

# Sitar–Rutgers Regional Report

James W. Hughes and Joseph J. Seneca, editors

## New Regional Employment Dynamics?

By James W. Hughes and Joseph J. Seneca

In the second half of the twentieth century, New Jersey's economy grew from being less than half the size of New York City's in 1950 to 7 percent larger by 2000. And in the final two decades of the century, New Jersey served as the regional economic locomotive, led by its burgeoning office market sheltering a leading-edge information-age economy. New Jersey became the most efficient and cost-competitive place of doing postindustrial business in the region.

However, following the 2000–2003 employment downturn, New York City emerged as the driving economic force in the region, while New Jersey has experienced an extended period of slow job growth. Despite its extraordinarily high and growing business costs, Manhattan remains in hot demand. The positive side of this for New Jersey is that New York City is now running out of “affordable” office space, which may lead to employment spillover

into the Garden State. As prime midtown Manhattan office rentals trend above \$80 per square foot, the attraction of lower office rents in New Jersey increases substantially, as it did in the 1980s and 1990s. But as the second quarter of 2007 came to a close, this potential effect had yet to be reflected in New Jersey's employment numbers or office-vacancy levels.

### Long-Term Trajectory

In little more than a half-century, New Jersey's economy evolved from a minor regional participant to a major regional player. This is amply illustrated by figure 1 (back cover), which portrays total employment in New Jersey and New York City for the 1950–2006 period. In 1950, the state's total employment base (1.7 million jobs) was only 48 percent of the job total of New York City (3.4 million jobs). But then New Jersey consistently grew faster, so much so that by 1988 it had finally surpassed New York City (*continued, page 2*)

## Commercial Building Going Green

By Sachiyo Asakawa

Green Building—it's not just the color of the façade! What does this mean? It is a building that is environmentally friendly and healthy for its occupants. Green building employs state-of-the-art techniques for siting, design, materials, construction, operation, maintenance, and removal. It incurs more paperwork and time-consuming processes than traditional construction, but building efficiencies—lower costs and energy usage—are significantly increased. Overall, it yields measurable benefits to the building owners and occupants.

The U.S. Green Building Council (USGBC) has developed the nationally accepted benchmark—LEED™ (Leadership in Energy and Environmental Design Green Building Rating System™)—to certify and rank new “green” buildings into categories of Certified, Silver, Gold, or Platinum. It has become the most recognized label for green-building status in the nation. Credits are awarded for sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality. Buildings with more credits are rated higher on the LEED™ scale. LEED-Certified buildings are eligible (*continued, page 7*)

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report on  
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and office  
markets in  
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and Central  
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## 2 New Dynamics, continued

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	<u>New Jersey Employment</u>	
	Absolute	Share of U.S. (%)
<b>Total Nonfarm</b>	4,075.0	3.0
<b>Total Private Sector</b>	3,426.1	3.0
<b>Goods-Producing</b>	501.1	2.2
Natural Resources and Mining	1.8	0.3
Construction	174.1	2.3
Manufacturing	325.0	2.3
<i>Pharmaceuticals and Medicines</i>	40.7	13.9
<b>Private Service-Providing</b>	2,924.9	3.2
Trade, Transportation, and Utilities	875.6	3.3
<i>Wholesale Trade</i>	232.0	3.9
<i>Retail Trade</i>	467.9	3.1
<i>Transportation and Warehousing</i>	161.7	3.6
<i>Information</i>	98.9	3.2
<i>Publishing, except Internet</i>	30.6	3.4
<i>Telecommunications</i>	38.9	4.0
<i>ISPs, Web Search Portals, and Data Processing</i>	15.3	4.0
<i>Financial Activities</i>	280.6	3.4
<i>Professional and Business Services</i>	602.1	3.4
<i>Professional, Scientific, and Technical Services</i>	277.4	3.8
<i>Management of Companies and Enterprises</i>	67.7	3.7
Educational and Health Services	568.7	3.2
Leisure and Hospitality	338.5	2.6
Other Services	160.6	3.0
<b>Government</b>	648.9	3.0
Federal	60.3	2.2
State	154.3	3.0
Local	434.3	3.1
<i>Notes:</i>	North American Industry Classification System (NAICS) employment sectors. Boxed sectors shaded in gray encompass most of the state's sophisticated office jobs.	
<i>Source:</i>	U.S. Bureau of Labor Statistics.	

