

# Sitar–Rutgers

## Regional Report

James W. Hughes and Joseph J. Seneca, editors

### Batten Down the Economic Hatches

By James W. Hughes and Joseph J. Seneca

This year has every indication of being a very difficult and stormy one for the nation and New Jersey. A 52-month-long run in private-sector employment growth in the United States came to an end in December 2007, when 14,000 private-sector jobs were lost. Then, during the first four months of 2008 (measured from December 2007 to April 2008), the nation lost an additional 312,000 private-sector jobs, bringing the five-month total private-sector loss to 326,000 jobs. This sustained pattern of employment decline has forged a growing consensus that the national economic expansion, which began in November 2001, has finally come to an end.

Even though the national expansion began in November 2001, its first 20 months (November 2001 to July 2003) were characterized by “job-loss” economic growth, i.e., private-sector employment continued

to contract while real national economic output (Gross Domestic Product) expanded. Private-sector job growth finally resumed in August 2003, and it continued until November 2007. Thus, the nation had a private-sector *employment expansion* of just 52 months, or four years and four months. And only three of those years—2004, 2005, and 2006—registered strong employment growth (2.1 million private-sector jobs per year on average).

So, this was a disappointing national economic expansion from the perspective of job gains, in both scale and duration. This is illustrated in figure 1, which presents annual private-sector employment change in the United States from 1991 through the first quarter of 2008. The expansion of the 2000s stands as far more moderate than the expansion of the 1990s. This pattern was even more evident for New Jersey (figure 2), with difficult implications for the state’s office markets. (*continued, page 2*)

### Competitors at the Gate

By Sachiyo Asakawa

Port-related industries have always been an economic driver for New Jersey. The Port of Newark/Elizabeth Marine Terminal, part of the Port Authority of New York and New Jersey, is the largest and most comprehensive maritime cargo-handling port facility on the East Coast of North America.

In March, Governor Jon Corzine announced the Port Authority of New York and New Jersey’s plan to purchase a \$60 million lease on the Northeast Auto Marine Terminal in Jersey City—119 acres on the

eastern end of the Port Jersey Peninsula—for the potential redevelopment of a new cargo container terminal. At completion, the terminal is expected to handle 500,000 TEUs (Twenty-foot Equivalent Units) a year, a 10 percent increase in the Port’s current capacity. Along with the ongoing Portfields Initiative project, the Port of New York and New Jersey is gearing up for the anticipated increase in container handling over the next ten years.

The Panama Canal widening project began in September 2007. This \$5.3 billion, (*continued, page 5*)

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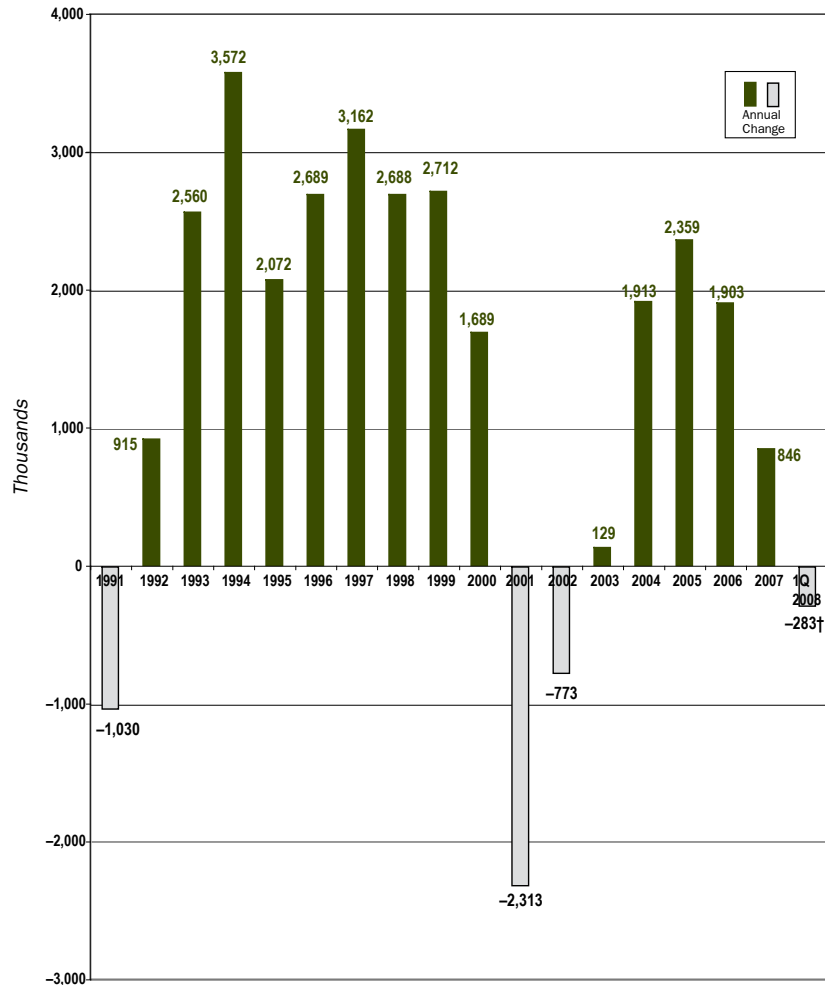
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## 2 Batten Down, continued

