

# Sitar–Rutgers

## Regional Report

James W. Hughes and Joseph J. Seneca, editors

### Forging Ahead, but Is Something Amiss?

By James W. Hughes and Joseph J. Seneca

**N**ew Jersey's overall core economy remains one of the most powerful in the nation, with unique employment concentrations in those white-collar, knowledge-based jobs that are of key importance to the state's office markets. However, there have been precious few net new additions to this core economy in the post-2000 period. This raises some basic questions as to whether this is a signal that something is amiss. Corporate America is certainly not abandoning its strong presence in New Jersey, but it appears to be concentrating its expansion outside of our state's borders.

#### 2005: Positives and Negatives

While there is some good New Jersey economic news in 2005, economic growth in the state is not producing in significant numbers the types of jobs

that require Class "A" office space. With the recent availability of June payroll employment data, it is now possible to assess the first half of 2005 (December 2004 through June 2005). During this period, the state added 23,800 total jobs, all in the private sector (Table 1). This compares very favorably to the 10,200 private-sector jobs added in the first half of 2004, a year of unprecedented public-sector growth in the state. Thus, 2005's overall economic performance, as measured by private-sector employment growth, is clearly outpacing that of 2004. However, there is a real question as to the quality of the jobs that are being created, and whether they will have a significant impact on the state's office markets.

One measure of job quality is average annual pay (Table 2). The average annual (*continued, next page*)

### Commercial Office Market Inches toward Recovery

By Linda Tanaka

**S**igns of a healthy office market persist. Vacancy rates and sublease space continue to decline, net absorption for the year continues a trend into positive territory, and rental rates continue to increase.

Although vacancy rates remain above ideal levels, since the first quarter of the year, the following improvements have occurred:

- The amount of available sublease space is slightly lower and holding steady.

- The total vacancy rate is slightly lower and remains stable.
- Net absorption amounts are positive and significant.
- Rental rates are slightly higher and holding steady.

At the conclusion of the first half of 2005, there were 3,572 office buildings in the central and northern New Jersey office market. Together, those buildings total over 210 million square feet of space. Directly available space amounts to 33,428,004 (*continued, p. 5*)

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## 2 Forging, *continued*

Trade, transportation, and utilities added 13,600 jobs, accounting for more than 57 percent of the private-sector job growth between December 2004 and June 2005.

**TABLE 1**  
**New Jersey Nonfarm Payroll Employment**  
**December 2004 to June 2005**  
*(Seasonally adjusted, numbers in thousands)*

	December 2004	June 2005	Change: 2004 to 2005	
			Number	Percent
<b>TOTAL NONFARM EMPLOYMENT</b>	4,032.2	4,056.0	23.8	0.6%
<b>TOTAL PRIVATE SECTOR</b>	3,391.4	3,415.2	23.8	0.7
<b>GOODS PRODUCING</b>	508.9	497.1	-11.8	-2.3
Natural Resources and Mining	1.6	1.6	0.0	0.0
Manufacturing	170.3	166.1	-4.2	-2.5
Construction	337.0	329.4	-7.6	-2.3
<b>PRIVATE SERVICE-PROVIDING</b>	2,882.5	2,918.1	35.6	1.2
Trade, Transportation, and Utilities	878.1	891.7	13.6	1.5
Information	97.2	96.2	-1.0	-1.0
Financial Activities	280.8	282.0	1.2	0.4
Professional and Business Services	585.0	586.8	1.8	0.3
Education and Health Services	553.2	562.0	8.8	1.6
Leisure and Hospitality	332.3	340.2	7.9	2.4
Other Services	155.9	159.2	3.3	2.1
<b>GOVERNMENT</b>	640.8	640.8	0.0	0.0

*Note:* North American Industrial Classification (NAICS) employment sectors.  
*Source:* New Jersey Department of Labor.

pay for all industries in New Jersey in 2004 was \$48,042. Three high-paying sectors are critical to the office market: financial activities (\$74,789), information (\$72,468), and professional and business services (\$58,018). Financial activities include not only traditional banking, but also “Wall Street-type” jobs that require Class “A” office-space.<sup>1</sup> Information contains telecommunications, while the professional and business services—the largest economic sector—includes management of companies and enterprises (corporate headquarters), and legal, accounting, architectural, engineering,

advertising, computer, and scientific research and development services. Below average pay sectors are leisure and hospitality (\$20,065), education and health services (\$41,065), and trade, transportation, and utilities (\$41,446). The latter three sectors have dominated employment growth for the first half of 2005.

