



# Route 1 Regional Growth Strategy

## Corridor Working Group Briefing Note #9



### The Economy

#### What We Did and Why It Is Important

The project team prepared a summary of the structure of employment and economic activity in the New York region and the Route 1 corridor to identify the drivers of growth.

As part of the New York regional economy, the Route 1 corridor is subject to forces within the global, continental, Northeast super-regional, New Jersey, and New York economy. The overall economic profile of the study area distinguishes it from other parts of the state. The corridor has a much higher than average concentration of public, institutional, professional, scientific, and management employment and much less in manufacturing, transportation, and wholesale.

Despite these general characteristics, the corridor's four sub-markets each exhibit a significantly different mix of public, private, and institutional employment and business type. Three of the sub-markets are located along the Route 1 corridor and share high concentrations of public and educational employment, which have been magnets attracting private-sector economic activity. The fourth is located along the Turnpike, has no public or institutional facilities, and exhibits a very different profile.

The dominant forces that determine the employment and economic characteristics in each of the four sub-markets are:

- The mix of public, private, and institutional employment. The new economy is a knowledge economy where high-value economic activity aggregates around strong and high-quality institutional resources.
- The relationship to the labor pool. Easy access to quality labor is an incentive for businesses, while poor access and lack of a quality workforce is a barrier.
- Image and identity, which is based on generally held perceptions of communities and locations.
- Level of access to global, super-regional, New York regional, regional, and local markets. The stronger the connection to the global economy, the greater the potential for growth.

#### What You Need To Know

The pattern of urbanization as reflected in the built environment is closely connected to the economic activity and market space of the corridor. Long-term projections of economic growth are extremely difficult and problematic, with few economists willing to make more than annual projections. However, the continuing growth of China, India, the former Soviet Union, and new developments in Latin America all suggest that there will be continued long-term growth in the global economy well into the 21<sup>st</sup> century. This growth will result in a redistribution of economic activity on a global basis that will affect the US – but the specifics are hard to predict. Well-known trends are the continued shifting of manufacturing and, more recently, service jobs to offshore locations. Other trends include the rate of growth of national debt that will affect interest rates and therefore business activity, the low savings rate, the level of consumer debt, and the price of energy.

There is little agreement among economists on the exact impact of these macro-scale factors on the US and more specifically, the Northeast economy. Opinions range from little impact to

major recession trends that would severely restrict growth. The International Monetary Fund's latest forecast predicts that global trade volume will decline in 2005 to 7.2% from 8.8% in 2004, down from 12.5% in 2000. The Organization for Economic Cooperation and Development, which includes the 30 most advanced national economies, predicts growth of the GDP in the US in 2005 to be 3.3%, down from the predicted 3.7%, and less than the 4.4% rate of 2004. However, predictions are that 2006 will be stronger than 2005 as the global economy continues to expand.

**New York Region:** As the New York region is one of the principal trade centers in the US, the region should fare better than other areas of the country despite slower economies that would more heavily affect other regions. The New York Economic Region is made of four basic areas: New York City, Northern New Jersey, Long Island, and Westchester/Southern Connecticut.

New York and New Jersey, which sustained significant declines after 2000 due to the combined factors of the stock market decline, which began before 9/11, and the events of 9/11, began to recover in 2003, and more strongly in 2004. The New Jersey recovery has been much stronger than the New York State recovery; by early 2004 New Jersey regained all jobs lost during the recession. Job growth in New Jersey was forecast to grow at 1.5% in 2004 and at 1.6% in 2005. While there is continuing job growth, this had not led to a significant recovery in the office markets or in new office development activity. This is due to a continuing consolidation in the financial, technology, and research industries in the New York region. Demand for office space remains low and significant new office developments are not predicted in the foreseeable future. The role of the New York region in world trade patterns is resulting in a stronger demand for industrial space, and retail development has continued to occur.

Recent reports in the first quarter of 2005 indicate that New Jersey is leading the region in job growth. Fully two-thirds of new jobs in the regions were created in New Jersey, and the unemployment rate fell from 6% to 5.3%. New Jersey has a much more diversified economy than New York City; it does not depend solely on financial services, but is supported by the pharmaceutical, biotech, and logistics sectors. New Jersey's role as a global transportation hub, together with its proximity to New York City, has given it the platform to support both corporate headquarters and massive freight flows. These two forces continue to shape its economy and make it more diverse, vibrant, and stable.

**Route 1 Study Area:** When compared to the New Jersey and US employment structure, the Route 1 economy exhibits several unique characteristics because it includes the state capital and two of the state's major higher education institutions.

Within the New York region, this three-county area suffered steeper losses than the rest of the region and the state of New Jersey from the downturn of 2000, but by 2004 regional job growth surpassed statewide and national averages. The area has sustained a very high rate of population growth, with Somerset County growing more than 23% during the 1990s.

