10th Anniversary Year

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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Modest and Mature Growth

By James W. Hughes and Joseph J. Seneca

During the first three quarters of 2007 (December 2006–September 2007), New Jersey continued to experience modest employment growth, gaining just 17,000 private-sector jobs. In fact, growth in 2007 is actually weaker than that of the corresponding period in 2006 (December 2005–September 2006), when the state added 21,100 private-sector jobs. One cause of the New Jersey slowdown has been weaker employment growth nationally. As a result, continued national economic weakness and a maturing business cycle may hinder the state's growth prospects as 2008 unfolds.

The Maturing American Business Cycle

The American business cycle is now entering its mature phase. A key point of reference is that the average duration of the 10 post–World War II economic expansions in the United States is 57 months, or just three months shy of five years. This November, the current national expansion reached 72 months in length—a full six years. Thus, it is no longer youthful, but has firmly entered middle age.

And it is slowing down. The American economy entered 2007 like a lion, with the momentum of two strong employment-growth *(continued, page 2)*

Data Center Growth on Rise in State

By Vipin Davessar, Esq., Sales Associate, and Christopher Ludford, Sales Associate

New Jersey has long been an active market for data center development, a demand driven largely by the state's life-science companies and by New York financial institutions. However, the impact of catastrophic events like the 9/11 attacks and Hurricane Katrina have made business owners realize the ever-increasing importance of maintaining off-site backup data centers for storage and disaster recovery. Many of the financial firms in the buildings destroyed in the 9/11 attacks had planned for disaster by establishing backup facilities for data and computer equipment in off-site locations, thereby mitigating the damage to their business operations.

A heightened awareness of the vulnerability of the economy and technological systems due to catastrophic events such as these is one of the main factors driving the demand for data center facilities. A growing need for integrated hosting and networking services, as well as federal regulations such as HIPAA (Health Insurance Portability and Accountability Act), which mandates long-term storage of data, are yet additional reasons for data center growth.

Another major driving force comes from Internet companies like Google, Yahoo, and Microsoft, which require massive data centers—not for use as disaster-recovery centers but as "server farms" that power search platforms. These mega data center sites enable users to search the Web, use the Internet for e-mails, blogs, video games, and movies, and download software online.

Identifying suitable sites for data center development depends on numerous considerations, such as the availability of skilled labor, available utilities for power, fiber infrastructure, connectivity, and the availability of land, as well as the amount of time necessary for executives to reach the backup data center site in the event of an emergency.

New Jersey is naturally well-poised for backup centers designed to service and support *(continued, page 7)*

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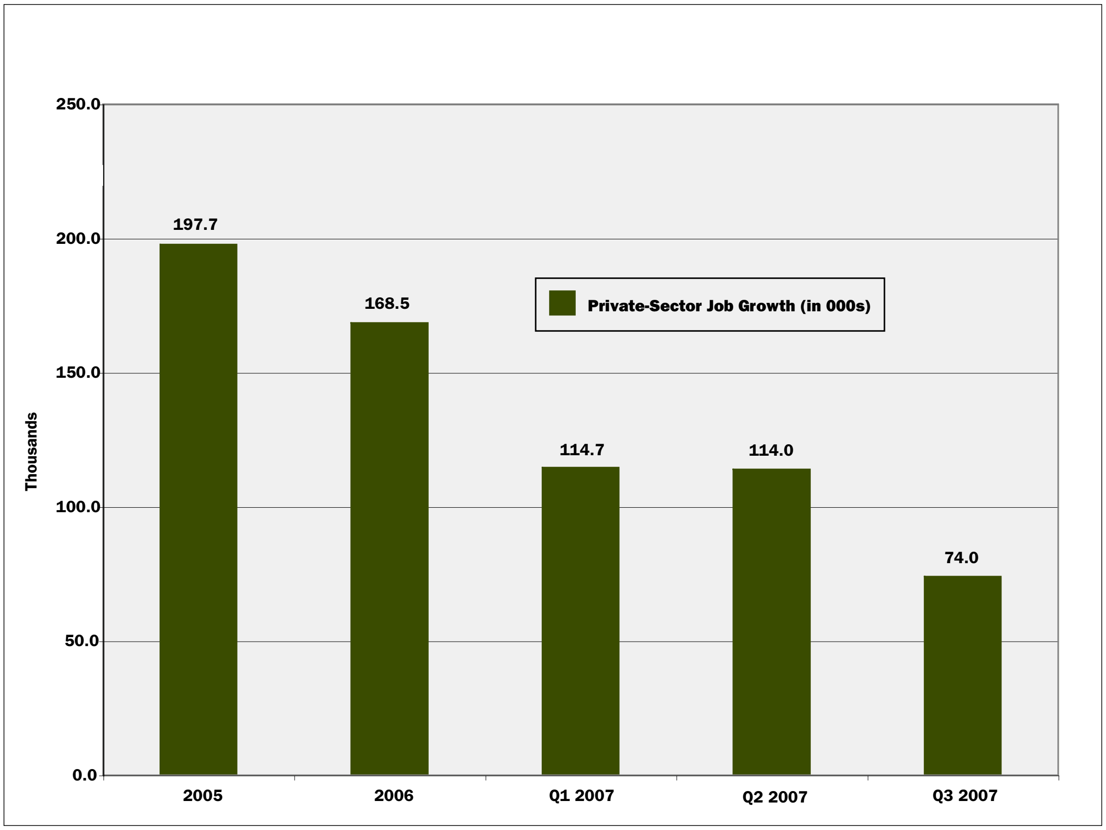
FIGURE 1. Private-Sector Employment Average Monthly Growth: United States, 2005–Q3 2007



