

Sitar–Rutgers Regional Report

James W. Hughes and Joseph J. Seneca, editors

New Jersey: Image and Reality

By James W. Hughes and Joseph J. Seneca

New Jersey's historical position as a manufacturing dynamo continues to impact the image of the state today, with some segments of the national media still calling us an industrial state. However, a milestone was reached in 1988, 19 years ago: manufacturing's share of total employment in New Jersey (18 percent) fell below that of the nation for the first time. Currently, 7.9 percent of the state's jobs are in manufacturing compared to 10.3 percent nationally. Yet, the state has not been able to divest itself completely of its blue-collar image. Nonetheless, during the past quarter-century, New Jersey was fully transformed into a leading-edge, information-age, knowledge-based economy. The full recognition of this fact is often hindered by the use of U.S. Census Bureau–designated metropolitan areas to do comparative locational and market analyses.

The Northern and Central New Jersey office market in the *Sitar-Rutgers Regional Report* comprises 11 counties. If this were a Census Bureau–designated metropolitan statistical area, it would be the fifth largest metropolitan office market in the country! Unfortunately, this reality is often obscured when actual U.S. Census Bureau metropolitan areas are used for national assessments and rankings. New Jersey has highly fragmented Census Bureau metropolitan area delineations compared to other states, and this hurts the state's visibility and marketability.

Table 1 shows the Census Bureau metropolitan placement of each of New Jersey's counties. The 11 counties of the Northern and Central New Jersey market area (underlined) are distributed into three different metropolitan divisions and two different metropolitan statistical areas. Bergen, Hudson, and Passaic counties are part of the (continued, page 2)

Deindustrializing New Jersey

By Sachiyo Asakawa

While more million-square-foot industrial buildings are erected along the New Jersey Turnpike, some parts of New Jersey are being deindustrialized. Deindustrialization usually results in the redevelopment of old industrial sites that are converted to mixed-use projects comprising office, retail, and residential uses.

The Fair Lawn Economic Development Corporation recently announced a concept plan that would transform 210 acres of the Route 208 Corridor Industrial Park to a mixed-use development featuring commercial office space, restaurants, and residential (market and affordable) units. Built in the 1950s as the Fair Lawn Industrial Park, the 210-acre site, which

spans parts of Fair Lawn and Glen Rock, is one of the state's first industrial parks. The site attracted such international corporations as Nabisco, Kodak (whose film-processing plant at the park closed in August 2005), and Lea & Perrins. Other manufacturing tenants have moved out, vacated portions of their facilities, and laid off or moved workers to other locations.

Fair Lawn's proximity to New York City, Interstate 80, the Garden State Parkway, and Route 46 makes it an attractive locus for the proposed mixed-use development. Located in Bergen County, where total personal income in 2004 ranked first in the state, Fair Lawn is well-situated within a regional population base to support the commercial uses that (continued, page 7)

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2 Reality, continued

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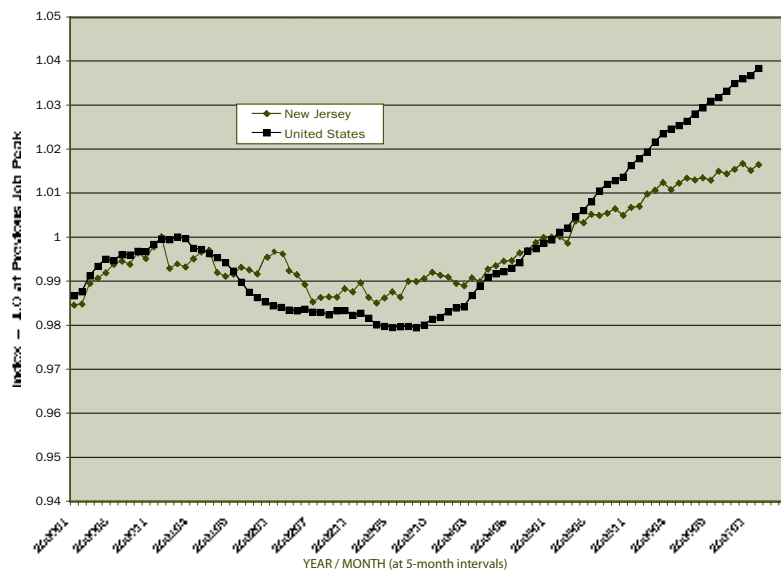
TABLE 1 Metropolitan Statistical Areas with New Jersey Counties	
Allentown-Bethlehem-Easton, PA-NJ Metropolitan Statistical Area	
	Warren County
Atlantic City, NJ Metropolitan Statistical Area	
	Atlantic County
New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area	
	<i>New York-White Plains-Wayne, NY-NJ Metropolitan Division</i>
	<u>Bergen County</u>
	<u>Hudson County</u>
	<u>Passaic County</u>
	<i>Edison, NJ Metropolitan Division</i>
	<u>Middlesex County</u>
	<u>Monmouth County</u>
	Ocean County
	<u>Somerset County</u>
	<i>Newark-Union, NJ-PA Metropolitan Division</i>
	<u>Essex County</u>
	<u>Hunterdon County</u>
	<u>Morris County</u>
	Sussex County
	<u>Union County</u>
Ocean City, NJ Metropolitan Statistical Area	
	Cape May County
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area	
	<i>Camden, NJ Metropolitan Division</i>
	Burlington County
	Camden County
	Gloucester County
	<i>Wilmington, DE-MD-NJ Metropolitan Division</i>
	Salem County
Trenton-Ewing, NJ Metropolitan Statistical Area	
	<u>Mercer County</u>
Vineland-Millville-Bridgeton, NJ Metropolitan Statistical Area	
	Cumberland County
<i>Note:</i>	The underlined counties are the 11 counties of the Northern and Central New Jersey market.
<i>Source:</i>	U.S. Census Bureau.

