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Regional Report

James W. Hughes and Joseph J. Seneca, editors

National Economic Rebound: Staying Power or “Recovery Lite”?

By James W. Hughes and Joseph J. Seneca

The national economic expansion will be the major force determining the future of New Jersey’s office markets for the balance of 2004 and beyond. To this point, sustained growth in the last two years in Gross Domestic Product (GDP), the broadest measure of the total output of goods and services, has failed to restore national labor markets to any semblance of robust health. New Jersey, despite surpassing America’s employment performance since 1998, is still seeking reinforcement from the national economy in order to achieve significant gains in office employment and

market activity. What are the prospects for New Jersey reaping such support? First, a review of the national economic trajectory is warranted.

GDP in Retrospect

The vicissitudes of quarterly GDP growth in the new millennium are detailed in the revised Bureau of Economic Analysis data of Table 1. The record-breaking national expansion experienced its last substantial burst of economic output in the second quarter of 2000, when GDP surged at an annual rate of 6.4 percent. Then, GDP (*continued, next page*)

A Look at Newark, New Jersey

By Linda Tanaka

Newark is the largest urban center in New Jersey and among the 100 largest in the United States. After a low-point in the city’s history in the 1960s, Newark is now flourishing and is considered a destination by many. And Newark has not yet completed its resurgence. Plans are in the works for a major waterfront restoration and development project and a light rail project. Placement of a new sports arena is still under discussion. Newark is on the map and in the sights of developers and planners.

In fact, Newark seems to have it all—convenient location, a desirable and strong downtown office market, a premier arts center, major employers, growth in retail and industrial sectors, corporate headquarters of Fortune 500 companies, world class

entertainment, well respected universities, a growing middle class, and investment dollars.

Occupying just 24 square miles, the city is strategically perched just eight miles from New York City and sits amidst New Jersey’s suburban “Wealth Belt” and corporate centers. It is home to Newark Liberty International Airport, the 12th busiest airport in the U.S. and 18th in the world. A \$375 million monorail now links the terminals to the parking lots.

The Newark Bears, a minor league baseball team playing at the new Newark Bears Stadium, and the New Jersey Performing Arts Center (NJPAC) round out the entertainment offerings of downtown Newark, attracting fans from throughout the state.

Deposits in Newark based banks exceed \$21 billion. It is the third largest (*continued, p. 10*)

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2 Rebound, *continued*

Thus, the nation has experienced more than two years of sustained gains in economic output.

Year	Quarter	Gross Domestic Product (Percent Change)	Change in Payroll Employment (In Thousands)
2000	I	1.0%	750
	II	6.4	831
	III	-0.5	231
	IV	2.1	243
2001	I	-0.2	165
	II	-0.6	(276)
	III	-1.3	(398)
	IV	2.0	(878)
2002	I	4.7	(463)
	II	1.9	(60)
	III	3.4	(102)
	IV	1.3	(39)
2003	I	2.0	(200)
	II	3.1	(170)
	III	8.2	(58)
	IV	4.0	185
<i>Note:</i> Fourth quarter data for 2003 are preliminary.			
<i>Source:</i> U.S. Department of Commerce, Bureau of Economic Analysis U.S. Department of Labor, Bureau of Labor Statistics			

unexpectedly contracted (-0.5 percent) in the third quarter, followed by a weak rebound (2.1 percent) in the fourth quarter. But, in retrospect, the expansion was on its last legs and the first three quarters of 2001 all experienced declines in GDP, culminating in the 1.3 percent loss in the third quarter. This economic contraction roughly corresponded to the eight-month recession as defined by the National Bureau of Economic Research (NBER) from March 2001 to November 2001. However, the determination of the start and end of the recession was made before revised GDP data were available.

At the time of the preparation of this report, there was a possibility that NBER might change the date of the start of the downturn to late 2000 instead of March 2001.

Whatever the revisions to this history of the recession may be, nine straight quarters of positive GDP growth began in the fourth quarter of 2001 (2.0 percent). During 2002, growth fluctuated from a strong increase (4.7 percent) in the first quarter to a weak gain (1.3 percent) in the fourth quarter. GDP then strengthened considerably in 2003, capped by a remarkable 8.2 percent increase in the third

quarter—the highest since the fourth quarter of 1983, nearly 20 years ago. The final quarter of 2003 slipped from that lofty pace, but its 4.0 percent rate of increase was more than respectable. Thus, the nation has experienced more than two years of sustained gains in economic output.