Note: Monthly growth levels for 2005 and 2006 reflect Bureau of Labor Statistics employment totals; 2007 growth levels are derived from quarterly employment changes.

Source: U.S. Bureau of Labor Statistics.

It now looks like the economy will exit 2007 like a lamb.

years behind it. But then job growth started to falter. It now looks like the economy will exit 2007 like a lamb. New Jersey is probably not going to get a boost from a surging national economy anytime soon.

In 2005, measured from December 2004 to December 2005, the average monthly private-sector employment gain in the United States was 197,700 jobs (figure 1), followed by 168,500 private-sector jobs per month in 2006 (December 2005–December 2006). This was a strong pace of growth for both years, with a two-year average of 183,100 jobs per month (or 2.2 million jobs per year). However, in the first quarter of 2007 (December 2006 to March 2007), the average monthly employment gain dropped sharply to 114,700 jobs. It stayed at about that monthly level (114,000 jobs) in the second quarter (March 2007 to June 2007). But, it then tumbled further, to only 74,000 jobs per month in the third quarter (June 2007–September 2007), for an annual pace of 888,000 jobs per year. This is barely 40 percent of the average (183,100 jobs per month or 2.2 million jobs per year) of 2005 and 2006, a major slowdown by any measure. And it does not fully reflect a deepening housing slump and turmoil in the credit markets, factors that should be more evident in the fourth quarter's employment results.

TABLE 1
New Jersey Private-Sector Job Growth
(Numbers in thousands)

Expansion: April 1982 to March 1989		
Employment Growth:	590.1	Jobs
Length: 6 Years and 11 Months	6.92	Years
Employment Growth per Year:	**85.3**	**Jobs/Year**
Expansion: May 1992 to December 2000		
Employment Growth:	551.5	Jobs
Length: 8 years and 7 months	8.58	Years
Employment Growth per Year:	**64.3**	**Jobs/Year**
TWO EXPANSIONS COMBINED		
Employment Growth:	1,141.6	Jobs
Length: 15 years and 6 months	15.5	Years
Employment Growth per Year:	**73.7**	**Jobs/Year**
2004: December 2003 to December 2004		
Employment Growth per Year:	**21.4**	**Jobs/Year**
2005: December 2004 to December 2005		
Employment Growth per Year:	**23.2**	**Jobs/Year**
2006: December 2005 to December 2006		
Employment Growth per Year:	**27.0**	**Jobs/Year**
Average Employment Growth per Year—2004, 2005, and 2006:	**23.9**	**Jobs/Year**
2007: December 2006 to September 2007	**17.0**	**Jobs**
Annual Average Equivalent:	**22.7**	**Jobs/Year**

Sources: U.S. Bureau of Labor Statistics and New Jersey Department of Labor and Workforce Development.

