

# Sitar–Rutgers

## Regional Report

James W. Hughes and Joseph J. Seneca, editors

A quarterly report on employment and office markets in Northern and Central New Jersey

August 2004

Volume 7  
Number 3

Published by the  
Edward J. Bloustein  
School of Planning  
and Public Policy  
and Sitar Company •  
ONCOR International

**Sitar** Company  
ONCOR  
Worldwide Real Estate Services

THE STATE UNIVERSITY OF NEW JERSEY  
**RUTGERS**  
Campus at New Brunswick

## Employment Locomotive, Office Caboose

By James W. Hughes and Joseph J. Seneca

**E**conomic wild parties often produce prolonged economic hangovers. The office market debacle of the early 1990s stemmed from the overexuberant office construction of the 1980s. Such excesses ultimately led to an extraordinary level of market discipline that reshaped the basic financial protocols of office development. Office construction throughout the 1990s was far more rational and ordered than the decade before.

In contrast, the office market difficulties of the first half of the 2000s stemmed from overexuberant corporate hiring and overbullient office leasing during the second half of the 1990s—a second, but

different, wild economic party. However, the consequences of the new “excesses” may be as profound as those of a decade earlier. Are corporate hiring and leasing decisions now subject to a new market discipline not only because of past excesses but also because of new cost strictures imposed by an increasingly competitive global economy and new business protocols emanating from Sarbanes-Oxley? While we cannot fully answer this question, there does appear to be some shift in the dynamics between employment growth and office absorption. First, let’s review the status of America’s employment recovery. *(continued, next page)*

## Corporate Giants Squeeze into Tighter Space

By Linda Tanaka

**A** large number of our nation’s biggest corporations are headquartered right here in New Jersey. Drawn by the talented employee base, favorable tax incentives, quality of life, or simply logistics, these companies have made their home here.

We examined the office space use and office staff for some of the largest U.S. companies headquartered in New Jersey. Manufacturing facilities, warehouse space, and flex space as well as employees based out of those facilities, were excluded. Here is a quick look at what we found.

With telecommuting and outsourcing on the rise, as well as corporate cost-cutting, space per employee is on the decline. Twenty years ago, a company would calculate about 227 square feet per employee. Today that number is closer to 175 square feet per employee.

As offices are getting smaller, common areas are becoming, well, more common. Having more general meeting and work space allows individual spaces to be smaller while including flexible space that can be used for intercompany gatherings, client meetings, team work areas, or other uses as needed. *(continued, p. 8)*

## 2 Locomotive, *continued*

*After a long period of fretting about “job loss” economic growth, August 2004 will mark a full year of sustained but modest employment advances in the United States.*

### The National Scene

The odometer of economic history moves relentlessly forward. After a long period of fretting about “job loss” economic growth, August 2004 will mark a full year of sustained but modest employment advances in the United States. Between August 2003—the nation’s cyclical employment low—and July 2004—the latest month for which we have data—the nation experienced a net increase of 1.48 million jobs. Nonetheless, only 55 percent of the 2.7 million jobs lost during the March 2001–August 2003 “job loss” period have now been recovered. It is increasingly likely that George Bush will be the first president since Herbert Hoover to see employment shrink on his watch. Whether he is or not, the national employment trajectory should remain positive, but not ebullient, into 2005.

### The New Jersey Advantage

In this context, New Jersey’s job market continues to outpace that of the nation. The state lost 67,000 jobs during its “job loss” period—December 2000 (business cycle peak) to March 2003 (business cycle low). But all of these losses have now been recovered. Between March 2003 and June 2004, New Jersey had a net gain of 81,700 jobs. A new employment high was reached in April 2004. Then, new records were consecutively set in May 2004 and June 2004. As shown in Table 1, employment in June 2004 (4,040,000 jobs) is now 14,700 jobs greater than that of the previous cyclical high in December 2000 (4,025,300 jobs).

### Office and Job Markets: Emerging Disparities

The fourth quarter of 2000 marked not only the state’s cyclical employment peak (December 2000) but also the peak of the (then) surging eleven-county northern and central New Jersey office market. The direct vacancy rate (excluding sublets) for the total office inventory fell to 9.7 percent during the fourth quarter, while the direct Class “A” vacancy rate fell to

7.7 percent. Thus, record employment highs and record office vacancy lows were, not surprisingly, achieved simultaneously. But, as 2001 unfolded, both indicators started to deteriorate: the state’s office vacancy rates began to rise while employment began to decrease.

