

# Sitar–Rutgers

## Regional Report

James W. Hughes and Joseph J. Seneca, editors

### A Breakout Year Propels New Jersey Economy into 2005

By James W. Hughes and Joseph J. Seneca

**A**t the end of 2003, we tiptoed out on the forecasting limb and asserted that if the 2004 national economy were a movie, it would be titled “Showtime.” We also opined that if the 2004 New Jersey economy were a movie, it would be titled “The Sweet Smell of Economic Success.” Amazingly, we actually nailed the forecast! It was a breakout economic year not only for New Jersey, but for the nation as well. The state had its best economic performance since 2000, the final year of the great trans-millennial economic expansion. So this will be a happy recap of the year gone by.

#### The Nation

The national economy positively shaped the 2004 New Jersey economy and it will continue to do so in 2005. A brief look back to see how we got here

should prove useful in assessing the future. During the past four years, America went from a GO-GO economy to a SLOW-GO economy to a NO-GO economy—and then we finally moved to a strong RE-GO economy in 2004. In March 2001, the nation slipped into recession, marking the end of the GO-GO years, a record 120-month long expansion that started in March 1991. Employment growth totaled 24 million jobs during this 10-year long expansion, or 2.4 million jobs per year (200,000 per month). Please remember those figures—2.4 million jobs per year or 200,000 per month during the GO-GO years. They set benchmarks for what constitutes a very strong expansion and we’ll refer to them subsequently.

In March 2001, the NO-GO years arrived. The formal recession lasted only eight (*continued, p. 2*)

### Plenty of Space for Planned Projects

By Linda Tanaka

**O**ffice development has been appropriately restrained over the past few years while we have endured higher than desirable vacancies. However, there are quite a number of large commercial projects, planned and approved, just waiting for market forces to turn around and the right tenant to materialize so that ground can be broken.

Although these proposed sites may change considerably according to tenant demand or may never even materialize as office space, the potential additional space is indeed substantial. If all of these

projects were built on spec to their proposed specifications, available Class “A” space would more than double.

An examination of large (at least 500,000 square feet) planned commercial office buildings reveals that New Jersey has quite a few. Almost 30 million square feet has been proposed. Plans for Hudson County are quite ambitious with 40 percent of the new Class “A” space targeted for the county, nearly all of it in Jersey City. In fact, plans made for additional space in Jersey City are nearly double the (*continued, p. 7*)

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## 2 Breakout, *continued*

*Thus, the current recovery has the advantage in terms of growth in economic output, while the earlier period had the advantage in terms of job growth.*

months and ended in November 2001. During this eight-month downturn, the nation lost 1.6 million jobs. Since the recession's end in November 2001, there have been three straight years—12 straight quarters—of positive growth in economic output as measured by real Gross Domestic Product (GDP). Nonetheless, the nation lost an additional 1.1 million jobs over the 18 months between November 2001 and May 2003, the cyclical employment low. This was not simply *job-less* economic growth—a phrase originating in the early 1990s—it was *job-loss* economic growth.

As a historical note, in the nine preceding U.S. post-war recessions starting in 1948, the average difference between the officially designated end of the recession and the cyclical employment low was a single month. This time it was dramatically different. Employment bottomed out a long 18 months after the recession officially ended, an event unprecedented in modern economic annals. It began to feel as if we were in the pre-deceased stage of the economic life cycle.

The final autopsy revealed that the nation lost 2.7 million jobs in the 26 months between March 2001 and May 2003. This just missed being the worst employment contraction since the Great Depression. And it created the fierce economic headwinds that New Jersey has had to surmount.

America's labor markets finally awoke during the second quarter of 2003. Between May 2003 and January 2005, despite some soft patches, the nation has regained more than 2.7 million jobs, finally surpassing its pre-recession employment peak. This represents the recovery of 102 percent of its recessionary employment losses. As we will subsequently discuss, this compares to a 174 percent job recovery rate for New Jersey through December 2004.