The Dismal Jobs Picture

The same cannot be said for jobs and the labor market. Table 1 also details quarterly changes in national payroll employment. During the second, third, and fourth quarters of 2001, a period that basically encompasses the current NBER-defined recession, significant employment contractions occurred. In total, 1.6 million jobs were lost during the three quarters. However, during the next seven quarters, from the beginning of the first quarter of 2002 through the end of the third quarter of 2003, an additional 1.1 million jobs were lost, even though every quarter showed positive GDP growth. Employment seemingly bounced back in the fourth quarter of 2003, but the increase was quite modest (+185,000 jobs). Perspective on the scale of this increase can be gleaned from the employment gains of the first half of 2000 (Table 1), when 750,000 jobs were added in the first quarter and 831,000 jobs in the second. This growth represented the final robust stages of the last expansion. Moreover, the employment performance of the fourth quarter of 2003 was tempered further by the fact that 169,000 of the 185,000 jobs added in the quarter took place in October and November. Employment growth fell to only 16,000 jobs in December, casting doubt at the time on the staying power of the employment revival. But employment grew by 112,000 jobs in January 2004, allaying this fear. While the labor markets have finally turned the corner, their advance has still been relatively modest.

In the early stages of the 1990's recovery, "job-less" economic growth emerged as the new dynamic, with positive GDP growth failing to generate new

additional employment. This time around, a more ominous dynamic was evident—"job-loss" economic growth—with GDP growth accompanied by *declining* employment. It's no wonder that the nation's office markets experienced rising vacancy rates in 2002 and 2003 even though the economic output of the United States expanded throughout this period.

The Elusive Holy Grail

The elusive "holy grail of economics" has been defined as the combination of low inflation and high productivity. This has finally been attained in the new millennium, an achievement that was sustained throughout the downturn and in the ensuing recovery. Thus, a long-standing economic dream has been fulfilled. So what's the problem?

Apparently, the old adage that no good deed goes unpunished has once again proven true. With low inflation and global competition, corporations lost pricing power. In order to achieve bottom-line results, they had to cut costs—and that meant cutting jobs. At the same time, stellar productivity gains allowed companies to do more with far fewer employees. The result has been employment contraction at a time of sustained growth in economic output, and the need for a much higher rate of GDP growth in order to achieve job growth. The employment figures in Table 1 are testimony to this new reality.

Other Barometers of Economic Activity

A key issue raised by the GDP data is the fourth quarter slowdown to a four percent rate of increase. This level of growth is normally viewed as strong and healthy. However, the question is whether it represents a fizzling of a strong rebound—a return to "recovery lite," or a slower but more sustainable expansion with enough staying power and strength to eventually create jobs in the new high productivity economy. What do other macroeconomic indicators tell us? (*continued, p. 4*)

This time around, a more ominous dynamic was evident—"job-loss" economic growth—with GDP growth accompanied by declining employment.

4 Rebound, *continued*

Consumer spending represents over 70 percent of GDP, and the increase in confidence suggests that the tireless American consumer will continue to support economic growth in 2004.

Two important indicators of future economic activity point to solid growth in 2004. First, The Conference Board's Leading Economic Index (LEI), which consists of ten measures of the economy, continued its recent rise in December 2003. Seven of the ten indicators increased with large gains in vendor performance, stock prices, and building permits. Over the last six months the LEI has grown by 2.1 percent, indicating healthy growth ahead in 2004. At the same time, The Conference Board's Consumer Confidence Index rose by a significant 5.1 points in January 2004 to its highest level since July 2002. Consumer spending represents over 70 percent of GDP, and the increase in confidence suggests that the tireless American consumer will continue to support economic growth in 2004.

The housing sector has also been a major plus for the economy over the last several years. National sales records were set in 2003 for both new and existing homes as falling mortgage rates supported the demand for shelter. New single-family home sales reached 1.06 million units in 2003, a remarkable 11.5 percent increase over the previous all-time record sales level of 2002. Existing home sales in 2003 topped 6 million units for the first time, reaching a level 9.5 percent higher than 2002. While the housing market is unlikely to continue to generate such growth rates, it should remain strong in 2004 as mortgage rates stay low and steady income growth and household formation add to demand.