Employment usually leads changes in office markets. But the office lag currently being experienced may well be unprecedented. While the state’s job market was fully recovered by the second quarter of 2004, office vacancy rates (see related article on page 9 of this report) had barely budged from their recession lows and still stood far higher than in the fourth quarter of 2000. In fact, the direct (excluding sublet) Class “A” vacancy rate in the second quarter of 2004 (19.9 percent) was still more than two and one-half times that of the fourth quarter of 2000 (7.7 percent). The overall Class “A” vacancy rate, including direct and sublet space available, rose from 11.0 percent to 26.3 percent over the same time period (Table 2), an increase of 15.3 percentage points. What underlies this disparity between a full employment recovery and an office market still stuck at its nadir? Let’s first look at the profile of job growth.

### The Shape of the Employment Recovery

Is it possible that the jobs that have been recovered are not relevant to the office market? Table 1, which compares the most recent (June 2004) employment profile to that of the December 2000 cyclical peak, provides some insight. Total employment in June 2004 was 14,700 jobs higher than in December 2000. However, private service-producing employment the primary source of office tenancy was 33,200 jobs higher. This would suggest that office demand should be somewhat higher today than three and one-half years ago.

This is probably the case although there was a substantial variation in performance across specific service-providing industries. Education and health services experienced the highest absolute employment

**TABLE 1**  
**New Jersey Nonfarm Payroll Employment**  
**December 2000 to June 2004**  
*(Numbers in thousands)*

	December	June	Change: 2000 to 2004	
	2000	2004	Number	Percent
<b>TOTAL NONFARM EMPLOYMENT</b>	4,025.3	4,040.0	14.7	0.4%
<b>TOTAL PRIVATE SECTOR</b>	3,431.2	3,400.7	-30.5	-0.9
<b>GOODS PRODUCING</b>	575.2	511.5	-63.7	-11.1
Natural Resources and Mining	1.9	1.6	-0.3	-15.8
Manufacturing	422.2	347.1	-75.1	-17.8
Construction	151.1	162.8	11.7	7.7
<b>PRIVATE SERVICE-PROVIDING</b>	2,856.0	2,889.2	33.2	1.2
Trade, Transportation, and Utilities	907.9	881.4	-26.5	-2.9
Information	127.5	102.4	-25.1	-19.7
Financial Activities	266.1	284.7	18.6	7.0
Professional and Business Services	602.3	588.2	-14.1	-2.3
Education and Health Services	505.9	550.7	44.8	8.9
Leisure and Hospitality	303.8	327.6	23.8	7.8
Other Services	142.5	154.2	11.7	8.2
<b>GOVERNMENT</b>	594.1	639.3	45.2	7.6

*Source:* New Jersey Department of Labor

*Note:* North American Industrial Classification (NAICS) employment sectors.

*The fourth quarter of 2000 marked not only the state's cyclical employment peak (December 2000) but also the peak of the (then) surging eleven-county northern and central New Jersey office market.*

## 4 Locomotive, *continued*

*... "office-type" employment in the state is probably not significantly different today compared to the December 2000 cyclical peak, although its composition has obviously changed.*

increase (+44,800 jobs) of any service-providing or goods-producing sector, as well as the highest rate of increase (8.9 percent). However, the overwhelming share of this growth was accounted for by health care and social assistance activities that are predominantly not commercial-office based. Thus, the size of this gain may overstate its positive office-market impact.

In contrast, employment in information—the worst performing service sector—has much more relevance for the office market. Employment in the information sector in June 2004 was still nearly 20 percent below its December 2000 level (19.7 percent, or -25,100 jobs). This would suggest that an important part of the “new economy” has experienced a 20 percent decline in demand for office space. However, a substantial part of the contraction of the information sector was caused by employment losses suffered by wired telecommunications carriers stemming from the aftereffects of deregulation. This affected both blue-collar and white-collar workers housed mostly in proprietary-owned space. Thus, the magnitude of the information-sector job losses probably overstates its negative office market impact.

The huge trade, transportation and utility sector experienced similar absolute employment losses (-26,100 jobs). Much of the job declines were in transportation, warehousing, and wholesale trade, thus limiting the office market impact.

