

State of the Market

NJTPA Brownfield Economic Redevelopment Project Phase II



New Jersey Institute of Technology and
North Jersey Transportation Planning Authority

DRAFT

Prepared by



A. Strauss-Wieder, Inc.
analyses for informed decision-making

and Beacon Planning and Realty Advisors, LLC



December 2001

Table of Contents

I.	Introduction and Purpose	1
II.	Current Economic Conditions and Trends	1
	A. Current State of the Economy	1
	B. State of the New Jersey Economy	2
III.	Current Freight Transportation Trends	4
	A. Maritime Trends and Forecasts	5
	B. Air Cargo Trends and Forecasts	7
	C. Warehousing and Distribution Center Trends	9
IV.	Current Real Estate Trends	11
	A. Overall Real Estate Climate	11
	B. Condition of Industrial/Warehouse Market in Area	14
V.	Check List for Site Consideration	17
	Appendix A: NJRA Eligible Municipalities	20

Preparing Modern Intermodal Freight Infrastructure to Support Brownfield Economic Redevelopment

State of the Market

I. Introduction and Purpose

The assessment of a site for potential redevelopment begins with an understanding of the overall business and economic context. As part of Phase I of the Brownfield Economic Redevelopment (BER) study, a detailed market appraisal was developed in 2000. However, since that time, the economy has shifted from a sustained period of growth into a recession. Economic, business, real estate, and freight conditions have also been affected by the tragic events of September 11.

The State of the Market report updates key trends and conditions as they relate to site review and redevelopment. The report does not replicate nor replace the Phase I market appraisal; rather, the objective of this report is to provide an updated context for the site assessment process that augments the Phase I market appraisal. The State of the Market report summarizes:

- Current economic conditions and trends;
- Current freight transportation and logistics trends; and
- Current real estate trends.

Each of the brownfield sites in Phase II will be assessed in terms of the State of the Market, along with the checklist of site requirements and conditions found in the final section of this report.

II. Current Economic Conditions and Trends

This section summarizes current economic conditions and the economic outlook. The condition of the economy affects the demand for products and services, the use of freight transportation and the environment for real estate investment.

A. Current State of the Economy

The US economy in 2001 had already been characterized by the rapid demise of dotcom businesses, along with significant employment reductions and bankruptcies in key industry segments when the World Trade Center tragedy occurred on September 11. On November 26, 2001, the National Bureau of Economic Research (NBER) announced that the US economy was officially in a recession.¹ NBER determined that the economy peaked in March 2001. The period of economic expansion had lasted from March 1991 through March 2001, the longest period of expansion since NBER began tracking economic cycles.

¹ www.nber.org

The events of September 11 accelerated these economic conditions, moving the US faster and deeper in a recession. In just the five weeks following September 11, over 88,500 workers in the US were terminated as a direct result of the terrorist attacks. Forty-three percent of these workers had been in the airline industry, with an additional 36 percent terminated from hotels and motels.

Between January and October 2001, nearly 2 million workers applied for unemployment benefits, a substantially larger amount than in the same time period in 2000.² Manufacturing establishments accounted for 40 percent of the job reductions. The service sector accounted for 25 percent and the transportation and utilities sector accounted for eight percent.

In November 2001, employment fell sharply again, with the number of workers dropping by 331,000.³ Similar to October, the losses were spread across industry sectors. The manufacturing sector lost 163,000 jobs. The services industry lost 70,000 jobs in November. Retail trade lost 54,000 jobs, with a total loss of 124,000 workers from a year ago.

The economic downturn is not unique to the US. Over 15 major countries were identified by DRI-WEFA as being in or near a recession in 2001. (Figure One). Similar to the US, some of these countries accelerated into a recession as a result of September 11.

Figure One: Countries In or Near a Recession in 2001

North America

United States
Canada
Mexico

Western Europe

Germany
Italy
Belgium
Austria

Asia

Japan
Taiwan
Hong Kong
Singapore
Malaysia

Latin America

Argentina
Peru

Emerging Europe

Turkey
Poland

Source: DRI-WEFA Port Briefing, November 16, 2001.

