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James W. Hughes and Joseph J. Seneca, editors

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The Great Awakening

By James W. Hughes and Joseph J. Seneca

If the American labor market of 2004 were a movie, it would be titled “The Great Awakening.” Following tenuous advances in the waning months of 2003, net employment surged by 513,000 jobs in the first quarter of 2004. This was the highest quarterly employment increase in the nation since the second quarter of 2000. March 2004 was the breakout month of the quarter and the addition of 308,000 jobs was the highest monthly employment increase in the nation since April 2000. As a result, U.S. job growth during the first quarter of 2004 averaged 171,000 jobs per month, a total finally consistent with the strong growth in Gross Domestic

Product (GDP) that had been achieved in the second half of 2003. With GDP continuing to advance smartly in the first quarter of 2004 (4.2 percent), the final pieces of the national economic recovery now look to be in place.

The U.S. recession officially lasted only eight months (March 2001 to November 2001), but employment losses (-2.7 million jobs) spanned a much longer 29-month period (March 2001 to August 2003). This led to our observation that the nation did not just experience “job-less” economic growth in the post-recession period, but actual “job-loss” economic growth. *(continued, next page)*

Racking Up Deals at New Jersey’s Warehouse and Distribution Sites

By Linda Tanaka

In contrast to the steady commercial office market, the NJ industrial market has been very active. Although many call center and customer service office jobs as well as manufacturing operations have been moving to low-cost centers both elsewhere in the U.S. and abroad, New Jersey is an ideal location for distribution and warehouse space.

Midway between New York City and Philadelphia with excellent port, air, and highway access, New Jersey warehouse and distribution facilities can easily service retail outlets throughout the Northeast. As a result, New Jersey is one of the country’s most sought-after warehousing and distribution centers. In fact, New Jersey boasts the third largest industrial market in the U.S. With 720,000,000 square feet built, the state’s market trails only Chicago and Los Angeles in size. The majority of these industrial sites can be found in the Meadowlands, in the area

surrounding Port Newark, at the Raritan Center in Edison, and most recently, near Exit 8A on the New Jersey Turnpike.

Over the past few years, industrial sites at Exit 8A and locations south of the exit have been flourishing. Land here is less expensive than further north up the Turnpike, allowing for the construction of state-of-the-art industrial facilities. Many of these facilities are more than 1 million square feet in size with ceiling heights as high as 39 feet and very large cargo bays. This makes “racking” (the vertical storage of items) easier and more efficient. These high cube buildings require super flat floors for robotic warehousing and have ESFR sprinkler fire protection systems. In addition, these new facilities often have an office component, hundreds of loading docks and drive-ins for truck loading and unloading, and parking areas large enough to allow hundreds of *(continued, p. 5)*

2 Awakening, *continued*

With the nation finally providing a strong support base, New Jersey is poised to have a breakout year.

But since August 2003, the nation has added 759,000 jobs. Clearly, America's labor markets are finally on the mend, although nearly 2 million more jobs are needed to surpass the March 2001 employment peak. Nonetheless, New Jersey is no longer fighting fierce national economic headwinds.

The Recent New Jersey Upsurge

New Jersey experienced an extraordinary 12,900-job increase in March 2004, a performance that actually surpassed that of the nation (Table 1). The state now accounts for just under 3.1 percent of the employment base of the U.S. (4,012,500 out of 130,548,000 jobs). If New Jersey's economy expands at exactly the same pace as that of the nation, the state's expected share of national employment growth would be 3.1 percent. However, in March, the state actually accounted for 4.2 percent of the nation's total employment increase (12,900 out of 308,000 jobs)! Thus, New Jersey captured a significantly higher-than-expected share of national economic growth. With the nation finally providing a strong support base, New Jersey is poised to have a breakout year.

