



Route 1 Regional Growth Strategy

Corridor Working Group Briefing Note #10



Real Estate Markets

What We Did and Why It Is Important

The project team analyzed real estate activity in the Route 1 study area within the context of the Northern New Jersey sub-market, a component of the New York regional market, to measure the type, rate, and mix of urban growth. Real estate markets/sub-markets are distinguished by a set of common characteristics, including transportation, demographics, economic activity, and perception, but not political geography. They are measured in terms of inventory, tenants, rents, and vacancy rates.

Traditionally dominated by industrial activity, after 1980 the Northern New Jersey sub-market rapidly developed as the New York region's second largest office market, after Manhattan. Its rapid growth was driven by its relationship to Manhattan and the increased global access provided by Newark International Airport. During this same period, Port Elizabeth also became dominant, fueling the growth of the industrial market.

The rapid growth of the Northern New Jersey market during the two decades preceding the stock market collapse of 2000 and the events of 9/11 had created a building boom that led to severe over-building in the market, resulting in vacancy rates higher than in the rest of the New York region. Despite growth since 2000, high vacancies continue to plague the office and industrial markets, deterring new construction until existing inventories are filled. However, within a sub-market as large as Northern New Jersey, vacancy and growth are not evenly spread and islands of growth emerge among other areas of prolonged vacancy.

The Route 1 corridor has four sub-markets. Of the four, the Trenton and Brunswick areas are mixed industrial and office markets, while Princeton is predominantly office and the Turnpike is predominantly industrial. The rapid growth of the office market across northern New Jersey fueled growth in the Route 1 corridor. The market was attracted to this area by the institutional resources, lifestyle, and identity of the corridor, and by the wish to trade the increasing congestion in the New York region for the access provided by the Turnpike and Interstate system that frame it.

Office and industrial vacancy rates remain high throughout the corridor except in Princeton Borough and near Exit 8A of the Turnpike. The principal drivers of the office market are bio-pharmaceutical, internet/software/telecomm, service/business/finance/legal, government, medical, and sports and entertainment. Between 1999 and 2003, as reported by NAI Fennelly, the role of each changed in the corridor. Bio-pharmaceutical, which once accounted for 24% of the growth, dropped to as low as 7% in 2002. Service/business/finance/legal remained the strongest, rising from 49% to 71%. Internet/software/telecomm accounted for 45% of the growth in 2001 and only 4% in 2003. The other three drivers have comprised less than 10% each, although each now accounts for a larger share of growth than it did in 1999, with medical rising to a high of 8% in 2003.

Commercial growth in the corridor will remain slow due to high vacancy rates, but the long-term outlook remains strong due to the relationship of this market to strong institutional resources combined with excellent global access.

What You Need To Know

New York Region Real Estate Sub-markets by Category:

- New York Region – Office: Analysts look to five general market areas to track office space in the region.
 - The Northern New Jersey office market encompasses all of the state to the north of Trenton and extends into the adjacent counties of southeastern New York. Northern New Jersey registered the highest vacancy rates, with more than 21% in downtown areas and 28% in suburban locations; average rents were comparable to other suburban office markets in the region.
 - The New York City office market is both the largest and healthiest of the five New York regional markets. Average rents in the various New York City sub-markets range from more than \$30 to more than \$54 in Class A space, the highest in the region in 2004, while vacancy rates averaged around 10%, the lowest in the region.
 - The other three sub-markets (Long Island, Westchester, and Fairfield) have vacancy rates above 15% but lower than Northern New Jersey, and comparable rents.