In the first quarter of 2008, the state lost 10,500 private-sector jobs.

**FIGURE 1**  
**United States Private-Sector Employment: Annual Change, 1990–2008**  
 (Annual change measured December to December; Q1 2008 measured December 2007–March 2008; in thousands)



Note: † Employment change in the first quarter of 2008 is measured from December 2007 to March 2008. Change for all other periods is measured from December to December.

Source: U.S. Bureau of Labor Statistics.

### The Little Employment Engine That Couldn't

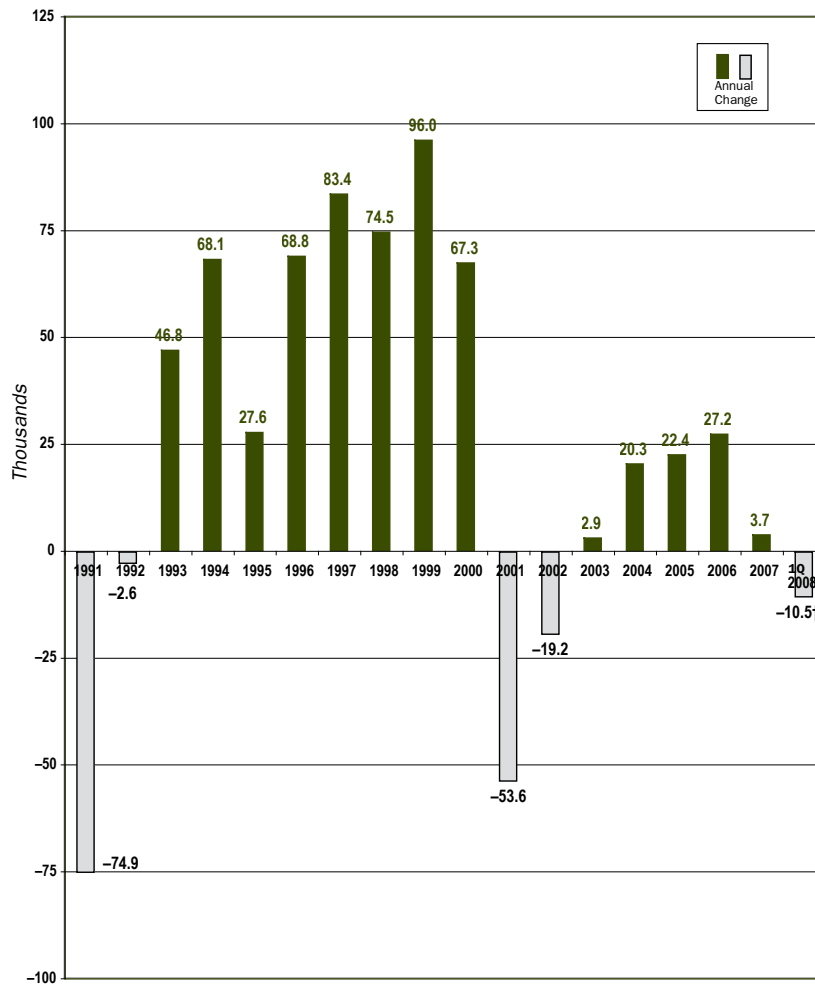
Initial estimates of employment growth in New Jersey in 2007 showed private-sector employment gains totaling 23,600 jobs. However, revisions released in February 2008 reduced the 2007 private-sector employment increase to just 3,700 jobs. Thus, employment growth in New Jersey in 2007 virtually flat-