In contrast, professional and business services—the second largest service-providing sector and the largest office tenant pool—is still 14,100 jobs (or -2.3 percent) below its December 2000 level. Virtually all of these are white-collar jobs, and this decline is a distinct negative for the office market. But employment growth (+18,600 jobs) in financial activities has fully counterbalanced the losses (-14,100 jobs) in professional and business services, representing an office market positive. Finally, the leisure and hospitality sector (+ 23,800 jobs) and the “other” services sector (+11,700 jobs) probably had small, but positive, impacts on office utilization.

This limited analysis suggests that while not yielding a definitive number, “office-type” employment in the state is probably not significantly different today compared to the December 2000 cyclical peak, although its composition has obviously changed. Thus, other things being equal, the economy should be consuming the same amount of office space. However, this is certainly not the case when we observe office market conditions.

### Office Consumption

While employment has now surpassed its December 2000 peak, there has been a significant reduction in the amount of office space that is actually occupied. As shown in Table 2, 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.

Part of this disparity is the result of new office inventory additions that came onstream during the past three and one-half years but were never occupied. The overall Class “A” inventory grew by 7 million square feet between 2000 and 2004. However, the total Class “A” vacancies rose by 18.2 million square feet. Thus, 11.2 million square feet of the office inventory once associated with the state’s workforce level of December 2000 is not being used by a nearly equivalent-sized workforce of today. This translates into an approximate 12 percent reduction in square footage per worker.

The great bulk of this differential probably represented overbullient expectations of future employment expansion and space needs at the end of the 1990s. The old adage that “the longer an expansion lasts, the greater the erosion of the discipline supposedly learned from the previous downturn” was borne out again. Job growth in the 1997 to 2000 period in New Jersey was 80 percent above trend—a pace that was not sustainable. Using this growth as the baseline for the future produced overly optimistic office space projections and leasing

**TABLE 2**  
**Northern and Central New Jersey Class “A” Office Market**  
**Change: 4th Quarter 2000 to 2nd Quarter 2004**  
*(Square feet)*

	2000 4th Quarter	2004 2nd Quarter	Change: 2000–2004
Total Inventory	106,904,962	113,932,938	7,027,976
Total Space Available	11,743,129	29,984,318	18,241,189
Direct	8,183,646	22,644,866	14,461,220
Sublet	3,559,843	7,339,452	3,779,609
Vacancy Rate	11.0%	26.3%	15.3%
Total Occupied	95,161,833	83,948,620	-11,213,213

*The aftershocks of the overhiring and overleasing of the late 1990s appear to be yielding the new disciplined office consumption protocols of the 2000s.*

levels. Record amounts of sublease space in the early years of the 2000s attested to this fundamental miscalculation.

The economy and office markets are now adjusting to the “new” disciplines that emerged from the latest downturn. Extreme sensitivity to costs now dominates corporate behavior in an unrelentingly competitive global economy. Since modest employment growth has returned, the critical factor determining the health of the office market is the new cost reality that will reshape fundamental office dynamics—such as amounts of space allocated per worker and the amount of “bankrolled” space for future expansion. The aftershocks of the overbuilding in the late 1980s yielded the very disciplined office construction protocols of the 1990s. The aftershocks of the overhiring and overleasing of the late 1990s appear to be yielding the new disciplined office

consumption protocols of the 2000s. One ramification is that office absorption today may be considerably less in lockstep with employment expansion than in the past.

### Employment Surge and Long-Term Prospects

Nonetheless, New Jersey has seen vigorous employment growth so far in 2004. For the first six months of the year, measured December 2003 to June 2004, the state added 40,800 jobs (Table 3). This pace of job growth may not be sustained for the second half of the year; however, it is highly likely that 2004 will be the best year of employment growth since 2000.

The pattern of growth so far this year also bodes well for ultimate office absorption. Particularly significant employment gains were registered in the

## 6 Locomotive, *continued*

*This pace of job growth may not be sustained for the second half of the year; however, it is highly likely that 2004 will be the best year of employment growth since 2000.*