Thus, 2004 was the best employment growth year in the United States since 1999. In 2004 (measured from December 2003 to December 2004), the nation added approximately 2.2 million jobs. The

significance of this figure is three-fold. First, it surpassed the 1.9 million jobs gained in 2000, the last year of the past 120-month expansion. Second, it approached the annual average growth of that expansion—2.4 million jobs per year or 200,000 per month—figures that were emphasized earlier. Finally, as a point of reference, the nation needs to add between 125,000 and 150,000 jobs per month—or between 1.5 million and 1.8 million jobs per year—just to accommodate labor force growth and to keep the unemployment rate constant. That pace was far surpassed in 2004 when job gains averaged 181,000 per month. So the United States is firmly back in the job creation business. And for the record, George Bush was not (but only by a thread) the first president since Herbert Hoover to have a net loss of jobs during a term in office.

Another surprising perspective on the post-recession period is that the current economic recovery—as gauged by rate of growth in GDP—actually surpassed the rate of growth in the comparable period following the 1990–1991 national recession. In the first three years of recovery following the end of this recession, GDP grew by about 3 percent per year. In the three years following the end of the 2001 recession, GDP grew by about 3.5 percent per year. Thus, the current recovery has the advantage in terms of growth in economic output, while the earlier period had the advantage in terms of job growth.

In any case, 2004 was the best economic year in the United States since 1999. Final growth in GDP for 2004 came in at 4.4 percent, the exact same growth rate for 1999. So 2004 had the highest growth output in five years. Thus, we entered this year with substantial momentum. However, GDP growth may decelerate to the 3.5 percent range in 2005. Not to worry—a slowdown is not unusual at this stage of the business cycle, more than 3 years into an economic expansion. And the growth rate this year should still be higher than the long-term

TABLE 1  
New Jersey Nonfarm Payroll Employment  
December 2003 to December 2004  
(Seasonally adjusted, numbers in thousands)

	December 2003	December 2004	Change: 2003 to 2004	
			Number	Percent
TOTAL NONFARM EMPLOYMENT	3,999.2	4,075.1	75.9	1.9%
TOTAL PRIVATE SECTOR	3,369.1	3,427.9	58.8	1.7
GOODS PRODUCING	508.6	512.3	3.7	0.7
Natural Resources and Mining	1.6	1.7	0.1	6.2
Manufacturing	348.3	343.7	-4.6	-1.3
Construction	158.7	166.9	8.2	5.2
PRIVATE SERVICE-PROVIDING	2,860.5	2,915.6	55.1	1.9
Trade, Transportation, and Utilities	881.5	886.4	4.9	0.6
Information	101.7	101.0	-0.7	-0.7
Financial Activities	278.7	288.3	9.6	3.4
Professional and Business Services	576.7	587.1	10.4	1.8
Education and Health Services	544.0	559.2	15.2	2.8
Leisure and Hospitality	324.0	336.5	12.5	3.9
Other Services	153.9	157.1	3.2	2.1
GOVERNMENT	630.1	647.2	17.1	2.7

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

depreciation for business capital spending, the waning influence of personal income tax cuts, and new energy cost thresholds will continue to act as a drag on more robust growth. Moreover, there are a number of wild cards that could derail this national forecast, such as a dollar in free-fall as a result of unsustainably large budget and trade deficits, a major energy crisis, terrorism, a sharp slowdown in global economic growth, and a housing bubble gone “pop.” All of these comprise ever-present threats in 2005, yet the national economic tailwinds that helped New Jersey in 2004 should remain in force in 2005.

*The bottom line is a return of the “Goldilocks Economy”: not too strong, not too weak, just right.*

trend growth of 3 percent. In addition, national employment growth in 2005 should be in the vicinity of 2 million jobs. This is somewhat less than the total growth in 2004, but it would still be a strong labor market performance, with the unemployment rate falling to approximately 5.2 percent from 5.5 percent in 2004. As a result, the problem of skilled labor shortfalls will again resurface.

The bottom line is a return of the “Goldilocks Economy”: not too strong, not too weak, just right. Nonetheless, rising interest rates, expiration of bonus

### New Jersey

New Jersey’s economy also fulfilled its movie promise and registered a breakout year. During 2004 (measured from December 2003 to December 2004), New Jersey had a net employment gain of 75,900 jobs (see table).<sup>1</sup> This is fully 50 percent higher than the state’s long-term trend growth of 50,000 jobs per year. New Jersey also ranked among the top states in terms of employment growth for the year and, to round out the good news, 2004 was the sixth straight year that New Jersey’s (*continued, p. 8*)

<sup>1</sup> Recent revisions to national employment data lowered U.S. growth in 2004 by 59,000 jobs. Revisions for New Jersey are not yet available, but are likely to track the national pattern of lower job growth.