Most economists anticipate that although the recession will be deeper, economic recovery should begin during the second half of 2002.

B. State of the New Jersey Economy

The broad base of New Jersey's economy, which includes manufacturing, financial, service, wholesale, retail and transportation businesses, appears to have enabled the State to better weather the changes in the overall economic

² US Department of Labor, "Mass Layoffs In October 2001," News Release, November 30, 2001.

³ US Department of Labor, "The Employment Situation: November 2001," December 7, 2001.

climate. In addition, the State was buffered from the impacts of September 11 by the temporary relocation of thousands of jobs from lower Manhattan to New Jersey locations.

The number of workers employed in the New Jersey economy decreased from 4,034,000 in October 2000 to 4,016,000 in September 2001. However, the number of workers in New Jersey rose to 4,046,000 in October 2001, reflecting the relocated jobs (Figure Two). The business relocations were most evident in the Finance, Insurance and Real Estate industry (FIRE), along with the Government Sector.

Most of the State's employment losses were primarily in the manufacturing sector, with other sectors affected by lay-offs at specific firms. For example, the Communications/Utilities sector was affected by the lay-offs at Lucent Technologies. The losses in the Transportation sector reflect the job reductions in the airline industry.

Figure Two:
New Jersey Employment Trends
(in thousands)

Industry	Oct, 2000	Sept, 2001	Oct, 2001
Manufacturing	461.5	441.5	439.6
Transportation	180.8	177.3	177.7
Communications/Utilities	93.7	90.5	90.2
Wholesale	290.3	287.5	287.3
Retail	648.6	648.8	649.6
Finance, Insurance, Real Estate	264.9	268.8	278.4
Government	596.8	585.2	610.9
Total New Jersey Employment	4,034.8	4,015.9	4,046.0

Source: New Jersey Department of Labor

Note: Does not include self-employed workers and sole proprietors (such as independent truckers).

The economic picture in New Jersey is still evolving. The overall economic recession, reduced spending by businesses and consumers, a potential State budget deficit and spending freeze, and lingering effects of September 11 will likely affect New Jersey's short-term economic outlook. However, assuming that the economy and region do not suffer additional shocks (such as another terrorist attack), New Jersey's economic outlook could improve as the overall economy moves out the recession in the second half of 2002.

III. Current Freight Transportation Trends

This section summarizes the key trends and projections in freight flows and facilities. Freight is a derived demand; that is, freight moves in response to the needs of businesses and consumers. Accordingly, the demand for freight transportation services reflects economic conditions. When the economy is expanding, there is generally a greater need for transportation services. Similarly, when the economy is in a recession, less demand for transportation services exists.

The amount and type of goods flowing through the region, in turn, affects the need for freight facilities in the area. Investment in freight facilities considers both the short- and longer-term outlooks for goods movement.

This section summarizes the trends for:

- Maritime cargo movement;
- Air cargo movement; and
- Warehousing and distribution centers.

The trends for warehousing and distribution centers focuses on an emerging set

**Figure Three: Trends in Trans-Atlantic Ocean Trade
First Half of 2001 vs. First Half of 2000**
in Twenty Foot Equivalent Units (TEUs)

Imports

Top Carriers	Market Share	First Half 2001	First Half 2000	% Change
Maersk Sealand	13.5%	100,854	124,602	-19.1%
Hapag Lloyd	9.2%	68,414	72,471	-5.6%
Evergreen	7.1%	52,984	70,817	-25.2%
P&O Nedlloyd	6.9%	51,624	58,674	-12.0%
Mediterranean Shipping	6.8%	50,491	45,307	11.4%
Rest of Trade Lane	56.6%	422,270	400,871	5.3%
Total for Trade Lane	100.0%	746,638	772,742	-3.4%

Total Exports in Trade Lane	100.0%	543,402	549,904	-1.2%
------------------------------------	--------	---------	---------	-------

**Trends in US East Coast-South Atlantic Ocean Trade
First Half of 2001 vs. First Half of 2000**
in Twenty Foot Equivalent Units (TEUs)

	First Half 2001	First Half 2000	% Change
Total Imports	171,396	186,977	-8.3%
Total Exports	198,219	200,726	-1.2%

of travel time rings for operations related to the airport and seaport. Section IV of this report summarizes the current state of the industrial real estate market.