lined, following three years (2004, 2005, and 2006) of modest gains, when private-sector employment growth averaged 23,300 jobs per year (figure 2). Then, in the first quarter of 2008, the state lost 10,500 private-sector jobs, fully erasing all of the growth of 2007 and more (table 1 on page 4). If this pace of decline is maintained throughout 2008, the state's employment gain of 2006 could be fully erased as well.

**FIGURE 2**

**New Jersey Private-Sector Employment: Annual Change, 1990–2008**

(Annual change measured December to December; Q1 2008 measured December 2007–March 2008; in thousands)



Note: † Employment change in the first quarter of 2008 is measured from December 2007 to March 2008. Change for all other periods is measured from December to December.

Source: New Jersey Department of Labor and Workforce Development.

*The employment expansion of this decade in New Jersey was disappointing.*

As was the case with the nation, the employment expansion of this decade in New Jersey was disappointing compared with that of the 1990s, again in both scale and duration (figure 2). However, when figures 1 and 2 are compared, the drop-off in the 2000s was far more severe in New Jersey. During the nine-year expansion of 1992–2000, the nation’s annual average private-sector employment gain was a robust 2,451,000

jobs. In the five-year expansion of 2003–2007, the nation gained, on average, a very modest 1,430,000 private-sector jobs per year, for a decline of 42 percent from the previous expansion’s average. In New Jersey, the annual average employment gain from 1993 to 2000 was 66,600 private-sector jobs. In the 2003–2007 expansion, New Jersey added an average of 15,300 private-sector jobs per year, for a (continued, page 4)

## 4 Batten Down, continued

*In the 2003–2007 period, the state accounted for a much smaller share of a much weaker national expansion.*

	Change	
	2007	1Q 2008
<b>Total Nonfarm</b>	<b>4,700</b>	<b>-9,700</b>
<b>Total Private-Sector</b>	<b>3,700</b>	<b>-10,500</b>
<b>Goods Producing</b>	<b>-12,500</b>	<b>-3,300</b>
Natural Resources and Mining	— <sup>†</sup>	— <sup>†</sup>
Construction	-4,100	-1,900
Manufacturing	-8,400	-1,400
<b>Private Service-Providing</b>	<b>16,200</b>	<b>-7,200</b>
Trade, Transportation, and Utilities	700	-4,700
Information	2,400	-1,000
Financial Activities	-7,900	-1,000
Professional and Business Services	6,100	-3,900
Educational and Health Services	11,100	2,000
Leisure and Hospitality	1,200	600
Other Services	2,600	800
<b>Government</b>	<b>1,000</b>	<b>800</b>
<i>Notes:</i> 2007 measured December 2006–December 2007. 1Q 2008 measured December 2007–March 2008. <sup>†</sup> No change for reported periods.		
<i>Source:</i> New Jersey Department of Labor and Workforce Development.		

decrease of 77 percent from the previous expansion. Thus, it was almost the expansion that never was!

During the strong 1990s national expansion, New Jersey's share of the nation's private-sector employment growth was 2.4 percent. During the current decade's much weaker national expansion, New Jersey's share of the nation's private-sector employment growth fell to just 1.1 percent. Thus, in the 2003–2007 period, the state accounted for a much smaller share of a much weaker national expansion.