Inflation remains quiescent despite the acceleration of GDP growth in 2003. For the year, the Consumer Price Index rose by 1.9 percent, although the prices for energy, education, and other services have recently begun to rise at higher rates. The core rate of inflation (i.e., without food and energy) grew by only 1.1 percent in 2003. With continued low inflation, significant excess capacity in many manufacturing industries, and still-hesitant labor markets, the Federal Reserve has the discretion

to keep interest rates low despite its recent subtle hints that a policy change is forthcoming. Low interest rates will continue to support housing demand and consumer expenditures.

Business investment, the culprit behind the recent recession, is making a nice comeback. Spending on equipment and software soared in the last two quarters of 2003 and closed the year with a healthy 5.2 percent gain following negative rates of change in 2001 and 2002. This major turnaround in a key business sector also bodes well for 2004.

International trade remains a drag on economic growth but the large rise in exports in the fourth quarter (19.1 percent) indicates that the weaker dollar is beginning to stimulate exports. The nation's voracious demand for imports continues to grow as our GDP increases. The resulting trade deficit (close to \$500 billion for 2003) is a chronic problem for the economy. Together with the shortfall in the federal budget (also estimated at over \$500 billion in Fiscal Year 04), these twin deficits are potential wild cards that threaten long-term future growth.

Finally, the continued remarkable gains in productivity (output per labor input) offer the long-term potential for significantly enhanced prosperity for the U.S. economy. Productivity rose an impressive 4.2 percent in 2003, following a stunning 4.9 percent increase in 2002. The reallocation of the cost savings that are generated by productivity gains into new investment and product development is the key to realizing increased economic growth. In the absence of that reallocation, the highly visible weak growth in employment will continue to command center stage in public policy debates.

Table 2 provides a list of these macroeconomic indicators. A more comprehensive, current version is available on the Edward J. Bloustein School of Planning and Public Policy Web site, <http://www.policy.rutgers.edu> (click on the icon for "Latest NJ Economy News"). ■

TABLE 2
National Economic Summary
Current Conditions as of 9 February 2004

Positives		
GDP (Constant \$)	4%	4th Qtr 2003; solid gain. 3.1% for 2003 vs. 2.2% for 2002. 9 straight quarters of growth.
Productivity	4.2%	For 2003, after large 4.9% gain in 2002.
Interest Rates: Fed. Funds	1.00%	Thirteen reductions by FED since 2001 (45 yr low)
30 Year Fixed Mortgage (bankrate.com)	5.72%	6 Feb, up from 5.35%, 20 June (the lowest since 1966). 15M mortgages refinanced in 2.5 yrs! \$4.5 trillion in value.
New Home Sales	1.06M	Dec 03, -5.1% but total of 1.08M in 2003 – new record! 2003 sales 11.5% higher than 2002.
Existing Home Sales	6.47M	Dec 03, +6.9%; 2003 sets record with 6.1M sales. Sales up 9.5% over 2003 (5.56M). Demand strong.
Non-residential Fixed Investment	6.9%	4th Qtr, 2003; Comeback in 2003, 2.8% vs -7.2% in 2002.
Computer Equipment/Software	10%	4th Qtr 2003; technology spending returns. 5.2% increase in 2003 vs. -2.8% in 2002.
Consumer Price Index	1.9%	2003 rate. Core rate, 1.1% (lowest in 43 years!).
Index of Leading Indicators	+.2%	114.3, Dec. Seven of 10 indicators up.
Supply Managers Index (Mfg)	63.6	Dec 03; 8 of 9 months above 50 (expanding level) Orders increasing; employment index up.
Supply Managers (Non-mfg. index)	65.7	Jan 04, up 7.7 pts. – highest level ever.
Weaknesses		
Federal Deficit	\$374B FY03 deficit; 3.5% of GDP. Estimate of \$477B in FY04.	
International Trade	Estimated 2003 deficit of \$500B. Record deficit in 2002 of \$418B.	
<p><i>Note:</i> A more comprehensive version of this table is updated weekly and is available on the Bloustein School Web site (http://www.policy.rutgers.edu). Click on the icon for the "Latest NJ Economy News."</p>		

Finally, the continued remarkable gains in productivity (output per labor input) offer the long-term potential for significantly enhanced prosperity for the U.S. economy.

A New Year . . . A New Office Market?

By Linda Tanaka

In addition to the lack of a significant increase in vacancies, the other encouraging news is that net absorption for the year is comfortably in positive territory.

