

# Sitar–Rutgers

## Regional Report

James W. Hughes and Joseph J. Seneca, editors

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

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## Same Old, Same Old

By James W. Hughes and Joseph J. Seneca

**T**he articles in this quarterly report attempt to assess New Jersey's economic performance, and especially its labor markets, as they impact the state's office markets. Last quarter, we provided a five-year (December 2000 through December 2005) report card. Unfortunately, the economy did not receive a passing grade, despite record-high employment totals. Hopes that 2006 would finally bring renewed growth in office jobs remain, unfortunately, just that. New Jersey's first-quarter employment results are in, and they do not paint a pretty overall picture, nor do they provide a boost to the overall office market. Between December 2005 and March 2006, the state added only 4,600 jobs (Table 1). The increase projects to annual growth of 18,400 jobs, far below the average annual growth (77,400 jobs) achieved during the preceding

two expansions in New Jersey (April 1982 through March 1989 and May 1992 through December 2000). It is also well below New Jersey's employment growth (45,400 jobs) in 2005, suggesting a potentially significant slowdown. While the Great American Job Creation Machine is currently running on all cylinders, there are discouraging signs in the state's employment balance sheet.

Employment growth in the first quarter was dominated by the public sector (government), which added 4,800 jobs (mostly in local government) while the private sector experienced an overall loss of 200 jobs. In the private sector, there were both growing and declining industries. There were employment losses in the four highest-paying industries: manufacturing (-1,900 jobs), information (-200 jobs), (continued, next page)

## Mixed-use is the Name of the Game

By Sachiyo Asakawa

**M**ixed-use development is one of the hottest terms in New Jersey's real estate today. Most of the major current developments within the state have some elements of mixed-use, which is encouraged by the State of New Jersey through Smart Growth initiatives. Mixed-use supports livable neighborhoods with a variety of housing types, price ranges, and multi-modal forms of transportation. For a state like New Jersey, the nation's most densely populated state, smart growth

is considered to be an effective strategy to avoid sparse settlement patterns, environmental damage, and traffic congestion—making this type of development attractive to planners, environmentalists, and public officials.

The largest current mixed-use project is Xanadu in the Meadowlands, a \$1.3 billion-dollar, 4.8 million-square-foot retail/office/entertainment mixed-use development. In addition, there are several additional approved projects (continued, p. 7)

## 2 Same Old, *continued*

*While the Great American Job Creation Machine is currently running on all cylinders, there are discouraging signs in the state's employment balance sheet.*

**TABLE 1**  
**New Jersey Nonfarm Payroll Employment**  
**December 2005 to March 2006**  
*(Seasonally adjusted, numbers in thousands)*

	December 2005	March 2006	Change:	
			Number	Percentage
<b>TOTAL NONFARM</b>	4,064.5	4,069.1	4.6	0.11%
<b>TOTAL PRIVATE SECTOR</b>	3,422.1	3,421.9	-0.2	-0.01
<b>GOODS PRODUCING</b>	496.0	494.2	-1.8	-0.36
Natural Resources and Mining	1.8	1.8	0.0	0.00
Construction	171.0	171.1	0.1	0.06
Manufacturing	323.2	321.3	-1.9	-0.59
<b>PRIVATE SERVICE-PROVIDING</b>	2,926.1	2,927.7	1.6	0.05
Trade, Transportation, & Utilities	884.9	880.3	-4.6	-0.52
Information	97.1	96.9	-0.2	-0.21
Financial Activities	283.3	282.9	-0.4	-0.14
Professional and Business Services	596.8	594.8	-2.0	-0.34
Educational and Health Services	565.9	569.1	3.2	0.57
Leisure and Hospitality	339.5	344.1	4.6	1.35
Other Services	158.6	159.6	1.0	0.63
<b>GOVERNMENT</b>	642.4	647.2	4.8	0.75

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

financial activities (-400 jobs), and professional and business services (-2,000 jobs). The last three are service-providing industries (Table 1), and that is where significant growth is needed if the state's office markets are to fully rebound and grow. However, the three industries combined lost 2,600 jobs in the first quarter. This is a repeat of the same-old pattern that has persisted since the start of the decade. New Jersey still has fewer office jobs (-21,300) than it did at the peak (December 2000) of the last expansion, five and one-quarter years ago!

