

Sitar–Rutgers

Regional Report

James W. Hughes and Joseph J. Seneca, editors

Where Are the New Office Jobs?

By James W. Hughes and Joseph J. Seneca

December 2005 stands as a key benchmark of the current status of the New Jersey economy, since it marked five years from the state's last cyclical employment peak (December 2000).¹ How does New Jersey's current employment situation compare to this peak? The answer, unfortunately, is a mixed one. The good news is that total employment is now 1.1 percent, or 45,400 jobs above the previous peak. The bad news is that New Jersey still has fewer office jobs today than in December 2000. Moreover, the composition of recent employment growth (December 2004 to December 2005) offers little immediate support for significant improvements in the state's office markets.

Employment Growth: Peak to Current

While there were 45,400 more jobs in December 2005 compared to five years earlier, there were still 3,200 fewer private-sector jobs (Table 1). In contrast, there were 48,600 more government jobs. By the end of 2005, government (642,600 jobs) had

supplanted professional and business services (589,400 jobs) as the second largest employment sector, trailing only trade, transportation and utilities. Approximately one out of every six New Jersey jobs (15.8 percent) is now in government.

In contrast, the state's long-term manufacturing employment hemorrhage accelerated in the 2000–2005 period. Total manufacturing employment declined by nearly one quarter (-23.5 percent) or 99,100 jobs. The 322,900 manufacturing jobs remaining in the state now account for only 7.9 percent (less than one in thirteen) of New Jersey's employment base; as late as 1970, manufacturing accounted for almost one out of three jobs (33.0 percent). There are now almost twice as many government workers as manufacturing workers.

While the overall private service-providing sector of the economy added 79,200 jobs, employment losses were registered in two of the three highest-paying sectors that are critical to the state's office markets. Information (-31,900 jobs) (*continued, p. 2*)

Revitalizing New Jersey's Waterfront Cities

By Sachiyo Asakawa

Avital economic engine for the state and region, Port Newark is experiencing substantial improvement projects. The American Association of Port Authorities reported that in 2004, the Port Authority of New York and New Jersey handled the third-largest volume of container traffic (approximately 4.5 million) in the nation. Only Los Angeles and Long Beach, California, experienced greater container traffic. Pushed by the overwhelming demands of foreign trade activities, several projects are underway that

will enhance Port Newark's capacity and accessibility as a regional distribution hub. The ExpressRail System, which connects an on-dock rail system to a nationwide rail grid, will improve efficiency and accessibility. Channel- and berth-deepening projects will help the port respond to the rapid increase in the volume of foreign cargo, particularly the increase in shipments from Asia. The economic impact of the projects should be significant in terms of increases in port-related jobs and employment opportunities for the residents of the cities nearby. (*continued, p. 5*)

A quarterly report on employment and office markets in Northern and Central New Jersey

February 2006

Volume 9
Number 1

Published by the
Edward J. Bloustein
School of Planning
and Public Policy
and Sitar Company •
ONCOR International

Sitar Company
ONCOR

Worldwide Real Estate Services

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS
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2 Jobs, *continued*

New Jersey now appears simply to be a passenger on a very slow regional economic train, adding very little motive power.

and professional and business services (-12,900 jobs) declined, while financial activities (+17,600 jobs) grew. These three sectors combined lost 27,200 jobs in the 2000–2005 period. This loss, along with that in manufacturing, means that New Jersey has lost 126,300 high-paying jobs since December 2000. In contrast, there has been significant growth in the three lowest-paying service sectors: education and health services (+61,100 jobs), leisure and hospitality (44,400 jobs), and other services (+19,100 jobs).

Combined, these three sectors added 124,500 jobs. Thus, while the state was losing 126,300 high-paying jobs, it was gaining 124,500 low-paying service jobs. This is obviously not a good tradeoff, neither for New Jersey's overall economy, nor for its office markets.

This pattern of growth is not unique to New Jersey. Our key northeastern peer states that have similar advanced knowledge-based economies—Connecticut, Massachusetts, and New York—also show job gains generally concentrated in the low-paying service sectors. However, during the 1980s and 1990s, New Jersey was the economic locomotive of a lagging region, gaining significant numbers of high-paying office-dependent jobs. The state no longer performs that role. New Jersey now appears simply to be a passenger on a very slow regional economic train, adding very little motive power.