A. Maritime Trends and Forecasts

The Port of New York and New Jersey (PONYNJ) continues to become a hub for maritime activity on the US East Coast and benefits from the significant public and private sector investments being made in the port's infrastructure.

An Emerging Hub of Maritime Activity

The overall amount of maritime cargo moving during the first half of 2001 declined over the same period in 2000, reflecting the economic downturn in the US and overseas. Figure Three illustrates the decreases in overall maritime movement in the Trans-Atlantic and East Coast-South American trade routes.

In contrast, the PONYNJ saw a rise in cargo movements during the same time period. Containerized imports grew by 8.1 percent at the Port, and exports grew by 5.6 percent (Figure Four). In terms of general cargo tonnage, the PONYNJ grew by 11 percent.

The Port's growth during a period of overall decline in maritime cargo movement reflects the emergence of the PONYNJ as a hub port on the East Coast. As a hub port, cargo is being increasingly routed through the PONYNJ rather than being routed through such ports as Boston, Philadelphia or Baltimore.

**Figure Four:
Cargo Growth at the NY/NJ Port
First Half of 2001 vs. First Half of 2000**

in Twenty Foot Equivalent Units (TEUs)

	First Half 2001	First Half 2000	% Change
Total Imports	404,405	356,039	8.1%
Total Exports	761,417	722,007	5.5%

In metric tons

Total Imports	6,773,000	6,547,000	3.4%
Total Exports	3,109,000	2,343,000	32.7%
Total Tonnage	9,882,000	8,891,000	11.2%

Source: *PIERS, Port Authority.*

The Port's hub status is of particular importance to brownfield redevelopment. As the BER Phase I market appraisal and warehousing context discussed, an increasing amount of the value added customization of imported cargo occurs near the port of entry. As maritime cargo continues to increase and the Port solidifies its position as the East Coast, the amount of value added activities is also anticipated to grow. These activities generally take place at warehouses

and distribution centers proximate to the Port, increasing the demand for such facilities in the northern and central New Jersey area.

Port Investment

The public and private sectors are making significant investments in the Port in support of the anticipated increases in cargo movement. Investments are being made on the waterways, at the terminals and on the inland connections.

Recent legislative action in Washington, DC will allow the channels to be deepened to 50 feet sooner than originally anticipated. The legislation, approved by Congress in November 2001 provides \$88.5 million for PONYNJ dredging, merges three older projects to deepen the Arthur Kill, Kill Van Kull and Port Jersey channels, and enables channels in the entire harbor to be dredged to 50 feet.⁴

At Port Newark/Elizabeth, three major terminals are being redeveloped. Maher Terminals, which had two semi-separate facilities, is being consolidated into a single 445-acre terminal in a \$300 million redevelopment effort. Maersk Sealand, which had previously occupied 232 acres, is being expanded into a 350-acre facility. Both the Maersk Sealand and Maher terminals will have their berths dredged to 50 feet and be equipped with new “post-Panamax” container cranes, which will allow the terminals to handle the latest generation of mega-container vessels.

As part of the expansion and reconfiguration of the two terminals, ExpressRail, the on-dock rail yard for inland container movements, is also being relocated and significantly expanded. In addition, the main rail connection to the yard is being reconfigured and improved. Previously, access to ExpressRail required an at-grade crossing of one of the major roadways – (Corbin Street) in the Port. A \$35 million roadway flyover across McLester Street is replacing this at-grade crossing.

The Port Newark Container Terminal is undergoing significant redevelopment. A new operator, Port Newark Container Terminal LLC (a joint venture of P&O Ports and P&O Nedlloyd, two units of a major international maritime corporation, P&O Group), signed a 30-year lease in 2000. The terminal is expanding from 97 acres to 158 acres. The terminal wharf is being extended, four post-Panamax cranes are being installed, a new truck gate system is being constructed, new yard equipment is being purchased, and the terminal berth is being dredged to 50 feet. The first phase of the PNCT redevelopment will cost \$150 million.