# Stalled Commercial Market Will Recover Slowly

By Linda Tanaka

**W**hile 2004 proved to be a year of robust economic growth in New Jersey, the commercial office market has yet to produce a similar rosy picture. Market conditions remain fixed within the historically high range of availability rates while rents have not declined significantly and demand for investment property remains strong.

Despite availability rates taking a minor dip from the previous quarter, the year ended with a slightly higher rate of available space and slightly lower asking rents. Considerable amounts of space were added to the market, resulting in net absorption in significantly negative territory.

The region ended the year with direct availability of 17.0 percent or nearly 45 million square feet, and total availability of 21.5 percent. A year ago, these numbers stood slightly lower at 16.1 percent and

22.1 percent, respectively. The average asking rent is down slightly from \$25.31 to \$24.99 over this same period .

The year 2004 ended with annual net absorption of -1,062,863—quite a swing from the positive net absorption of 1,488,695 reported last December. Significant amounts of space were added to the market in this last quarter. This was the case in a number of counties and not attributed to a single market. Fourth quarter net absorption was -1,019,536.

The availability of directly-offered Class “A” space in the region has increased somewhat during the past 12 months, while total Class “A” space has remained unchanged. 19.7 percent of Class “A” inventory is available directly and 26.6 percent is available in total, compared to 17.7 percent and 26.7 percent, respectively, a year ago. Asking rents have been

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## Northern and Central New Jersey Total Office Market Fourth Quarter 2004

County	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent	4th Qtr. Net Absorption	2004 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	570	29,930,148	4,566,677	15.3%	6,060,471	20.2%	\$25.02	53,592	(144,301)
Essex	382	27,972,264	3,900,322	13.9%	4,415,540	15.8%	\$24.45	48,577	175,426
Hudson	163	24,873,386	2,783,557	11.2%	5,312,403	21.4%	\$25.05	60,127	(350,069)
Hunterdon	44	1,526,192	329,034	21.6%	355,219	23.3%	\$24.25	26,761	(19,511)
Mercer	346	16,445,656	1,908,920	11.6%	2,328,798	14.2%	\$25.06	167,217	152,526
Middlesex	448	26,049,043	5,440,147	20.9%	7,113,417	27.3%	\$24.10	(565,254)	(267,971)
Monmouth	396	14,473,350	1,595,846	11.0%	1,752,232	12.1%	\$22.58	(12,012)	214,210
Morris	429	28,873,735	6,589,030	22.8%	7,350,348	25.5%	\$26.62	(390,991)	(132,040)
Passaic	165	7,055,210	1,200,781	17.0%	1,251,690	17.7%	\$23.64	(67,280)	(161,909)
Somerset	275	20,099,358	5,591,679	27.8%	6,791,746	33.8%	\$26.10	42,827	(370,400)
Union	297	11,118,059	1,587,102	14.3%	2,142,231	19.3%	\$21.08	(383,100)	(158,824)
<b>TOTAL</b>	<b>3,515</b>	<b>208,416,401</b>	<b>35,493,095</b>	<b>17.0%</b>	<b>44,874,095</b>	<b>21.5%</b>	<b>\$24.99</b>	<b>(1,019,536)</b>	<b>(1,062,863)</b>
Central NJ	1,762	88,185,466	16,123,694	18.3%	20,128,424	22.8%	\$24.46	(750,322)	(430,459)
Northern NJ	1,753	120,230,935	19,369,401	16.1%	24,745,671	20.6%	\$25.36	(269,214)	(632,404)

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

modestly affected, declining \$.51 to an average of \$27.16.

Class "A" net absorption shows a wide swing over the past year. Ending 2003 comfortably in positive territory at 474,947 square feet, 2004 closed with net absorption of -43,877. The fourth quarter saw a large move towards net negative absorption, ending with 731,997 more square feet deposited on the market than was removed from it.