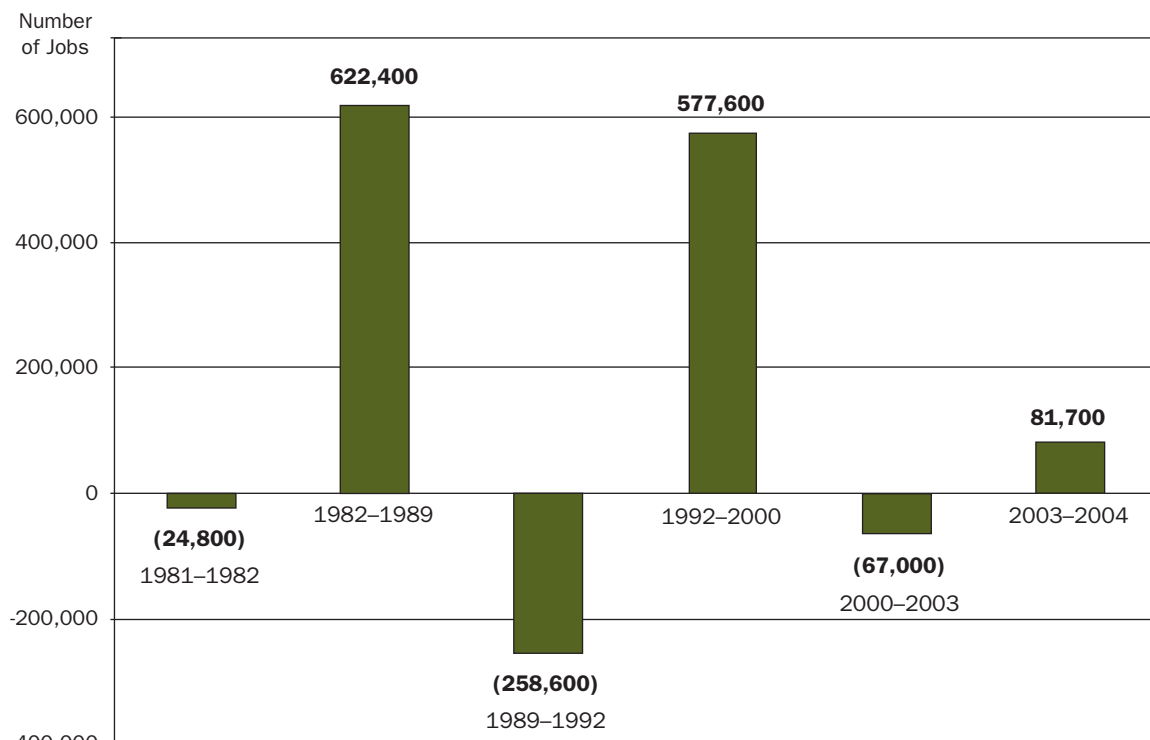
**TABLE 3**  
**New Jersey Nonfarm Payroll Employment**  
**December 2003 to June 2004**  
*(Numbers in thousands)*

	December	June	Change: 2003 to 2004	
	2003	2004	Number	Percent
<b>TOTAL NONFARM EMPLOYMENT</b>	3,999.2	4,040.0	40.8	1.0%
<b>TOTAL PRIVATE SECTOR</b>	3,369.1	3,400.7	31.6	0.9
<b>GOODS PRODUCING</b>	508.6	511.5	2.9	0.6
Natural Resources and Mining	1.6	1.6	0.0	0.0
Manufacturing	348.3	347.1	-1.2	-0.3
Construction	158.7	162.8	4.1	2.6
<b>PRIVATE SERVICE-PROVIDING</b>	2,860.5	2,889.2	28.7	1.0
Trade, Transportation, and Utilities	881.5	881.4	-0.1	0.0
Information	101.7	102.4	0.7	0.7
Financial Activities	278.7	284.7	6.0	2.2
Professional and Business Services	576.7	588.2	11.5	2.0
Education and Health Services	544.0	550.7	6.7	1.2
Leisure and Hospitality	324.0	327.6	3.6	1.1
Other Services	153.9	154.2	0.3	0.2
<b>GOVERNMENT</b>	630.1	639.3	9.2	1.5

*Source:* New Jersey Department of Labor

*Note:* North American Industrial Classification (NAICS) employment sectors.

**FIGURE 1**  
**New Jersey Economic Roller Coaster**  
*(Employment change for periods indicated)*



**Recessions:** September 1981–April 1982  
 March 1989–May 1992  
 December 2000–March 2003

**Expansions:** April 1982–March 1989  
 May 1992–December 2000  
 March 2003–June 2004

Source: New Jersey Department of Labor  
 Note: ( ) indicates employment loss.