New Jersey's gains in March were led by the private service-providing sector, which added 14,800 jobs during the month. Professional and business services—a key consumer of office space—registered a robust gain of 6,700 jobs. Professional and business services is now the state's largest

TABLE 1: New Jersey Nonfarm Payroll Employment February 2004 to March 2004
(Numbers in thousands)

	February 2004	March 2004	Change: February to March	
			Number	Percent
NONFARM EMPLOYMENT	3,999.6	4,012.5	12.9	0.3%
TOTAL PRIVATE SECTOR	3,365.9	3,376.9	11.0	0.3
GOODS PRODUCING	510.1	506.3	(3.8)	-0.7
Natural Resources and Mining	1.4	1.4	—	0.0
Construction	161.8	160.1	(1.7)	-1.1
Manufacturing	346.9	344.8	(2.1)	-0.6
PRIVATE SERVICE-PROVIDING	2,855.8	2,870.6	14.8	0.5
Trade, Transportation, and Utilities	875.4	880.4	5.0	0.6
Information	99.5	101.0	1.5	1.5
Financial Activities	282.2	282.0	(0.2)	-0.1
Professional and Business Services	575.6	582.3	6.7	1.2
Education and Health Services	546.3	547.2	0.9	0.2
Leisure and Hospitality	324.5	324.9	0.4	0.1
Other Services	152.3	152.8	0.5	0.3
GOVERNMENT	633.7	635.6	1.9	0.3

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

employment sector. It accounts for 14.5 percent of all jobs in New Jersey (582,300 out of 4,012,500 jobs), a share considerably higher than its 12.4 percent share in the nation as a whole. As noted above, the state accounts for just under 3.1 percent of all jobs in the nation. However, New Jersey accounts for over 3.6 percent of the nation's professional and business service jobs. Thus, this sector is one of the state's core knowledge-based economic competencies.

The state's employment total in March—4,012,500 jobs—is one of the highest monthly figures in the state's economic history, with only the job levels of November and December 2000 significantly higher. However, we have always suspected that the latter period represented a sharp and temporary upward spike on the long-term trend, a spike that mysteriously disappeared early in January 2001.

**TABLE 2: New Jersey Nonfarm Payroll Employment
March 2003 to March 2004**
(Numbers in thousands)

	March 2004	March 2004	Change: 2003–2004	
			Number	Percent
NONFARM EMPLOYMENT	3,958.3	4,012.5	54.2	1.4%
TOTAL PRIVATE SECTOR	3,338.7	3,376.9	38.2	1.1
GOODS PRODUCING	511.3	506.3	(5.0)	-1.0
Natural Resources and Mining	1.5	1.4	(0.1)	-6.7
Construction	156.0	160.1	4.1	2.6
Manufacturing	353.8	344.8	(9.0)	-2.5
PRIVATE SERVICE-PROVIDING	2,827.4	2,870.6	43.2	1.5
Trade, Transportation, and Utilities	876.7	880.4	3.7	0.4
Information	102.5	101.0	(1.5)	-1.5
Financial Activities	276.8	282.0	5.2	1.9
Professional and Business Services	570.5	582.3	11.8	2.1
Education and Health Services	534.9	547.2	12.3	2.3
Leisure and Hospitality	315.2	324.9	9.7	3.1
Other Services	150.8	152.8	2.0	1.3
GOVERNMENT	619.6	635.6	16.0	2.6

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

If this puzzling blip is discounted, New Jersey is close to fully recovering all of its recessionary job losses. But even if we accept the blip, the state has recovered 80.9 percent of its employment losses (54,200 out of the 67,000 jobs) experienced between December 2000 and March 2003. This compares to only 27.9 percent job recovery for the nation (759,000 out of 2,718,000 jobs). This differential is certainly reflected in unemployment rates, with New Jersey's rate in March (5.2 percent) a full one-half percentage point below that of the nation (5.7 percent).

During the entire first quarter of 2004, the state added 13,300 jobs. If this pace were to continue for the balance of the year, New Jersey should gain over 53,000 jobs in 2004. An increase of this size is consistent with the 54,200-job increase of the preceding 12 months from March 2003 to March

2004, detailed in Table 2. However, this would be on the lower end of our employment-growth expectations for 2004. Nonetheless, it would still make 2004 the best employment-growth year in the state since 2000, measured December to December. Moreover, 2004 should be the sixth straight year that New Jersey outperforms the national economy. In addition, a new record employment peak in the state should be set sometime during the second quarter of 2004. The nation will certainly not be in an equivalent record-setting position until 2005.