(3.7 million jobs to New York's 3.6 million jobs). By 2006, the state's total employment (4.1 million jobs) was 11 percent greater than New York's (3.7 million jobs). In the past 56 years, New Jersey's net employment gain (2.4 million jobs) was more than 12 times greater than New York City's net gain of 196,000 jobs. This represents a major regional economic reordering.

### Current Employment Profile

The growth and maturation of the New Jersey economy over the past half-century has left the state not only with a large employment base but also an enviable business-sector profile. Office jobs—concentrated in advanced knowledge-based services—now make up a significantly larger share of New Jersey's economy compared with the nation as a whole. Table 1 lists the 2006 distribution of payroll employment in New Jersey and each sector's share of national employment. The gray-shaded sectors outlined in table 1 encompass most of the state's sophisticated office jobs.

New Jersey now has nearly 4.1 million total payroll jobs, which represent 3 percent of the nation's total employment base. That would be the state's expected share in any job sector if it reflected the national average. Any share greater than 3 percent indicates that New Jersey is overrepresented in that sector and has a unique employment concentration. Pharmaceutical and medicine manufacturing is the state's most dominant sector in terms of national share, accounting for 13.9 percent of the nation's total pharmaceutical employment. This is more than four and one-half times greater than its expected share.<sup>1</sup> Thus, it is not surprising that New Jersey has often been called the nation's medicine chest.

Information, financial activities, and professional and business services are the business sectors where most of the state's office jobs are concentrated. Within information, the telecommunications and ISP (Internet Service Providers) sectors each account

for 4 percent of national employment. This is fully one-third higher than their expected national share, while publishing accounts for 3.4 percent. Financial activities and professional and business services also both account for 3.4 percent of national employment. Within professional and business services, the professional, scientific, and technical services sector (which includes such subsectors as legal, accounting, architectural, engineering, management, and research services) has a 3.8 percent national share, while management of companies and enterprises (corporate headquarters) has a 3.7 percent share. Such above-average employment concentrations in these high value-added, above-average-pay business sectors are the envy of many other states.

Other notable above-average employment shares are tied to the state's strong specialization in logistics and distribution. New Jersey accounts for 3.9 percent of the nation's wholesale trade employment and 3.6 percent of its transportation and warehousing employment.

### Six-Month 2007 Benchmark

The state's positive long-term growth trajectory and its emergence as a potent postindustrial economy must now be tempered by two factors. The first is the recent period of below-average job growth that started in 2005. This pattern has now persisted through the first six months of 2007. Table 2 indicates that New Jersey has added 9,600 jobs between December 2006 and June 2007. This translates into an annual increase of only 19,200 jobs for all of 2007. If this projection is accurate, job growth in 2007 would be only 57 percent of the 33,900 jobs added in 2006 and less than a quarter of the 77,000 job-growth average of the last two expansions (1982–1989 and 1992–2000). Moreover, the six-month employment growth in the key office sectors combined (information, financial activities, and professional and business services) was only 3,900 jobs. A slowly growing New Jersey economy is trending even slower. *(continued, page 4)*

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1. However, in 1990, New Jersey accounted for 20.2 percent of the nation's total pharmaceutical employment.

## 4 New Dynamics, continued

The size of this differential in New York's favor is unprecedented in the post-World War II era.