The statistics in the following table indicate that the corridor's economic profile is dominated by government employment and high-value professional and technology business activity. Traditional industrial and transportation and associated warehousing and wholesale employment are very secondary. Growth in the corridor will be a result of government expansion and will be closely linked to the professional, technology, and finance sectors.

<b>Employment Sector</b>	<b>Study Area Compared to NJ – %</b>	<b>Study Area Compared to US – %</b>
Public Administration	+40.9	+37.7
Information	+14.2	+39.9
Professional, Scientific, Management, Administrative, & Waste Management Services	+11.6	+28.4
Educational, Health & Social Services	+9.3	+8.9
Manufacturing	-3.0	-21.3
Finance, Insurance, Real Estate	-1.8	+21.5
Other Services (excluding Public Admin.)	-3.7	-15.0
Transportation & Warehousing	-41.2	-23.4
Wholesale Trade	-26.1	-3.5
Construction	-21.8	-56.4
Retail Trade	-23.9	-28.4
Arts, Entertainment, Recreation, Accommodations & Food Service	-8.9	-24.5

The high combined concentrations of public and institutional activity in the corridor (only Newark has a similar concentration of institutional activity) affects private-sector activity. While institutional concentrations attract high-value economic activity, the opposite is true of high concentrations of public employment. The institutional resources enjoy a synergistic relationship, involving highly educated and specialized faculty and students and research associated with large universities. However, the perceived work ethic and bureaucratic traditions associated with governmental administrative facilities and employment are barriers to attracting private-sector employment.

Within the Route 1 corridor, the Trenton and Princeton area sub-markets are more closely linked because they are both connected to the labor pool in eastern Pennsylvania. The Brunswick market area includes New Brunswick, North Brunswick, South Brunswick, and Franklin, and is a clear sub-market within the New York market area. The Turnpike sub-market area, primarily Exits 8A and 8, is connected to the New York and Philadelphia markets and operates in a super-regional context.

The characteristics of each of the four sub-markets are somewhat different.

- State government dominates the core area within the Trenton sub-market, while the suburban I-95/295 corridor is a mix of office and industrial development activity. The employment structure, reflected in the statistics for Ewing, Hamilton, and Trenton, indicate employment in public administration is approximately three times higher than the state average and far higher than in the rest of the corridor. Lawrence also has public administration employment just under twice the state average. This sub-market functions as part of the state marketplace, the New York regional market, and the Trenton regional market
- The Princeton area is the strongest private-sector sub-market. It is distinguished by the presence of Princeton University, a large research institution, the prestige associated with a Princeton address, and a high quality lifestyle that together attract a broad range of high-value business activities, including finance, telecommunications, technology, bio-tech, pharmaceuticals, and real estate. This sub-market is characterized by high concentrations of educational, health, professional, finance, and technology employment. It also exceeds the state in arts, culture, and entertainment, which adds to its lifestyle and appeal. The Princeton sub-market is linked to the global marketplace as it attracts business activity from the global marketplace.

- The Brunswick area sub-market is linked to I-287 on the north and the Turnpike through Exit 9 on the east; it is relatively inaccessible on the south along Route 1. This is a rather diverse sub-market with a broad range of business activities, including education, health, transportation, wholesale trade and distribution, and pharmaceuticals. Like the Princeton sub-market, it has a high concentration of arts, culture, and entertainment that adds to the appeal of the area. The north end of this sub-market functions as part of the New York regional marketplace, while the south end is driven by more local market forces.
- The Turnpike area sub-market includes Monroe, Cranbury, Jamesburg, and part of South Brunswick. The employment structure of each of the towns is different and does not necessarily reflect the actual sub-market characteristics that are shaped by the development activity around Exits 8A and 8. This sub-market is linked to the ports of New York and Philadelphia and serves as an industrial and distribution hub for those regional markets, connecting it to the global marketplace.

### **How We Did It**

This assessment was divided into three sub-components, at two different scales: the New York Region and the Route 1 study area. The three sub-components were the market and sub-market structure, the commercial real estate markets and sub-markets by category (office, industrial, and retail), and the economy. Each component involved a different set of steps:

- Determine the market areas for each of the commercial real estate categories. Each real estate source divided the New York region into similar primary sub-markets. However, each divided the Route 1 corridor study area somewhat differently in 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 on that structure, which is highly dependent on population density and income.
- Create a set of New York Region market area and Route 1 corridor sub-market diagrams based on synthesizing the real estate market areas.
- Develop the economic profile of the Route 1 corridor by analyzing the employment structure by township and municipality as an aggregate and in comparison to the state economy.
- Establish the spatial distribution of the economy. This involved comparing the employment structure with the urban structure and the institutional, environmental, and transportation patterns of the corridor.