In contrast, three below-average paying service-providing sectors continue to account for virtually all of the growth in private employment: leisure and hospitality (+4,600 jobs), education and health

services (+3,200 jobs), and other services (+1,000 jobs). Thus, while New Jersey lost 2,600 jobs in the key high-paying, office-linked sectors, it gained 9,200 low-paying service jobs. Overall, the pattern of employment growth did not provide any stimulus to the office market.

Comparisons to the United States data also are also not encouraging. The nation added 590,000 jobs in the first quarter. Since New Jersey accounts for 3 percent of the nation's total employment base, its expected share of the nation's employment growth would be 3 percent. Using that benchmark, New Jersey should have gained 17,700 jobs in the first quarter. However, the actual growth of 4,600 jobs was barely a quarter of the state's expected share.

**TABLE 2**  
**Percentage Employment Change: New Jersey vs. the United States**  
**December 2005 to March 2006**  
*(Seasonally adjusted, numbers in thousands)*

	New Jersey	United States
<b>TOTAL NONFARM</b>	0.11%	0.44%
<b>TOTAL PRIVATE SECTOR</b>	-0.01	0.50
<b>GOODS PRODUCING</b>	-0.36	0.42
Natural Resources and Mining	0.00	2.33
Construction	0.06	1.19
Manufacturing	-0.59	-0.07
<b>PRIVATE SERVICE-PROVIDING</b>	0.05	0.52
Trade, Transportation, & Utilities	-0.52	0.33
Information	-0.21	0.33
Financial Activities	-0.14	0.71
Professional and Business Services	-0.34	0.54
Educational and Health Services	0.57	0.62
Leisure and Hospitality	1.35	0.82
Other Services	0.63	0.20
<b>GOVERNMENT</b>	0.75	0.11

*Note:* North American Industrial Classification System (NAICS) employment sectors.  
*Source:* New Jersey Department of Labor.

*In contrast to its weak private-sector performance, New Jersey had extraordinary growth (0.75 percent) in government employment, compared with growth in the sector nationwide (0.11 percent).*

Moreover, the state's rate of employment growth (0.11 percent) in the first quarter was only a quarter of that (0.44 percent) of the nation as a whole (Table 2).

Indeed, private-sector employment in New Jersey decreased by 0.01 percent, while the nation experienced strong growth in the sector (an increase of 0.5 percent). The nation added 565,000 private-sector jobs while New Jersey lost 200 jobs. The state should have gained 16,950 jobs (3 percent of 565,000). In contrast to its weak private-sector performance, New Jersey had extraordinary growth (0.75 percent) in government employment, compared with growth in the sector nationwide (0.11 percent). Since the nation added 25,000 public-sector jobs,

New Jersey should have gained 750 jobs (3 percent of 25,000). Instead, the state added 4,800 government jobs.

During the first quarter, New Jersey lost employment in each of the three high-paying service sectors—information, financial activities, and professional and business services—while the nation exhibited generally strong gains. The disparity warrants closer inspection. The United States added 10,000 information jobs during the first quarter of 2006. Using the 3 percent metric, New Jersey should have added 300 jobs in information; instead, it registered a loss of 200 jobs. During the same period, the nation gained 58,000 jobs in financial activities, but New Jersey lost 400 jobs (*continued, p. 4*)

4 Same Old, *continued*

**TABLE 3**  
**Total Nonfarm Private Sector Employment**  
**Absolute Change, December 2005 to March 2006**  
*(Numbers in thousands)*

*Thus, the priority of state economic development policy is to restore balance in New Jersey's job growth across all the private business sectors.*