Middlesex, Morris, and Somerset Counties continue to harbor large amounts of unused office space. Middlesex and Morris counties both show approximately one million additional square feet directly available than was offered last December. AT&T and Telecordia's vacating of approximately 900,000 square feet in three buildings in Piscataway and the more than 500,000 square feet available at Southgate Corporate Center in Morris Township are

contributing factors. PNC Financial Services' signing for nearly 132,000 square feet at 2 Tower Center in East Brunswick will help Middlesex county's vacancy rates when the company fills the space next year, as will Rutgers University's occupation of 50,000 square feet at the Technology Centre in North Brunswick.

While the Piscataway/South Plainfield submarket has been as slow as any commercial market in the state, some recent activity may be a direct result of the low asking rents in this area. Rocheux International recently signed a 15,000 square foot, ten-year lease in 200 Centennial Avenue, Piscataway, for the relocation of the company's U.S. headquarters and several other companies are in the market for similar spaces. Experian's move into the 25,000 square-foot space on Gatehall Drive, Parsippany, late in the month was certainly not enough to ease the area's vacancy rates. However, several (*continued, p.6*)

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

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	4th Qtr. Net Absorption	2004 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	78	12,812,636	1,987,583	15.5%	3,061,493	23.9%	\$28.87	239,978	385,607
Essex	59	14,654,808	2,206,272	15.1%	2,664,250	18.2%	\$26.51	(108,148)	97,958
Hudson	50	19,557,553	1,984,918	10.1%	4,478,156	22.9%	\$29.22	31,712	59,105
Hunterdon	5	636,791	252,514	39.7%	268,186	42.1%	\$25.64	28,211	(32,789)
Mercer	70	7,097,793	718,281	10.1%	1,040,751	14.7%	\$29.14	11,364	25,552
Middlesex	109	15,477,594	4,076,137	26.3%	5,215,748	33.7%	\$25.66	(584,961)	(416,039)
Monmouth	50	5,741,068	741,316	12.9%	780,108	13.6%	\$27.10	27,009	352,673
Morris	127	18,839,148	5,219,400	27.7%	5,862,414	31.1%	\$27.74	(400,268)	(109,712)
Passaic	16	2,041,375	485,030	23.8%	512,944	25.1%	\$24.07	(8,139)	1,190
Somerset	101	14,803,547	4,569,794	30.9%	5,701,829	38.5%	\$27.01	(910)	(360,977)
Union	28	3,695,684	501,429	13.6%	1,048,761	28.4%	\$28.90	32,155	(46,445)
<b>TOTAL</b>	<b>693</b>	<b>115,357,997</b>	<b>22,742,674</b>	<b>19.7%</b>	<b>30,634,640</b>	<b>26.6%</b>	<b>\$27.16</b>	<b>(731,997)</b>	<b>(43,877)</b>
Central NJ	358	46,815,686	10,606,957	22.7%	13,787,197	29.4%	\$26.73	(515,343)	(445,236)
Northern NJ	335	68,542,311	12,135,717	17.7%	16,847,443	24.6%	\$27.75	(216,654)	401,359

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

## 6 Stalled, *continued*

*Bergen, Essex, and Monmouth Counties offer the strongest office markets, demonstrating better than average availability rates.*

leases for significant amounts of space were signed recently, although move-in is not expected until the first or second quarter of 2005. A lease for 167,000 square feet at 399 Interpace Parkway in Parsippany has been signed and Maersk Sealand has contracted for 115,000 square feet at Giralda Farms as well.

Despite an abundance of office space, Somerset County has made some noticeable reductions over the past year. The county shows approximately 826,000 less square feet available in total than a year ago. Class "A" space reflects a similar decline—38.5 percent of Class "A" space is available in total, down from a staggering 45.6 percent last year. Approximately half of the 50,000 square-foot Mt Airy Corners II property was recently occupied. Another 24,000 square feet was taken at 110 Allen Road by Reliant Pharmaceutical, LLC. Of course, the much talked about CitiGroup signing will further reduce availability rates upon possession later this year.

Bergen, Essex, and Monmouth Counties offer the strongest office markets, demonstrating better than average availability rates. While the two northern counties have relatively attractive direct availability rates of 15.3 percent and 13.9 percent, respectively, only Essex County shows an improvement over the fourth quarter of 2003, when each county had availability of 14.5 percent.

Total availability of Class "A" space in Bergen and Essex remains below the New Jersey average at 23.9 percent and 18.2 percent, respectively. The asking rent for Class "A" space has decreased somewhat in both counties, down to \$28.87 and \$26.51.