Maritime operations will also be expanded in Bayonne and Jersey City, NJ. Approximately 160 acres of the former Military Ocean Terminal in Bayonne, NJ (MOTBY) will be redeveloped as a maritime terminal. The Northeast Auto Terminal (NEAT) in Jersey City is anticipated to be redeveloped as a container terminal, with the auto processing operations moving to Middlesex County. Global Marine Terminal recently added post-Panamax cranes.

⁴ R.G. Edmonson, “Congress Approves \$208 million for Major Dredging Projects,” *Journal of Commerce* web site, November 9, 2001.

Maritime operations on the New York side of the harbor will also grow. The Howland Hook Marine Terminal in Staten Island will double in size as the former Proctor and Gamble facility adjacent to the existing terminal is redeveloped for maritime use. The South Brooklyn Marine Terminal will also be reactivated for maritime uses.

Landside access to the port by rail and truck is also receiving new investments. In addition to the rail yard and line expansions at Port Newark/Elizabeth, the Port Authority recently undertook a capacity analysis to assess rail freight access to its maritime terminals. A series of potential rail freight improvements were assessed and prioritized.

Roadway improvements are being made through the New Jersey Department of Transportation's Portway project. Two projects in Phase I of Portway are underway – the Doremus Avenue Bridge and Route 1&9 Charlotte and Tonnel Circle. In addition, in Union County, NJ, the Kapkowski Road Area Transportation Planning Study is also developing improvements for port access via North Avenue.

Maritime Cargo Projections

While the PONYNJ was initially less affected by the economic downturn in the US and overseas (at least partially due to the increased hubbing through the Port), cargo movements through the Port are anticipated to have declined during the second half of 2001 and into 2002.

Third quarter 2001 cargo statistics were not yet available to be analyzed for this report. However, discussions with Port Authority staff and industry executives indicate anecdotally a decline in cargo movements through the Port. Estimates of the cargo decrease vary – some industry experts expect no cargo growth for 2001, reflecting the recession and the short-term closure of the Port immediately after the September 11 tragedy. Other experts estimate that maritime cargo through the Port will show about a four-to-six percent growth in 2001.

Cargo growth through the Port is anticipated to remain lower during the first half of 2002 during the economic recession. As the US and world economies move out of recession during the second half of 2002, maritime cargo growth is anticipated to increase. Longer term, cargo movement through the Port is expected to continue to grow an average of four-to-five percent annually.

B. Air Cargo Trends and Forecasts

Newark International Airport (EWR) is a leading facility for cargo operations – it is one of the largest centers of air cargo in the United States and the 18th busiest cargo airport in the world. The airport handled 1.2 million tons of cargo in 2000 (Figure Five).

In terms of goods movement, the airport is primarily focused on domestic cargo movement and contains the operations of the integrated carriers serving the NY/NJ region, including Federal Express (FedEx), United Parcel Service (UPS),

and the United States Postal Service (USPS). Several of the major airlines serving the airport also maintain facilities to process the cargo moved in the “bellies” of their passenger aircraft.

Newark International Airport Cargo Facilities

The cargo facilities on the airport are relatively new and include:

- *The FedEx Cargo Complex.* FedEx completed a \$60 million expansion of this state-of-the-art automated cargo processing facility in 1995. The facility, known as the company’s Newark Regional Hub, includes three buildings.
- *The UPS Building.* UPS constructed this \$11 million, 28-acre package handling and distribution center, which opened in 1987.
- *The USPS Facility.* This \$2.6 million, 36,000 square foot Postal facility opened in 1983.
- *The Airis International Air Cargo Center.* Built on the site of the former North Terminal, the Center consists of two buildings containing 192,000 square feet which opened in 1998 76,000 square feet which opened in 1999.
- *The United Airlines Cargo Facility.* This facility contains 42,000 square feet of cargo area and 7,300 square feet of office space. The building was completed in 2001.
- *The Continental Air Cargo Facility.* This 110,000 square foot facility was completed in 2001.