*Thus, if the past two upcycles serve as a guide for the future, the state's economy can look forward to adding approximately one-half million more jobs during the current expansion.*

period from December 2003 to June 2004 in professional and business services (+11,500 jobs) and financial activities (+6,000 jobs), as well as in educational and health services (+6,700 jobs). Sustaining employment growth in the first two sectors will be key for office market advances.

Moreover, New Jersey is still in the early stages of economic expansion. The most recent growth period, shown on the far right side of Figure 1, began in March 2003. As of June 2004, employment growth during the expansion had reached 81,700 jobs. This

is less than one-seventh of the scale of the employment gains of the two preceding upcycles—the May 1992 to December 2000 expansion (+577,600 jobs) and the April 1982 to March 1989 expansion (+622,400 jobs). Thus, if the past two upcycles serve as a guide for the future, the state's economy can look forward to adding approximately one-half million more jobs during the current expansion. Even in a cost-constrained future economic climate, employment growth of that scale will serve as a potent office-market tonic. ■

## 8 Squeeze, *continued*

In addition, the increase in open space that can be reconfigured as needed is more efficient than fixed wall offices.

Alan Abrahamson, Asset Management Director for AT&T Global Real Estate points out that "...virtual offices, more open design plans, and an emphasis on more efficient use of space" have contributed to the general decline in square footage per employee.

The New Jersey-based companies we examined are showing higher than average employee square footage allocations. For these companies, space per

employee is averaging 234 square feet per employee. This is likely a factor of their being among the Fortune 500, thus having more resources to tap and more of an image to maintain than all office-based companies taken as a whole.

While some of these companies with above-average allocations may be looking to shed some space, Merck maintains a ratio of up to 300 square feet per employee. William Mayo, Director of Real Estate at Merck, says "We have standards for our office space." ■

*With telecommuting and outsourcing on the rise, as well as corporate cost-cutting, space per employee is on the decline.*

### New Jersey Office Space Profile

Company	Headquarters	Number of NJ Office Employees*	Number of NJ Offices*	NJ Office Square Feet*	Square Feet per Employee*
American Standard	Piscataway	490	2	170,299	348
AT&T	Bedminster	20,491	16	5,000,000	244
Chubb	Warren	3,115	3	662,622	213
Honeywell International	Morristown	770	2	208,620	271
Johnson & Johnson	New Brunswick	2,294	6	434,439	189
Lucent Technologies	Murray Hill	4,757	5	1,151,662	242
Medco Health Solutions	Franklin Lakes	810	2	222,262	274
Prudential Financial	Newark	4,409	9	777,995	176
PSE&G	Newark	198	4	31,867	161
Schering-Plough	Kenilworth	881	4	325,679	370
Wyeth	Madison	2,490	4	541,012	217
<b>Total</b>		<b>40,705</b>		<b>9,526,457</b>	<b>234</b>

\*Estimated based on available data.

# New Jersey Office Market Holds Its Own

By Linda Tanaka

**T**he dire predictions of hundreds of thousands of square feet of sublease space flooding the market, driving vacancies through the roof and rental rates into the basement, have proven to be false. Despite large quantities of sublease space coming on the market, the northern and central New Jersey office market continues to show its strength by not posting significantly higher vacancy rates. The effects of the improving economy seem to be more influential than the sublease factor, as this marks the fourth straight quarter without a significant change in available space or asking rents. And, net absorption is back in positive territory, meaning more space has been taken off the market than added.

Of the more than 205 million square feet of office space in the central and northern New Jersey market, 35.6 million, or 17.3 percent, is directly available for lease. Factoring in both directly available space as well as sublease space, 44.5 million square feet of space is available, bringing the total vacancy rate to 21.6 percent. These vacancy rates are statistically unchanged from the previous quarter when they stood at 16.5 percent for direct space and 21.7 percent in total.

Asking rents for new and relet space are averaging \$24.90, little changed from the \$24.93 reported last quarter.