A challenging year in the commercial office market drew to a close with continued high vacancy rates. Although higher than at the start of the year, vacancy rates, including those for Class A space, were virtually unchanged over the previous two quarters. Industry professionals are optimistic that this leveling-off signals the worst is over. In addition to the lack of a significant increase in vacancies, the other encouraging news is that net absorption for the year is comfortably in positive territory. Finally, high average asking rents underscore the potential momentum of the market.

The nearly 3,400 buildings that comprise the Northern-Central New Jersey office market show a

total rentable building area of 205,412,721 square feet; 16.1 percent of that space is directly available for lease. An additional 12,333,124 square feet is available via sublease. Together, these figures translate into a total vacancy rate of 22.1 percent, a total largely unchanged from the 22.4 percent recorded in September 2003 but somewhat higher than the 19.8 percent of a year ago. Nonetheless, more space was taken off the market than put on the market over the past 12 months. Year-to-date net absorption is a healthy and positive 1,488,695 square feet. Published asking rents are currently averaging \$25.31 per square foot.

In the Class A sub-market a similar, albeit more intense story has played out over the past 12

Northern and Central New Jersey Total Office Market Fourth Quarter 2003

County	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent	4th Qtr. Net Absorption	2003 Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	557	29,597,078	4,299,793	14.5%	5,741,638	19.4%	\$26.22	(83,686)	(127,371)
Essex	376	28,127,868	4,089,134	14.5%	4,603,987	16.4%	\$25.30	306,388	918,098
Hudson	163	24,950,066	2,957,376	11.9%	5,228,698	21.0%	\$28.03	176,745	491,228
Hunterdon	45	1,295,147	135,538	10.5%	160,042	12.4%	\$19.88	(5,050)	(33,154)
Mercer	338	16,240,370	1,765,177	10.9%	2,506,053	15.4%	\$23.96	(22,084)	329,523
Middlesex	420	26,711,572	4,429,070	16.6%	6,606,204	24.7%	\$24.63	(74,785)	423,738
Monmouth	371	13,693,764	1,386,318	10.1%	2,052,405	15.0%	\$24.02	133,243	(88,953)
Morris	411	27,866,150	5,680,280	20.4%	7,596,209	27.3%	\$25.54	(154,828)	(443,761)
Passaic	157	6,511,710	889,104	13.7%	925,119	14.2%	\$23.50	(48,336)	(41,369)
Somerset	263	19,480,881	5,443,776	27.9%	7,617,265	39.1%	\$25.91	(196,159)	247,615
Union	290	10,938,115	1,978,878	18.1%	2,349,948	21.5%	\$24.57	(214,790)	(186,899)
TOTAL	3,391	205,412,721	33,054,444	16.1%	45,387,568	22.1%	\$25.31	(183,342)	1,488,695
Central NJ	1,682	87,064,702	15,003,219	17.2%	21,131,875	24.3%	\$24.95	(374,575)	725,024
Northern NJ	1,709	118,348,019	18,051,225	15.3%	24,255,693	20.5%	\$25.91	191,233	763,671

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

months. Encompassing 118,362,128 square feet throughout the region, the Class A office market currently offers 20,970,059 square feet (17.7 percent) for direct lease. When the direct Class A space is combined with the more than 10 million square feet of sublease space, the result reveals that more than one-quarter (26.7 percent) of the Class A office area is available for rent. Again, this is a relatively small change from the 26.6 percent of the previous quarter, but up considerably from the 22.9 percent of last December. The “leveling off” theory is again supported by the strong positive net absorption of 474,947 square feet. Owners of Class A property have also enjoyed an increase in asking rents, averaging \$27.67.

Direct vacancy rates remain between twenty and thirty percent for both Morris (20.4 percent) and Somerset (27.9 percent) Counties. With respect to sublease space, Somerset County’s vacancy rate approaches 40 percent. Despite the high vacancy rate, Somerset, with net absorption of 247,615 square feet, actually had more space taken off the market than was added to it over the past year. Dendrite’s sub-leasing of over 200,000 square feet on Route 206 in Bedminster was certainly a contributing factor. Morris County saw more space put on the market than taken off over the past year. UPS’s leasing of nearly 200,000 square feet in Morristown and Pfizer’s leasing of 112,000 square feet in Parsippany were offset by the addition of nearly 400,000 square feet from two formerly-owner-occupied buildings, 717 Ridgedale Avenue in East Hanover and 71 Hanover Road in Florham Park. Prudential vacated the latter and has put the property up for sale. Morris County added 443,761 square feet of space. Asking rents in both counties remain in the \$25-range.