The 2005 Report Card

While there was somewhat of an improvement in private sector job growth in 2005 compared to the

TABLE 1: New Jersey Nonfarm Payroll Employment: December 2000 to December 2005

(Seasonally adjusted, numbers in thousands)

	December 2000	December 2005	Change: 2000–2005		2004 Average Annual Pay
			Number	Percentage	
TOTAL NONFARM	4,024.0	4,069.4	45.4	1.1%	\$48,042
TOTAL PRIVATE SECTOR	3,430.0	3,426.8	-3.2	-0.1	\$47,608
GOODS PRODUCING	575.3	492.9	-82.4	-14.3	\$55,959
Natural Resources and Mining	1.9	1.5	-0.4	-21.1	\$28,740
Construction	151.4	168.5	17.1	11.3	\$51,320
Manufacturing	422.0	322.9	-99.1	-23.5	\$59,134
PRIVATE SERVICE-PROVIDING	2,854.7	2,933.9	79.2	2.8	\$46,066
Trade, Transportation, & Utilities	908.0	889.8	-18.2	-2.0	\$41,446
Information	127.5	95.6	-31.9	-25.0	\$72,468
Financial Activities	266.1	283.7	17.6	6.6	\$74,789
Professional and Business Services	602.3	589.4	-12.9	-2.1	\$58,018
Educational and Health Services	505.1	566.2	61.1	12.1	\$41,065
Leisure and Hospitality	303.6	348.0	44.4	14.6	\$20,065
Other Services	142.1	161.2	19.1	13.4	\$30,565
GOVERNMENT	594.0	642.6	48.6	8.2	\$50,412

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor; U.S. Bureau of Labor Statistics.

five-year trend, the state's employment performance still trailed the nation by a considerable margin. Total employment in New Jersey grew by only 0.9 percent in 2005 compared to 1.5 percent for the United States as a whole. While the nation's employment in the information sector expanded (+0.7 percent), the state's declined (-1.6 percent). At the same time, New Jersey's growth lagged that of the United States in financial activities (+1.0 percent versus +2.3 percent) and in professional and business services (+0.8 percent versus +2.9 percent). Moreover, in both financial activities and professional and business services, the state's 2005 growth tended to be in the sectors' low-end jobs, i.e., services to buildings instead of management (in the professional and business services sector), and traditional banking instead of sophisticated financial services (in the financial activities sector). Thus, the bottom line is a pattern of modest employment growth in the state economy, and the composition of this expansion is not yet supportive of more robust office markets. ■

Note:

¹ This was the end of the 1992 to 2000 expansion. The ensuing downturn spanned December 2000 to July 2002, the cyclical employment low.

Office Market Outlook Positive for 2006

By Sachiyo Asakawa and Christopher Santoro, Assistant Vice President

The New Jersey office market was fairly stable in the fourth quarter of 2005, substantiating the expectations of many brokers. The vacancy rate stood at 17.1 percent, a slight decrease from the third-quarter rate of 17.5 percent. The average asking rent hovered at \$24.83 per square foot during the fourth quarter, a slight rise from the third-quarter average of \$24.66 per square foot. Class "A" space followed suit, with vacancy rates dropping slightly from 21.3 percent to 20.7 percent; asking rents rose from \$26.40 per square foot to \$26.53 per square foot.

The largest leasing transaction during the fourth quarter of 2005 was the 670,000-square-foot space leased by Sanofi-Aventis, a French pharmaceutical firm, at 55 Corporate Drive in Bridgewater, Somerset County. The space was previously

occupied by AT&T. The Sanofi-Aventis transaction was, in fact, the second-largest transaction in 2005, surpassed only by the 1,306,380 square feet leased in Basking Ridge by Verizon earlier in the year.