	December 2005	March 2006	Absolute Change		December 2005	March 2006	Absolute Change
<b>1 Florida</b>	6,851.7	6,911.4	59.7	<b>26 Arkansas</b>	977.1	983.0	5.9
<b>2 Texas</b>	8,172.4	8,225.7	53.3	<b>27 South Dakota</b>	316.1	321.4	5.3
<b>3 California</b>	12,493.4	12,531.2	37.8	<b>28 Kansas</b>	1,082.1	1,087.2	5.1
<b>4 Arizona</b>	2,163.6	2,195.3	31.7	<b>29 Wisconsin</b>	2,445.8	2,450.7	4.9
<b>5 Louisiana</b>	1,364.1	1,393.2	29.1	<b>30 Pennsylvania</b>	4,991.8	4,996.3	4.5
<b>6 South Carolina</b>	1,542.2	1,567.2	25.0	<b>31 Hawaii</b>	491.5	495.8	4.3
<b>7 Washington</b>	2,295.2	2,319.3	24.1	<b>32 New Hampshire</b>	547.6	551.8	4.2
<b>8 Georgia</b>	3,375.4	3,396.3	20.9	<b>33 Wyoming</b>	200.6	204.7	4.1
<b>9 North Carolina</b>	3,275.6	3,293.5	17.9	<b>34 Kentucky</b>	1,523.6	1,527.0	3.4
<b>10 Oregon</b>	1,401.4	1,418.6	17.2	<b>35 Montana</b>	337.5	340.6	3.1
<b>11 Virginia</b>	3,034.4	3,049.6	15.2	<b>36 Alaska</b>	228.5	230.9	2.4
<b>12 Nevada</b>	1,110.5	1,124.8	14.3	<b>37 New Mexico</b>	617.9	620.3	2.4
<b>13 Missouri</b>	2,310.1	2,323.8	13.7	<b>38 Illinois</b>	5,050.5	5,052.3	1.8
<b>14 Colorado</b>	1,884.0	1,896.2	12.2	<b>39 Connecticut</b>	1,421.4	1,423.0	1.6
<b>15 Mississippi</b>	885.0	896.7	11.7	<b>40 Massachusetts</b>	2,795.4	2,797.0	1.6
<b>16 New York</b>	7,077.4	7,087.5	10.1	<b>41 Delaware</b>	374.6	375.8	1.2
<b>17 Alabama</b>	1,597.5	1,607.3	9.8	<b>42 North Dakota</b>	273.5	274.5	1.0
<b>18 Oklahoma</b>	1,215.7	1,224.3	8.6	<b>43 Rhode Island</b>	428.2	428.2	0.0
<b>19 Tennessee</b>	2,344.7	2,352.9	8.2	<b>44 New Jersey</b>	3,422.1	3,421.9	(0.2)
<b>20 Iowa</b>	1,248.5	1,256.6	8.1	<b>45 West Virginia</b>	608.3	607.7	(0.6)
<b>21 Minnesota</b>	2,312.2	2,320.1	7.9	<b>46 Vermont</b>	253.6	252.9	(0.7)
<b>22 Idaho</b>	510.5	518.3	7.8	<b>47 Maine</b>	506.9	505.6	(1.3)
<b>23 Maryland</b>	2,100.9	2,108.7	7.8	<b>48 Ohio</b>	4,649.8	4,645.7	(4.1)
<b>24 Utah</b>	971.4	978.6	7.2	<b>49 Indiana</b>	2,547.0	2,541.7	(5.3)
<b>25 Nebraska</b>	778.8	785.9	7.1	<b>50 Michigan</b>	3,723.4	3,698.9	(24.5)

*Source: U.S. Bureau of Labor Statistics.*

*(continued, p. 8)*

# 2006: A Year for Market Growth

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

Nearly 3,600 buildings comprise the Northern and Central New Jersey market, with a total inventory of 209,149,606 square feet. These numbers are expected to grow this year with a trend of speculative office building construction. This has already begun in prime locations led by Reckson Associates' 313,000 square-foot Class "A" office buildings in West Windsor, which are to be completed at the end of this year.

After two quarters of negative absorption, the office market has bounced back to a positive absorption of 953,218 square feet. The vacancy rate also slightly dropped to 16.3 percent from 17.1 percent in the previous quarter, but the average asking rate remained at \$24.93 per square foot, only \$.10 higher than it was in the previous quarter. This is also true for the Class "A" office market, which experienced positive absorption and a falling vacancy

rate. The average asking rate for Class "A" space rose from \$26.53 to \$26.70 per square foot.