Over the full year from March 2003 to March 2004, 43,200 private service-providing jobs were added in the state (Table 2). The gains registered by professional and business services (+11,800 jobs), in addition to significant advances in other private service providing sectors such as education and health services (+12,300 jobs), and finance (+5,200 jobs), were particularly important to New Jersey's office markets. Continuation of this pattern of growth should bode well for the state's office markets as the year matures.

National Job Growth Leader and Regional Dynamo

The strong position of the New Jersey economy is detailed in Table 3. The 50 states are ranked by absolute employment growth for the year ending in March (March 2003 to March 2004). New Jersey's 54,200-job increase ranked fourth, (*continued, p. 4*)

Moreover, 2004 should be the sixth straight year that New Jersey outperforms the national economy.

4 Awakening, *continued*

TABLE 3
Employment Growth in the Fifty States
(Numbers in thousands)

Thus, New Jersey is not only a national leader in the recovery, but is also a regional dynamo.

	March 2003	March 2004	Change: 2003–2004		March 2003	March 2004	Change: 2003–2004
1 Florida	7,241.5	7,388.4	146.9	26 New Hampshire	613.7	619.5	5.8
2 Virginia	3,485.9	3,560.1	74.2	27 Alaska	298.8	304.1	5.3
3 California	14,390.1	14,445.6	55.5	28 Delaware	410.5	415.8	5.3
4 New Jersey	3,958.3	4,012.5	54.2	29 Montana	398.2	403.1	4.9
5 Arizona	2,276.9	2,325.1	48.2	30 Louisiana	1,905.0	1,909.2	4.2
6 Nevada	1,076.5	1,120.8	44.3	31 Wyoming	247.7	251.9	4.2
7 Washington	2,650.9	2,688.8	37.9	32 Kentucky	1,782.4	1,786.6	4.2
8 Texas	9,377.1	9,411.9	34.8	33 Mississippi	1,116.5	1,120.2	3.7
9 Wisconsin	2,774.4	2,798.8	24.4	34 South Dakota	377.0	380.0	3.0
10 Maryland	2,472.7	2,495.8	23.1	35 Maine	604.9	607.3	2.4
11 New York	8,409.9	8,432.7	22.8	36 Arkansas	1,141.9	1,144.3	2.4
12 Tennessee	2,658.2	2,680.5	22.3	37 North Dakota	331.5	333.4	1.9
13 Georgia	3,858.1	3,876.4	18.3	38 Kansas	1,312.6	1,314.1	1.5
14 Indiana	2,892.9	2,910.0	17.1	39 Vermont	297.8	299.0	1.2
15 Utah	1,068.0	1,083.2	15.2	40 Alabama	1,878.2	1,878.0	(0.2)
16 South Carolina	1,812.4	1,827.6	15.2	41 Nebraska	903.7	902.9	(0.8)
17 New Mexico	771.8	784.9	13.1	42 Oklahoma	1,460.1	1,457.0	(3.1)
18 North Carolina	3,794.3	3,805.5	11.2	43 West Virginia	726.7	722.2	(4.5)
19 Minnesota	2,647.1	2,656.8	9.7	44 Connecticut	1,646.7	1,637.8	(8.9)
20 Oregon	1,563.7	1,573.0	9.3	45 Colorado	2,150.5	2,141.2	(9.3)
21 Idaho	571.6	580.1	8.5	46 Illinois	5,807.2	5,796.7	(10.5)
22 Missouri	2,679.5	2,687.3	7.8	47 Ohio	5,398.1	5,381.4	(16.7)
23 Hawaii	565.2	572.8	7.6	48 Pennsylvania	5,608.7	5,586.8	(21.9)
24 Iowa	1,439.5	1,446.9	7.4	49 Massachusetts	3,190.9	3,155.4	(35.5)
25 Rhode Island	481.1	487.4	6.3	50 Michigan	4,423.8	4,371.6	(52.2)