New Jersey's post-recession (post-2003) private-sector growth can be generously labeled as modest.

A Perspective on New Jersey's Recent Growth

New Jersey's post-recession (post-2003) private-sector growth can be generously labeled as modest, as evidenced by continued softness in most of the state's office markets. To put this into perspective, table 1 presents average annual private-sector employment growth for the last two expansions (1982–1989 and 1992–2000) and for each of the years of the current expansion (2004–2007). The 1982–1989 expansion lasted 6.92 years and added 590,100 private-sector jobs, or 85,300 jobs per year. The *(continued, page 4)*

The unpleasant conclusion is that the state economic expansion remains modest at best.

TABLE 2
Private Service-Providing Employment Growth Rates
United States, New Jersey, and Selected States
2004–2007

Nation/Region/State	2004	2005	2006	2007[a]
United States	1.5	2.0	2.1	1.6
Northeast				
New Jersey	**0.5**	**1.3**	**1.0**	**0.9**
Massachusetts	0.5	0.8	1.4	2.0
New York	1.2	1.3	1.3	1.2
Pennsylvania	1.3	1.6	1.3	1.5
Connecticut	0.7	1.1	1.4	1.3
South				
North Carolina	2.3	2.8	3.8	2.1
Maryland	1.6	1.7	1.4	1.2
Georgia	2.0	3.1	2.3	2.5
Virginia	2.8	2.5	2.0	1.9
Florida	3.5	3.9	2.5	1.9

Notes: a. Annualized based on data through August.

Annual rates for 2004, 2005, and 2006 are based on U.S. Bureau of Labor Statistics non–seasonally adjusted average annual private service-providing employment totals. Rates for 2007 are annualized rates based on seasonally adjusted employment totals for December 2006 and August 2007 for each of the seven employment supersectors in the Private Service-Providing category.

Source: U.S. Bureau of Labor Statistics.

1992–2000 expansion lasted 8.58 years and added 551,500 jobs, or 64,300 jobs per year. The two expansions combined had an average annual private-sector employment growth of 73,700 jobs per year (1,141,600 jobs gained over 15.5 years). This growth pace stands as a benchmark of what to aspire to in an expansion year.

In 2004, New Jersey added only 21,400 private-sector jobs, followed by 23,200 jobs in 2005, and 27,000 jobs in 2006. The three years combined had an average employment growth of 23,900 jobs per year, less than one-third that of the expansionary benchmark (73,700 jobs). The one positive was the 2004–2006 trendline, which steadily moved upward. However, it looks like that trend may be in jeopardy in 2007. During the first three quarters of 2007 (December 2006–September 2007), New Jersey gained 17,000 private-sector jobs. This translates to an annual growth equivalent of 22,700 jobs per year, flattening the trend, although private-sector job growth accelerated in the third quarter. Nevertheless, the unpleasant conclusion is that the state economic expansion remains modest at best, and it now faces slowing national employment growth. *(continued, page 8)*

Vacancy Down but Little Stability

By Sachiyo Asakawa and Christopher Santoro, Assistant Vice President

The Northern and Central New Jersey office markets ended the third quarter with a 15.2 percent total vacancy rate, reflecting a 0.4 percent drop from the last quarter and a 0.1 percent drop from the first quarter of this year. Although it was the lowest vacancy rate achieved so far this year, we expect that the market will continue slowing through the end of the year. The average asking rent dropped from $25.43 to $25.18, compared with a $25.23 average asking rent at the end of the first quarter this year. The vacancy rate for Class A office space rose by 0.3 percent, and the average asking rent dropped slightly, from $27.46 at the end of the second quarter to $27.32 at the end of the third. Although the third-quarter total vacancy rate is the lowest this year, we are hesitant to view it as a sign of recovery in the office market. There are a large number of buildings currently under construction with low pre-leased *(continued, page 6)*

Although the third-quarter total vacancy rate is the lowest this year, we are hesitant to view it as a sign of recovery in the office market.