Monmouth County remained the most competitive market. Its vacancy rate for direct rental space dropped to 9.7 percent. The total vacancy rate was 10.5 percent, which was the lowest rate experienced by any of the counties. Hudson County recorded a 10 percent vacancy rate for direct rental space; however, the total rate remained high at 18.4 percent. As a result of slow sublet activity in Hudson County, net absorption for the year actually ended in negative territory at -15,481 square feet. In contrast to Hudson County, Somerset County experienced almost 4.5 million square feet of positive absorption. The three largest office leases of 2005 were signed in

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Northern and Central New Jersey Total Office Market Fourth Quarter 2005

County	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent	4th Qtr. Net Absorption	2005 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	577	29,858,874	3,698,385	12.4%	4,659,660	15.6%	\$26.05	28,811	(7,048)
Essex	400	28,663,381	3,518,325	12.3%	3,797,373	13.2%	\$24.61	33,032	484,478
Hudson	162	24,756,666	2,486,574	10.0%	4,556,097	18.4%	\$26.63	(123,192)	(15,481)
Hunterdon	48	1,691,192	285,529	16.9%	345,244	20.4%	\$22.51	(339)	15,398
Mercer	336	16,178,616	2,072,633	12.8%	2,205,610	13.6%	\$25.72	(284,534)	147,510
Middlesex	459	26,622,880	4,824,196	18.1%	5,390,465	20.2%	\$23.42	485,657	706,994
Monmouth	409	15,394,558	1,487,258	9.7%	1,621,825	10.5%	\$22.70	25,377	522,355
Morris	438	29,455,140	5,833,171	19.8%	6,405,020	21.7%	\$25.86	(83,453)	714,328
Passaic	160	6,651,743	1,083,078	16.3%	1,098,634	16.5%	\$23.14	(64,229)	11,668
Somerset	277	20,905,323	3,400,667	16.3%	4,446,568	21.3%	\$23.85	1,494,392	4,428,717
Union	304	10,807,785	1,186,937	11.0%	1,455,883	13.5%	\$24.10	(17,341)	568,265
TOTAL	3,570	210,986,158	29,876,753	14.2%	35,982,379	17.1%	\$24.83	1,424,414	7,507,417
Central NJ	1,785	89,909,162	12,971,691	14.4%	15,120,351	16.8%	\$23.96	1,703,551	6,373,841
Northern NJ	1,785	121,076,996	16,905,062	14.0%	20,862,028	17.2%	\$24.80	(279,137)	1,133,576

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

4 Outlook, *continued*

Somerset County. Two of those leases were for space previously occupied by AT&T. Together, the two leases totaled almost 2 million square feet, or nearly 10 percent of the county's total inventory.

The significant drop in the vacancy rate (from 21.5 percent in 2004 to 17.1 percent in 2005) and a degree of stabilization of the average asking rent at \$24.99 per square foot were indications of the persistence of a healthier office market throughout 2005.

In addition, lease transactions in 2005 indicated that New Jersey is host to a substantial amount of corporate reshuffling and reorganizing, especially in the communication and pharmaceutical industries. Four communication companies—AT&T, Cingular, Verizon, and Vonage—accounted for some of the

largest office lease transactions and, together, absorbed approximately 2.5 million square feet of space. Two new foreign pharmaceutical companies, Eisai and Sanofi-Aventis, took a total of 900,000 square feet off the market.

Brokers have observed that many small companies in the market are looking to move to larger office spaces as their businesses grow. The continuation of job growth throughout the state at the end of 2005 fosters strong optimism for the 2006 office market. Monmouth, Middlesex, and Somerset counties continue to be the strongest markets in the state and were home to some of the largest transactions in 2005. In light of this confidence and positive prospects for the economy, we expect 2006 to be a bright year for the New Jersey office market. ■