**TABLE 2**  
**New Jersey Nonfarm Payroll Employment**  
**December 2006–June 2007**  
*(Seasonally adjusted; numbers in thousands)*

	December 2006	June 2007	Change	
			Number	Percentage
<b>Total Nonfarm</b>	4,085.5	4,095.1	9.6	0.2
<b>Total Private Sector</b>	3,433.7	3,441.2	7.5	0.2
<b>Goods-Producing</b>	495.5	491.9	-3.6	-0.7
Natural Resources and Mining	1.9	1.7	-0.2	-10.5
Construction	172.9	172.6	-0.3	-0.2
Manufacturing	320.7	317.6	-3.1	-1.0
<b>Private Service-Providing</b>	2,938.2	2,949.3	11.1	0.4
Trade, Transportation, and Utilities	875.5	875.4	-0.1	0.0
Information	99.7	98.0	-1.7	-1.7
Financial Activities	282.3	282.6	0.3	0.1
Finance and Insurance	221.2	220.9	-0.3	-0.1
Real Estate and Rental/Leasing	61.1	61.7	0.6	1.0
Professional and Business Services	607.4	612.7	5.3	0.9
Professional, Scientific, and Technical Services	280.4	283.8	3.4	1.2
Management of Companies and Enterprises	67.3	68.4	1.1	1.6
Administrative Support, Waste Management, and Remediation Services	259.7	260.5	0.8	0.3
Educational and Health Services	574.4	578.0	3.6	0.6
Leisure and Hospitality	338.4	339.4	1.0	0.3
Other Services	160.5	163.2	2.7	1.7
<b>Government</b>	651.8	653.9	2.1	0.3

*Notes:* North American Industry Classification System (NAICS) employment sectors. Boxed sectors shaded in gray are the most important to the office market.

*Source:* New Jersey Department of Labor and Workforce Development.

### Resurgence of New York City

The second factor relates to New York City. In contrast to New Jersey, and in a reversal of the half-century-long trend, New York City's employment growth over the past two and one-half years has been more than double that of New Jersey. Between December 2004 and May 2007,

New York City's net employment growth was 142,800 jobs. In contrast, New Jersey gained only 69,800 jobs. The size of this differential in New York's favor is unprecedented in the post-World War II era.

While the City still has not achieved the pace of employment growth that it *(continued, page 8)*

# Slow in the Princeton Corridor

by Sachiyo Asakawa

**T**he Northern and Central New Jersey office market has not evidenced signs of strong growth from the first quarter of 2007. The total vacancy rate is 15.6 percent, a 0.3 percent rise from the last quarter, and the direct vacancy rate remains at 13.1 percent. The average asking rental rate climbed slightly, however, from \$25.23 to \$25.43 per square foot in the second quarter. Total inventory stands at approximately 212 million square feet, with Class A space representing 117.5

million square feet, or more than 50 percent of the total inventory. Quarter-to-date net absorption is a negative 300,224 square feet, resulting in year-to-date net absorption of only 40,899 square feet. The same pattern holds for the Class A market, where the vacancy rate and the average asking rates are nearly unchanged from the last quarter.

The top five office leases that occurred during the second quarter were all larger in square footage than those of first-quarter 2007. *(continued, page 6)*

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## Northern and Central New Jersey Total Office Market Second Quarter 2007

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption	2007 YTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate			
Bergen	567	29,480,318	3,814,643	12.9%	4,585,060	15.6%	\$27.27	33,990	90,757
Essex	399	28,720,995	2,764,244	9.6%	2,921,457	10.2%	\$24.77	258,202	180,388
Hudson	167	24,153,182	2,587,612	10.7%	3,416,696	14.1%	\$26.05	(38,214)	(6,412)
Hunterdon	61	1,998,596	485,625	24.3%	490,189	24.5%	\$24.38	(17,121)	(74,652)
Mercer	345	16,675,308	2,524,188	15.1%	2,703,169	16.2%	\$27.69	(79,745)	(60,535)
Middlesex	468	28,375,721	4,301,546	15.2%	5,402,282	19.0%	\$23.87	(404,635)	(198,290)
Monmouth	423	14,124,484	1,407,761	10.0%	1,494,577	10.6%	\$22.35	(70,724)	(114,528)
Morris	455	29,524,430	5,084,844	17.2%	5,583,616	18.9%	\$26.84	117,689	358,195
Passaic	159	6,569,332	975,486	14.8%	1,009,233	15.4%	\$21.92	15,665	8,474
Somerset	278	20,695,073	2,949,148	14.3%	4,317,769	20.9%	\$23.81	(42,916)	91,349
Union	311	11,646,619	844,419	7.3%	1,122,419	9.6%	\$25.51	(72,415)	(233,847)
<b>Total</b>	<b>3,633</b>	<b>211,964,058</b>	<b>27,739,516</b>	<b>13.1%</b>	<b>33,046,467</b>	<b>15.6%</b>	<b>\$25.43</b>	<b>(300,224)</b>	<b>40,899</b>
Central NJ	1,825	91,517,205	12,027,062	13.1%	15,040,216	16.4%	\$24.65	(670,435)	(515,851)
Northern NJ	1,808	120,446,853	15,712,454	13.0%	18,006,251	14.9%	\$25.21	370,211	556,750