Monmouth County maintains the most competitive office market in the region with 11.0 percent direct and 12.1 percent total availability rates. However, asking rents average only \$22.58 in this county. Demonstrating the attractiveness of the county, Horizon Blue Cross/Blue Shield of New Jersey moved into its new 200,000 square-foot facility in Wall Township.

Over the past year, Monmouth County shed much of its Class "A" sublease space. At 13.6 percent total availability, it is half that of the total New Jersey

market and 40 percent lower than the 22.7 percent reported at year-end 2003.

Hudson County continues to show a low direct availability rate (11.2 percent) but a rather high total availability rate (21.4 percent), indicating that sublease space continues to be abundant. As a result, asking rents average lower than those of a year ago—\$25.05 compared to \$28.03.

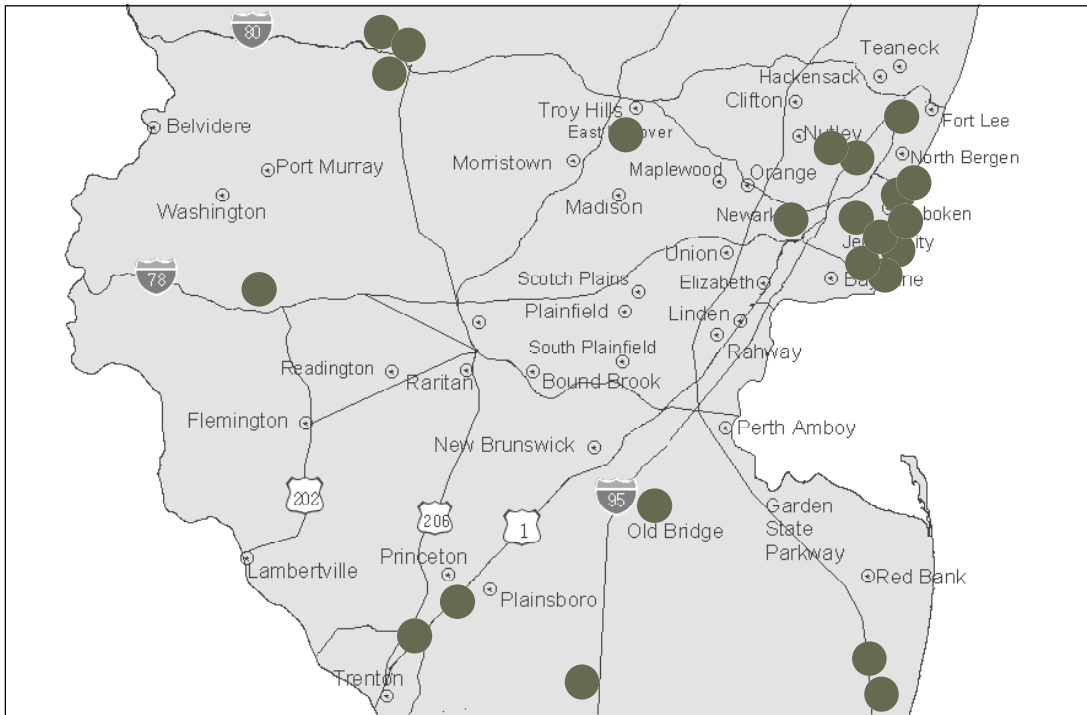
Hudson and Union Counties have a considerable amount of Class "A" available sublease space. In both counties, the addition of this space more than doubles the availability rate. In Hudson County, Class "A" availability rises to 22.9 percent from 10.1 percent when sublease space is included. This is true even after National Union Fire Insurance Company sublet 183,000 square feet from Lehman Brothers in Jersey City. Union County shows a similar increase moving from 13.6 percent to 28.4 percent.

Mercer County also has little excess space, as illustrated by its total availability rate of 14.2 percent and a Class "A" rate only slightly higher at 14.7 percent. Within this competitive environment, the Princeton area saw quite a bit of activity during the quarter. RCN Corporation renewed 53,000 square feet at Carnegie Center. Another 47,000 square feet was taken at 211 Carnegie Center by NRG Energy for the company's headquarters. And, the State of New Jersey moved into a 72,000 square-foot sublease at 508 Carnegie Center in mid-December. Guardian Life Insurance relocated to 908 Carnegie Center and took 6,000 square feet as well.