Northern and Central New Jersey Total Office Market
Third Quarter 2007

County	Buildings	Total Inventory	DIRECT Space Available	DIRECT Vacancy Rate	TOTAL (Direct and Sublet) Space Available	TOTAL (Direct and Sublet) Vacancy Rate	Average Asking Rent	QTD Net Absorption	2007 YTD Net Absorption
Bergen	567	29,480,318	3,655,559	12.4%	4,304,126	14.6%	$27.25	298,124	334,788
Essex	399	28,474,457	2,847,446	10.0%	3,046,767	10.7%	$25.09	(72,419)	(94,085)
Hudson	169	23,844,642	2,193,707	9.2%	2,932,891	12.3%	$28.53	(141,548)	(201,547)
Hunterdon	63	2,028,586	568,004	28.0%	572,061	28.2%	$23.82	(38,954)	(93,106)
Mercer	349	16,718,974	2,691,755	16.1%	2,842,226	17.0%	$27.47	35,499	27,657
Middlesex	470	28,475,721	3,901,174	13.7%	4,698,494	16.5%	$23.75	11,876	289,329
Monmouth	428	15,243,942	1,951,225	12.8%	2,027,444	13.3%	$22.79	(367,503)	(453,338)
Morris	426	29,651,137	5,159,298	17.4%	5,900,576	19.9%	$26.39	(573,895)	76,596
Passaic	159	6,599,332	983,300	14.9%	1,029,496	15.6%	$22.06	178	14,852
Somerset	278	20,999,390	2,561,926	12.2%	3,926,886	18.7%	$24.25	435,236	433,603
Union	315	11,801,003	837,871	7.1%	1,050,289	8.9%	$25.61	(21,971)	(222,858)
Total	**3,623**	**213,317,502**	**27,351,265**	**12.8%**	**32,331,257**	**15.2%**	**$25.18**	**(435,377)**	**111,891**
Central NJ	1,840	93,239,030	11,943,950	12.8%	14,545,339	15.6%	$24.77	93,137	74,393
Northern NJ	1,783	120,078,472	15,407,315	12.8%	17,785,918	14.8%	$25.52	(528,514)	37,498

Notes: Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities. Total Inventory, Space Available, and Net Absorption figures are in square feet.

The Northern New Jersey office market showed strong activity during the quarter.

Northern and Central New Jersey "Class A" Office Market
Third Quarter 2007

County	Buildings	Total Inventory	DIRECT Space Available	DIRECT Vacancy Rate	TOTAL (Direct and Sublet) Space Available	TOTAL (Direct and Sublet) Vacancy Rate	Average Asking Rent	QTD Net Absorption	2007 YTD Net Absorption
Bergen	81	13,113,896	1,953,971	14.9%	2,595,116	19.8%	$29.45	189,841	192,428
Essex	62	15,007,566	1,590,802	10.6%	1,821,399	12.1%	$27.50	57,747	5,721
Hudson	49	19,189,530	1,727,058	9.0%	2,389,465	12.5%	$30.30	(122,366)	(174,155)
Hunterdon	6	762,030	272,807	35.8%	304,118	39.9%	$25.70	(14,168)	(18,610)
Mercer	75	7,612,268	1,689,923	22.2%	1,788,883	23.5%	$30.61	(13,169)	(47,358)
Middlesex	119	17,512,021	2,539,243	14.5%	3,204,700	18.3%	$25.12	(24,366)	194,159
Monmouth	56	5,371,981	827,285	15.4%	864,889	16.1%	$26.28	(275,749)	(316,284)
Morris	121	18,386,277	3,695,642	20.1%	4,411,181	24.0%	$28.80	(409,188)	343,558
Passaic	16	2,042,045	528,890	25.9%	540,762	26.5%	$23.67	(13,751)	(23,567)
Somerset	101	15,092,093	1,826,143	12.1%	3,154,673	20.9%	$24.78	389,364	393,283
Union	31	3,922,689	411,882	10.5%	651,166	16.6%	$28.35	(38,418)	(183,130)
Total	**717**	**118,012,396**	**17,063,645**	**14.5%**	**21,726,352**	**18.4%**	**$27.32**	**(274,223)**	**366,045**
Central NJ	382	49,511,052	7,294,477	14.7%	9,664,311	19.5%	$27.03	37,662	40,670
Northern NJ	335	68,501,344	9,769,168	14.3%	12,062,041	17.6%	$27.57	(311,885)	325,375

Notes: Includes all office buildings, 10,000 square feet and greater. Does not include owner-occupied facilities. Total Inventory, Space Available, and Net Absorption figures are in square feet.

space, and the state's job growth has been slow throughout the year.