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

surpassed only by Florida, Virginia, and California. This is heady company, indeed, and New Jersey ranked higher than such high-growth Sunbelt states as Arizona and Nevada, as well as much larger states such as Texas. Unfortunately, New Jersey's neighbors in the Northeast Region did not fare so well. Massachusetts (-35,500 jobs), Pennsylvania (-21,900 jobs) and Connecticut (-8,900 jobs) continued to lose employment. New York (+22,800 jobs) and Rhode Island (+6,300 jobs) were the only other states in the Northeast to make it into top 25, but their employment growth still lagged. Thus, New Jersey is not only a national leader in the recovery,

but is also a regional dynamo. While the state did relatively well when the nation was struggling during the last two years, it is now poised to get a boost from improving national labor markets and continued strong growth in national economic activity. Consumption spending, business investment, inventory building, and exports all grew solidly in the first quarter of 2004. GDP expansion over the last three quarters— third quarter 2003 through first quarter 2004—was the strongest nine-month growth performance in nearly 20 years. New Jersey should benefit fully from this strong pattern of expansion. ■

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Racking Up, *continued*

trailers to be parked on site. Most of these new buildings are constructed as cross-dock facilities (doors along two opposing sides) to increase loading/unloading efficiency. These efficiencies, combined with lower rental rates than those available at properties located further north, outweigh an additional 30 minutes travel time on a cargo's journey.

The Exit 8A market offers low-priced land with easy access to I-95. The result has been the construction of a number of new, super big box industrial buildings that have transformed Exit 8A into a "destination." Over 23 million square feet of space has been created over the past two-and-a-half years. Currently there are 190 properties either standing or expected to be completed in the near future, comprising over 52 million square feet.

Vacancy rates in the Exit 8A market have seen a dramatic drop over the past year, moving from 22 percent in early 2003 down to 11 percent in April 2004. At the same time, prices have increased and now range between \$4.75 and \$5.65 per square foot. Much of the construction has been "build to suit." In fact, there has been so much construction at Exit 8A

that there are very few remaining sites that could accommodate the large buildings that have become the standard. As a result, the market surrounding Exits 7 and 7A, where land is more abundant and available at somewhat lower prices, has seen an increase in activity over the last two years.

However, the more-established northern sites offer attractive features of their own. The convenience of port and air accessibility, in addition to updated facilities and rail access, have made these nearby sites more desirable. Also, many of the cities are touting the economic incentives offered by the New Jersey Economic Development Authority (EDA) to developers converting landfill and brownfield sites into taxable entities such as warehouse and distribution space. Since New Jersey's brownfield laws were revised in the 1990s reducing clean-up responsibility to levels associated with acceptable risk rather than requiring the property be restored to its original form, these underutilized sites have become more attractive to infill developers. To further encourage smart growth, the New Jersey EDA has established a Brownfields Redevelopment Office that offers grants, attractive loans, and site clean up. ■

Commercial Property Stands its Ground

By Linda Tanaka

Further evidence of the market's potency is that despite vacancy rates higher than a year ago, asking rents remain near 2003 levels and absorption continues to improve.

Available space and asking rents in New Jersey's commercial office market are holding steady—a trend that continues for the third straight quarter. The fact that vacancy rates are holding rather than increasing and that rents are stable rather than decreasing demonstrates the continued strength of the market. Further evidence of the market's potency is that despite vacancy rates higher than a year ago, asking rents remain near 2003 levels and absorption continues to improve. The emergence and growth of small companies is sustaining this market.

Among the 3,400 buildings in the Northern and Central New Jersey market, 16.5 percent have space directly available. This compares to 16.1 percent in December 2003 and 13.7 percent a year ago. Another 10,575,089 square feet is available via sublet, bringing the total vacancy up to 21.7 percent. Total vacancies were 22.1 percent three months ago

and 18.5 percent in March 2003. Asking rents are averaging \$24.93 now versus \$25.31 last quarter and \$24.46 last year.

Class A space mirrors the overall market. Availabilities and rents are little changed compared to December 2003, while they are significantly higher than a year ago. Also, absorption is significantly improved—even over the past three months.

The direct vacancy rate for Class A space rose from 14.0 percent in March 2003, to 17.7 percent in December 2003. Total vacancy for the area has climbed from 20.8 percent a year ago to 26.7 percent at year-end. At the same time, rents have increased from the first quarter 2003 when they stood at \$25.99 and seem to have leveled off, near the \$27.67 they were three months ago.