Leasing activity has been steady and consistent, and many remaining subleases have been absorbed. These numbers are mostly due to exceptionally active sub-leasing transactions in the Jersey City Waterfront Market, whose absorption was 913,144 square feet, and whose sublet vacancy rate dropped from 6.0 percent in the last quarter to 4.2 percent. As a result, the Hudson waterfront market experienced the lowest total vacancy rate of 13.4 percent in the past three years. Four of the top ten largest transactions during first quarter were in the Jersey City Waterfront market.

Unfortunately, however, there is still an abundance of Class "A" and "B" space along the 287 corridor, primarily in and around Piscataway/South Plainfield. For instance, the ownership group of one

*Six out of the top ten largest transactions during first quarter were in the Jersey City Waterfront market.*

## Northern and Central New Jersey Total Office Market First Quarter 2006

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	1st Qtr. Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate		
Bergen	575	29,699,081	3,420,404	11.5%	4,415,752	14.9%	\$25.97	40,104
Essex	399	28,651,161	3,274,053	11.4%	3,513,154	12.3%	\$24.81	125,564
Hudson	161	24,132,075	2,559,654	10.6%	3,567,080	14.8%	\$26.11	921,454
Hunterdon	50	1,728,266	295,756	17.1%	355,471	20.6%	\$22.34	(6,333)
Mercer	337	16,074,470	2,239,072	13.9%	2,379,655	14.8%	\$24.96	(190,944)
Middlesex	460	26,697,082	4,875,102	18.3%	5,500,761	20.6%	\$23.99	(75,756)
Monmouth	416	15,564,672	1,383,711	8.9%	1,533,150	9.9%	\$22.66	30,424
Morris	437	29,494,251	5,526,106	18.7%	6,134,277	20.8%	\$26.46	75,120
Passaic	160	6,699,615	1,097,568	16.4%	1,106,078	16.5%	\$23.10	(37,799)
Somerset	271	19,567,817	3,229,230	16.5%	4,229,674	21.6%	\$23.53	7,686
Union	308	10,841,116	1,083,852	10.0%	1,310,690	12.1%	\$24.10	66,698
<b>TOTAL</b>	<b>3574</b>	<b>209,149,606</b>	<b>28,984,508</b>	<b>13.9%</b>	<b>34,045,742</b>	<b>16.3%</b>	<b>\$24.93</b>	<b>956,218</b>
Central NJ	1792	88,745,157	12,810,967	14.4%	14,953,930	16.9%	\$23.85	(161,892)
Northern NJ	1782	120,404,449	16,173,541	13.4%	19,091,812	15.9%	\$24.80	1,118,110

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

class A office facility, 15 Corporate Place South in Piscataway, has recently signed several leases that commence at \$15.00 per square foot gross. These transactions include full tenant fit-up and have terms of three to five years. The building itself is comparable to the nicest office facilities found in markets that command \$30 or more per square foot. Deals like these are helping to fill long vacant space in and around central New Jersey and in turn, bring vacancy rates down.

Monmouth County seems to have become a solid destination for office space, evidenced by the continuing low vacancy rate of 9.9 percent. Interesting news has recently developed in Monmouth County concerning Fort Monmouth and related defense contractors. What most commercial brokers and developers perceived to be a huge and immediate

problem with the closing of Fort Monmouth may not be so bad after all—or at least not for the next three to five years. Some of the major defense contractors who rely on the fort for their work have recently relocated and expanded their facilities and/or renewed their current leases. In all cases, the commitments are for up to five years and no longer. Many experts thought this key group of employers would disappear in the relative near future, but this does not appear to be the case. Among the most recent transactions are L-3 Communications and Booze Allen Hamilton.