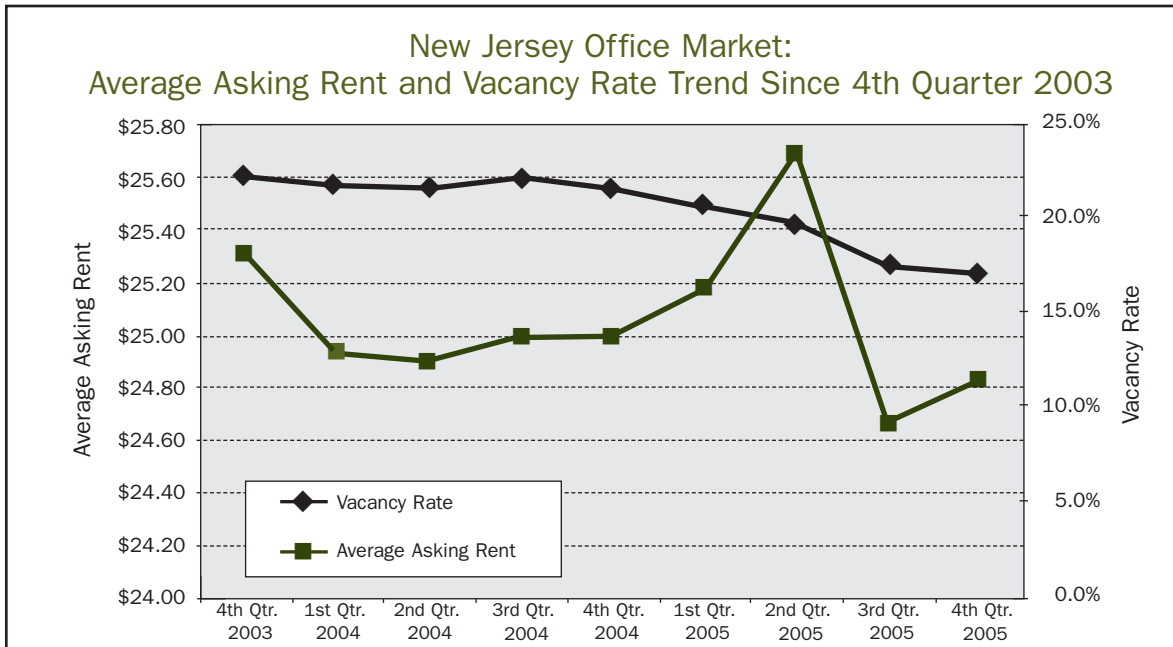
In addition, lease transactions in 2005 indicated that New Jersey is host to a substantial amount of corporate reshuffling and reorganizing, especially in the communication and pharmaceutical industries.

Northern and Central New Jersey Class “A” Office Market Fourth Quarter 2005

County	Buildings	Total Inventory	Direct		Total (Direct + Sublet)		Average Asking Rent	4th Qtr. Net Absorption	2005 YTD Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate			
Bergen	77	12,720,883	1,706,669	13.4%	2,374,186	18.7%	\$28.76	(84,139)	(147,278)
Essex	61	14,892,161	1,951,238	13.1%	2,193,206	14.7%	\$26.94	14,576	353,480
Hudson	50	19,411,203	1,650,915	8.5%	3,695,376	19.0%	\$30.25	(89,464)	(29,127)
Hunterdon	6	762,030	218,447	28.7%	266,174	34.9%	\$24.27	9,352	2,012
Mercer	66	7,000,036	1,011,477	14.4%	1,096,113	15.7%	\$28.89	(90,308)	196,335
Middlesex	114	15,720,651	3,546,700	22.6%	3,822,429	24.3%	\$24.77	455,672	615,687
Monmouth	52	6,329,640	585,683	9.3%	616,328	9.7%	\$27.21	87,947	456,924
Morris	127	18,873,156	4,553,506	24.1%	5,103,273	27.0%	\$26.75	64,365	750,008
Passaic	16	2,039,704	485,626	23.8%	501,182	24.6%	\$25.37	(41,244)	(89,375)
Somerset	99	15,384,720	2,588,730	16.8%	3,610,105	23.5%	\$24.26	1,397,378	4,247,298
Union	30	3,836,965	626,354	16.3%	878,989	22.9%	\$27.93	(22,668)	114,337
TOTAL	698	116,971,149	18,925,345	16.2%	24,157,361	20.7%	\$26.53	1,701,467	6,470,301
Central NJ	361	48,272,012	8,358,944	17.3%	10,023,964	20.8%	\$26.61	1,828,021	5,630,581
Northern NJ	337	68,699,137	10,566,401	15.4%	14,133,397	20.6%	\$27.06	(126,554)	839,720

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

5 Outlook, *continued*



The continuation of job growth throughout the state at the end of 2005 fosters strong optimism for the 2006 office market.