New York-White Plains-Wayne, NY-NJ Metropolitan Division, while Middlesex, Monmouth, and Somerset counties are part of the Edison, NJ Metropolitan Division. Essex, Hunterdon, Morris, and Union counties are in the Newark-Union, NJ-PA Metropolitan Division. All three divisions are part of the New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area. Mercer County stands alone as the Trenton-Ewing, NJ Metropolitan Statistical Area. Could anything be more obscure and thereby fragment the economic and demographic reality of New Jersey? Well, six years ago there actually was an attempt to do so!

In 2001, the U.S. Office of Management and Budget (OMB) busily engaged in its post-census realignment of metropolitan areas. OMB initially proposed that half of New Jersey be placed in a broadly defined New York Metropolitan Statistical Area and that the other half be placed in a broadly defined Philadelphia Metropolitan Statistical Area! Thus, New Jersey would have completely disappeared from the metropolitan landscape. So, we immediately made a counter-proposal: merge the proposed New York and Philadelphia delineations and designate the result as "The Greater New Jersey Metropolitan Statistical Area!" Our suggestion wasn't accepted, but OMB's original proposal, fortunately, was never implemented. Nonetheless, economic and demographic data for New Jersey remain obscure in metropolitan rankings because the state is fragmented into multiple metropolitan divisions and statistical areas.

However, if the 11-county Northern and Central New Jersey office market were designated an official Census Bureau metropolitan area, it would rank *fourth* among all metropolitan statistical areas in the country in total population, with more than 6.0 million residents. It would rank *fifth* in total employment, with nearly 3.6 million jobs, and *fourth* in total personal income, with just above \$270 million. Also, the 11-county area has more than 210 million square feet of commercial office space, ranking *fifth* among all metropolitan areas. Thus,

FIGURE 1. New Jersey and U.S. Employment Index, January 2000 to March 2007



Thus, 2.1 percent would be its expected share in any employment sector. However, it accounts for 2.7 percent of the nation’s information jobs, 2.6 percent of the nation’s finance, insurance, and real estate jobs, and 2.7 percent of the nation’s professional, technical, management, and administrative service jobs. Thus, the 11-county area stands at the leading edge of the nation in terms of employment concentrations in the industries of the future—industries critical to current and future office markets.

The 11-county market area is one of the nation’s most potent business nodes.

the 11-county market area is one of the nation’s most potent business nodes, with more economic clout than such “official” metropolitan areas as Atlanta, Boston, Dallas-Fort Worth, Houston, and Miami. Only the sprawling New York, Los Angeles, and Chicago metropolitan statistical areas are larger.

These impressive economic and demographic rankings are also paralleled by measures of job quality. The 11-county market area has significantly higher shares of knowledge-based jobs compared with the nation as a whole. Finance, insurance, and real estate accounts for 10.2 percent of the 11-county area’s total employment compared with 8.4 percent nationally. Information (which includes telecommunications, the Internet, and publishing) accounts for 2.6 percent versus 2.1 percent nationally, and professional, technical, management, and administrative services accounts for 17.3 percent versus 13.4 percent nationally. Thus, the 11 counties have major employment concentrations in the knowledge-based, information-age sectors of the economy.

