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 2008

Volume 11

Number 3

A Deepening Cycle of Economic Retreat

By James W. Hughes and Joseph J. Seneca

Daily headlines paint an ever-sobering economic picture. The list is a long and gloomy one: predictions of higher long-term oil prices, a still weakening dollar, spiking commodity and food costs, rising general inflation, a sinking housing market that has not yet reached bottom, falling confidence in the banking sector, plunging automobile sales, declining corporate profits, a bear stock market, and tumbling consumer sentiment all point to a deepening economic malaise in the United States. There appears to be a growing consensus that while the depth of the current downturn may turn out to be shallow, its duration may be lengthy, with the troubles plaguing the economy persisting well into 2009. Thus, New Jersey and its office markets are likely to confront hostile national economic forces for the foreseeable future.

This could prove to be very problematic for New Jersey since the state's employment performance has been downshifting markedly. New Jersey's total employment base currently ranks 11th in size among the 50 states. Thus, to generally keep pace with the nation, the state should rank 11th in total employment growth. In 2006, New Jersey ranked 21st among the 50 states in total job growth. In 2007, the state fell to 36th place. Then, in the first half of 2008, New Jersey tumbled to 46th place. There's not too much room to fall further.

The Nation

The nation has now experienced seven straight months of private-sector employment decline (seasonally adjusted nonfarm payroll jobs). Yet, it has still not been established whether we are in an actual *(continued, page 2)*

Transforming "Old" to Gold

By Sachiyo Asakawa

Northern New Jersey has long been an attractive market for major national retailers. This densely populated market offers a high-income, highly educated population with strong purchasing power. What the market lacks is available sites for new development. With the exception of some less densely populated portions of the Northern New Jersey market where land is still available, the majority of this market is fully developed. This is seen in the total vacancy rate for Bergen County's retail market, which was 3.9 percent at the end of the second quarter. The overall vacancy rate for the Northern New Jersey retail market is 5.2 percent for this period.

Due to the maturity of this market, retailers are forced to look for alternative sites for new development. Among the options developers have considered are remediated brownfield sites and adaptive reuse of old industrial sites within the market area. *(continued, page 8)*

Sitar Company
Worldwide Real Estate
ONCOR International

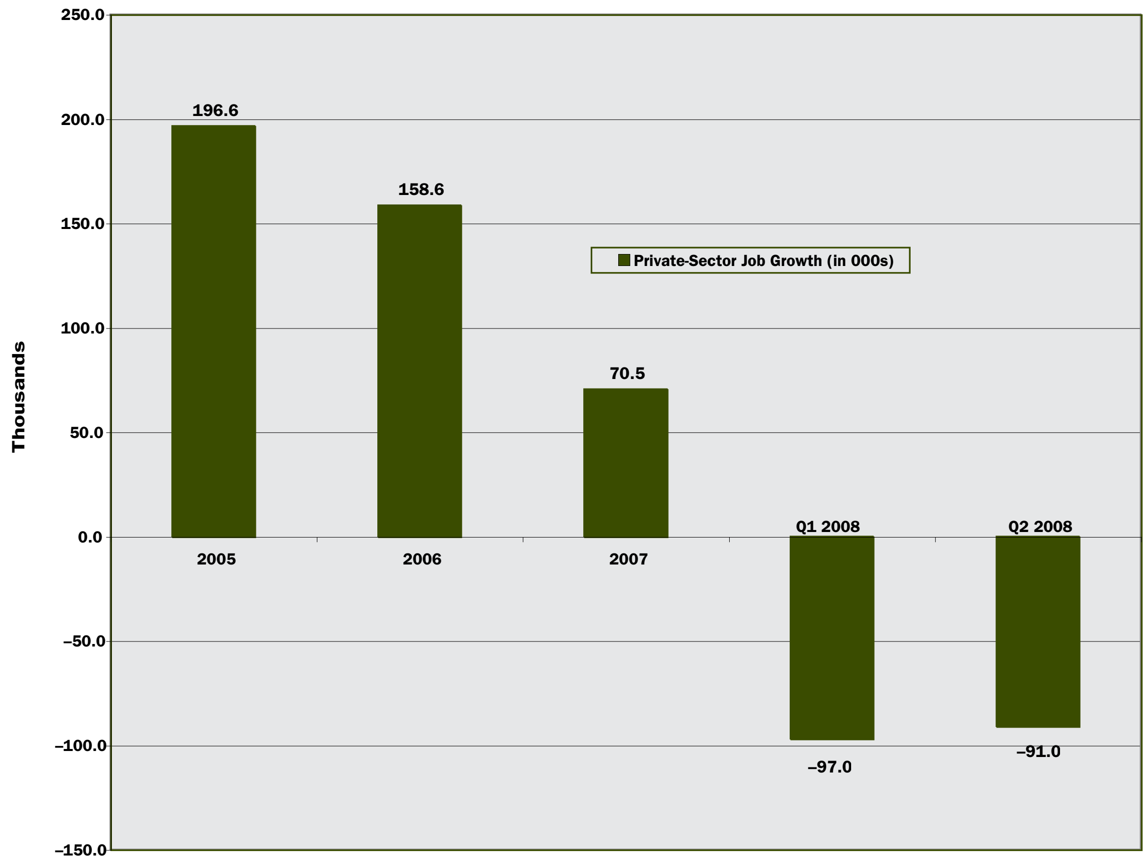
RUTGERS
Edward J. Bloustein School
of Planning and Public Policy