Air Cargo Trends

Air cargo traffic is being buffeted by several factors, including general economic conditions, declines in key industry markets, substitution of other modes for air movements and the condition of the airline industry. As the most expensive freight mode, the air cargo industry is more susceptible to economic downturns, particularly when less expensive freight options exist.

The substitution of expedited trucking for domestic air cargo movements is the most critical factor affecting the industry. Measured in terms of shipments weighing over 70 pounds, air cargo traffic has decreased nationwide during each of the past three years while less-than-truckload (LTL) trucking (which handles expedited shipments) grew during the same time period.⁵ Expedited trucking can cost considerably less than air cargo, while adding one-to-two days to transit times within the continental US and even less time between some origins and destinations. While the substitution effect has been heightened by current economic conditions, it is likely that the substituting of trucks for air cargo movements is a logistics trend that will continue into the future.

⁵ Paul Page, “Truckers’ Higher Gear,” *Air Cargo World*, December, 2001.

Air cargo is also adjusting to new security requirements and the overall condition of the airline industry. The tenuous condition of the airline industry was exasperated by September 11. In the aftermath, airlines have reduced the number of planes and routes flown, as well as substituted smaller aircraft in certain routes.

Air Cargo Outlook

Given current economic trends and the increased substitution of trucking for air movements, cargo traffic at EWR is anticipated to have declined between 12 and 15 percent in 2001 without taking into account the short-term disruptions caused by September 11. Taking the September 11 disruptions into account, the decline in air cargo activity at EWR could be much higher for 2001.

Air cargo traffic is likely to begin to grow again in 2002 as the economy recovers, perhaps increasing by two-to-three percent. As the economy moves forward in subsequent years, air cargo traffic should continue to grow.

Of particular importance to brownfield redevelopment, some regions have already moved to capture the increased movement of expedited shipments by both air and truck. Building on the concept of an "aerotropolis" – a cluster of logistics-related facilities around an air cargo hub used for shippers for just-in-time response⁶ -- some regions are pursuing an economic development strategy of developing facilities near airports that can handle cargo by either mode as demand and conditions warrant.

The aerotropolis concept requires equally efficient access to air and truck infrastructure. Based on a set of initial discussions with air cargo executives, the ideal location off-airport for air cargo-related development would be no more than 10-to-15 minutes driving time from the airport, although air cargo related operations can be within an approximately 30 minute distance ring from the airport.

Figure 5: Air Cargo Tonnage through Newark International Airport

<i>Year</i>	<i>Cargo Tonnage</i>
1949	43,465
1960	68,870
1970	194,702
1980	145,394
1990	556,758
1991	584,114
1992	648,027
1993	773,737
1994	950,180
1995	1,043,237
1996	1,056,524
1997	1,146,216
1998	1,206,485
1999	1,183,573
2000	1,193,392

Source: Port Authority of New York and New Jersey. Note that mail is included in the tonnage figures.

⁶ *JOC Week*, Volume 2, Issue Number 27, July 9-15, 2001.

C. Warehousing and Distribution Center Trends

This section summarizes a set of emerging travel time rings for warehouses and distribution centers serving or relying on maritime and air cargo. Section IV of this Report summarizes the current state of the industrial real estate market.

Site selection for warehouses and distribution centers depends on many cost considerations, including the land, labor, utility, and tax costs associated with the specific locations. Travel times to key markets and key transportation nodes are also important considerations. Additional criteria include the ease of access for freight and employee movements, the availability of workers, site conditions and the local government and community acceptance of such operations.

Port-Related Warehousing

As part of the redevelopment of Port Newark/Elizabeth, the Port Authority is demolishing many of the older warehouses and sheds on the port property. These buildings are not being replaced by more modern structures; instead, the property is being used to expand container operations at the terminals. The demolition has led to increased demand for certain types of warehousing operations in the immediate vicinity of the Port.