While employment has been rising in northern New Jersey, it has not been reflected in the growth of the office markets. A recent report by Linda Tanaka in the Sitar-Rutgers Regional Report, August 2004, highlights the differences in the trends between strong employment growth and little office growth. In an article entitled "Corporate Giants Squeeze into Tighter Space" in the same issue, James W. Hughes and Joseph J. Seneca reported that the highest absolute employment growth in New Jersey took place in education and health services, while employment in the information sector remained far below its December 2000 level. Employment growth in finance, insurance, and real estate (FIRE) was strong, but was offset by losses in professional and business services. According to the report, the lack of office inventory growth can be explained in terms of employment growth in sectors that have not consumed large amounts of office space and cost cutting and out-sourcing, combined with changes in office space planning, work at home (virtual office), and new trends in corporate work patterns. Despite this lack of growth, long-term trends indicate that the market remains strong and should sustain a slow but steady recovery.

- New York Region – Industrial: The four market areas for tracking industrial space in the region differ from office markets. New York City is not an industrial sub-market, but Long Island, Westchester, Northern New Jersey, and Stamford are.
 - The Northern New Jersey industrial market encompasses all of the state to the north of Trenton but does not extend into southeastern New York. Northern New Jersey is by far the largest industrial market in the New York region and the Northeast, with more than 750 million square feet.
 - Long Island is the second largest industrial concentration, with more than 150 million square feet.
 - Westchester has more than 71 million square feet.
 - Stamford has just under 70 million square feet.

The table on the following page compares the Northern New Jersey sub-market with those of its Long Island and Westchester neighbors.

Industrial Sub-market	Vacancy Rate			Rents		
	Manufacturing	Bulk Warehouse	High-Tech/R&D	Manufacturing	Bulk Warehouse	High-Tech/R&D
Northern New Jersey	11%	12%	15%	\$4.50	\$6.10	\$9.00
Long Island	5%	6%	12%	\$7.50	\$9.00	\$14.50
Westchester	5%	5%	10%	\$9.00	\$8.50	\$12.50

NAI, December 2004

Route 1 Corridor Real Estate Sub-markets by Category

The Route 1 sub-markets for office, industrial, and retail also each follow a different pattern. Public and institutional-sector developments are not typically included in real estate analysis. However, the concentrations in the Route 1 corridor are highly influential in terms of the level and spatial distribution of real estate development activity in the corridor.

- *Route 1 Study Area – Office:* The three counties of the study area have widely divergent trends in the office space market.

County	Total Inventory (sf)	Vacancy Rate	Average Asking Rent
Mercer	16.3 million	11.8%	\$25.16
Middlesex	25.8 million	22.1%	\$24.68
Somerset	19.9 million	31.5%	\$25.97

Locally, NAI-Fennelly tracks six different sub-markets:

- South Brunswick – West Windsor, with a vacancy rate of 18.7%
- Downtown Princeton, with a vacancy rate of 10.9%
- Route 206 – Montgomery above Princeton, with the highest vacancy rate at 20.6%
- Ewing – Lawrenceville – northern Hamilton – Hopewell, with a vacancy rate of 14.0%
- Cranbury – South Brunswick – Monroe – East Windsor, with a vacancy rate of 14.9%
- Southern Hamilton – Washington Township, with the lowest vacancy rate of 6.0%

The five principal drivers of the office market are listed by NAI as:

- Service, business, legal, and finance
- Technology
- Medical
- Internet and software
- Government

Each is experiencing different levels of growth in the corridor.

- *Route 1 Study Area – Industrial:* CoStar industrial markets are generally not tracked on a county level; these sub-markets are based more on the underlying transportation infrastructure. The industrial markets that overlap the study area include Brunswick – Exit 9, Exits 8 and 8A, Princeton, and Trenton/I-295.
- *Route 1 Study Area – Retail:* Retail markets are not generally tracked by commercial research firms. Determining retail markets and sub-markets is based on proximity to

population densities, levels of disposable income, residential growth, access, and visibility. Quaker Bridge Mall/Mercer Mall/Nassau Park is the corridor's largest retail concentration. The other principal sub-market is the Brunswick market centered on Brunswick Square, located outside the study area. The north end of the study area also falls under the influence of the massive concentration in Woodbridge (Woodbridge Center and Menlo Park malls). The northwest corner of the study area is connected to the east central New Jersey market centered on Bridgewater Commons, while the southern end of the market is overlapped by the northern Bucks County markets and centered on the Oxford Valley Mall.