Net absorption's move over the past three months reflects this upbeat tone. Absorption for the second

*Despite large quantities of sublease space coming on the market, the northern and central New Jersey office market continues to show its strength by not posting significantly higher vacancy rates.*

Northern and Central New Jersey Total Office Market  
Second Quarter 2004

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	2nd Qtr. Net Absorption	2004 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	566	29,574,722	4,512,860	15.3%	6,119,231	20.7%	\$25.80	111,552	(79,771)
Essex	379	28,219,939	4,004,281	14.2%	4,520,659	16.0%	\$24.01	189,515	169,461
Hudson	160	24,157,809	2,730,036	11.3%	4,035,442	16.7%	\$24.26	(212,220)	533,465
Hunterdon	45	1,269,772	115,184	9.1%	130,988	10.3%	\$20.08	(1,215)	41
Mercer	341	16,323,524	1,928,536	11.8%	2,477,366	15.2%	\$25.16	4,541	(115,322)
Middlesex	437	25,814,274	5,710,259	22.1%	7,130,672	27.6%	\$24.68	66,210	33,372
Monmouth	387	14,237,273	1,410,646	9.9%	1,994,822	14.0%	\$22.74	135,173	168,022
Morris	422	28,448,751	5,865,832	20.6%	7,202,730	25.3%	\$25.85	(123,368)	(67,331)
Passaic	158	6,530,831	878,624	13.5%	913,665	14.0%	\$23.27	50,995	38,019
Somerset	269	19,916,092	6,280,817	31.5%	7,333,083	36.8%	\$25.97	46,955	(43,753)
Union	296	11,163,037	2,188,332	19.6%	2,604,595	23.3%	\$22.59	(53,630)	170,410
<b>TOTAL</b>	<b>3,460</b>	<b>205,656,024</b>	<b>35,625,407</b>	<b>17.3%</b>	<b>44,463,253</b>	<b>21.6%</b>	<b>\$24.90</b>	<b>214,508</b>	<b>806,613</b>
Central NJ	1,730	87,454,200	17,518,590	20.0%	21,540,538	24.6%	\$24.78	199,249	212,729
Northern NJ	1,730	118,201,824	18,106,817	15.3%	22,922,715	19.4%	\$25.03	15,259	593,884

\*Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities.

## 10 Market, *continued*

quarter was positive, with 214,508 more square feet removed from the market than added. For the year, net absorption is also positive, at 806,613 square feet.

A similar scenario has played out for Class "A" space. The direct vacancy rate for Class "A" space is 19.9 percent, only slightly higher than the 18.4 percent reported last quarter. Likewise, total vacancy at 26.3 percent is virtually unchanged from March, when it stood at 26.1 percent; the average asking rent is exactly the same, at \$27.52. In the Class "A" market, absorption also shows improvement, moving further into positive territory to stand at 1,529,391 square feet for the year.

A word of caution, however: These insignificant quarterly increases are adding up. Last June the

direct vacancy rate was 16.1 percent, and June 2002 saw the rate at 11.7 percent. A similar slow but steady increase has taken place in the Class "A" market as well. A year ago the direct vacancy rate was 17.6 percent and in September 2002 it was a low 11.0 percent. Counties taking the hardest hit with the availability of Class "A" sublease space are Hudson and Monmouth. In these counties, sublease space nearly doubles the availability. So, while the market is strong enough to ward off large increases in vacancy, the added sublease space is leaving its mark.