Class A vacancy rates dropped slightly over the previous quarter. Morris County’s total vacancy stands at 33.6 percent and Somerset County’s rate is at 45.6 percent, including Pharmacia’s 1.3 million square feet in Basking Ridge. Net year-to-date

absorption differed between the two counties. Morris County ended the year with nearly 500,000 more square feet of Class A space on the market.

Somerset County’s Class A market ended the year at just below 163,104 square feet. Asking rents for Class A space are averaging \$26.62 in Morris and \$27.58 in Somerset Counties.

With direct vacancy rising from 14.3 percent to 18.1 percent, and total vacancy rising from 17.8 percent to 21.5 percent, Union County experienced a large increase in available space over the past three months. Net absorption for the year reflects this increase and is down 186,899. Despite the large amount of space added to the market, several large leases took place. Maher Terminals Inc. took 43,000 square feet in Berkeley Heights, Burghart Industries let 20,000 feet in Springfield, and Northwestern Mutual Financial network leased 20,000 square feet in Summit. Asking rents are averaging \$24.57.

The small percentage of Class A space in Union County was not responsible for the influx of additional space in the county. The availability of Class A space increased only slightly from the previous quarter, rising to 18.5 percent for direct space and 28.5 percent for all space combined. The year’s net absorption was a positive 39,020 square feet and average asking rents are \$27.79.

Essex, Hudson, and Middlesex Counties ended the year on a positive note. All three counties saw large amounts of space taken off the market resulting in significant positive net year-to-date absorption. Essex County netted over 918,000 square feet of absorbed space, while Hudson County netted 491,228 square feet and Middlesex County 423,738 square feet. However, total vacancy rates in Hudson (21.0 percent) and Middlesex (24.7 percent) Counties remain high. Essex County’s total vacancy rate is a moderate 16.4 percent.

In Essex County, American Management Systems renewed 31,000 square feet in Roseland, and Smith Barney, Inc., took nearly 27,000 in Short Hills. Piscataway in Middlesex County saw (*continued, p. 8*)

When the direct Class A space is combined with the more than 10 million square feet of sublease space, the result reveals that more than one-quarter (26.7 percent) of the Class A office area is available for rent.

8 New Year, *continued*

Class A space in [Essex, Hudson, and Middlesex] did not follow the same stabilizing pattern evidenced in other parts of the market.

nearly 700,000 square feet renewed by AT&T Global Data Speed Services. American Standard Companies, Inc., also helped strengthen the Piscataway market, renewing nearly 80,000 square feet on Centennial Avenue. Confirming the growth spurred by the legal and health professions, law firm Greenbaum, Rowe, Smith, Ravin, Davis & Himmel now occupies nearly 49,000 square feet in Iselin, and Concentra Managed Care recently leased nearly 33,000 square feet in Woodbridge.