Both Hudson and Hunterdon Counties in the northern part of the state kicked off the year with a

Northern and Central New Jersey Total Office Market First Quarter 2004

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	1st Qtr. Net Absorption	2004 Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	558	29,065,357	4,397,735	15.1%	5,804,881	20.0%	\$25.54	(284,842)	(284,842)
Essex	377	28,188,251	4,097,647	14.5%	4,580,431	16.2%	\$24.47	72,800	72,800
Hudson	159	24,223,234	2,620,268	10.8%	4,233,526	17.5%	\$23.51	775,168	775,168
Hunterdon	43	1,246,719	103,381	8.3%	119,185	9.6%	\$19.56	4,256	4,256
Mercer	338	16,780,926	2,041,953	12.2%	2,725,627	16.2%	\$25.59	(125,749)	(125,749)
Middlesex	417	24,939,049	4,736,612	19.0%	6,478,674	26.0%	\$24.62	(71,603)	(71,603)
Monmouth	383	14,054,178	1,405,747	10.0%	2,001,978	14.2%	\$22.96	19,149	19,149
Morris	413	28,010,461	5,652,844	20.2%	7,335,773	26.2%	\$25.93	34,381	34,381
Passaic	158	6,550,091	886,323	13.5%	916,969	14.0%	\$23.48	(6,748)	(6,748)
Somerset	263	19,440,257	5,462,931	28.1%	7,431,194	38.2%	\$25.70	(317,510)	(317,510)
Union	291	11,036,120	2,199,542	19.9%	2,551,834	23.1%	\$23.22	(201,501)	(201,501)
TOTAL	3,400	203,534,643	33,604,983	16.5%	44,180,072	21.7%	\$24.93	(102,199)	(102,199)
Central NJ	1,692	86,250,530	15,846,785	18.4%	21,189,307	24.6%	\$24.78	(697,214)	(697,214)
Northern NJ	1,708	117,284,113	17,758,198	15.1%	22,990,765	19.6%	\$24.98	595,015	595,015

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

noticeable decline in available space and, along with Monmouth County, show the lowest vacancy rates.

Hudson County saw net positive absorption of nearly 800,000 square feet and a direct vacancy rate that dropped to 10.8 percent. Factoring in sublease space, Hudson County has seen a 20 percent decline in total available space, leaving 4.2 million square feet on the market. EquiServe's move to Jersey City and its leasing of more than 100,000 square feet certainly contributed to the market's improvement and helped to counter the more than 500,000 square feet added at 50 Dey Street in Jersey City. Asking rents in the county averaged a low \$23.51 due to activity outside of Jersey City's Class A waterfront area.

In Hunterdon County, one-quarter of the space that was directly available last quarter has been taken off of the market. Considering the nearly 16,000 square feet available via sublet, the area has a total vacancy rate of 9.6 percent. Advertised rents are

averaging \$19.56, up nearly \$4.00 from a year ago, and net absorption sits just barely in positive territory at 4,256 square feet.

The commercial office market in Monmouth County continues to perform well. Average asking rents are down slightly to \$22.96, reflecting landlords' willingness to deal. Directly available space totaled 1.4 million square feet out of a total inventory of 14 million square feet. With 596,231 square feet of available sublease space, the total vacancy rate is 14.2 percent. Larger transactions removing space from the market include a total of 199,500 square feet at 331 Newman Springs Road leased by High Point Insurance, JCP&L, FirstEnergy Corp, and Maser Consulting.

Class A space is also faring well. Directly available space is down to just over 500,000 square feet, or 9.2 percent, and total vacancies are a relatively low 18.3 percent. *(continued, p. 8)*

Both Hudson and Hunterdon Counties in the northern part of the state kicked off the year with a noticeable decline in available space and, along with Monmouth County, show the lowest vacancy rates.