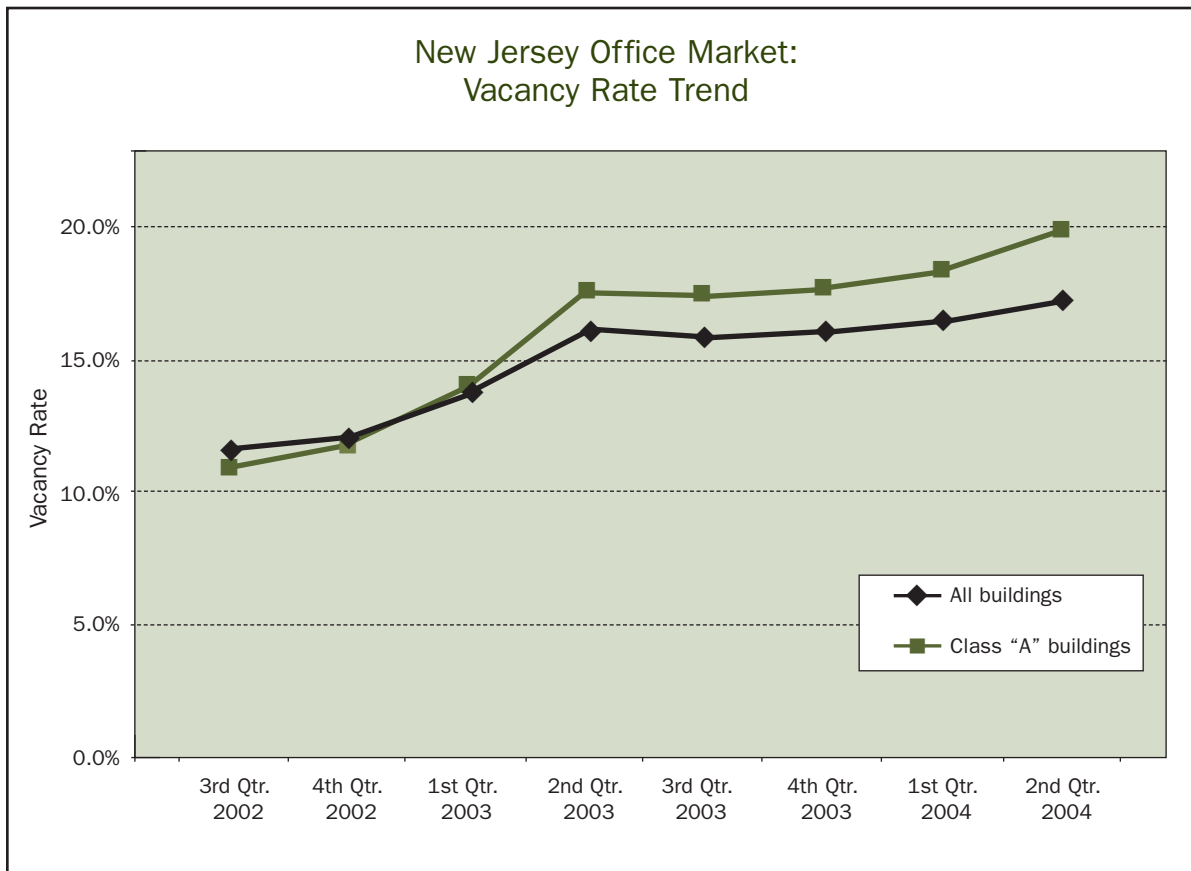
Somerset County, with more than one-third of its office space available, maintains its position as the softest market. Total available Class "A" space is a monstrous 42.7 percent in Somerset County. Despite this, landlords have managed to increase the average

*... while the market is strong enough to ward off large increases in vacancy, the added sublease space is leaving its mark.*

### Northern and Central New Jersey Class "A" Office Market Second Quarter 2004

County	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent	2nd Qtr. Net Absorption	2004 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	79	12,803,525	2,322,330	18.1%	3,484,622	27.2%	\$28.52	(51,421)	(76,724)
Essex	57	14,352,118	2,019,813	14.1%	2,481,488	17.3%	\$27.09	181,179	244,942
Hudson	51	19,375,492	1,883,173	9.7%	3,140,700	16.2%	\$28.97	(261,221)	1,002,458
Hunterdon	5	372,791	11,514	3.1%	18,330	4.9%	\$26.79	—	3,800
Mercer	67	6,985,531	804,354	11.5%	1,255,585	18.0%	\$29.99	(11,831)	(52,990)
Middlesex	109	15,422,609	4,153,564	26.9%	5,054,074	32.8%	\$26.84	104,644	130,439
Monmouth	51	5,726,461	557,609	9.7%	1,059,450	18.5%	\$27.20	236,991	326,897
Morris	124	18,571,049	4,533,070	24.4%	5,751,097	31.0%	\$27.42	(184,888)	(65,743)
Passaic	15	1,861,375	323,396	17.4%	335,442	18.0%	\$25.53	6,683	(5,942)
Somerset	101	14,744,803	5,344,023	36.2%	6,298,957	42.7%	\$27.15	172,150	110,759
Union	29	3,717,184	692,020	18.6%	1,104,573	29.7%	\$27.50	(52,807)	(88,505)
<b>TOTAL</b>	<b>688</b>	<b>113,932,938</b>	<b>22,644,866</b>	<b>19.9%</b>	<b>29,984,318</b>	<b>26.3%</b>	<b>\$27.52</b>	<b>139,479</b>	<b>1,529,391</b>
Central NJ	357	46,596,588	11,551,570	24.8%	14,772,639	31.7%	\$27.26	449,147	426,600
Northern NJ	331	67,336,350	11,093,296	16.5%	15,211,679	22.6%	\$27.80	(309,668)	1,102,791

\*Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities.



*Despite the addition of large amounts of sublease space, the market is strong enough to fend off dramatic increases in vacancy and maintain a stable environment.*

published rent to \$25.97. On a positive note, for the year, only slightly more space was put on the market than taken off, with net absorption at negative 43,753 square feet.

