financial services—gained 86,000 private-sector jobs in 2007, 23 times more than New Jersey. During the entire 2003–2007 expansion period, the nation's private-sector employment base grew by 7.0 percent while New Jersey's grew by only 2.6 percent. Then, in what at first blush seemed like good news, after badly lagging the nation for four straight years, New Jersey finally started to track the nation quite closely in 2008. However, just as we started to track the nation, the nation cratered. During the first nine months of 2008, the nation lost 969,000 private-sector jobs, while New Jersey lost 18,700 jobs. Employment growth has fully expired this year.

Recessionary conditions will prevail in the United States and New Jersey throughout 2009, with considerable job losses to be absorbed. A strong economic rebound is just not likely. Only a few months ago, there were serious expectations about a national economic recovery in the second half of this year. Now, if there's a second-half recovery, the earliest that it is likely to occur is the second half of 2009. And, it is entirely possible that a slow-motion recession could morph into a full-speed recession. This would imply that any rebound in the state's office markets would have to wait until 2010.

### The Lost Employment Decade

Given current national and state economic trend lines, this could turn out to be New Jersey's lost

**FIGURE 1**  
**New Jersey Private-Sector Employment**  
**December 1999–September 2008**  
*(in thousands)*



Sources: U.S. Bureau of Labor Statistics; New Jersey Department of Labor and Workforce Development.

employment decade. It could be—and we stress *could be* at this point in time—the first time since the 1930s’ Great Depression that we may have fewer private-sector jobs at the end of a decade than at the beginning. Thus, in the understatement of the moment, this has not been the decade of employment growth in New Jersey. To put this understatement in perspective, during the final two decades of the twentieth century—1980–1990 and 1990–2000—New Jersey gained on average 437,000 private-sector jobs per decade. Labor market gains in the current post-2000 decade pale in contrast.

The post-2000 period consists of three phases. Between December 2000 and March 2003, New Jersey experienced 27 months of employment decline (–84,800 private-sector jobs). Then, between March 2003 and December 2007, the state experienced very modest and below-average employment growth (+88,600 private-sector jobs), despite the

extraordinary national stimulus of unprecedented housing and credit bubbles. Starting in December 2007, employment began a steady retreat, with 18,700 private-sector jobs lost through September 2008. Overall, the combination of two contractionary phases and one expansionary phase resulted in the loss of 14,900 private-sector jobs—between December 2000 and September 2008—with significant additional losses expected to occur over the next 18 months or so. So, there is the *possibility* that we could exit the decade with fewer private-sector jobs than when we entered it.

### Recessionary Expectations

A quick look in the economic rearview mirror can help us sketch out the possible dimensions of the current downturn. During the last recession, the mild 2000–2003 employment downturn, New Jersey lost 84,800 private sector jobs over a *(continued, page 4)*

## 4 Lost Decade, continued

During the severe 1989–1992 downturn, New Jersey lost 265,000 private-sector jobs over a 38-month period.

**TABLE 1**  
**New Jersey Private-Sector Job Growth**  
*(Numbers in thousands)*

**Expansion: April 1982 to March 1989**

Employment Growth:	590.1	Jobs
Length: 6 Years and 11 Months	6.92	Years
<b>Employment Growth per Year:</b>	<b>85.3</b>	<b>Jobs/Year</b>

**Expansion: May 1992 to December 2000**

Employment Growth:	551.5	Jobs
Length: 8 years and 7 months	8.58	Years
<b>Employment Growth per Year:</b>	<b>64.3</b>	<b>Jobs/Year</b>

**TWO EXPANSIONS COMBINED**

Employment Growth:	1,141.6	Jobs
Length: 15 years and 6 months	15.5	Years

<b>Employment Growth per Year:</b>	<b>73.7</b>	<b>Jobs/Year</b>
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**2004: December 2003 to December 2004**

<b>Employment Growth per Year:</b>	<b>20.3</b>	<b>Jobs/Year</b>
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**2005: December 2004 to December 2005**

<b>Employment Growth per Year:</b>	<b>22.4</b>	<b>Jobs/Year</b>
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**2006: December 2005 to December 2006**

<b>Employment Growth per Year:</b>	<b>27.2</b>	<b>Jobs/Year</b>
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<b>Average Employment Growth per Year—2004, 2005, and 2006:</b>	<b>23.3</b>	<b>Jobs/Year</b>
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**2007: December 2006 to December 2007**

<b>3.7</b>	<b>Jobs</b>
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**2008: December 2007 to September 2008**

<b>-18.7</b>	<b>Jobs</b>
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<b>Annual Average Equivalent:</b>	<b>-24.9</b>	<b>Jobs</b>
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Sources: U.S. Bureau of Labor Statistics and New Jersey Department of Labor and Workforce Development.