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

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	1st Qtr. Net Absorption	2004 Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	80	13,679,415	2,336,865	17.1%	3,232,664	23.6%	\$28.46	(41,283)	(41,283)
Essex	58	14,437,118	2,232,681	15.5%	2,703,781	18.7%	\$27.24	67,356	67,356
Hudson	52	19,486,598	1,768,723	9.1%	3,320,863	17.0%	\$29.17	1,251,162	1,251,162
Hunterdon	6	387,791	11,514	3.0%	18,330	4.7%	\$26.79	3,800	3,800
Mercer	75	7,709,876	854,246	11.1%	1,418,585	18.4%	\$30.77	(43,763)	(43,763)
Middlesex	113	15,350,153	3,475,030	22.6%	4,683,713	30.5%	\$26.42	(18,485)	(18,485)
Monmouth	52	5,632,961	517,601	9.2%	1,032,005	18.3%	\$27.62	90,006	90,006
Morris	131	18,506,096	4,410,889	23.8%	5,931,501	32.1%	\$27.29	121,585	121,585
Passaic	17	1,989,926	311,655	15.7%	331,306	16.6%	\$26.46	(7,350)	(7,350)
Somerset	105	14,535,136	4,549,101	31.3%	6,402,458	44.0%	\$27.32	(274,823)	(274,823)
Union	27	3,527,563	708,579	20.1%	1,059,596	30.0%	\$27.59	(57,468)	(57,468)
TOTAL	716	115,242,633	21,176,884	18.4%	30,134,802	26.1%	\$27.52	1,090,737	1,090,737
Central NJ	372	46,755,689	10,104,557	21.6%	14,596,357	31.2%	\$27.34	(304,533)	(304,533)
Northern NJ	344	68,486,944	11,072,327	16.2%	15,538,445	22.7%	\$27.80	1,395,270	1,395,270

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

8 Commercial, *continued*

Consequently, asking rents are a high \$27.62. The Red Bank submarket saw over 400,000 square feet of new lease transactions from January to April 1, an incredible amount in what is considered to be a down market.

Somerset, Morris, and Middlesex Counties continue to be plagued with excess space, especially large blocks of contiguous space. These larger spaces that do not readily divide are lingering on the market as today's tenants seek smaller, more flexible spaces.

Somerset County currently has almost 5.5 million square feet of space directly available and another 2 million available indirectly. Vacancy rates are 28.1 percent and 38.2 percent, respectively. In addition to the former AT&T headquarters facility, approximately 2.5 million square feet is available in blocks ranging in size between 100,000 and 500,000 square feet. The first quarter ended with an additional 300,000 square feet on the market. Despite these staggering numbers, asking rents averaged a high \$25.70—a level that has likely contributed to the preponderance of available space. The planned occupation of 170,000 square feet at the Atrium at Somerset by summer's end can only help this market.

Morris County also has a tremendous amount of space available, more than 7.3 million square feet including that available via sublease. Of this amount, more than half is comprised of large blocks ranging between 100,000 and 750,000 square feet. Vacancies on direct space are running 20.2 percent and are up to 26.2 percent in total. On average, asking rents are \$25.93.

Several larger leases signed this quarter will offer relief when the space is occupied later in the year. These include 102,000 square feet in Whippany by Barclay's; 50,200 square feet at the Crosspointe Technology Center also in Whippany; and 40,000 square feet on Enterprise Drive in Rockaway.

Middlesex County saw vacancy rates rise over the past three months, reaching 19.0 percent for direct and 26.0 percent in total. The nearly 6.5 million square feet that is available includes approximately 3 million square feet in large blocks of space. The recent addition of more than 127,000 square feet on Thornall Street in Edison is a good example of the large spaces that are unfilled and available.

Union County saw the vacating of 100,000 square feet on Commerce Drive in Cranford adding to the 11 percent increase in directly available space, which now tops two million square feet. The total vacancy rate in the county is 23.1 percent for all types of space and 30.0 percent for Class A space.

The stability of the office market is a positive sign considering the volatility of the market over the past few years. And, although New Jersey's commercial office market seems poised for a complete turnaround, uncertainty persists with regard to white-collar job growth, an increase in outsourcing, and a decline in the average amount of space companies allocate per employee. ■

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William Sitar, President, Sitar Company • ONCOR International

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

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

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

Production: **Deborah Vogel**