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.

## 6 Slow, continued

*Although market indicators appear stagnant, leasing activities have maintained a relatively good pace.*

Deloitte & Touche moved its Northeast regional headquarters from 2 Hilton Court in Parsippany to sign this quarter's largest lease (160,047 square feet) at 100 Kimball Drive in Parsippany, a Class A building completed in the first quarter of the year. McCarter & English, one of the nation's oldest and largest law firms, renewed 155,050 square feet of office space in Newark. The Japanese pharmaceutical company Daiichi Sankyo renewed 151,356 square feet of space in Parsippany. Barr Pharmaceuticals relocated its executive headquarters with 250 employees from Woodcliff Lake to occupy the entire 144,000-square-foot Class A office property at 225 Summit Avenue in Montvale.

Although market indicators appear stagnant, leasing activities have maintained a relatively good pace. Of

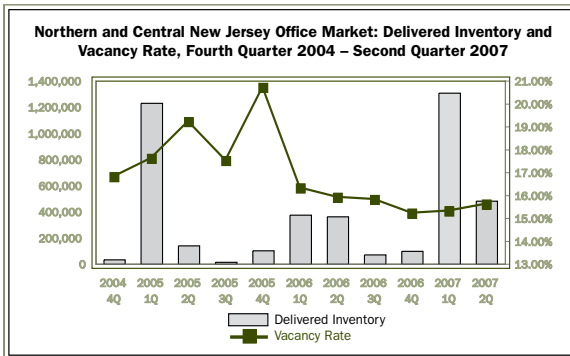
the total 3,239,870 square feet of space leased in the Northern and Central New Jersey office market during the second quarter, Class A office space comprised 2,291,750 square feet. This compares with a total of 3,479,743 square feet leased in the previous quarter and 3,192,337 square feet leased in the fourth quarter of 2006. Thus, although leasing activities were relatively healthy during the second quarter, the delivery of 1,308,553 square feet of new office space to the market earlier this year appears to be a contributory factor to the higher vacancy rates.

Two buildings in excess of 100,000 square feet were completed in the Princeton market, where more speculative construction continues than elsewhere in the state. A 140,000-square-foot Class A building developed