The Monmouth County office market is one of the most interesting markets for industry professionals to watch for the next few years, as a total of 500,000 square feet of office space are expected in deliveries in the first quarter of 2007. ■

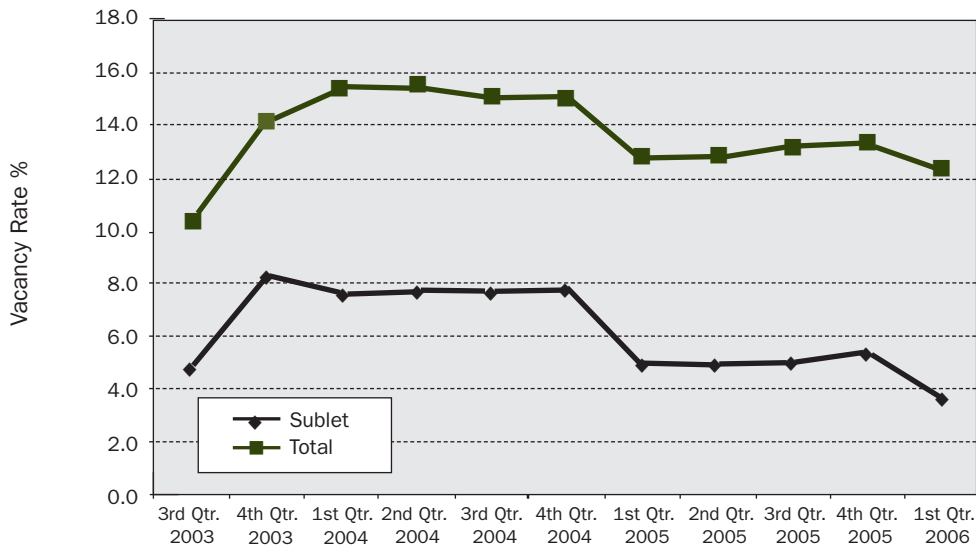
*What most commercial brokers and developers perceived to be a huge and immediate problem with the closing of Fort Monmouth may not be so bad after all—or at least not for the next three to five years.*

### Northern and Central New Jersey Class “A” Office Market First Quarter 2006

County	Buildings	Total Inventory	Direct		Total (Direct+Sublet)		Average Asking Rent	1st Qtr. Net Absorption
			Available Space	Vacancy Rate	Available Space	Vacancy Rate		
Bergen	577	12,720,568	1,642,798	12.9%	2,290,025	18.0%	\$28.68	(95,444)
Essex	61	14,898,507	1,754,231	11.8%	1,957,252	13.1%	\$27.15	162,266
Hudson	49	19,116,678	1,736,699	9.1%	2,719,063	14.2%	\$29.28	913,144
Hunterdon	6	762,030	207,608	27.2%	255,335	33.5%	\$24.27	(1,219)
Mercer	66	7,053,624	1,136,442	16.1%	1,214,814	17.2%	\$27.57	(158,595)
Middlesex	115	15,886,111	3,601,618	22.7%	4,014,144	25.3%	\$25.40	(46,839)
Monmouth	54	6,382,230	509,888	8.0%	582,602	9.1%	\$27.05	45,756
Morris	127	18,874,743	4,428,914	23.5%	5,006,627	26.5%	\$27.47	(43,729)
Passaic	16	2,040,457	557,572	27.3%	566,082	27.7%	\$25.18	(64,900)
Somerset	98	14,069,347	2,445,600	17.4%	3,425,610	24.3%	\$23.86	19,153
Union	30	3,835,796	449,315	11.7%	663,577	17.3%	\$27.88	147,321
<b>TOTAL</b>	<b>699</b>	<b>115,640,091</b>	<b>18,470,685</b>	<b>16.0%</b>	<b>22,695,131</b>	<b>19.6%</b>	<b>\$26.70</b>	<b>876,914</b>
Central NJ	363	47,227,108	8,142,863	17.2%	9,900,747	21.0%	\$26.35	6,796
Northern NJ	336	68,412,983	10,327,822	15.1%	12,794,384	18.7%	\$27.01	870,118