Research by A. Strauss-Wieder, Inc. (ASWinc) suggests that there are two types of port related warehousing:

- *Transload and breakbulk related warehouses.* These facilities shift cargo from overweight containers to other freight modes for domestic movement. Breakbulk warehouses handle shipments that do not move in containers (such as paper, lumber and steel).
- *Value added warehouses.* These operations add value to the cargo moving through them by customizing and performing the final assembly on imported goods. Examples include assembly, final packaging and shelf-readying of kitchen utensils, apparel, luggage, and textile products. Value added operations can occur at public, third-party and private warehouses.

Transload and breakbulk related warehouses generally require a travel time of no more than one-half hour from the maritime terminals. Access roads must allow the movement of overweight containers, which is permitted on certain New Jersey roadways (although generally not on the New Jersey Turnpike). Certain breakbulk shipments also require that access routes accommodate over-dimensional movements.

Transload and breakbulk shipments also make use of both rail and truck for inland movements. Accordingly, rail access and one or more rail sidings to the site are important considerations.

Value added warehouses and businesses generally consider the full spectrum of costs in site selection, rather than requiring a specific travel time from the maritime terminals. The cost of land and building development are also important considerations. Many of the private warehouse operations, particularly wholesale operations, are located in larger buildings. While such structures

should be close to the port and center of the massive New York-New Jersey marketplace, site economics generally dictate that they be located further out from the urban core.

Air Cargo Related Operations

Four types of air cargo and aviation service facilities emerged from the initial conversations conducted by ASWinc:

- *On-airport facilities with ramp access.* These structures allow aircraft to taxi next to or into the buildings. These facilities need to be on-airport.
- *Operations requiring immediate access to aircraft.* Examples of these operations include airline catering and air cargo businesses that need immediate access to aircraft but do not necessarily need ramp access. These facilities can be located on airport or off-airport within a maximum 10-to-15 minute travel time ring. Trucks move between these facilities and the airport several times a day.
- *Off-airport air cargo operations.* These include air cargo consolidators, freight forwarders/customhouse brokers and expeditors, along companies that repair air cargo containers. These businesses are generally located within a half-hour travel time ring from the airport. Existing business locations for such operations in the vicinity of EWR include Elizabeth, Newark, Hillside, and Linden. This distance ring would probably be appropriate for the aerotropolis concept.
- *Warehouses, distribution centers and businesses using integrated carriers.* Many warehouses and distribution centers may use of the integrated carriers (such as Fedex and UPS). Integrated carriers may be used to move smaller shipments to individual stores (such as stock replenishments at bookstores) or to handle direct fulfillment of consumer orders (such as mail or internet orders). The closer these facilities are located to the airport, the later the cut-off time for shipments. However, similar to port-related value added warehouses, the entire cost equation is considered rather than emphasizing distance from the airport.

IV. Current Real Estate Trends

Real estate trends are the final dimension considered in the overall context for site redevelopment. This section summarizes the overall real estate climate, as well as the current state of the market for industrial space in northern and central New Jersey.

A. Overall real estate climate

Similar to the short-term economic outlook, the real estate markets at the national and local levels have undergone downturns that were further accelerated by September 11. The overall real estate market has now entered a period of uncertainty primarily driven by a reluctance by institutional investors and traditional equity participants to invest in properties. The market has

declined from peaks experienced in late 2000 and early 2001, however the decline has not been severe and certain market segments are poised for a more immediate recovery than others.

September 11 has had the most pronounced negative impact on the hospitality (hotel and motel) market, with vacancy rates at historic highs and business travel and tourism approaching historic lows. In the regional urban office market, the sublet office market experienced the greatest positive market movement as displaced businesses replace the loss of Class A and B office space in lower Manhattan.

As of the third quarter of 2001, over 130 million square feet of office space existed in northern and central New Jersey (Figure Six). The total amount of space grew by three percent over the third quarter of 2000. Asking lease rates have remained stable or declined slightly, with the exception of two markets – Hudson and Middlesex Counties (Figure Seven). Hudson County has evolved into an extension of the Manhattan market, which is reflected in the asking lease rate and continued strength of the local market. The overall vacancy and availability levels in northern New Jersey have continued to escalate (Figure Eight).