27-month period. During the previous recession, the severe 1989–1992 downturn, New Jersey lost 265,000 private-sector jobs over a 38-month period. Now, in the current downturn, the state has lost 18,700 private-sector jobs over a 9-month period (December 2007 to September 2008). So, to date, the economic “hit” has been minimal compared with past recessions. If we follow the mild 2000–2003 recession, the current downturn would end in March 2010, and the state would lose an additional 66,100 private-sector jobs. If we follow the more severe 1989–1992 experience, the current downturn would end in February 2011, and the state would lose an additional

246,300 jobs. Both potential scenarios appear harsh, but that’s what it means to endure a recession! So, based simply on historical analogy, expect New Jersey’s down-cycle to end somewhere between March 2010 and February 2011, with private-sector employment losses totaling between 66,100 and 246,300 jobs. Aggressive monetary and fiscal actions already taken by federal authorities, with more likely to come, may help ameliorate the worst recessionary pain. However, the national and global economic headwinds are so strong that the recession in New Jersey should prove at least to be the equal of the recession earlier in the decade. ■

*Based simply on historical analogy, expect New Jersey’s down-cycle to end somewhere between March 2010 and February 2011.*

## Trade Winds, continued

have contained large Asian communities, new immigrants are increasingly moving to non-traditional counties in the suburbs of such counties as Hunterdon, Somerset, and Warren.

The state’s formerly dominant white population is the only group that experienced a negative change between 2000 and 2007, with New Jersey losing 4 percent of its white population. Union County experienced the largest loss—12 percent—followed by Bergen and Middlesex Counties, each with a 10 percent decrease in white population. The black population grew by only 3 percent between 2000 and 2007. Hispanic population, however, showed a substantial growth of 24 percent throughout the state.

Although New Jersey has always welcomed immigrants, the influence of Asian immigrants on the state’s economy has never been this apparent. The number of Asian-owned businesses is growing. According to the 2002 *Survey of Business Owners: Asian-Owned Firms* (the latest survey done by the Census Bureau, released in May 2006), there were approximately 51,950 Asian-owned businesses in New Jersey. This represented 7.3 percent of all firms in the state and 4.8 percent of the national total.

Asian immigrant populations traditionally came to the United States and opened small- to mid-

sized family-operated businesses in their local neighborhoods. Some eventually grew to become national companies; others remained local and maintained their family-business style. SouthPole USA, one of the leading street outerwear apparel companies in the nation (headquartered in Fort Lee), is a prime example of an Asian-owned company that started as a small family business and became a multimillion-dollar national company. SouthPole USA relocated its North Bergen distribution center to a 418,000-square-foot facility in South Brunswick earlier this year. Not only locally grown businesses like SouthPole USA, but also a number of Asian companies that have branches in New Jersey, are expanding their presence by expanding their facilities. Korea Express, a leading Korean logistics company headquartered in Secaucus, signed a 210,000-square-foot lease for its distribution center in South Brunswick.

The *American Community Survey* estimates New Jersey’s 2006 Korean population at 86,356. Palisades Park in Bergen County has the highest percentage of Korean Americans in the nation, with more than 36 percent of its population identifying their ancestry as Korean at the 2000 Census. Most of New Jersey’s Korean-owned businesses have *(continued, page 8)*

The Northern New Jersey office market experienced a slow and quiet quarter.

# Economic Downturn Fuels Concern in Office Market

By Sachiyo Asakawa

While events affecting the national economy and financial sector change daily, the Northern and Central New Jersey office market remained basically unchanged in the third quarter. The total vacancy rate at the end of the third quarter was 15.5 percent, a slight 0.3 percentage point rise from the previous quarter. The average asking rent was \$25.77, only a 10-cent increase from the previous quarter. The Class A office market showed an increase in the vacancy rate, up from 17.8 percent in the second quarter to 18.5 percent at the end

of the third quarter, a 0.7 percentage point increase. The asking rent climbed by \$0.07 to \$28.05. Total net absorption for the quarter was a negative 306,102 square feet; as a result, the year-to-date absorption increased to a negative 206,009 square feet.