Revitalizing, *continued from page 1*

**North American Container Traffic
2004 Port Ranking**

Rank	Port	Container Volume
1	Los Angeles, CA	7,321,440
2	Long Beach, CA	5,779,852
3	New York/New Jersey	4,478,480
4	Oakland, CA	2,043,122
5	Charleston, SC	1,863,917
6	Hampton Roads, VA	1,808,933
7	Tacoma, WA	1,797,560
8	Seattle, WA	1,775,858
9	Vancouver, BC (Canada)	1,664,906
10	Savannah, GA	1,662,021

Source: American Association of Port Authorities, <http://www.aapa-ports.org/industryinfo/statistics.htm> (accessed December 20, 2005).

to the light-rail station will draw visitors to the city. A golf course and a shopping center are planned for the site next to the terminal and will serve as entertainment destinations. The improvements will help transform Bayonne into a more vibrant city with greater prospects for commercial development.

Hoboken—Another Borough?

When Jersey City’s amount of Class “A” space surpassed that of downtown Pittsburgh, that city was proclaimed New York City’s “sixth borough.” Hoboken is following the trend. Over the past century, Hoboken has become an important transfer point for New Jersey commuters to Manhattan. The city’s mixed-use redevelopment plan for Hoboken Terminal, a 65-acre site composed of railroad and ferry terminals, will encompass intermodal and pedestrian connectivity and strengthen existing retail activity. The W Hotel, the city’s first hotel, will be completed in fall 2007 and will feature 225 rooms and 37 luxury condominiums. The combination of retail services, residential construction, and an attractive transportation hub will make Hoboken attractive to New Yorkers seeking less expensive housing with New York-style amenities. Hoboken is definitely becoming an extension of Manhattan’s West Side. ■

Bayonne—The Next Hoboken?

Bayonne is about to catch the wave of redevelopment that began in neighboring cities, Hoboken and Jersey City. Through a project called the Peninsula at Bayonne Harbor, the southern portion of an existing terminal will be turned into a mixed-use development, including 6,700 residential units, 655,000 square feet of cultural facilities and 1.5 million square feet of commercial space. Improvements to the interchange at Exit 14A of the New Jersey Turnpike and direct access

Slowing Population Growth: Welcomed News or Warning Signal?

By James W. Hughes and Joseph J. Seneca

... the specific components behind this slowing population growth and the underlying causes of these changes may signal troublesome and fundamental economic and political problems.

New Jersey, with 8,717,925 residents (as of July 2005), is the 10th most populous state and the most densely populated state in the nation. Certainly, anyone who drives the roads of New Jersey or observes what seems like relentless, ever-expanding housing, retail, and commercial development senses that New Jersey is a congested, cheek-by-jowl state crammed with people, motor vehicles, houses, and buildings. Indeed, public opinion consistently favors controls on sprawl and development and the preservation of open space. Discussions on how to halt sprawl and save greenfields often dominate state and local government policy debate. Thus, at one level, the news that New Jersey's population growth is slowing is welcomed as an ally in this struggle. At the same time, the specific components behind this slowing population growth and the underlying causes of these changes may signal troublesome and fundamental economic and political problems. But before discussing these issues, let's look at the numbers.

For the latest year of available data, the U.S. Census Bureau reports that New Jersey's population increased by 32,744 people in 2005. However, this gain was less than half of the annual increase of only three years ago when population in New Jersey rose by 71,225 (Table 1). Since the start of the decade, the state's annual population increases have steadily declined. Thus, while New Jersey contributed 2.5 percent to the nation's population increase of 2.9 million in 2002, it contributed only 1.2 percent to the nation's population gain of 2.7 million in 2005. The state's population growth rate has also fallen steadily in the new decade. In 2002, New Jersey's population grew by 0.8 percent, which was close to the national rate of population increase of 1 percent for that year. However, by 2005, New Jersey's population increase was 0.4 percent, or less than half of the nation's gain of 0.9 percent.

As a result of the state's slowing population growth, Georgia surpassed New Jersey as the ninth most populous state in 2002. Given the current population trends, North Carolina is almost certain to knock New Jersey out of the top ten by the end of the current year. For perspective, New Jersey had the

eight largest population among the states in 1980. When 2006 is over, New Jersey will have slipped to eleventh.