Figure Six: Office Space in Northern and Central New Jersey
As of the Third Quarter of 2001

<i>County</i>	<i>Existing Space</i>	<i>Vacant Space</i>	<i>% Available</i>	<i>Under Construction</i>	<i>Asking Lease Rates</i>
Bergen	21,210,909	2,672,575	12.6%	840,000 \$	25.77
Essex	20,238,223	2,772,637	13.7%	118,347 \$	22.12
Hudson	14,973,971	539,063	3.6%	1,415,928 \$	32.34
Morris	20,573,488	4,176,418	20.3%	970,000 \$	26.33
Passaic	4,249,157	1,015,549	23.9%	- \$	20.47
Hunterdon	1,620,211	53,467	3.3%	- \$	22.59
Mercer	10,675,940	1,345,168	12.6%	526,000 \$	21.73
Middlesex	16,878,495	2,312,354	13.7%	272,700 \$	25.95
Monmouth	4,667,247	550,735	11.8%	538,800 \$	20.68
Somerset	9,855,517	1,783,849	18.1%	971,973 \$	24.67
Union	5,323,617	447,184	8.4%	582,237 \$	22.77
Total Northern/Central NJ	130,266,775	17,668,997		6,235,985	

Source: CB Richard Ellis

Figure Seven: Comparison of Asking Lease Rates for Office Space
Third Quarter 2000 vs. Third Quarter 2001

<i>County</i>	3Q00	3Q01	Change 00 to 01
Bergen	\$ 24.93	\$ 25.77	3.4%
Essex	\$ 22.94	\$ 22.12	-3.6%
Hudson	\$ 26.78	\$ 32.34	20.8%
Hunterdon	\$ 24.72	\$ 26.33	6.5%
Morris	\$ 20.23	\$ 20.47	1.2%
Passaic	\$ 22.00	\$ 22.59	2.7%
Mercer	\$ 23.22	\$ 21.73	-6.4%
Middlesex	\$ 22.27	\$ 25.95	16.5%
Monmouth	\$ 18.90	\$ 20.68	9.4%
Somerset	\$ 24.71	\$ 24.67	-0.2%
Union	\$ 22.87	\$ 22.77	-0.4%

Source: CB Richard Ellis

**Figure Eight: Trends in Northern New Jersey Office Market-
Vacancy/ Availability**

<i>Quarters/ Year</i>	<i>Vacancy Rate</i>	<i>Quarters/Year</i>	<i>Availability Rate</i>
3 rd 2000	7.9%	3 rd 2000	11.7%
4 th 2000	7.2%	4 th 2000	12.2%
1 st 2001	11.5%	1 st 2001	12.4%
2 nd 2001	12.4%	2 nd 2001	13.5%
3 rd 2001	13.3%	3 rd 2001	13.8%

Source: Rutgers University, Bloustein School of Public Policy

Retail and hospitality development are also anticipated to decline in 2002, with the exception of specific market places (such as hotel development in the immediate vicinity of Newark International Airport, which was an underserved market). The performance of the regional retail market has entered into a slow growth period as consumers' confidence declined, according to the University of Michigan's Consumer Confidence Index. Several nationally-based retailers, as a result, have scaled back their expansion plans for 2002, according to a survey conducted by the International Council of Shopping Centers (ICSC) at their December 2001 Conference. The vacancy rate for nine major shopping malls

corridors in northern and central New Jersey is now at 5.3 percent, up from 4.8 percent in 2000.⁷

According to Cushman & Wakefield's Hospitality Industry Group, the regional hospitality arena has declined as the economy has slowed down, especially in the individual commercial traveler and group business segments. Many corporations are reducing their travel budgets. Since January 2001, hotels in the New York/New Jersey area have experienced a 9.2 percent decline in occupancy rates, decreasing from 80.5 percent in January to 71.3 percent in September.

Anecdotal evidence appears to indicate that the development of both greenfield and brownfield properties have been equally affected by the real estate trends. Brownfields located in highly desired areas remain attractive for selected uses (such as industrial redevelopment).