Despite the abundance of excess space, interest in prime asset ownership continued with Mack-Cali as the most noted net buyer in the region. Key acquisitions include 670,000 square feet at 30 Knightsbridge Road, Piscataway; 475,000 square feet at Kemble Plaza II, Morristown; and 317,000 square feet at 5 Woodhollow Road, Parsippany.

So, 2004 was marked by transactions taking place despite an abundance of available space and moderate rents as well as investors chasing high priced assets. It is likely the new year will see more positive conditions on the commercial market front. ■

Proposed New Jersey Class “A” Buildings, 500,000 Square Feet or Greater



*These potential buildings are situated in the most desirable areas of the state and it is only a matter of time before conditions are ripe for their construction.*

LOCATION	PROPOSED SQUARE FEET	NUMBER OF PROPOSED BUILDINGS
<b>Hudson</b>	<b>11,543,487</b>	<b>9</b>
Jersey City	9,043,487	8
Harrison	2,500,000	1
<b>Morris</b>	<b>5,550,000</b>	<b>4</b>
Mount Olive	4,800,000	3
Whippany	750,000	1
<b>Monmouth</b>	<b>4,376,000</b>	<b>2</b>
Neptune	3,576,000	1
Tinton Falls	800,000	1
<b>Mercer</b>	<b>3,320,000</b>	<b>3</b>
Trenton	1,520,000	1
Princeton	1,200,000	1
East Windsor	600,000	1
<b>Bergen</b>	<b>1,797,894</b>	<b>3</b>
Rutherford	1,000,000	2
Ridgefield Park	797,894	1
<b>Middlesex</b>	<b>1,600,000</b>	<b>1</b>
Old Bridge	1,600,000	1
<b>Hunterdon</b>	<b>656,500</b>	<b>1</b>
Readington	656,500	1
<b>Total</b>	<b>28,843,881</b>	<b>23</b>

potential space of proposed plans in the county with the next greatest amount of proposed space, Morris County. For the most part, these projects were conceived in the height of the market but were wisely put aside when the market conditions turned sour.

These potential buildings are situated in the most desirable areas of the state and it is only a matter of time before conditions are ripe for their construction. Once they come to fruition, it will be quite obvious that these projects were surely worth the wait. ■

## 8 Breakout, *continued*

rate of job growth eclipsed or matched that of the nation.

Private service-providing employment expanded by 55,100 jobs, with three supersectors increasing by more than 10,000 jobs, led by education and health services (15,200 jobs), leisure and hospitality (12,500 jobs), and professional and business services (10,400 jobs). Employment growth in financial activities fell just short of 10,000 jobs (9,600 jobs), but its rate of increase (3.4 percent) was nearly double that of total employment (1.9 percent). Moreover, this performance is even more impressive given the fact that employment in financial activities in New York City did not grow at all in 2004.

Employment in trade, transportation, and utilities grew by only 4,900 jobs, a performance inhibited by job losses in the transportation subsector (due to continuing financial difficulties of airlines) and the utilities subsector. Only one private service-providing supersector suffered an overall employment loss—information, which lost 700 jobs.

Overall, goods-producing employment had a net positive increase. Construction gained 8,200 jobs, a rate of increase of 5.2 percent! Construction employment is now close to the record level reached during the late 1980s real estate bubble. Unfortunately, manufacturing continued to hemorrhage jobs (-4,600 jobs), but at a much reduced pace compared to previous years of the decade.

Government, and in particular, local and state government, was also a growth locomotive in 2004. In fact, it grew faster than total employment (2.7 percent versus 1.9 percent) and its absolute increase (17,100 jobs) was larger than any private super

sector. This is one result of statewide deficit spending and is one of the contributing causes to the endemic property tax problem in New Jersey. So with the best year since the start of the new century now behind us, New Jersey enters 2005 with excellent economic momentum. While the U.S. outlook is for slowing growth, there is every reason to expect that New Jersey's economy will still have another good year in 2005. For this to occur, the national will have to avoid large energy price spikes, any sudden collapse of the dollar, and a sharp rise in interest rates. Concurrently, the state will have to solve the fiscal and political labyrinth of a large structural budget deficit in a manner that does not damage incentives for individuals and businesses to locate and invest in New Jersey. ■

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