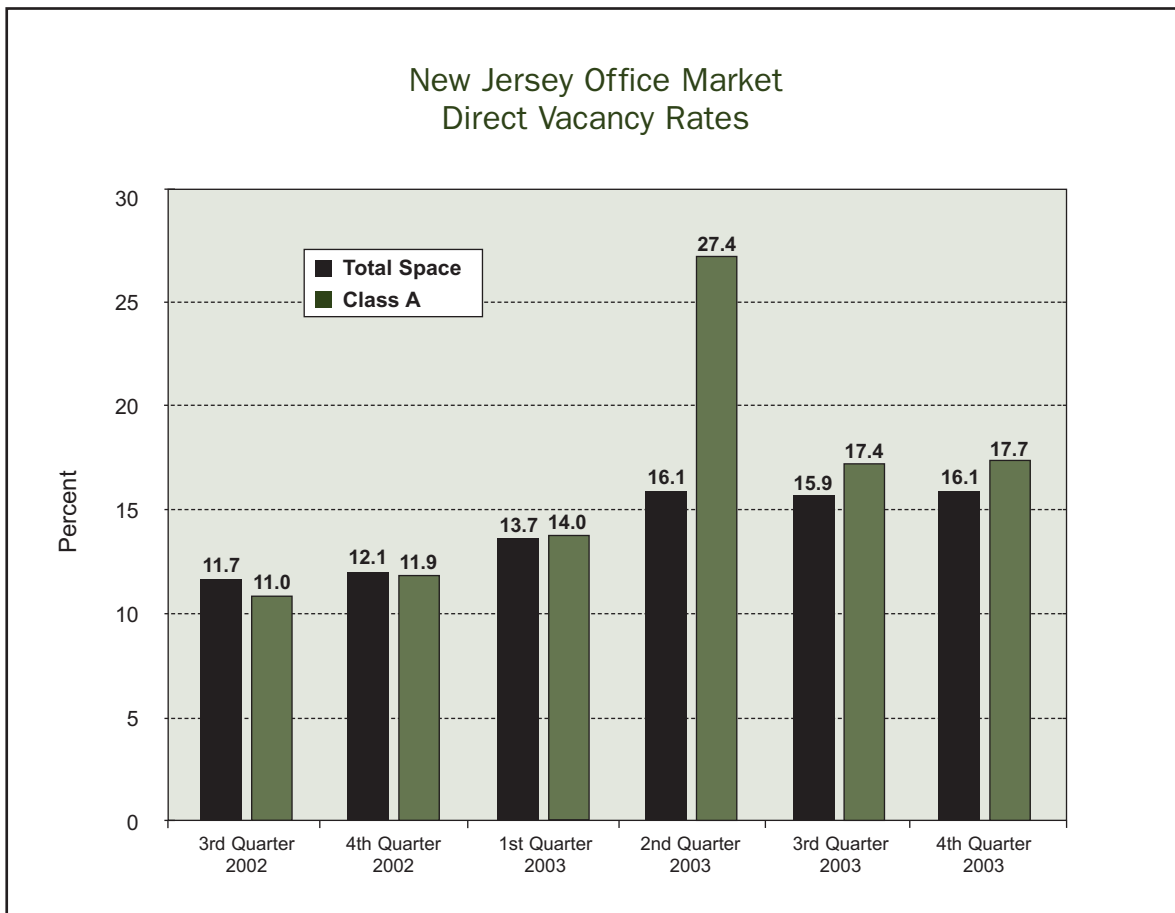
Asking rents in Hudson County remain the highest in the market at \$28.03. In Essex and Middlesex Counties, asking rents are \$25.30 and \$24.63, respectively. Class A space in these counties did not follow the same stabilizing pattern

evidenced in other parts of the market. Vacancies are up even since last quarter, although Hudson County's increase is less significant than that of other counties in the region. The total Class A vacancy rate in each of the three counties is as follows: Essex County, 17.5 percent; Hudson County, 21.0 percent; and Middlesex County, 30.6 percent. However, the absorption numbers paint a brighter picture. Essex County showed Class A space with a small net negative absorption of 36,506 for the year. Both Hudson and Middlesex Counties netted positive net absorption for Class A space. Hudson absorbed a considerable 434,232 square feet and Middlesex, a respectable 166,954 square feet.

Northern and Central New Jersey Class "A" Office Market Fourth Quarter 2003

County	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent	4th Qtr. Net Absorption	2003 Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	95	15,474,063	2,413,744	15.6%	3,466,036	22.4%	\$29.00	(23,286)	(163,959)
Essex	64	15,306,514	2,250,328	14.7%	2,673,762	17.5%	\$28.49	229,926	(36,506)
Hudson	59	20,009,218	1,967,532	9.8%	4,192,321	21.0%	\$29.73	159,831	434,232
Hunterdon	6	387,791	15,314	3.9%	22,130	5.7%	\$26.84	—	(362)
Mercer	77	7,161,312	549,689	7.7%	1,159,430	16.2%	\$29.45	86,676	557,674
Middlesex	111	15,278,805	3,116,064	20.4%	4,677,579	30.6%	\$26.74	(21,057)	166,954
Monmouth	61	5,810,255	729,624	12.6%	1,316,884	22.7%	\$27.64	33,834	(110,336)
Morris	129	18,436,096	4,443,104	24.1%	6,190,834	33.6%	\$26.62	(196,731)	(475,851)
Passaic	23	2,561,069	338,933	13.2%	370,813	14.5%	\$25.99	(156,020)	(99,023)
Somerset	103	14,363,442	4,485,713	31.2%	6,548,026	45.6%	\$27.58	(205,221)	163,104
Union	28	3,573,563	660,014	18.5%	1,018,662	28.5%	\$27.79	97,078	39,020
TOTAL	756	118,362,128	20,970,059	17.7%	31,636,477	26.7%	\$27.67	5,030	474,947
Central NJ	380	46,187,377	9,541,104	20.7%	14,720,581	31.9%	\$27.43	(8,690)	816,416
Northern NJ	376	72,174,751	11,428,955	15.8%	16,915,896	23.4%	\$28.01	13,720	(341,469)