### Northern and Central New Jersey "Class A" Office Market Second Quarter 2007

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption	2007 YTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate			
Bergen	81	13,113,896	2,036,717	15.5%	2,633,474	20.1%	\$29.55	(47,423)	15,758
Essex	62	15,007,566	1,655,088	11.0%	1,772,820	11.8%	\$27.14	18,151	(60,572)
Hudson	49	19,189,530	1,775,803	9.3%	2,573,783	13.4%	\$28.71	(37,069)	15,748
Hunterdon	6	762,030	258,750	34.0%	258,750	34.0%	\$26.90	30,883	(4,442)
Mercer	75	7,612,268	1,474,057	19.4%	1,586,868	20.8%	\$31.21	(61,060)	(26,673)
Middlesex	119	17,512,021	2,757,115	15.7%	3,382,837	19.3%	\$25.46	(508,227)	(261,640)
Monmouth	52	4,914,314	371,912	7.6%	404,594	8.2%	\$26.05	38,372	(13,154)
Morris	120	18,386,277	3,504,664	19.1%	3,955,134	21.5%	\$28.86	183,600	563,120
Passaic	15	2,036,801	530,459	26.0%	534,659	26.2%	\$23.61	8,378	(9,816)
Somerset	101	15,092,093	2,223,399	14.7%	3,568,727	23.6%	\$24.33	(72,803)	97,801
Union	31	3,922,689	403,848	10.3%	655,024	16.7%	\$28.62	(80,545)	(177,972)
<b>Total</b>	<b>711</b>	<b>117,549,485</b>	<b>16,991,812</b>	<b>14.5%</b>	<b>21,326,670</b>	<b>18.1%</b>	<b>\$27.46</b>	<b>(527,743)</b>	<b>138,158</b>
Central NJ	378	49,053,385	7,230,331	14.7%	9,598,050	19.6%	\$27.13	(684,263)	(381,638)
Northern NJ	333	68,496,100	9,761,481	14.3%	11,728,620	17.1%	\$27.46	156,520	519,796

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.



by Hilton Realty at 902 Carnegie Center West is now completed and is 27 percent occupied. Also in the Princeton-area market, the 120,000-square-foot Horizon Center 7 is now complete and fully occupied by AAA Mid-Atlantic. During the first half of 2007, approximately 650,000 square feet of space was newly delivered to the Princeton market, and another 670,000 square feet is currently under construction.

The Princeton market (including the northern and southern Princeton submarkets) currently contains approximately 4.5 million square feet of vacant space, and the vacancy rate in this market climbed about 18 percent at the end of the second quarter of this year. (Note: These figures include only non-owner-occupied buildings over 10,000 square feet in size.) If the leasing patterns of the late 1990s (whereby speculative construction was gobbled up by major corporations) are not replicated in the current market, vacancies here may hit a record high.

Although the Princeton market’s leasing activities seemed to slow down in the second quarter compared to the previous quarter, approximately 691,028 square feet were already leased out so far this year. Large deals like Computer Associates’ 80,000-square-foot lease and the nearly 67,000-square-foot lease by Continental Casualty Company, both signed in the first quarter, gave developers some hope and industry professionals a positive sign of market stability. In addition, industry professionals are seeing some large companies seeking spaces in the Princeton market. Although there is a little bit of concern, we expect that the Princeton market will continue to be a premier location for major office tenants. ■

for incentives including tax rebates, zoning allowances, and other benefits.

As of July 2007, there are 22 LEED-Certified buildings in New Jersey (see the New Jersey Chapter of the U.S. Green Building Council Web site at <http://chapters.usgbc.org/newjersey/LEED.htm>). In keeping with the objectives of green building—sustaining human and environmental health—many of the state’s certified and registered projects are educational facilities. For example, the New Jersey Meadowlands Commission’s \$5.8 million education center in Lyndhurst is LEED-Registered and being built to LEED standards. Today, a growing number of commercial office buildings are being registered and built to LEED standards. Goldman Sachs’s 1.5-million-square-foot office building at 30 Hudson Street in Jersey City, built in 2004, is LEED-Certified.