The Northern New Jersey office market, including Bergen, Essex, Hudson, Hunterdon, Morris and Passaic Counties, experienced a slow and quiet quarter. Overall, the vacancy rate increased from 14.8 percent at the end of the last quarter to 15.3 percent, and the average

## Northern and Central New Jersey Total Office Market Third Quarter 2008

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption	2008 YTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate			
Bergen	585	29,831,592	4,679,962	15.7%	5,254,202	17.6%	\$27.29	(298,745)	(416,133)
Essex	397	28,809,187	3,197,340	11.1%	3,441,152	11.9%	\$25.74	(15,069)	(343,486)
Hudson	198	25,479,736	1,464,920	5.7%	2,137,855	8.4%	\$29.04	179,857	413,782
Hunterdon	62	1,923,378	571,582	29.7%	576,146	30.0%	\$23.32	28,021	105,026
Mercer	368	17,800,024	2,736,894	15.4%	2,874,538	16.1%	\$27.96	72,123	72,365
Middlesex	489	29,095,279	3,994,656	13.7%	4,522,019	15.5%	\$24.56	266,204	245,661
Monmouth	480	16,234,757	1,847,685	11.4%	1,895,490	11.7%	\$21.94	14,160	350,207
Morris	441	30,374,768	5,045,693	16.6%	6,293,522	20.7%	\$26.82	(92,060)	(113,733)
Passaic	167	6,904,505	1,141,364	16.5%	1,159,333	16.8%	\$21.58	(28,105)	(24,606)
Somerset	289	20,777,993	3,277,272	15.8%	4,443,158	21.4%	\$24.52	(299,521)	(265,510)
Union	334	11,245,493	1,027,243	9.1%	1,195,882	10.6%	\$26.35	(132,967)	(229,582)
<b>Total</b>	<b>3,810</b>	<b>218,476,712</b>	<b>28,984,611</b>	<b>13.3%</b>	<b>33,793,297</b>	<b>15.5%</b>	<b>\$25.77</b>	<b>(306,102)</b>	<b>(206,009)</b>
Central NJ	1,960	95,153,546	12,883,750	13.5%	14,931,087	15.7%	\$25.01	(80,001)	173,141
Northern NJ	1,850	123,323,166	16,100,861	13.1%	18,862,210	15.3%	\$26.58	(226,101)	(379,150)

Notes: Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities. Total Inventory, Space Available, and Net Absorption figures are in square feet.

Source: CoStar Group, Inc. Data as reported September 30, 2008.

asking rent dropped to \$26.58 from \$26.62. The quarter-to-date absorption rate was a negative 226,101 square feet. The Northern New Jersey market did not add any new square footage to the inventory during the quarter. Bergen County had a sluggish quarter: the total vacancy rate rose to 17.6 percent, the highest in the last 10 years, and the average asking rent dropped to \$27.29, the lowest since the second quarter of 2007.

Meanwhile, the Central New Jersey office market maintained the same vacancy rate as the second quarter—it stayed at 15.7 percent. The asking rent rose to \$25.01 from \$24.82 in the previous quarter. There were no major leases exceeding 100,000 square feet during the third quarter this year. The largest deal in the Central New Jersey market was a

54,000-square-foot lease at 30 Knightsbridge Road in Piscataway by DMJM Harris, an engineering firm.

In the third quarter of 2008, the largest lease signed in the Northern and Central New Jersey office market was a 163,386-square-foot lease by Reckitt Benckiser, Inc., at Morris Corporate Center in Parsippany. At Harborside Financial Center III in Jersey City, Arch Insurance signed a 106,815-square-foot lease. A total of 2.4 million square feet was leased during the quarter, an amount almost unchanged from the previous quarter, compared with 4 million square feet leased during the third quarter in 2007. Hudson County, specifically in the Waterfront submarket, had an active sublease quarter, represented by a 71,474-square-foot renewal by Savvis Communications Corporation and a 63,772-square-foot renewal by Tullett Prebon Holdings *(continued, page 8)*

*There were no major leases exceeding 100,000 square feet during the third quarter this year.*