How We Did It

Using the work of the real estate market research, we divided this assessment into two scales: the New York Region and the Route 1 corridor study area. At each scale, each of the commercial real estate categories – office, industrial, and retail – divided the market and sub-markets differently.

- The first step was to determine the market areas for each of the commercial real estate categories in the New York region. Each real estate source divided the region into similar primary sub-markets; however, there were some differences between the office and industrial sub-market configurations used by different research firms.
- The second step was to determine the Route 1 corridor sub-markets. Each research firm also divided the Route 1 study area differently in both the office and industrial categories. The market area for the retail component had to be interpolated from the development pattern as no source provided information.
- The third step was to synthesize the data to create a set of diagrams for office, industrial, and retail.

Figure 1: CoStar – Route 1 Office Sub-markets

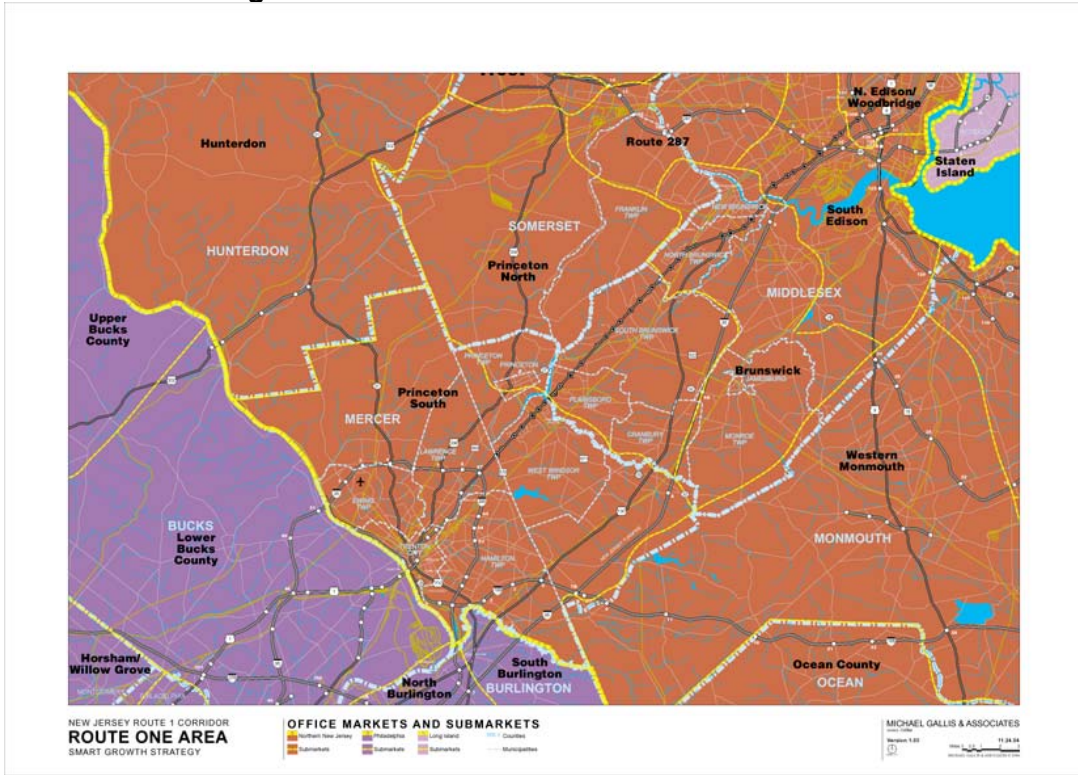


Figure 2: CoStar – Route 1 Industrial Sub-markets