The Northern New Jersey office market (Bergen, Essex, Hudson, Hunterdon, Morris, and Passaic Counties) showed strong activity during the quarter. The Hudson Waterfront market continues to be the destination for financial service firms despite a rising asking rental price now at more than $30.00 per square foot for Class A space. Deutsche Bank has signed an 81,851-square-feet lease at 34 Exchange Place. Lehman Brothers added 62,763 square feet to its existing space at 101 Hudson Street and now occupies a total of approximately 270,000 square feet at that location.

Continuing last quarter's trend, the Parsippany market experienced an active third quarter resulting from firms' relocations within the state. During this quarter, IMS Health, a pharmaceutical marketing and consulting firm, moved its headquarters from Totowa to a leased 120,000-square-feet Class A building at 11 Waterview Boulevard in Parsippany.

The total vacancy rate for the Central New Jersey office market (Mercer, Middlesex, Monmouth, Somerset and Union Counties) dropped from 16.4 percent to 15.6 percent at the end of the third quarter. Motorola renewed a 5-year lease of 145,000 square feet at 1111 Durham Avenue in South Plainfield. Cablevision took 64,125 square feet at

30 Knightsbridge Road in Piscataway. L'Oreal USA broke ground in September for a 187,000-square-feet state-of-the-art GOLD LEED-certified office facility at Connell Corporate Park in Berkeley Heights, who leased it to L'Oreal. The facility, which will open in 2009, will house approximately 400 employees and consolidate five New Jersey locations.

The Princeton submarket's vacancy rate remains unchanged from the previous quarter at 18 percent, with approximately 500,000 square feet of office space currently under construction.

Monmouth County has approximately one million square feet of office space currently under construction. The two large properties include 2 Hovchild Plaza in Shrewsbury—a 210,000-square-feet Class B office building with 14 percent currently pre-leased, and 901 West Main Street in Freehold—a 170,000-square-feet medical building, with 82 percent currently pre-leased. Monmouth County, which enjoyed a declining vacancy rate of about 8 percent between the end of 2005 and the first quarter of 2007, is now experiencing a total vacancy rate that has risen to 13.3 percent at the end of the third quarter.

Sitar Company•ONCOR International professionals see signs of a slowing down of the Monmouth County office market, pointing to the proposed closing of Fort Monmouth, which is expected to cause approximately 10,000 of the industry-related job cuts in the area. For example, Booz Allen Hamilton, an international consulting firm also contracted by the United States Army, just renewed its 30,000 square feet of office space in Monmouth County for one year only. Further, many subcontractors for Fort Monmouth–related work have shut down or laid off large numbers of employees. These dynamics have communicated a clear "wait and see" message to some developers, and several new projects for office and flex facilities have been put on hold until good-credit tenants make commitments. The immediate future of this market does not look positive, and activity will remain slow for the short term, at least until the Fort Monmouth closure issue is resolved. ■

New York businesses given its proximity, strong IT labor force, and available land. Data centers in New Jersey are also vital to this state's numerous life-science companies.

The greatest data center growth in New Jersey has been in the central part of the state along PSE&G's service area and fiber routes. However, as available properties close to New York become saturated, companies will turn to southern New Jersey markets for data center sites.

The greatest data center growth in New Jersey has been in the central part of the state.

One of the state's largest data center projects, the NY4, is a 340,000-square-feet data center in Secaucus built by Equinix, a leading data center development company whose clients include Google, Yahoo, Microsoft, IBM, and Bank of America. This center will house 32 megawatts of power, second in the state only to Newark Liberty International Airport.

In addition, Russo Development of Hackensack is marketing a two-building, 316,000-square-feet build-to-suit data center at 1600 MacArthur Boulevard in Mahwah. Officials in Old Bridge are considering a proposal for a 1.4-million-square-feet data center campus on 300 acres of land currently owned by the township, which would be designed to attract Wall Street financial firms. The estimated cost of this project is $1.4 billion. Similarly, Digital Realty Trust recently acquired a 283,000-square-feet office building situated on 12 acres at 3 Corporate Place in Piscataway at a cost of $14.7 million. Digital Realty Trust intends to redevelop the building, which has significant power and fiber infrastructure, for use as a data center targeted to New York companies. Savvis, a global leader for IT infrastructure services for business applications, recently opened a 47,000-square-feet data center in Piscataway, making it the company's third such site in the New York/New Jersey metropolitan area.