Trade, transportation, and utilities added 13,600 jobs, accounting for more than 57 percent of the private-sector job growth between December 2004 and June 2005 (Table 1). Other sectors with significant growth were education and health services

<sup>1</sup> This specific subsector is “securities and commodity contracts intermediation and brokerage” in the NAICS codes. The traditional banking subsector is “depository credit intermediation.”

**TABLE 2**  
**Average Annual Pay by Sector, New Jersey, 2004**

ALL INDUSTRIES	\$48,042
GOODS PRODUCING	55,959
Natural Resources and Mining	28,740
Manufacturing	51,320
Construction	59,134
PRIVATE SERVICE-PROVIDING	46,066
Trade, Transportation, and Utilities	41,446
Information	72,468
Financial Activities	74,789
Professional and Business Services	58,018
Education and Health Services	41,065
Leisure and Hospitality	20,065
Other Services	30,565
GOVERNMENT	50,412
Federal	69,580
State	59,296
Local	46,997
<p><i>Notes:</i> North American Industrial Classification (NAICS) employment sectors. Average annual pay is representative of private employment pay in each respective industry. However, the three government sectors include no private employment pay and the "all industries" category includes both private and government average annual pay. Average annual pay values are preliminary.</p> <p><i>Source:</i> Quarterly Census of Employment and Wages, Bureau of Labor Statistics.</p>	

period of the last expansion. Every six months from 1996 to 2000, the state added 12,100 professional and business service jobs, more than six times the current six-month increase (1,800 jobs). Similarly, every six months from 1996 to 2000, financial activities gained 4,100 jobs, more than triple the current pace (1,200 jobs). Obviously, the 1996 to 2000 employment-growth pattern was a boon to the state's office markets. That is certainly no longer the case.

*Thus, the state was adding approximately two high-paying office jobs for every manufacturing job loss during the decade of the 1990s.*

### High Pay to Low Pay

During the 1980s and 1990s, the state's employment increases were dominated by higher-paying, knowledge-based industries: finance, information, and professional and business

(+8,800 jobs), and leisure and hospitality (+7,900 jobs). In contrast, the higher-paying financial activities (+1,200 jobs) and professional and business services (+1,800 jobs) sectors experienced not only modest absolute growth, but also had growth rates that lagged the nation. Professional and business services grew by 1.4 percent nationally during the first half of 2005, nearly five times faster than New Jersey's 0.3 percent increase. Similarly, financial activities grew by 0.9 percent nationally, more than double the New Jersey increase (0.4 percent).

### The Boom Years Versus 2005

Another performance benchmark is a comparison of 2005 to the last four years of the 1990s, the peak

services. While the state lost significant employment (-107,900 jobs) in high-paying manufacturing between 1990 and 2000 (Table 3), this was more than compensated for by large employment increases in professional and business services (+160,300 jobs), financial activities (+32,600 jobs), and information (+6,400 jobs). Thus, the state was adding approximately two high-paying office jobs for every manufacturing job loss during the decade of the 1990s. Of the total 359,400 jobs gained by the state between 1990 and 2000, more than half (55.5 percent, or 199,300 jobs) were in professional and business services, financial activities, and information. This pattern of growth reflected the successful shift to the new knowledge-based

## 4 Forging, *continued*

The New Jersey manufacturing employment hemorrhage actually accelerated, with 82,700 jobs lost in this four-year 2000–2004 period, compared to a loss of 107,900 in the previous ten-year period.