### Northern and Central New Jersey “Class A” Office Market Third Quarter 2008

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption	2008 YTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate			
Bergen	85	13,457,910	2,909,457	21.6%	3,370,924	25.0%	\$29.55	(118,605)	(181,746)
Essex	64	15,490,889	2,056,724	13.3%	2,279,011	14.7%	\$28.47	(135,776)	(529,338)
Hudson	51	19,633,461	1,103,310	5.6%	1,751,676	8.9%	\$30.75	59,968	184,592
Hunterdon	8	817,630	348,103	42.6%	348,103	42.6%	\$25.27	5,574	52,832
Mercer	88	8,473,189	1,603,051	18.9%	1,646,874	19.4%	\$31.73	7,597	174,450
Middlesex	120	17,614,479	2,200,871	12.5%	2,555,903	14.5%	\$27.01	270,884	363,986
Monmouth	56	5,335,830	653,612	12.2%	681,093	12.8%	\$25.65	25,461	193,090
Morris	123	18,957,325	3,762,309	19.8%	4,809,798	25.4%	\$28.79	(59,586)	(224,980)
Passaic	20	2,347,187	711,305	30.3%	729,274	31.1%	\$23.63	(54,892)	(44,991)
Somerset	100	14,671,699	2,400,181	16.4%	3,541,094	24.1%	\$25.14	(343,314)	(287,188)
Union	31	3,920,788	454,681	11.6%	585,975	14.9%	\$28.98	(75,009)	(152,691)
<b>Total</b>	<b>746</b>	<b>120,720,387</b>	<b>18,203,604</b>	<b>15.1%</b>	<b>22,299,725</b>	<b>18.5%</b>	<b>\$28.05</b>	<b>(417,698)</b>	<b>(451,984)</b>
Central NJ	395	50,015,985	7,312,396	14.6%	9,010,939	18.0%	\$27.24	(114,381)	291,647
Northern NJ	351	70,704,402	10,891,208	15.4%	13,288,786	18.8%	\$28.81	(303,317)	(743,631)

*Notes:* Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities. Total Inventory, Space Available, and Net Absorption figures are in square feet.

*Source:* CoStar Group, Inc. Data as reported September 30, 2008.

## Economic Downturn, continued

Corporation. Three of the top five largest leases in the entire market during the quarter were renewals. HSBC renewed its lease at Somerset Corporate Center II in Bridgewater for 110,000 square feet. The increase of sublease activities indicates that tenants are maintaining a “wait and see” mentality in the ongoing economic downturn.

New delivery to the market this quarter was minimal, with only 109,800 square feet newly added. Representing the largest delivery, a 50,000-square-foot Class A building—Pond View Professional Park III in Freehold—was completed. It is currently 50 percent occupied.

There are rising concerns among industry professionals after the collapse of Lehman Brothers about the ripple effect on the New Jersey office market, especially in the Jersey City Waterfront market. Lehman Brothers currently occupies approximately 700,000 square feet in the Northern New Jersey market. Although no statement has been released (as this article is written) regarding Lehman employees, the impact on the office market in Manhattan and Northern New Jersey is already expected to be enormous. If Lehman Brothers were to vacate all the Manhattan office space it currently occupies, it is estimated that the vacancy rate for the Manhattan office market would rise by more than one percent. That might work to quell the rising average asking rental price in the Manhattan office market and make it more attractive to potential tenants than it used to be. The Northern New Jersey market would suffer a negative impact, as it has enjoyed the spillover effect of office tenants closed out of Manhattan’s rising rental market.

It is apparent that the Northern and Central New Jersey office market will experience a rising vacancy rate in future quarters due to the economic slowdown and the amount of office space currently under construction in this market. Recent bankruptcies and acquisitions in the financial sector are fueling fears of the unknown in the current economic climate. ■

## Trade Winds, continued

located their facilities in the surrounding areas of Carlstadt, Moonachie, Fort Lee, and nearby markets. As the market starts aging and becoming saturated, Korean American business owners in Northern New Jersey will be forced to look for different markets that offer modern and spacious facilities in the Central New Jersey market.

New Jersey is also home to a large Indian American population. The 2006 *American Community Survey* estimates the state’s Indian American population at 256,965, the largest Asian ethnic group in the state. Middlesex County in Central New Jersey has the highest concentration of Indian Americans and the second-highest Indian American population in the United States in absolute numbers. Indian Americans are a significant force in the Central New Jersey commercial real estate market, particularly in the small-sized retail market.

As Asian immigrants expand their presence in New Jersey, the number of Asian-owned businesses will increase as well. In addition to the recent growth of Asian imports to the state, inevitably the Asian population will increasingly influence the shape of the state’s commercial market. ■

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