Another way of emphasizing these concentrations is to examine their share of the nation’s total knowledge-based jobs. The 11-county area accounts for 2.1 percent of total national employment.

First Quarter Job Results Are In

It looks like New Jersey is in for a wild ride on the employment roller coaster this year, making trend analysis, at least at this stage of the year, particularly difficult. The pattern through the first quarter is up one month and down the next. March’s total state payroll employment grew by a strong 4,900 jobs. However, this followed a sharp loss of 5,800 jobs in February, which itself followed a very strong gain of 5,300 jobs in January! So, no clear trend is yet apparent. For the first quarter of 2007 as a whole, the state had a modest gain of 4,400 jobs, with 3,400 of these in the private sector. So, on balance, the year is off to a slow start.

This slow start represents the continuation of a soft patch that began almost two years ago in April 2005. Figure 1 presents the New Jersey and U.S. employment indexes from January 2000 to March 2007. The employment index equals 1.0 at the peak employment level of the past expansion, which was December 2000 for New Jersey and February 2001 for the nation. The index reveals how much each month’s employment level is above or below the peak of the past expansion. For example, in March 2007, the New Jersey employment index stood at 1.016, indicating that March’s employment (*continued, page 4*)

4 Reality, continued

New Jersey may be in for another year of modest employment growth.

TABLE 2
Year-to-Date
New Jersey Nonfarm Payroll Employment
December 2006–March 2007
(Seasonally adjusted; numbers in thousands)

	December 2006	March 2007	Change	
			Number	Percentage
Total Nonfarm	4,085.5	4,089.9	4.4	0.1
Total Private Sector	3,433.7	3,437.2	3.5	0.1
Goods-Producing	495.5	495.2	-0.3	-0.1
Natural Resources and Mining	1.9	1.7	-0.2	-10.5
Construction	172.9	173.4	0.5	0.3
Manufacturing	320.7	320.1	-0.6	-0.2
Private Service-Providing	2,938.2	2,942.0	3.8	0.1
Trade, Transportation, and Utilities	875.5	874.7	-0.8	-0.1
Information	99.7	98.9	-0.8	-0.8
Financial Activities	282.3	282.7	0.4	0.1
Professional and Business Services	607.4	606.6	-0.8	-0.1
Educational and Health Services	574.4	576.8	2.4	0.4
Leisure and Hospitality	338.4	339.9	1.5	0.4
Other Services	160.5	162.4	1.9	1.2
Government	651.8	652.7	0.9	0.1

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.

level was 1.6 percent higher than the December 2000 peak. However, the nation's employment index was 1.038, indicating that March's job total was 3.8 percent higher than its February 2001 peak. Clearly, the nation is much further ahead in the current expansion.

New Jersey's employment index had been consistently ahead of the nation throughout 2003 and 2004. However, starting in April 2005 it fell below the nation, and the gap continued to widen.

This is indicated by the "jaw-opening" pattern evident in the far right side of figure 1. New Jersey's up-and-down roller-coaster pattern over the last several months also stands in sharp contrast to the steady upward trend of the national employment index.

If the first quarter is indicative of the balance of the year, New Jersey may be in for another year of modest employment growth. The nation added 455,000 jobs during the quarter, a fairly robust pace of growth. As noted before, New *(continued, page 8)*

More Construction but Slow Leasing and Slow Job Growth

by Sachiyo Asakawa and Christopher Santoro, Assistant Vice President

The Northern and Central New Jersey office market experienced a moderate but relatively slow start in 2007. It ended the first quarter with a total vacancy rate of 15.3 percent, a 0.1 percent increase from the fourth quarter of 2006. The average asking rental rate for total office space rose slightly, from \$25.18 to \$25.23; Class A space also rose, from \$26.97 to \$27.16. The vacancy rate for Class A space was 18.1 percent, a 0.2 percent climb from the end of last year. These first-quarter 2007 figures compare

with a total vacancy rate of 16.3 percent and a Class A vacancy rate of 19.6 percent in the first quarter of 2006.

Both the total and Class A office space markets experienced positive net absorption, with the Northern and Central New Jersey markets absorbing a total of 815,051 square feet. The Class A market also performed well, absorbing 1,062,680 square feet of office space.

There was no leasing signed for office space in excess of 100,000 square feet during *(continued, page 6)*

Both the total and Class A office space markets experienced positive net absorption.