A recession is often defined by the financial press as two consecutive quarters of decline in real Gross Domestic Product.

FIGURE 1

Private-Sector Employment, Average Monthly Growth: United States, 2005–2Q 2008

(Based on seasonally adjusted data)



Source: U.S. Bureau of Labor Statistics.

recession. This will ultimately be determined by the Business Cycle Dating Committee (BCDC) of the National Bureau of Economic Research (NBER). While a recession is often defined by the financial press as two consecutive quarters of decline in real Gross Domestic Product (GDP)—which has not happened yet in the current cycle—the BCDC actually uses the following definition:

> *A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.*

The BCDC explains that "Our procedure differs from the two-quarter rule in a number of ways. First, we consider the depth as well as the duration of the decline in economic activity. . . . Second, we use a broader array of indicators than just real GDP. One reason for this is that GDP data are subject to considerable revision. Third, we use monthly indicators to arrive at a monthly chronology." Since it usually takes anywhere from six to 18 months after

TABLE 1
Total Nonfarm Employment
May 2007–May 2008
United States, New Jersey, New York, and Metropolitan Statistical Areas (MSAs)
(Non-seasonally adjusted; numbers in thousands)

AREA	May 2007	May 2008	Change, 2007–2008 Number	Percentage
United States	138,289.0	138,383.0	94.0	0.07
New Jersey	**4,100.6**	**4,091.2**	**–9.4**	**–0.23**
New York	8,772.9	8,814.5	41.6	0.47
New York–Northern New Jersey–Long Island, NY–NJ–PA Metropolitan Statistical Area	8,607.9	8,646.1	38.2	0.44
Edison–New Brunswick, NJ Metropolitan Division	1,049.2	1,045.2	–4.0	–0.38
Nassau–Suffolk, NY Metropolitan Division	1,277.6	1,284.0	6.4	0.50
New York–White Plains–Wayne, NY–NJ Metropolitan Division	5,238.8	5,277.3	38.5	0.73
Bergen–Hudson–Passaic, NJ	910.4	910.7	0.3	0.03
New York City, NY	**3,746.4**	**3,781.1**	**34.7**	**0.93**
Putnam–Rockland–Westchester, NY	582.0	585.5	3.5	0.60
Newark–Union, NJ–PA Metropolitan Division	1,042.3	1,039.6	–2.7	–0.26

Notes: **Metropolitan Statistical Area Definitions:**

Edison–New Brunswick, NJ Metropolitan Division =
Middlesex, Monmouth, Ocean, and Somerset Counties (New Jersey)

Nassau–Suffolk, NY Metropolitan Division =
Nassau and Suffolk Counties (New York)

New York–White Plains–Wayne, NY–NJ Metropolitan Division =
New York City; Westchester, Rockland, and Putnam Counties (New York)
Bergen, Hudson, and Passaic Counties (New Jersey)

Newark–Union, NJ–PA Metropolitan Division =
Essex, Hunterdon, Morris, Sussex, and Union Counties (New Jersey)
Pike County (Pennsylvania)

Source: U.S. Bureau of Labor Statistics.

It could be any time between the summer of 2008 and June 2009 before we find out whether a recession officially began at the start of 2008.

the beginning of recession for the BCDC to ultimately declare when it started, it could be any time between the summer of 2008 and June 2009 before we find out whether a recession officially began at the start of 2008!