An examination of the components of New Jersey's population growth is revealing. The state's population gain of 71,225 in 2002 consisted of a net natural increase of 32,171 people (i.e., births minus deaths), plus a net positive total migration of 39,054 people into New Jersey. This later increase had two components—a positive net gain of 62,813 people from international migration that more than offset a net domestic migration loss of 23,759 people. This loss meant that 23,759 more people left New Jersey for other states than moved into the state from elsewhere in the nation (Table 2). Thus, international migration into New Jersey exceeded domestic migration out of New Jersey by more than 2.5 to 1. By 2005, a short three years later, these numbers were dramatically different. Total migration into New Jersey was negative (-9,597 people), a dramatic shift from the positive total net migration of 39,054 in 2002. In a post-9/11 environment, net international migration into New Jersey, while still positive, fell to 47,392, a 25 percent decline from the 2002 level. At the same time, net domestic migration out of New Jersey jumped sharply to 56,989, a 140 percent increase over that experienced in 2002. A net natural increase of 42,341 births over deaths kept New Jersey's overall population increase positive at 32,744.

Is this decline in New Jersey's population growth a good thing or not? Here are some observations: A slower growing population will reduce pressures on housing needs, public sector services, congestion, and environmental quality. However, if the causes of the sharply increasing negative net internal migration are due to the state's high cost of living, high taxes, and weakening economic opportunities, then this is a signal that the state has some fundamental economic problems that require prompt attention. Moreover, if the composition of the domestic out-migration differs significantly from the international in-migration, as other data suggest, in terms of skills, education, and employment readiness, then the net effect of slowing population growth on the demand for public services and on public sector costs is not

7 Slowing, *continued*

clear. A third concern is that if the sharp slowdown in the state's population growth continues for the rest of the decade, New Jersey may lose another of its 13 seats in the U.S. House of Representatives. The state had 15 seats as recently as 1970, but lost a seat in

1980 and another in 1990. The loss of political muscle in Congress will affect the state's federal influence and cannot bode well for the impact of national economic and fiscal decisions that inevitably affect New Jersey. ■

TABLE 1
New Jersey Annual Population Change,^a 2002–2005

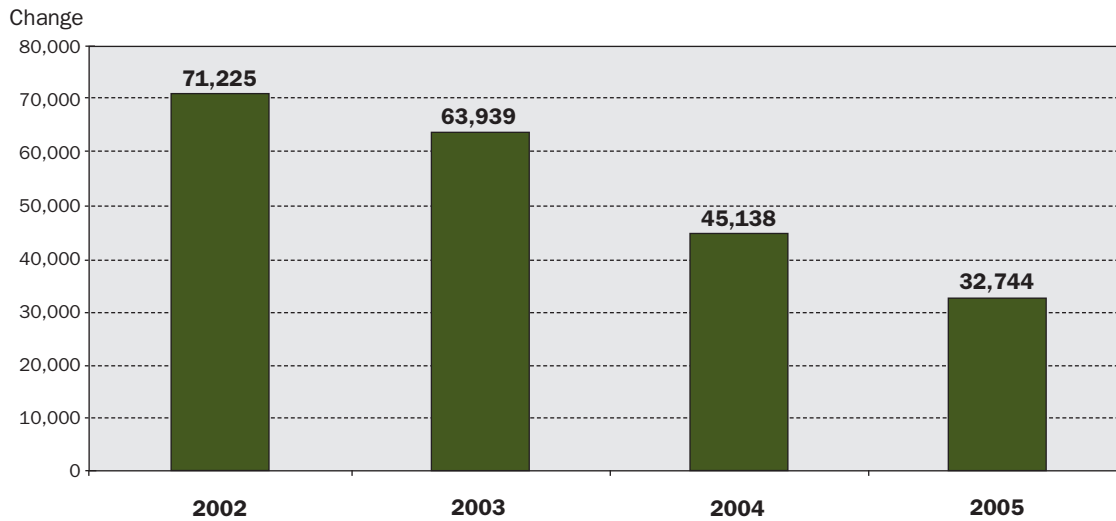
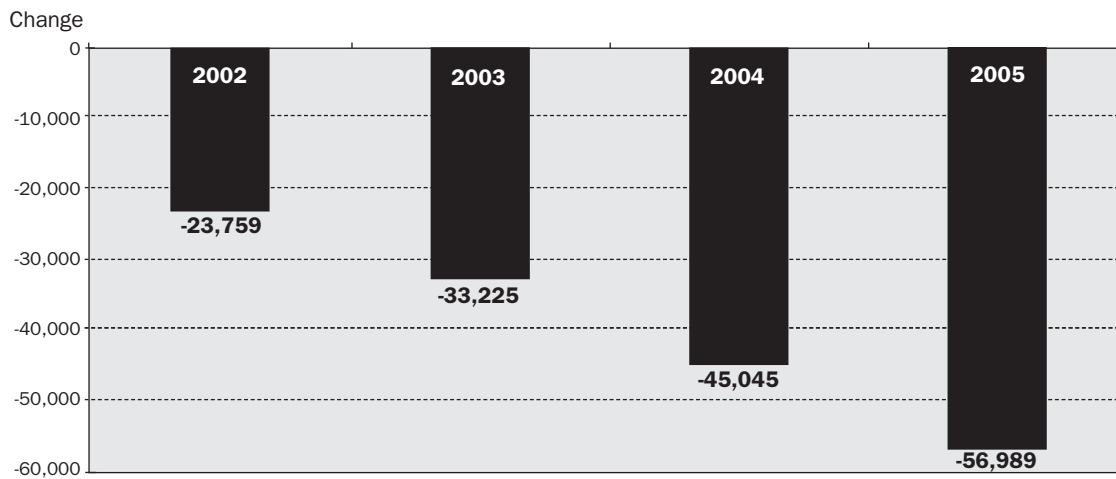