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



Large amounts of Class A shadow space in Mercer and Monmouth Counties are driving the otherwise moderate-to-low direct vacancy rates to relatively high total vacancy rates.

Rental rates are still high compared to those of a year ago with average rents of \$28.49, \$29.73, and \$26.74 for Essex, Hudson, and Middlesex, respectively.

In the southern part of the market, Mercer and Monmouth Counties show relatively low total vacancy rates of 15.4 percent and 15.0 percent, respectively. If the 737,000 square-foot CECOM building in Tinton Falls is converted to residential units as planned, the reported vacancy rate for Monmouth County will decrease further. Mercer County ended the year with over 329,000 fewer square feet available than it had at the start of the year. In the last quarter, Unisys Corporation let 40,000 feet in Hamilton, and Wachovia Securities leased more than 11,000 square feet in Princeton.

Although Monmouth County had net negative absorption for the year, asking rents are averaging \$24.02.

Large amounts of Class A shadow space in Mercer and Monmouth Counties are driving the otherwise moderate-to-low direct vacancy rates to relatively high total vacancy rates. Mercer County's 7.7 percent direct rate is bumped up to 16.2 percent with the inclusion of Class A sublease space. Similarly, Monmouth County's 12.6 percent vacancy rate jumps to 22.7 percent when the Class A sublease space is factored into the equation.

Despite the high vacancy rates, Mercer County was able to end the year with positive net absorption of 557,674 square feet. Monmouth County's Class A space market did not fare as well. (*continued, p. 12*)

10 Newark, *continued*

Major Class A Office Centers Located in Newark, New Jersey

In 2001 alone, the Newark Downtown District provided about \$1 million in grants for renovating and improving facades.

Name	Square Feet
Gateway Towers	2,300,000
PSE&G Tower, 80 Park Plaza	1,100,000
IDT Building	444,180
One Newark Center	418,543
Legal Center	411,617
One Penn Center	381,798
Claremont Towers	244,000

insurance center in the U.S., behind only New York and Hartford. It is also home to the headquarters of Prudential Insurance, Horizon Blue Cross & Blue Shield, IDT, the FBI, MBNA, and The Gateway, New Jersey's largest office complex. Port Newark, with 34 berths, 7,000 foot channel, and 13 miles of waterfront, is the largest container ship port in the U.S. And, Newark is the hub of seven major highways—the Garden State Parkway, New Jersey Turnpike, and Routes 1 & 9, 21, 22, 78, and 280.

Newark has not been lacking for investments. Bricks and mortar investment in Newark between 1995 and 2010 is estimated at approximately \$12 to 14 billion. In 2001 alone, the Newark Downtown District provided about \$1 million in grants for renovating and improving facades.

In July 2003, Fleet Real Estate Finance Group completed a \$72.1 million financing and syndication of an interim loan for 744 Elroy Urban Renewal Investors LLC, for the refinancing of 744 Broad Street (The National Newark Building), a landmark building. In early 2002, The Military Park Building boosted its landmark status with the completion of a

\$5 million restoration. Kushner Company's investment in the 222,000 square foot building has elevated it to Class A status.

Matrix Development Group was selected by the Port Authority to lease the Newark Legal Center for an initial term of 50 years, with options to extend the lease for up to 49 additional years. Joseph S. Taylor, president and CEO of Matrix, has said that in their search for opportunities in key cities throughout the state, Newark was at the top of their list.

A major waterfront restoration and development project is currently in the works, inspiring a recent plot line in the HBO series "The Sopranos."

Infrastructure investment includes \$357 million in transportation projects. The New Jersey Department of Transportation (NJDOT) is spearheading a major project that will improve and reconstruct McCarter Highway (Route 21). In addition, NJ Transit is building the initial segment of the Newark–Elizabeth Rail Link (NERL), a light rail project. This downtown light rail project will connect Newark Penn Station with NJ Transit's Broad Street station.