Nonetheless, the weakening and subsequent decline in the nation's private-sector payroll employment appears to be evidence of a significant falloff in economic activity in 2008 to date. The average monthly private-sector employment gain in the United States in 2005 was 196,600 jobs (figure 1). The monthly gain eased to 158,600 jobs in 2006, then plummeted to 70,500 jobs per month in 2007. It has now turned negative in the first two quarters of this year, with 97,000 private-sector jobs lost per month in the first quarter, followed by losses of 91,000 jobs per month in the second quarter. In the first half *(continued, page 4)*

Financial markets are now characterized by broad de-leveraging and recapitalization, to supplant what was, in retrospect, an unsustainable lending and borrowing binge.

of 2008, the nation lost a total of 564,000 private-sector jobs. So, even if it's not an "official" recession yet, it's sure starting to feel like one.

The outlook for the balance of 2008 and into 2009 is for recessionary or near-recessionary conditions to continue. Additional employment losses are likely, and there will be a further weakening in labor markets that have already seen the national unemployment rate increase from 5.0 percent in December 2007 to 5.5 percent in June 2008.

Moreover, other troubles dogging the economy are not likely to reverse easily. Financial markets are still in the painful process of adjusting to the end of an era of cheap global credit when risk amnesia prevailed. In contrast, financial markets are now characterized by broad de-leveraging and recapitalization, to supplant what was, in retrospect (as always is the case in financial bubbles), an unsustainable lending and borrowing binge. Big-time consumer retrenchment is also under way as a result of weaker labor markets, the aftershocks of the bursting of an unprecedented national housing-price bubble, soaring food and energy costs, and falling stock prices. And the housing downturn, with its significant price declines, appears to be a multi-year phenomenon. Moreover, confidence in the nation's banking system has been shaken. Combined, these forces are a toxic national economic mix that inevitably affects New Jersey.

The Regional Picture

To gain a slightly different perspective on New Jersey's relative economic performance, it is useful to examine conditions in New York State and the New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area (MSA). The MSA (as defined by the U.S. Census Bureau) consists of four metropolitan divisions, with New Jersey counties included as part or all of three of these divisions. The Edison-New Brunswick, NJ Metropolitan Division consists of Middlesex, Monmouth, Ocean and Somerset Counties. The Newark-Union, NJ-PA Metropolitan Division consists of Essex, Hunterdon, Morris, Sussex, and Union Counties in New Jersey, and Pike County in Pennsylvania. In addition, Bergen, Hudson, and Passaic Counties are part of the New York-White Plains-Wayne, NY-NJ Metropolitan Division. In all, 12 New Jersey counties are in this MSA, which is the nation's largest.

The MSA as a whole added 38,200 nonfarm payroll jobs (not seasonally adjusted) between May 2007 and May 2008 (table 1). Virtually all of this gain (90.8 percent) took place in New York City (34,700 jobs). In contrast, the Edison-New Brunswick, NJ Metropolitan Division lost 4,000 jobs, and the Newark-Union, NJ-PA Metropolitan Division lost 2,700 jobs. The only positive growth in New Jersey was in the Bergen-Hudson-Passaic component of the New York-White Plains-Wayne, NY-NJ Metropolitan Division, but this growth was only 300 jobs. So, the 12 New Jersey counties in the MSA, along with Pike County in Pennsylvania, had an aggregate loss of 6,400 jobs. Clearly, New York City has been the metropolitan and regional economic locomotive, assisted by its suburban counties: Nassau-Suffolk, which added 6,400 jobs, and Putnam-Rockland-Westchester, which added 3,500 jobs. Thus, virtually all the growth in the broad New York-Northern New Jersey-Long Island, NY-NJ-PA MSA was in New York City and its suburban New York counties.

New Jersey's poor MSA performance (and New York's strong performance) is also reflected in the statewide totals for the May 2007–May 2008 period. New York added 41,600 nonfarm payroll jobs (not seasonally adjusted), or 0.47 percent, while New Jersey lost 9,400 jobs, or –0.23 percent. New York State's rate of growth (0.47 percent) was nearly seven times faster than that of the nation (0.07 percent).