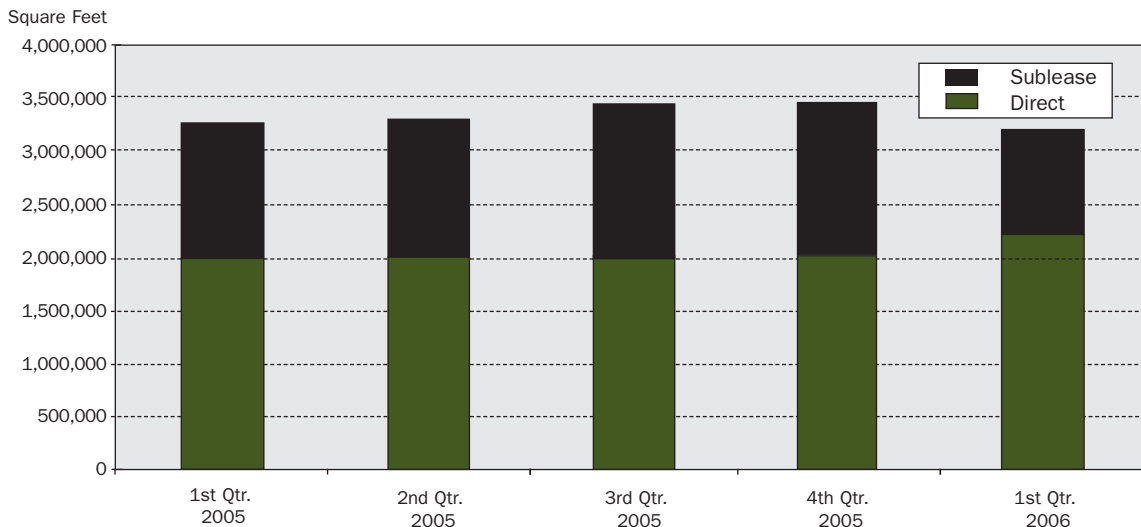
\*Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities.

Hudson Waterfront Office Market:  
Vacancy Rate Trend Since 3rd Quarter 2003



*Even more important, however, is for public policy to invest in and support new emerging, leading-edge industries to replace the assets that once drove the state's high-end economy.*

New Jersey Office Market:  
Vacant Square Feet Available



in the Meadowlands around the NJ TRANSIT Secaucus Junction and new NJ Turnpike Exit 15X, including four office towers, a 600-room hotel and conference center, retail stores, and a residential community. If these are successfully completed, the Meadowlands will be transformed from the “Swamps

of Jersey” to the “Jewel of Jersey,” where high-end retailers and high-profiling companies may occupy spaces that are attractive because of their proximity to NYC and high demographics.

Another hot term usually used in conjunction with mixed-use is Transit Oriented (*continued, p. 8*)

## 8 Same Old, *continued*

in the sector—it should have gained 1,740 jobs (3 percent of 58,000). The same disparity was evident in professional and business services. The nation added 93,000 jobs in this sector. Thus, New Jersey should have gained 2,790 jobs in professional and business services (3 percent of 93,000). Instead, the state lost 2,000 jobs! This same pattern exists if we examine only the latest change in employment from February to March 2006. The state simply is not a participant in strong high-level national corporate employment growth.

New Jersey's overall relative private sector performance is revealed in Table 3, which shows that the state ranks 44th in private sector employment growth during the first quarter of 2006. Thus, the priority of state economic development policy is to restore balance in New Jersey's job growth across all the private business sectors. ■

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## Mixed-use, *continued*

Development (TOD). The state also aggressively promotes high-density developments around existing transit hubs; in return, developers are able to get expedited approval for their projects, a win-win situation for all involved parties. An example of TOD development is Monroe Center in Hoboken, due for completion in fall 2007. Monroe Center will include 116,000 square feet of commercial studio/artist workspaces, 435 residential units, and 1,120 parking spaces immediately adjacent to the NJ Light Rail's Ninth Street/Congress Street station. This will boost Hoboken's residential and commercial real estate, and will also bring an opportunity to neighboring Jersey City Heights, a struggling real estate market compared to other thriving Hudson County cities like Hoboken and the Jersey City waterfront.

Mixed-use development will have a positive overall impact on New Jersey's real estate market by boosting commercial rates and real estate market values. Mixed-use development consistently outperforms standard suburban real estate products. It will also provide more commercial spaces for companies and retailers. Many high profile companies prefer office locations near major highway/transportation systems and retail clusters. Retailers are also attracted to those amenities as well as to the high-income demographics offered by the state. Mixed-use development certainly seems to be the most favorable and profitable development pattern for the state, as well as for planners and the real estate market. ■