	1990	2000	2004	Change: 1990 to 2000		Change: 2000 to 2004	
				Number	Percent	Number	Percent
<b>TOTAL NONFARM EMPLOYMENT</b>	3,635.1	3,994.5	4,002.0	359.4	9.9%	7.5	0.2%
<b>TOTAL PRIVATE SECTOR</b>	3,058.4	3,405.7	3,368.0	347.3	11.4	-37.7	-1.1
<b>GOODS PRODUCING</b>	680.3	573.1	506.5	-107.2	-15.8	-66.6	-11.6
Natural Resources and Mining	3.0	2.0	1.6	-1.0	-33.3	-0.4	-20.0
Manufacturing	147.7	149.6	166.0	1.9	1.3	16.4	11.0
Construction	529.5	421.6	338.9	-107.9	-20.4	-82.7	-19.6
<b>PRIVATE SERVICE-PROVIDING</b>	2,378.1	2,832.6	2,861.5	454.5	19.1	28.9	1.0
Trade, Transportation, and Utilities	833.3	899.0	875.5	65.7	7.9	-23.5	-2.6
Information	120.5	126.9	98.6	6.4	5.3	-28.3	-22.3
Financial Activities	234.3	266.9	277.8	32.6	13.9	10.9	4.1
Professional and Business Services	438.2	598.5	581.6	160.3	36.6	-16.9	-2.8
Education and Health Services	362.1	495.8	546.6	133.7	36.9	50.8	10.2
Leisure and Hospitality	269.9	303.3	327.0	33.4	12.4	23.7	7.8
Other Services	119.8	142.2	154.4	22.4	18.7	12.2	8.6
<b>GOVERNMENT</b>	576.7	588.9	634.1	12.2	2.1	45.2	7.7

*Note:* North American Industrial Classification (NAICS) employment sectors.  
*Source:* New Jersey Department of Labor.

economy, and it was the foundation of the robust economic health of the state's office markets during the second half of the 1990s.

But significant changes occurred after 2000. The New Jersey manufacturing employment hemorrhage actually accelerated, with 82,700 jobs lost in this four-year 2000–2004 period, compared to a loss of 107,900 in the previous ten-year period. However, this time the lost manufacturing jobs were not replaced by high-paying service jobs. Instead, between 2000 and 2004, professional and business

services lost 16,900 jobs and information lost 28,300 jobs, while financial activities gained only 10,900 jobs. Within the latter sector, “Wall Street-type” financial employment actually contracted (-5,400 jobs), while traditional banking jobs increased (+5,600 jobs).<sup>2</sup> In any case, these three private-service sectors together registered aggregate employment losses of 34,300 jobs. When combined with manufacturing, these four high-paying sectors had a new millennium net employment loss of 117,000 jobs. During the first (*continued, p. 8*)

<sup>2</sup> This was a sharp reversal from the 1990s, which experienced a 31.3 percent decline (-19,800 jobs) in traditional banking jobs and a 203.6 percent gain (+28,500 jobs) in “Wall Street-type” jobs.

square feet or 15.9 percent of the total market, down somewhat from the first-quarter level of 16.6 percent. Over the past three months, total availability has also declined from 20.6 percent to 19.8 percent, reflecting a reduction in obtainable sublease space. During the same three-month period, net absorption increased by more than 2 million square feet. An examination of the year-to-date data shows that not a single county has experienced negative net absorption, and the overall market stands at a positive net absorption of 6,180,551 square feet. That is quite a lot of office space coming off the market. In this environment, asking rents continue their gradual ascent and now average \$25.69 per square foot.

The Class "A" market showed the same pattern of changes: a gradual improvement in vacancy rates; a tightening of the market, reflected in higher asking rents; and greater positive net absorption. In the second quarter, both direct and total available space decreased slightly to 18.5 percent and 24.6 percent, respectively. Average asking rents, at \$27.52 per square foot, increased slightly, and a considerable net amount of space (3,074,281 square feet) was taken off the market. Year-to-date net absorption is approaching positive 5 million square feet.