However, the New York State and New York City employment performances were largely powered by booming Wall Street financial institutions and their record profits, bonuses, and pay levels, with New Jersey also a beneficiary of their positive spillover effects. But the era of rampant leverage and lax lending standards that lay behind this growth has ended, and a major retrenchment on Wall Street is now under way. Thus, this once extraordinarily powerful economic locomotive is in the process of derailing. This portends negative spillover effects on the entire MSA, and the 12 New Jersey counties within it, for the balance of 2008 and beyond.

TABLE 2
Year-to-Date
New Jersey Nonfarm Payroll Employment
December 2007–June 2008
(Seasonally adjusted; numbers in thousands)

	December 2007	June 2008	Change: Number	Change: Percentage
Total Nonfarm	4,082.6	4,068.5	–14.1	–0.3
Total Private Sector	3,433.8	3,419.4	–14.4	–0.4
Goods-Producing	481.4	470.2	–11.2	–2.3
Natural Resources and Mining	1.6	1.7	0.1	6.2
Construction	170.1	166.5	–3.6	–2.1
Manufacturing	309.7	302.0	–7.7	–2.5
Private Service-Providing	2,952.4	2,949.2	–3.2	–0.1
Trade, Transportation, and Utilities	879.9	873.1	–6.8	–0.8
Information	98.3	98.4	0.1	0.1
Financial Activities	270.2	267.8	–2.4	–0.9
Professional and Business Services	612.8	613.0	0.2	0.0
Education and Health Services	585.9	591.2	5.3	0.9
Leisure and Hospitality	340.8	339.8	–1.0	–0.3
Other Services	164.5	165.9	1.4	0.9
Government	648.8	649.1	0.3	0.0

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

Source: New Jersey Department of Labor and Workforce Development.

New Jersey's overall labor market also deteriorated during the first half of this year.

New Jersey

For the first half of 2008, measured December 2007 to June 2008, total payroll employment in New Jersey contracted by 14,100 jobs (table 2). As was pointed out earlier, this performance ranked 46th among the 50 states. This was the result of a loss of 14,400 private-sector jobs and a gain of 300 public-sector jobs. The largest declines were registered by manufacturing (-7,700 jobs); trade, transportation, and utilities (-6,800 jobs); and construction (-3,600 jobs). The three sectors most important to the office market—information (+100 jobs), financial activities (-2,400 jobs), and professional and business services (+200 jobs)—had an aggregate employment loss of 2,100 jobs. The only significant growth in the state took place in education and health services (+5,300 jobs), which has been the dominant growth sector during the current decade.

New Jersey's overall labor market also deteriorated during the first half of this year. The unemployment rate increased from 4.2 percent in December 2007 to 5.3 percent in June 2008. While it remained below the current national rate of 5.5 percent, the unemployment trend is ominous—an increase of 1.1 percentage points in six months. ■

Market Fragile But Holding Steady

By Sachiyo Asakawa

Continuing the pattern of the first quarter, leasing activity was slow.

Despite a slow first quarter, the Northern and Central New Jersey office market was not impacted as heavily by current national economic woes as industry professionals feared. It quietly held steady during the second quarter of 2008. Continuing the pattern of the first quarter, leasing activity was slow. Approximately 1.8 million square feet was leased during the second quarter of 2008, compared with 4.3 million square feet during the second quarter of 2007. Leasing activity was moderate in Bergen, Mercer and Middlesex Counties. Class A office space accounted for more than 60 percent of the leased space. Only 211,000 square feet, totaling five buildings, was newly delivered to the market. Net absorption for the total market was a positive 346,750 square feet, 299,066 square feet of which was Class A space, compared with last quarter's negative 447,477 square feet. This brought year-to-date net absorption to a negative 100,727 square feet.

The vacancy rate dropped slightly, to 15.2 percent—a 0.3-percentage-point decrease from 15.5 percent in the previous quarter. The average asking rent also fell—to $25.67 at the end of the second quarter—a $0.08 drop from the first quarter. The Northern New Jersey market overall experienced more of a drop in the asking rent—from $26.81 in the first quarter to $26.62, compared with a $0.03 rise in the Central New Jersey market. The largest drop in rent occurred in Passaic County; the largest growth occurred in Mercer County. The Class A office market recorded a 17.8 percent vacancy rate, a 0.3-percentage-point drop from the previous quarter.