Moreover, the much lower relative employment gains in New Jersey in 2007 compared with the nation, and the state's larger relative employment decline in the first quarter of 2008, suggest that New Jersey stands at the epicenter of the national economic downturn. If the nation has a hard economic landing in the balance of 2008, i.e., a deep and prolonged recession, the Garden State will face painful difficulties. If the nation has a soft economic landing, i.e., a brief and shallow downturn, New Jersey still faces a troubling economic year. *(continued, page 8)*

7-year expansion will double the Canal's current capacity and allow wider vessels to pass through. As a result, more and larger ships will come up the East Coast to the Port of New York and New Jersey. The Port has experienced record growth over the past decade, fueled largely by the increase in Asian imports. In 2006, nearly \$150 billion in goods moved through the Port. Until 2006, the Port experienced double-digit annual percentage growth; in 2007, however, growth fell to 4 percent. Despite this drop, the Port Authority of New York and New Jersey reported in March that the Port of New York and New Jersey outperformed other major ports throughout the country, which significantly declined or experienced less than one percent growth in 2007.

Overall, the state is poised to welcome the increased port activity. Still, this is no time for complacency. Other East Coast ports are emerging as major competitors. The Port of Savannah ranked as one of the fastest-growing ports in the United States in 2007, experiencing a 20 percent increase in container numbers that year. Overall, it ranked as the fourth busiest port in the nation, surpassing the Port of New York and New Jersey. AMB Property Corporation, a global developer and owner of industrial real estate, in March announced its entry into the Savannah market with a 347,000-square-foot distribution center proximate to the Port of Savannah. The Virginia Port Authority's facility in Norfolk is another active port in competition with both Savannah and the Port of New York and New Jersey. Norfolk's deep-water facility is favored by some shippers over Savannah, an inland port. Norfolk is situated just south enough to avoid extreme freezing conditions in winter. There are currently a number of infrastructure improvements and new developments under way in the Norfolk port area.

But port shipping is not the only economic contest in which New Jersey is participating. The Pennsylvania industrial market, especially

the booming Lehigh Valley market, poses a challenge to New Jersey because of its lower rental rates and availability of land. An increasing number of companies are relocating warehouses and distribution centers from New Jersey to Pennsylvania marketplaces. BMW is relocating its distribution center—and about 125 jobs—from Mount Olive to an 870,000-square-foot warehouse in Lower Nazareth Township, Pennsylvania. A March 2008 *Star-Ledger* article reports that New Jersey has lost approximately 4,700 logistics-industry jobs since 2003; Pennsylvania gained 34,000 warehouse jobs during the same period.

While competition may serve as a stimulus for the economy, other forces are at work that are causing businesses to leave the state. On top of ever-rising gasoline prices, New Jersey is proposing a steep toll hike on the New Jersey Turnpike, the lifeline of the state's warehouse and logistics industry. Governor Corzine's original proposal called for increasing tolls by 50 percent every four years (to which an inflation factor would be added), beginning in 2010 and ending in 2022. The *New York Times* reported on January 12 of this year that the total toll for truck drivers navigating the same stretch of highway from the Lincoln Tunnel to the Delaware Memorial Bridge would rise to \$186 from the current \$23. If this toll hike takes effect, it will create a tremendous hardship to the state's logistics and distribution industries.

Industry professionals are optimistic for now about the future of New Jersey's port-related industries because of the strong locational advantage that the Port of Newark and Elizabeth offers, as well as the expected growth of imports. However, the state must become proactive in attracting and retaining business now. To maintain the momentum the state has enjoyed and to build the economy for the future, New Jersey must work on infrastructure improvements to remain competitive with other emerging ports and to foster a business-friendly environment. ■

*Overall, the state is poised to welcome the increased port activity.*

# State's Slowing Economy at Office Market Door

The 2008 northern and central New Jersey office market had a slow start.