Earlier this year, Bridgewater Township approved Goldman Sachs's proposal to renovate Olivetti's 233,742-square-feet building located at 765 Route 202. The building, which previously served as Olivetti's North American headquarters, will be redesigned to be used as Goldman Sachs's main data center. Located on about 50 acres, Goldman Sachs *(continued, page 8)*

Modest and Mature, continued

A Second Perspective

The state's economic performance can also be evaluated in the context of New Jersey's economic peer states in the Northeast and the South. In the 1980s and 1990s, New Jersey was the economic dynamo of the Northeast region. This has certainly not been the case so far in the current expansion. New Jersey has had the lowest rate of *private service-providing* employment growth among five northeastern states for every year in the entire 2004–2007 period, with two exceptions (table 2). In 2004, New Jersey's growth rate (0.5 percent) was tied for lowest with Massachusetts. In 2005, New Jersey's rate of growth (1.3 percent) was third lowest, just above bottom-ranking Massachusetts (0.8 percent) and Connecticut (1.1 percent). In 2006, the state assumed sole possession of last place (1.0 percent), a position it has maintained thus far in 2007. In 2007 (through August), New Jersey's growth rate (0.9 percent) was less than half that of Massachusetts (2.0 percent), whose expansion appears to have gained steady momentum during the 2004–2007 period. Moreover, both New York and Pennsylvania have had higher growth rates for all four years, while Connecticut leapfrogged New Jersey in 2006 and remained ahead in 2007.

We had been asserting that New Jersey's modest job growth was, at least in part, a reflection of the weak economic conditions endemic to the Northeast, and that our regional peers had the same difficulties as New Jersey. However, focusing only on *private service-providing* employment—the broad employment category most important to the state's office markets—shows this not to be the case. New Jersey's employment growth has been consistently weaker than its regional peers and may be slipping further behind.

And while New Jersey is lagging its region, its region is lagging the nation. With the exception of Massachusetts in 2007, every northeastern state listed in table 2 had lower private service-providing job growth rates than the nation as a whole in each of the last four years. Moreover, the disparities between the performances of the northeastern states and those of competitor southern states are striking. With the exception of Maryland (and Virginia in 2006), every other state in the South eclipsed the national growth rate for each year of the 2004–2007 period. Thus, economic opportunity is growing much faster in the South, and the competition for service-providing office jobs has become much more intense. ■

Data Center Growth, continued

intends to expand the building to 266,000 square feet, of which approximately 10,000 square feet will be used for office space, with the remaining square footage to be used for computer equipment. The property was sold by Sitar Company•ONCOR International for close to $16 million.

Other companies, such as FiberNet, HSBC, McGraw-Hill, Datapipe, and C I Host, have also recently expanded their data centers in New Jersey.

Data center projects are one of the fastest-growing fields in commercial real estate, estimated to grow by nearly 18.7 percent to $1.5 billion in 2007. With society's increasing reliance on the Internet, concentrated economic marketplaces providing greater vulnerability to terrorism, and a broad-range and growing need for the repository of personal data, particularly in the fields of financial services and healthcare, the rise in demand for data centers is likely to continue well into the future. ■

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William Sitar, President, Sitar Company • ONCOR International

Sachiyo Asakawa, Director of Research, Sitar Company • ONCOR International

James W. Hughes, Dean, Edward J. Bloustein School of Planning and Public Policy

Joseph J. Seneca, University Professor, Rutgers, The State University of New Jersey

Production: **Arlene Pashman, Will Irving**
Distribution: **Marcia M. Hannigan**

Sitar Company • ONCOR International
1481 Oak Tree Road
Iselin, NJ 08830
732/283-9000
www.sitarcompany.com

Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey
33 Livingston Avenue
New Brunswick, New Jersey 08901-1981
www.policy.rutgers.edu