VERTEK Corporation helped by taking nearly 50,000 square feet on Technology Drive in Warren. When Citigroup takes occupancy of the Warren Corporate Center, that 800,000 square-foot reduction in available space will certainly help reduce the vacancy rate in Somerset County.

Close behind Somerset in terms of total vacancies are Middlesex and Morris Counties, with about one-quarter of their rentable building areas available. For the year, Middlesex's absorption has moved into positive territory and now stands at 33,372 square feet. Net space in Morris County has moved in the opposite direction, now showing -67,331.

Class "A" space in these counties also faces difficulties, with about one-third of the space available in total. Despite the 32.8 percent total vacancy rate, Middlesex County was able to fill net space of 130,439 for the year, a significant improvement over the net addition of more than 18,000 square feet reported last quarter. Chase Manhattan Mortgage did its part to help reduce availability in Middlesex with the leasing of 100,000 square feet. Smaller transactions in Middlesex include 45,000 square feet taken on Wood Avenue in Iselin for \$31 per square foot and 40,000 square feet on Cragwood Road in South Plainfield for \$15 per square foot.

Other deals in Morris County include 50,000 square feet taken at the Crosspointe Technology Center in Whippany for \$26.85 per square foot.

## 12 Market, *continued*

In Parsippany, 32,000 square feet was taken by Pressler & Pressler. Whatman, Inc. leased 26,000 square feet for \$32.50 per square foot at Park Place in Florham Park.

In contrast, Monmouth and Passaic Counties' strong economies continue to be reflected in their strong office market, with total vacancy rates a relatively low 14.0 percent. In both counties, asking rents are down slightly from the previous quarter at \$22.74 and \$23.27, respectively. Deals continue to be made in Monmouth as net absorption for the year moves more heavily into positive territory, presently 168,022 overall and 326,897 for Class "A" space. To a lesser degree, Passaic County leasing has experienced the net removal of 38,019 square feet of space.

Monmouth's Class "A" market is similarly healthy with a low direct vacancy rate of only 9.7 percent, matching that of Hudson County. Total vacancy rates for both counties are still relatively low at 18.5 percent and 16.2 percent, respectively. At 17.4 percent, Passaic County's Class "A" market is better than the state average but not quite as strong as its overall market. Monmouth County's strength is reflected in three large deals of Class "A" space recently conducted at River Centre in Red Bank. High Point Insurance leased 89,000 square feet; JCP&L leased 53,000 square feet; and FirstEnergy Corporation leased 29,000 square feet.

Essex County has also seen a considerable amount of leasing activity, with net absorption moving from 67,356 last quarter to 169,461 square feet this quarter. Likewise, the Class "A" market has leased a net 244,942 square feet, up from an unsubstantial 67,356 in March. Investors Savings Bank leased 55,000 square feet in Short Hills for \$36.50 per square foot, and the Short Hills Surgery Center leased 25,000 square feet in Millburn. A law

firm leased up 22,000 square feet on Passaic Avenue in Fairfield, and nearly 20,000 square feet was taken off the market at 1255 Broad Street in Bloomfield.

One of the larger transactions in Bergen County was PDI, Inc.'s leasing of 84,000 square feet on Route 17 in Saddle River for approximately \$27 per square foot.

Despite the addition of large amounts of sublease space, the market is strong enough to fend off dramatic increases in vacancy and maintain a stable environment. Citigroup's decision was a win for New Jersey and a testament to the effectiveness of the Business Employment Incentive Program (BEIP). The former Lucent site will be home to approximately 3,000 employees—1,600 jobs previously located in Manhattan, 700 positions centralized from around the state, and approximately 700 newly-created jobs. If the rosy economic forecast plays out and state-sponsored incentives continue to do their part, we expect more such announcements and further improvements in the commercial office market. ■

**Sitar-Rutgers Regional Report** is published by the Edward J. Bloustein School of Planning and Public Policy and Sitar Company • ONCOR International.

**William Sitar**, President, Sitar Company • ONCOR International

**Linda Tanaka**, Director of Research, Sitar Company • ONCOR International

**James W. Hughes**, Dean, Edward J. Bloustein School of Planning and Public Policy

**Joseph J. Seneca**, University Professor, Rutgers, The State University of New Jersey

Production: **Deborah Vogel**