Availability and Vacancy Analysis
Newark, New Jersey
Fourth Quarter 2003

Type	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent
			Available Space	Vacancy Rate	Available Space	Vacancy Rate	
Class A	21	9,857,537	1,278,265	13.0%	1,514,591	15.4%	\$28.55
Class B	17	2,491,380	570,212	22.9%	572,007	23.0%	\$20.26
Class C	65	2,821,568	474,581	16.8%	474,581	16.8%	\$19.71
TOTAL	103	15,170,485	2,323,058	15.3%	2,561,179	16.9%	\$25.25

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

With an overall vacancy rate of 15.4 percent (only 2.4 percent of which is sublet) the 21 Class A properties are able to request rents near \$30.00 per square foot.

Not surprisingly, Newark's office market is healthy. It consists of 103 properties, totaling 15,170,485 square feet. Of this total, only 21 buildings and 9.9 million square feet are classified as Class A.

Vacancy rates have declined from their peak early in 2003 and seem to have stabilized. The direct vacancy rate in Newark is 15.3 percent. Subleasing is not a factor in the city and in fact, the vacancy rate for sublet space is only 1.6 percent. Rents have remained relatively flat over the past year and are averaging \$25.25.

Class A space is performing even better. With an overall vacancy rate of 15.4 percent (only 2.4 percent of which is sublet) the 21 Class A properties are able to request rents near \$30.00 per square foot. Recent leasing activity in the city includes over 630,000 square feet by law firm Reitman Parsonet, PC at 744 Broad Street.

To complete the picture, Newark's industrial, retail, and residential markets are also faring well. The industrial and retail markets show low vacancy rates of only 5.1 percent and 6.5 percent, respectively.

Investment in residential projects by some well-known developers will help to further revive the community. And, as part of Newark's largest public works project, about \$2 billion is being spent on building 40 new schools and renovating 30 existing buildings.

Newark businesses may benefit from Newark's participation in the New Jersey Urban Enterprise Zone program. Benefits of the program include three percent or less sales tax on designated products or services; corporate tax credits for hiring local employees; subsidized unemployment costs; assistance with redevelopment projects and other benefits.

The New Jersey Department of Labor expects the modest job growth experienced over the past year to continue into 2004. These gains are anticipated to be the health care, construction, business and professional services, and financial areas.

The recent tax reassessment, in which taxes on many properties increased by as much as 40 percent, does not even seem to be hampering business. It appears Newark will continue on its path to resurgence. ■

12 New Year, *continued*

Net absorption was a large negative 110,336 square feet.

Finally, Bergen, Passaic, and Hunterdon Counties in the northern section of the market show virtually no change in vacancy rates from the previous quarter, although once again, vacancies are higher than those of a year ago. Total vacancies in the three counties currently stand at 19.4 percent, 14.2 percent, and 12.4 percent, respectively. Annual net absorption for each of the three counties was negative. Bergen County saw the largest decline, adding 127,371 square feet of space to the market. Passaic and Hunterdon Counties supplemented existing available space with 41,369 square feet and 33,154 square feet, respectively. Despite these negative net absorption numbers, some recent leasing activity includes the following transactions: PDI, Inc., leasing 84,122 square feet in Saddle River; Railroad Construction Company, Inc., leasing more than 23,000 square feet in Bloomsbury; the American Red Cross of Metropolitan New Jersey let 30,000 square feet in Fairfield; and Audible, Inc., renewed close to 22,000 square feet in Wayne.

Despite these transactions, reported asking rents remain relatively high, with Bergen averaging \$26.22, Passaic averaging \$23.50, and Hunterdon averaging \$19.88. Hunterdon County saw somewhat of a decline from the \$21.22 asking rent of September.

Total Class A vacancy rates are relatively lower than the previous quarter's rates, but stand at higher

levels than at the same time last year. Bergen's rate is 22.4 percent, Passaic's 14.5 percent, and Hunterdon's is a low 5.7, a rate that reflects a drop of 25 percent since the previous quarter. Net absorption for the year is negative in all three counties. Bergen County added nearly 164,000 square feet of Class A space to the market in 2003. Passaic added 99,023, and Hunterdon added 362 square feet.

Average asking rents for Class A space rose to \$29.00 in Bergen County, \$25.99 in Passaic County, and \$26.84 in Hunterdon County. ■

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