Northern and Central New Jersey Total Office Market First Quarter 2007

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate		
Bergen	566	29,416,416	3,691,967	12.6%	4,419,087	15.0%	\$26.67	314,200
Essex	396	28,694,193	2,837,689	9.9%	2,980,287	10.4%	\$24.78	(210,950)
Hudson	167	24,095,560	2,408,855	10.0%	3,334,108	13.8%	\$27.38	246,508
Hunterdon	56	1,872,618	439,391	23.5%	452,943	24.2%	\$26.24	(38,731)
Mercer	346	16,564,155	2,384,232	14.4%	2,522,547	15.2%	\$26.23	25,271
Middlesex	467	27,671,137	4,302,454	15.5%	4,647,022	16.8%	\$23.75	220,660
Monmouth	412	13,911,846	1,273,115	9.2%	1,445,852	10.4%	\$22.08	(70,928)
Morris	435	29,615,223	5,423,699	18.3%	5,877,495	19.8%	\$26.63	240,215
Passaic	157	6,548,020	977,659	14.9%	1,011,406	15.4%	\$22.40	47,962
Somerset	275	20,626,613	2,903,146	14.1%	4,363,833	21.2%	\$23.94	194,399
Union	310	11,578,983	919,844	7.9%	1,153,164	10.0%	\$24.80	(153,495)
Total	3,587	210,594,764	27,562,051	13.1%	32,207,744	15.3%	\$25.23	815,051
Central NJ	1,810	90,352,734	11,782,791	13.0%	14,132,418	15.6%	\$24.16	215,907
Northern NJ	1,777	120,242,030	15,779,260	13.1%	18,075,326	15.0%	\$25.68	599,144

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

The first quarter of 2007 stands out from past quarters with its high number of delivered inventories.

the first quarter of 2007. The largest lease signed was a renewal of 88,237 square feet of office space at One River Centre–Building III in Middletown by High Point Safety and Insurance Management Corporation. Software House International signed the largest new lease for 87,678 square feet at 33 Knightsbridge Road in Piscataway. Another international giant took a large space in the Hudson Waterfront market. BNP Paribas, one of the largest European banks, signed a lease for 75,824 square feet at Newport Tower.

The first quarter of 2007 stands out from past quarters with its high number of delivered inventories. A total of 1,308,553 square feet of office space in 8 buildings was delivered to the market, of which 789,653 square feet is classified as Class A space.

These are significant numbers when compared with the first-quarter 2006 delivery of 254,886 square feet and the fourth-quarter 2006 delivery of 80,075 square feet. Among the noteworthy deliveries are 209,001 square feet at 100 Tice Boulevard in Woodcliff Lake, now occupied by Eisai, Inc.; 313,046 square feet at 1 University Square Drive in Princeton; and 175,019 square feet at 100 Kimball Drive in Parsippany, which is currently unoccupied. Approximately 3.5 million square feet of office space is currently under construction in the Northern and Central New Jersey office market; the Princeton market accounts for approximately 1 million square feet of this total.

Recently, industry professionals have seen an increase in larger users in the Piscataway market, with

Northern and Central New Jersey “Class A” Office Market First Quarter 2007								
County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate		
Bergen	79	12,947,848	1,963,975	15.2%	2,529,232	19.5%	\$29.33	225,893
Essex	62	15,004,449	1,558,384	10.4%	1,657,563	11.0%	\$27.18	(177,375)
Hudson	49	19,189,543	1,709,693	8.9%	2,627,469	13.7%	\$29.76	225,952
Hunterdon	6	762,030	255,808	33.6%	255,808	33.6%	\$26.90	(35,325)
Mercer	74	7,471,787	1,368,553	18.3%	1,454,480	19.5%	\$29.51	34,298
Middlesex	117	16,667,254	2,701,540	16.2%	2,895,494	17.4%	\$25.39	233,587
Monmouth	51	4,827,929	329,194	6.8%	431,576	8.9%	\$26.09	(51,526)
Morris	121	18,538,562	3,913,211	21.1%	4,350,599	23.5%	\$28.40	419,269
Passaic	16	2,036,801	513,892	25.2%	518,092	25.4%	\$23.96	46,559
Somerset	102	15,219,319	2,225,228	14.6%	3,694,657	24.3%	\$24.44	230,838
Union	30	3,851,174	435,206	11.3%	655,702	17.0%	\$28.77	(89,490)
Total	707	116,516,696	16,974,684	14.6%	21,070,672	18.1%	\$27.16	1,062,680
Central NJ	374	48,037,463	7,059,721	14.7%	9,131,909	19.0%	\$26.84	357,707
Northern NJ	333	68,479,233	9,914,963	14.5%	11,938,763	17.4%	\$27.59	704,973

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.