While the fundamentals for the overall market crept toward a market in balance, Hunterdon, Somerset, and Union Counties have shown the most

*An examination of the year-to-date data shows that not a single county has experienced negative net absorption, and the overall market stands at a positive net absorption of 6,180,551 square feet.*

### Northern and Central New Jersey Total Office Market Second Quarter 2005

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	2nd Qtr. Net Absorption	2005 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	577	30,161,702	4,583,697	15.2%	5,969,292	19.8%	\$28.34	398,985	226,487
Essex	395	28,409,741	3,881,633	13.7%	4,325,238	15.2%	\$24.85	273,232	368,659
Hudson	164	24,756,562	2,747,410	11.1%	4,830,285	19.5%	\$25.94	204,480	633,597
Hunterdon	48	1,634,585	83,263	5.1%	139,978	8.6%	\$24.05	272,335	212,791
Mercer	335	16,206,856	1,964,035	12.1%	2,156,039	13.3%	\$25.84	324,308	377,336
Middlesex	460	26,747,795	5,683,888	21.2%	6,856,655	25.6%	\$24.07	268,985	306,112
Monmouth	402	14,979,500	1,612,339	10.8%	1,773,731	11.8%	\$24.38	(17,805)	66,586
Morris	442	29,327,955	6,819,233	23.3%	7,822,317	26.7%	\$26.57	169,734	423,235
Passaic	164	6,853,813	911,525	13.3%	927,831	13.5%	\$22.86	69,820	292,368
Somerset	281	20,529,804	4,023,384	19.6%	5,235,873	25.5%	\$25.65	1,695,818	2,675,685
Union	304	10,898,996	1,117,597	10.3%	1,647,601	15.1%	\$23.47	488,277	597,695
<b>TOTAL</b>	<b>3,572</b>	<b>210,507,309</b>	<b>33,428,004</b>	<b>15.9%</b>	<b>41,684,840</b>	<b>19.8%</b>	<b>\$25.69</b>	<b>4,148,169</b>	<b>6,180,551</b>
Central NJ	1,782	89,362,951	14,401,243	16.1%	17,669,899	19.8%	\$24.74	2,759,583	4,023,414
Northern NJ	1,790	121,144,358	19,026,761	15.7%	24,014,941	19.8%	\$26.37	1,388,586	2,157,137

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

## 6 Commercial, *continued*

*The Class "A" market showed the same pattern of changes: a gradual improvement in vacancy rates; a tightening of the market, reflected in higher asking rents; and greater positive net absorption.*

dramatic improvement. Over the past three months, vacancy rates declined from 20.5 percent to 5.1 percent in Hunterdon County, from 26.7 percent to 19.6 percent in Somerset County, and from 12.9 percent to 10.3 percent in Union County.

As a result of Verizon's purchase of the former Pharmacia/AT&T building in Basking Ridge, Somerset County no longer has the highest vacancy rate in the region. At the close of the second quarter, Morris County (23.3 percent vacancy rate) and Middlesex County (21.2 percent vacancy rate) had both greater absolute totals of square footage available and higher availability rates. The 4 million

square feet of vacant space in Somerset County is dwarfed by the amount of space available in Morris and Middlesex— 6.8 million and 5.7 million square feet, respectively.

For the second quarter, Somerset County had a positive net absorption of 1.7 million square feet. For the year, the county has an even more impressive positive net absorption of 2.7 million square feet. Even if two significant transactions are excluded—the 1.7 million square feet accounted for in the Verizon transaction and the 413,000 square feet MetLife signed for in a facility on Davidson Avenue—Somerset County's positive net absorption remains