Northern and Central New Jersey Total Office Market Second Quarter 2008

			DIRECT		TOTAL (Direct and Sublet)				
County	Buildings	Total Inventory	Space Available	Vacancy Rate	Space Available	Vacancy Rate	Average Asking Rent	QTD Net Absorption	2008 YTD Net Absorption
Bergen	580	29,682,641	4,464,663	15.0%	5,041,681	17.0%	$27.94	85,436	(257,110)
Essex	400	28,460,993	3,261,680	11.5%	3,421,723	12.0%	$25.68	49,540	(332,767)
Hudson	171	24,743,440	1,515,431	6.1%	2,010,448	8.1%	$28.84	85,809	211,352
Hunterdon	64	1,988,826	607,618	30.6%	612,182	30.8%	$23.61	47,180	142,485
Mercer	353	17,663,461	2,654,534	15.0%	2,852,436	16.1%	$28.28	21,388	(3,443)
Middlesex	479	29,016,462	3,894,086	13.4%	4,889,791	16.9%	$24.37	(202,127)	(146,890)
Monmouth	440	15,913,586	1,784,225	11.2%	1,821,542	11.4%	$21.96	90,340	268,811
Morris	432	30,243,153	4,954,895	16.4%	6,028,662	19.9%	$26.48	(115,510)	68,674
Passaic	159	6,947,954	936,932	13.5%	974,901	14.0%	$21.29	77,630	16,899
Somerset	280	20,704,156	2,892,527	14.0%	4,118,055	19.9%	$23.80	307,944	51,435
Union	315	11,594,461	1,052,167	9.1%	1,219,317	10.5%	$26.21	(100,880)	(120,173)
Total	**3,673**	**216,959,133**	**28,018,758**	**12.9%**	**32,990,738**	**15.2%**	**$25.67**	**346,750**	**(100,727)**
Central NJ	1,867	94,892,126	12,277,539	12.9%	14,901,141	15.7%	$24.82	116,665	49,740
Northern NJ	1,806	122,067,007	15,741,219	12.9%	18,089,597	14.8%	$26.62	230,085	(150,467)

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. Beginning with Q2 2008 *Sitar–Rutgers Regional Report* data, reported figures have been recalibrated to new base estimates; thus, data in the current issue may not be consistent with first-quarter data reported.

Northern and Central New Jersey "Class A" Office Market
Second Quarter 2008

			DIRECT		TOTAL (Direct and Sublet)				
County	**Buildings**	**Total Inventory**	**Space Available**	**Vacancy Rate**	**Space Available**	**Vacancy Rate**	**Average Asking Rent**	**QTD Net Absorption**	**2008 YTD Net Absorption**
Bergen	86	13,519,060	2,850,838	21.1%	3,315,573	24.5%	$30.29	32,082	(140,141)
Essex	62	15,182,503	1,997,117	13.2%	2,137,485	14.1%	$28.37	21,902	(391,612)
Hudson	51	19,555,120	1,163,108	5.9%	1,640,425	8.4%	$30.60	(84,869)	100,351
Hunterdon	8	811,920	368,677	45.4%	368,677	45.4%	$25.26	31,933	47,258
Mercer	82	8,294,924	1,511,628	18.2%	1,594,799	19.2%	$32.20	91,213	155,536
Middlesex	121	17,677,422	2,066,511	11.7%	2,902,959	16.4%	$26.77	200,393	6,222
Monmouth	52	5,089,908	618,974	12.2%	642,734	12.6%	$26.70	29,199	122,215
Morris	122	18,794,982	3,691,033	19.6%	4,555,060	24.2%	$28.49	(169,144)	(45,974)
Passaic	18	2,150,834	484,586	22.5%	502,555	23.4%	$23.26	4,835	8,901
Somerset	99	14,618,069	1,910,344	13.1%	3,109,859	21.3%	$24.32	237,622	59,239
Union	32	3,990,879	499,257	12.5%	578,108	14.5%	$29.05	(96,100)	(75,852)
Total	**733**	**119,685,621**	**17,162,073**	**14.3%**	**21,348,234**	**17.8%**	**$27.98**	**299,066**	**(153,857)**
Central NJ	386	49,671,202	6,606,714	13.3%	8,828,459	17.8%	$27.03	462,327	267,360
Northern NJ	347	70,014,419	10,555,359	15.1%	12,519,775	17.9%	$28.92	(163,261)	(421,217)

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. Beginning with Q2 2008 *Sitar–Rutgers Regional Report* data, reported figures have been recalibrated to new base estimates; thus, data in the current issue may not be consistent with first-quarter data reported.