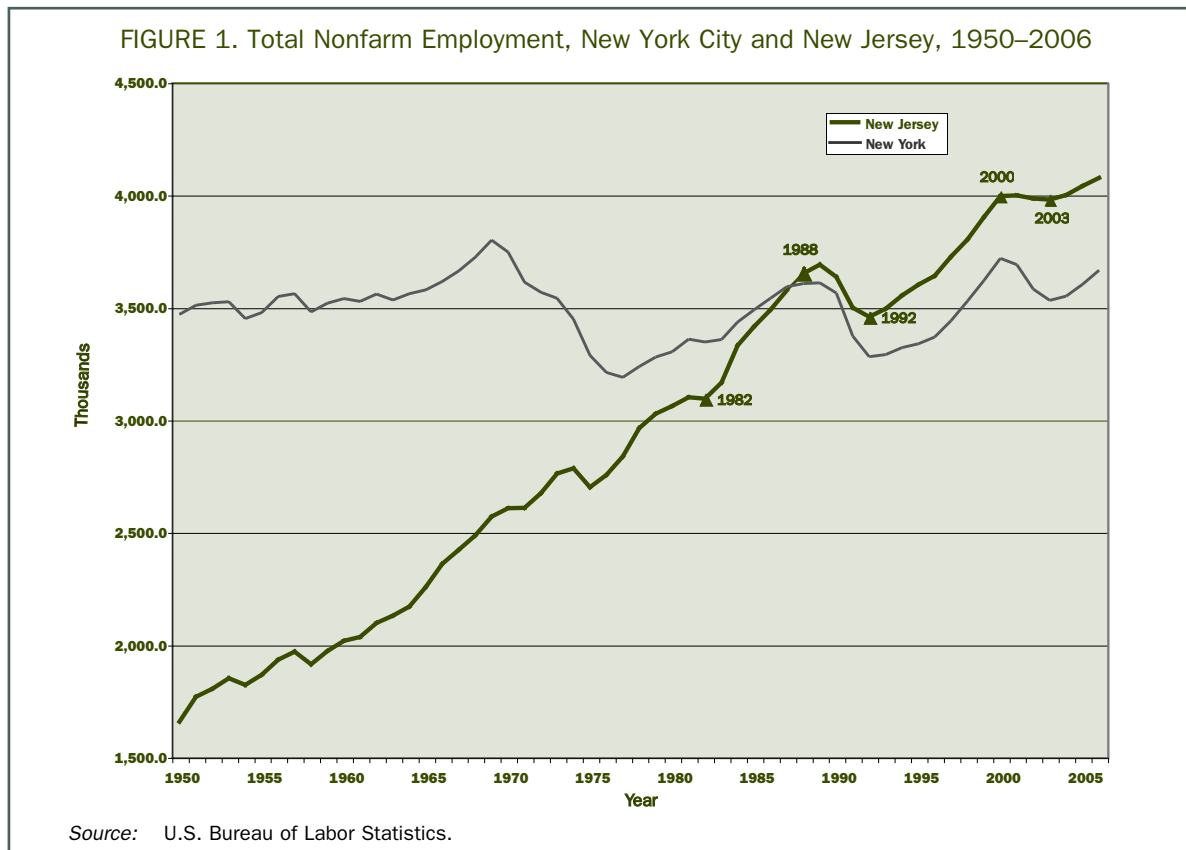
Maren Haus of the Rutgers Center for Green Building at the Edward J. Bloustein School of Planning and Public Policy notes, “Among the top motivations for owners and builders to build green are an expanding list of benefits such as reduced infrastructure costs, lower churn costs, more rapid lease-out, positive public image, reduced employee turnover, improved health, reduced traffic congestion and toxic emissions, protection of biodiversity, and support of sustainable economies.”

Mirroring this growing trend, CoStar Group, which maintains one of the largest Web-based commercial real estate database information systems for industry professionals, developers, owners, and tenants, recently added U.S. Environmental Protection Agency ENERGY STAR® and “LEED-Certified” ratings in its categories. The term “green building” is becoming the new buzzword among industry professionals.

“The number of green commercial office/industrial buildings will continue to grow in the near future,” said Ms. Haus, who believes that market forces such as rising energy and fuel costs make green building a win-win for the economy and environment. As the benefits of and incentives for green building increase, New Jersey’s commercial real estate industry will increasingly embrace it. ■

*The term “green building” is becoming the new buzzword among industry professionals.*

## New Dynamics, continued



experienced in the late 1990s (figure 1), it is now the economic hot spot of the entire Northeast region. But as Class A rents in Manhattan surge above \$80 per square foot, firms facing lease renewals confront severe sticker shock and will perhaps confront a doubling of rents. What is surprising, at least thus far, is that New Jersey has yet to benefit significantly from this phenomenon. Eventually it will. The problem is that “eventually” may be a very long time. ■

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