### Northern and Central New Jersey Class "A" Office Market Second Quarter 2005

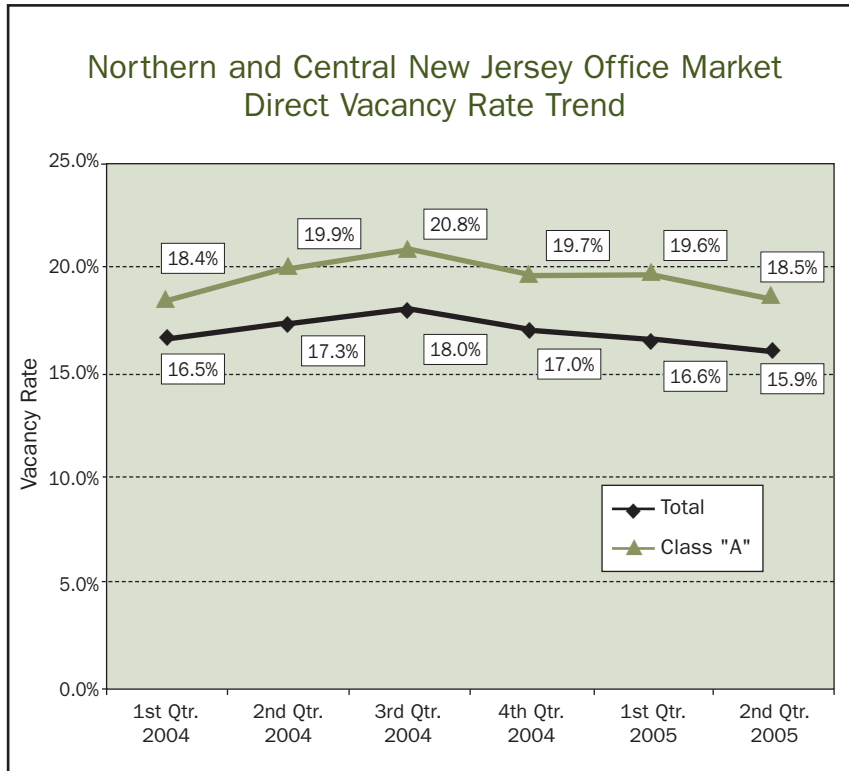
County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	2nd Qtr. Net Absorption	2005 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	79	12,858,394	2,150,749	16.7%	3,197,166	24.9%	\$29.28	238,870	142,581
Essex	60	14,768,202	2,297,094	15.6%	2,666,078	18.1%	\$27.32	187,660	269,531
Hudson	50	19,426,423	1,976,569	10.2%	4,026,190	20.7%	\$30.22	131,431	546,155
Hunterdon	6	696,791	8,799	1.3%	56,526	8.1%	\$25.62	255,672	211,660
Mercer	63	6,813,802	858,288	12.6%	992,788	14.6%	\$29.78	173,286	234,151
Middlesex	114	15,967,543	4,167,519	26.1%	5,071,516	31.8%	\$25.78	177,415	156,183
Monmouth	52	6,141,926	753,605	12.3%	798,469	13.0%	\$29.96	(106,897)	(77,592)
Morris	130	19,108,889	5,275,453	27.6%	6,212,789	32.5%	\$27.86	262,027	474,166
Passaic	16	2,039,704	498,783	24.5%	514,339	25.2%	\$24.77	(15,784)	(32,618)
Somerset	100	15,050,793	3,069,867	20.4%	4,217,210	28.0%	\$26.68	1,708,585	2,637,414
Union	29	3,795,684	477,937	12.6%	995,779	26.2%	\$27.70	62,016	122,927
<b>TOTAL</b>	<b>699</b>	<b>116,668,151</b>	<b>21,534,663</b>	<b>18.5%</b>	<b>28,748,850</b>	<b>24.6%</b>	<b>\$27.52</b>	<b>3,074,281</b>	<b>4,684,558</b>
Central NJ	358	47,769,748	9,327,216	19.5%	12,075,762	25.3%	\$26.88	2,014,405	3,073,083
Northern NJ	341	68,898,403	12,207,447	17.7%	16,673,088	24.2%	\$28.26	1,059,876	1,611,475