Some landlords began to set lower rental rates to attract tenants that are struggling in the marketplace.

It also experienced a drop in the average asking rent, from $28.13 to $27.98. Again, the asking rental rate in the Northern New Jersey Class A market dropped from $29.31 to $28.92.

The amount of available sublease space is on the rise. Approximately 5 million square feet of sublease space was available at the end of the second quarter, the largest amount of available sublease space since the third quarter of 2005. Only 2.1 million square feet of sublease space was leased during the past quarter, compared with 4 million square feet at Q2 2007. This shows the weakening demand for even sublease spaces, which often offer shorter-term commitment with lower rental rates than direct space. Many industry professionals see this as a strong indication of a substantial increase in the total vacancy rate in the near future.

The drop in vacancy rate and asking rental rates appears to be a by-product of the current slowing economy. Some landlords began to set lower rental rates to attract tenants that are struggling in the marketplace. Essex, Hunterdon, Monmouth, Morris, Passaic, and Somerset Counties experienced moderate drops in the average rents. Overall, the Northern New Jersey market had more of a drop in the average asking rent, while the Central New Jersey market maintained its rental rates.

The financial industry appears to be the driving force behind the Northern and Central New Jersey office market during the second quarter of 2008, whereas small- to medium-sized pharmaceutical companies were in the previous quarter. As a result of the slow economy, leases of large blocks of space were dominated by renewal activities rather than traditional direct leases. The largest lease signed during the second quarter was the renewal of 137,000 square feet by Bank of Tokyo-Mitsubishi at Plaza 10 Harborside Place in New Jersey. The second largest was the renewal by State Street *(continued, page 8)*

Transforming, continued

The most illustrative development of this type in the Northern New Jersey market is Xanadu, in the Meadowlands—a $2 billion retail and entertainment complex on 104 acres of remediated site. Another exemplar of the use of a remediated brownfield site is Edgewater Square in Edgewater—a 22-acre site that was used as a research and development facility for Unilever, later sold (in 2004) to the developer. Located along New Jersey's Gold Coast, this development will bring an additional 75,000 square feet of retail space to this already flourishing mixed-use market.

These two newly constructed retail spaces could not have come about without the redevelopment of brownfield sites in the Northern New Jersey market. In the growing suburbs of the Central New Jersey market as well, there are emerging markets that can support additional retail activity—but large sites for retail development are not readily available. The demographics of the North Edison–Woodbridge area of Middlesex County are similar to those of the Northern New Jersey market; here, the retail vacancy rate fell to 2.4 percent at the end of the second quarter of 2008. The planning board of Edison Township recently approved a redevelopment project for the 98-acre former Ford plant site on Route 1. The developer, Hartz Mountain, will transform this property to "Edison Towne Square," a one-million-square-foot mixed-use development with entertainment, restaurants, stores, office, and hotel uses. There are currently a number of sites throughout the state similarly being developed as mixed-use projects.

As more sites are remediated, identifying available developable parcels becomes a challenge. In a market like Northern New Jersey where developable land is scarce but has highly competitive locational advantages, developers will look increasingly at former industrial sites—it is, after all, about "location, location, location," and the state's alchemy historically has transformed slag into gold. In the current climate of economic uncertainty and constrained resources, however, developers are proceeding cautiously. ■

Fragile But Steady, continued

Bank for 115,321 square feet at 600 College Road East in Plainsboro. Affinity Federal Credit Union signed a new lease for 105,640 square feet at 73 Mountain View Boulevard in Basking Ridge.

Construction was active in the Central New Jersey market. Two of the three largest buildings under construction in Middlesex County (Woodbridge) are MetroTop Plaza II, a 252,000-square-foot Class A building, and 115 Wood Avenue South, a 100 percent preleased 116,178-square-foot Class A building.

Despite the state's rising unemployment rate, the Northern and Central New Jersey office market held steady until mid-year. As we enter the third quarter, there are some indications of the fragility of the market. While the state's unemployment rate at present is below that of the nation, it is difficult to project what the future holds for this 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

Sachiyo Asakawa, 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: **Arlene Pashman, Will Irving**
Distribution: **Marcia M. Hannigan**

Sitar Company • ONCOR International
1481 Oak Tree Road
Iselin, NJ 08830
732/283-9000
www.sitarcompany.com

Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey
33 Livingston Avenue
New Brunswick, New Jersey 08901-1981
www.policy.rutgers.edu