By Sachiyo Asakawa; Gregg Nowell, Senior Vice President; and Christopher Santoro, Assistant Vice President

The nation's slowing economy arrived in New Jersey during the first quarter of 2008. New Jersey's unemployment rate rose to 4.8 percent, matching the nation's rate in February. This is the first time the rate equaled the national average since October 2006. Even more troublesome, actual job growth has been dropping at a faster pace than that of the nation. The financial

industry—one of the state's strong economic drivers—has been losing significant numbers over the years.

As industry analysts expected, the 2008 northern and central New Jersey office market had a slow start. The total vacancy rate climbed to 15.5 percent, a 0.2 percentage point rise from the end of 2007.

The average asking rent dropped slightly, by \$0.06,

## Northern and Central New Jersey Total Office Market First Quarter 2008

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate		
Bergen	571	29,593,378	4,427,930	15.0%	5,102,493	17.2%	\$27.66	(787,379)
Essex	400	28,490,457	3,363,075	11.8%	3,484,349	12.2%	\$26.19	(551,338)
Hudson	171	23,912,884	1,537,109	6.4%	2,022,831	8.5%	\$29.15	387,042
Hunterdon	64	2,093,586	652,958	31.2%	660,522	31.5%	\$23.52	28,150
Mercer	353	16,965,067	2,655,351	15.7%	2,832,197	16.7%	\$28.01	(1,742)
Middlesex	479	29,160,524	3,780,044	13.0%	4,650,450	16.0%	\$24.10	(25,905)
Monmouth	440	15,666,518	1,826,065	11.7%	1,909,221	12.2%	\$22.44	124,980
Morris	432	29,934,120	5,008,202	16.8%	6,028,869	20.2%	\$26.84	127,301
Passaic	159	6,599,332	978,627	14.8%	1,044,043	15.8%	\$22.10	(56,033)
Somerset	280	21,067,749	3,050,523	14.5%	4,397,885	20.9%	\$24.17	(497,144)
Union	315	11,801,003	947,397	8.0%	1,090,194	9.2%	\$26.05	(112,594)
<b>Total</b>	<b>3,664</b>	<b>215,284,618</b>	<b>28,227,281</b>	<b>13.1%</b>	<b>33,223,054</b>	<b>15.5%</b>	<b>\$25.75</b>	<b>(1,364,662)</b>
Central NJ	1,867	94,660,861	12,259,380	13.0%	14,879,947	15.8%	\$24.79	(512,405)
Northern NJ	1,797	120,623,757	15,967,901	13.2%	18,343,107	15.2%	\$26.81	(852,257)

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.

from \$25.81 in the fourth quarter of 2007 to \$25.75. Leasing activity was slow, with approximately 1.8 million square feet leased during the quarter. This compares to 3.8 million square feet for the fourth quarter of 2007, and 4.1 million square feet for the first quarter of 2007. It was, indeed, the slowest quarter in the last 10 years. Net absorption for the quarter was a negative 1.4 million square feet, compared with a positive 700,000 square feet in the fourth quarter of 2007 and a positive 820,000 square feet in the first quarter of 2007.

For the Class A market, the situation was similar but a little better. The vacancy rate improved by 0.1 percentage point, from 18.2 percent in 4Q 2007 to 18.1 percent. The average asking rent went up to

\$28.13, a \$0.12 increase from the last quarter of 2007. Only 1.4 million square feet of Class A space was leased during the quarter; again, it was the slowest quarter in the last 10 years.

Although the slow quarter was evidenced throughout the state, the Hudson Waterfront submarket was the exception. The largest lease signed during the first quarter of 2008 was at 525 Washington Boulevard in Jersey City, where AXA Equitable signed a 245,000-square-foot, 15-year lease. National Union Fire Insurance, a subsidiary of AIG, signed a lease expansion for 77,050 square feet at 101 Hudson Street, bringing the total space it now occupies to 395,000 square feet. The vacancy rate for the Hudson Waterfront submarket dropped to 7.0 percent (*continued, page 8*)