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

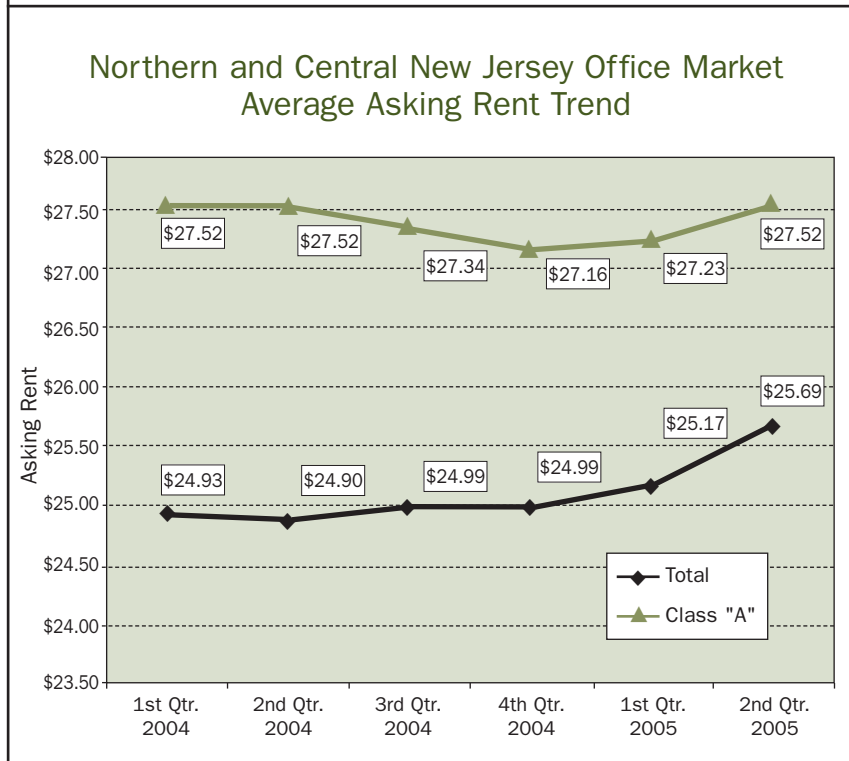
very healthy at approximately 1 million square feet for the year.

The market in Hudson County displayed mixed results. The county saw quite a bit of sublease activity over the past three months. As a result, total availability rates decreased even though direct availability rates rose slightly. Hudson County transactions include the following: 62,000 square feet subleased at Hudson Corporate Center; 36,200 square feet leased by Moody's Investor Service at Harborside Financial Center Plaza 5; 34,000 square feet leased at 30 Montgomery Street and an additional 34,000 square feet leased at 101 Hudson Street by National Union Fire Insurance; 31,000 square feet leased, also at 101 Hudson Street, and another 31,000 square feet at Plaza 10 Harborside Financial Center leased by Franklin Capital Group.

The data and anecdotal evidence indicate that the supply-and-demand factors of the commercial real estate market are inching their way toward equilibrium. If the state experiences job growth in the business services and financial sectors, the New Jersey office market could see further movement. ■



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## 8 Forging, *continued*

half of 2005 (December 2004 through June 2005), the same four sectors combined still experienced continued net employment losses (5,600 jobs), as shown in Table 1.

The dynamic job growth sectors in the 2000–2004 period were education and health services (+50,800 jobs), government (+45,200 jobs) and leisure and hospitality (23,700 jobs). However, leisure and hospitality had the lowest annual pay (\$20,065) of the major economic sectors, while that of education and health services (\$41,065) was considerably below the all-industry average (\$48,042). And while government employment overall has above-average wages (\$50,412), these are tax-supported positions dependent on resources drawn from the private-sector economy.

### Loss of Competitive Position

Thus, the 2000-to-mid-decade period has largely been one where New Jersey experienced a contraction of high-paying, private-sector office and manufacturing jobs, replaced by lower-paying private-sector

employment, and expanding public sector, tax dependent, jobs. This does not mean that the state's economy is rapidly "dumbing down." The state still maintains a leading-edge economy. Unfortunately, the recent growth in the leading-edge sectors is taking place outside of New Jersey.

This may well be signaling a loss of economic competitiveness. One barometer is per capita income. In 1980, New Jersey's per capita income was 16 percent higher than that of the nation. By 2000, after two decades of "new-economy" white-collar employment growth, the state's per capita income grew to 29 percent higher than that of the nation, a significant advance. But following the 2000 peak, this positive trend was reversed. The state's per capita income fell to 28 percent higher in 2001, 27 percent higher in 2002, 26 percent higher in 2003, and 25 percent higher in 2004. New Jersey's relative economic well-being has been slowly but clearly eroding. This could be the crucial public policy issue facing New Jersey. ■

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