**Construction Activity Markets—Rentable Building Area (RBA)
Under Construction, First Quarter 2007**

Market Area	Number of Buildings	Total RBA (sq. ft.)	Preleased Area (sq. ft.)
Princeton Area	12	1,005,920	345,073
Monmouth East	14	580,590	236,652
Monmouth West	23	575,202	16,792
Morris West/I-80	5	385,000	1,980
New Brunswick/Piscataway/I-287	11	226,725	127,759
Ocean County	5	195,398	52,102
Somerset/I-78	2	164,951	0
Bergen East	2	120,000	0
Parsippany/I-287/Route 10	4	73,075	0
Wayne/Paterson	1	68,640	68,640
All Other	10	173,100	7,760
TOTAL	89	3,568,601	856,758

Source: CoStar Group, Inc.

There is growing concern among professionals and economists about high vacancy rates.

requirements ranging from 20,000 square feet to as much as 60,000 square feet. This is an encouraging sign and continues the trend of consistent activity seen over the past year in a market that historically has lagged behind some of the more prominent New Jersey office markets. The Metropark office market, one of the strongest in the state, saw the return of New York-based real estate owner Tishman Speyer to the New Jersey office market. At the end of January, Tishman Speyer acquired the Metropark Corporate Center, which is a three-building, 910,000-square-foot corporate office campus with Prudential leasing approximately 490,000 square feet in one building and several Fortune 500 companies subleasing space. The acquisition by Tishman Speyer shows that the Metropark office market is strong, and we foresee continued growth and success.

The current office-construction rush makes it look like New Jersey is preparing to welcome more businesses; however, only 24 percent of the office space currently under construction is preleased at the end of the first quarter. There is growing concern among professionals and economists about high vacancy rates due to a large inventory vis-à-vis the state's slow job growth. ■

Deindustrializing, continued

would be drawn to the new development. Mixed-use development will command higher rents and create more tax base than the former industrial use. Office rents would be competitive with those in the area, which range from \$24.00 to \$30.00 per square foot a year; retail rents would range from \$22.00 to \$25.00 per square foot annually. In addition to the retail and residential uses proposed, the borough's officials seek to attract banks, financial institutions, and computer and data-processing centers.

In past years, office spaces predominated in Bergen County compared with industrial uses. Between 2000 and 2007, office inventory grew 4.3 percent, or by 1.79 million square feet; conversely, industrial space grew by only 0.4 percent, or 426,290 square feet. By contrast, Middlesex County witnessed office space growth of 5 percent and 11.7 percent industrial growth.

While the Jersey City Waterfront case is unique, older, formerly industrialized New Jersey cities seeking economic development (*continued, page 8*)

Reality, continued

Jersey accounts for approximately 3 percent of the nation's total employment. To maintain that employment share, the state should have added 13,650 jobs during the first quarter of 2007, triple the actual gain of 4,400 jobs. Moreover, the first quarter's gain translates into what would be a very modest annual growth of 17,600 jobs for all of 2007.

The employment profile of the first quarter is presented in table 2 (page 4). The three high-paying sectors of most relevance to the office market—information (which includes telecommunications, Internet service providers, and publishing), financial activities, and professional and business services—combined had a loss of 1,200 jobs. Only when these sectors return to a positive growth trajectory will visible improvements be made in office occupancy statistics. Employment gains in the quarter were mainly concentrated in lower-paying education and health services (+2,400 jobs), leisure and hospitality (+1,500 jobs), and other services (+1,900 jobs).

May 2007 marks the 66th month of the current national economic expansion. As a point of reference, the average length of the 10 post-World War II expansions is 59 months. Thus, the current expansion is quite mature, and economic growth is slowing. Gross Domestic Product (GDP) growth is expected to decline from 3.3 percent in 2006 to the 2.0–2.5 percent range in 2007, a level far below the expected global GDP rate of between 4.0 percent and 4.5 percent. As a result, New Jersey should not expect to receive any significant boost from the national economy this year. ■

Deindustrializing, continued

opportunities might consider its example. After tearing down warehouses and manufacturing facilities, the Waterfront became a Class A office market with average annual asking rents of \$28.88 per square foot and an explosion of prime high-rise condominium development. Some warehouses remain in the area, but no one fears for the future of this vibrant market.

“Jersey Flight” is expected to continue as Manhattan office rents climb in the future. The Jersey City Waterfront office market is now the primary destination for those companies seeking the lower-rent Class A space that the Jersey City market offers. In an era when residential development increasingly consumes available buildable land in the state, New Jersey must embrace new strategies for creating office-market space. Deindustrialized markets elsewhere in New Jersey can become viable alternatives to Jersey City. ■

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