*It was, indeed, the slowest quarter in the last 10 years.*

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

County	Buildings	Total Inventory	DIRECT		TOTAL (Direct and Sublet)		Average Asking Rent	QTD Net Absorption
			Space Available	Vacancy Rate	Space Available	Vacancy Rate		
Bergen	82	13,183,896	2,681,968	20.3%	3,181,231	24.1%	\$30.00	(558,206)
Essex	62	15,007,566	2,009,830	13.4%	2,100,829	14.0%	\$28.68	(518,206)
Hudson	49	19,189,530	1,130,761	5.9%	1,609,567	8.4%	\$30.81	385,719
Hunterdon	8	811,320	400,685	49.4%	400,685	49.4%	\$25.26	15,250
Mercer	75	7,612,268	1,506,139	19.8%	1,608,754	21.1%	\$32.02	61,562
Middlesex	121	17,735,512	2,250,196	12.7%	2,981,236	16.8%	\$26.48	(194,171)
Monmouth	56	5,371,981	715,714	13.3%	723,946	13.5%	\$26.32	94,671
Morris	121	18,386,277	3,618,423	19.7%	4,407,669	24.0%	\$29.62	60,325
Passaic	16	2,042,045	486,698	23.8%	506,567	24.8%	\$23.23	4,066
Somerset	101	15,092,093	2,051,650	13.6%	3,392,999	22.5%	\$24.84	(290,668)
Union	31	3,922,689	412,729	10.5%	479,708	12.2%	\$28.97	20,248
<b>Total</b>	<b>722</b>	<b>118,355,177</b>	<b>17,264,793</b>	<b>14.6%</b>	<b>21,393,191</b>	<b>18.1%</b>	<b>\$28.13</b>	<b>(919,410)</b>
Central NJ	384	49,734,543	6,936,428	13.9%	9,186,643	18.5%	\$26.96	(308,358)
Northern NJ	338	68,620,634	10,328,365	15.1%	12,206,548	17.8%	\$29.31	(611,052)

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.

## Office Market Door, continued

at the end of first quarter 2008 from 8.6 percent at the end of 2007. This falling vacancy rate is expected to continue since there is no more available land approved for further new office development.

Sitar Company/ONCOR International industrial specialists found during the first quarter that an increasing number of tenants are looking for sublease space instead of space for expansions and relocations. Despite this increasing demand for sublease space, many of the weaker-credit tenants are not seeking subtenants but rather are trying to get out of their lease obligations entirely. The investment market also seems to have been hit by the current economic woes. Many potential users/investors have held off major acquisitions since it is more difficult to obtain financing for these transactions, and many purchasers are in a wait-and-see mode. With regard to negotiations under way, tenants appear to be budget-conscious and cautious as to how much space they take. Many transactions are taking longer than expected, and landlords are trying to be as accommodating as possible with potential lessees to avoid "losing the deal." Thus, we find that this is a sign of the times, with a poor economy really starting to affect the commercial real estate market.

However, there was also positive news for the office market. In January, the state legislature passed the "Urban Transit Hub Tax Credit Act" by which the state encourages corporations with more than 200 employees to locate within a half-mile of New Jersey's major transit hubs. The act will provide tax credits of up to \$75 million to cover specified capital expenditures in urban transit hubs. In the current economic climate, the state must be proactive in its outreach to the global business community by offering incentives that encourage location of corporate headquarters in New Jersey. ■

## Batten Down, continued

### Final Assessment

Table 1 presents the final New Jersey employment growth totals for 2007 and the preliminary results for the first quarter of 2008. During 2007, it was not surprising that manufacturing continued its long-term erosion (-8,400 jobs). However, more alarming was the start of a potentially lengthy decline in financial activities (-7,900 jobs), a result of the growing turmoil in national and global credit markets. Losses of more than \$200 billion (and counting) for major financial institutions promise further regional reductions in jobs, income, tax revenues, and office space occupancy.

In the first quarter of 2008, employment declines in financial activities (-1,000 jobs) were joined by significant losses of employment in professional and business services (-3,900 jobs) and information (-1,000 jobs). These three sectors combined lost 5,900 jobs in just three months. Thus, the key business sectors driving the office market are trending in the wrong direction. ■

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