TABLE 2
New Jersey Net Domestic Migration, 2002–2005



... if the causes of the sharply increasing negative net internal migration are due to the state's high cost of living, high taxes, and weakening economic opportunities, then this is a signal that the state has some fundamental economic problems that require prompt attention.

^a The U.S. Census Bureau reports New Jersey's population gain in 2005 as 32,759. This figure differs from the sum of the state's net migration and net natural population increase (32,744) due to a residual in the Census Bureau's calculations resulting from the application of a national population control to state and county population estimates.

Source: U.S. Census Bureau.

Port Authority Fosters New Industry for New Jersey Economy

By Joseph Nitti, President, Sitar Industrial Division

For the past 100 years, New Jersey's economy has relied on the petroleum, chemical, pharmaceutical, and telecommunications industries. However, the state has witnessed an exodus of those industries over the past two decades, forcing exploration of alternative sources of industry that will support the state's economic future. Intermodal transportation (the movement of freight by ship, train, plane, and truck) is one emerging source of economic growth. This new industry is well suited to New Jersey's location at the center of a region that contains six major cities: Boston, New York, Philadelphia, Pittsburgh, Baltimore, and Washington D.C. The region accounts for approximately 20 percent of the U.S. population, and each of the six cities is within a single day's drive from New Jersey.

The expansion of intermodal transportation can be attributed to the recent direction and investments undertaken by the Port Authority of New York and New Jersey. The Port Authority aspires to be the premier seaport handling container ships on the East Coast. To take the first step toward achieving that goal, the Port Authority entered into long-term leases with its anchor tenants. Next, it invested in channel dredging in order to comply with the demands of the new-generation container ships. Additional infrastructure improvements soon followed, including the creation of the ExpressRail System, which increases the number of trains operating in and out of the port and decreases over-the-road truck traffic.

The many investments made by the Port Authority have been beneficial. Real estate activity in the Newark area has increased, the development of warehouse and office facilities along the New Jersey Turnpike is at an all-time high, and state highways have been improved to handle the increase in traffic. These are just a few of the benefits produced by a strong port system. The port has been experiencing double-digit growth in container volume for the past several years, and, by all accounts, this growth should continue to remain strong for the foreseeable future. That could help foster a stronger economic future for New Jersey as well. ■

Sitar-Rutgers Regional Report is published by the Edward J. Bloustein School of Planning and Public Policy and Sitar Company • ONCOR International.

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