B. Condition of industrial/warehouse market in area

Industrial space includes structures housing manufacturing, warehousing, distribution and certain multi-purpose space. The majority of the industrial space built recently in northern and central New Jersey is for warehousing and distribution purposes.

Current Condition of the Industrial Market

The condition of the industrial real estate market in the third quarter reflects the unsettled economic climate. Key concentrations of industrial space continued to exist in Bergen, Essex, Hudson, Middlesex and Union Counties (Figure Nine). New construction was nearly entirely in Middlesex County – the epicenter of warehousing and distribution centers in the region.

The industrial market appeared to remain relatively stable, in line with the state of the New Jersey economy. Asking lease rates, a measure of the strength of the market, generally increased over asking lease rates in the third quarter of 2000 (Figure Ten).

The overall amount of industrial space in northern and central New Jersey grew from 735.7 million square feet to 749.8 million square feet between the third quarter of 2000 and the third quarter of 2001 (Figure Eleven). However, the amount of available industrial space also grew by nearly 10 percent (Figure Twelve).

Outlook for Industrial Space

The data appears to depict an industrial real estate market that may have reached a peak in the short-term. However, the prospects of an economic recovery during the second half of 2002, combined with the potential for

⁷ Rachele Garbarine, "A Slower Pace to Retailing's Growth in the State," *The New York Times*, December 9, 2001.

additional warehousing demand from cargo hubbing at the Port, may result in the industrial market remaining stable and continuing to grow in the near future.

Demand for specialized maritime and air cargo facilities in the vicinity of the airport and seaport (within a half-hour travel time ring) can be anticipated to grow. Warehousing space is being eliminated at the Port. On-airport space at Newark International Airport is limited and must compete with passenger uses.

An economic recovery and cargo hubbing should increase the demand for suitable warehouse and distribution center locations in New Jersey. However, potential customers for this space may also consider more distant locations. The overall cost equation, along with the availability of sites, will factor into the location decisions.

**Figure Nine: Industrial Space in Northern and Central New Jersey
As of the Third Quarter of 2001**

County	Existing Space	Vacant Space	% Available	Under Construction	Asking Lease Rates
Bergen	119,516,335	8,605,176	7.2%	-	\$ 7.01
Essex	86,483,861	7,524,096	8.7%	-	\$ 4.95
Hudson	103,927,147	7,170,973	6.9%	77,000	\$ 5.53
Morris	40,347,261	2,703,266	6.7%	277,087	\$ 6.54
Passaic	56,916,792	5,008,678	8.8%	-	\$ 5.46
Hunterdon	2,576,845	440,640	17.1%	-	\$ 2.93
Mercer	19,342,799	986,483	5.1%	87,000	\$ 5.09
Middlesex	172,763,821	14,684,925	8.5%	6,363,783	\$ 4.78
Monmouth	22,509,278	517,713	2.3%	162,000	\$ 5.77
Somerset	37,562,730	2,103,513	5.6%	187,500	\$ 4.97
Union	87,818,536	3,424,923	3.9%	100,000	\$ 5.02
Total Northern/Central NJ	749,765,405	50,009,353	6.7%	7,254,370	\$ 5.44

Source: CB Richard Ellis

Figure Ten: Comparison of Asking Lease Rates for Industrial Space
Third Quarter 2000 vs. Third Quarter 2001

<i>County</i>		3Q00	3Q01	Change 00 to 01
Bergen	\$	6.60	\$ 7.01	6.2%
Essex	\$	4.53	\$ 4.95	9.3%
Hudson	\$	5.13	\$ 5.53	7.8%
Hunterdon	\$	2.59	\$ 2.93	13.1%
Morris	\$	6.60	\$ 6.54	-0.9%
Passaic	\$	4.73	\$ 5.46	15.4%
Mercer	\$	3.79	\$ 5.09	34.3%
Middlesex	\$	4.71	\$ 4.78	1.5%
Monmouth	\$	4.96	\$ 5.77	16.3%
Somerset	\$	5.23	\$ 4.97	-5.0%
Union	\$	4.57	\$ 5.02	9.8%

Source: CB Richard Ellis

Figure Eleven: Comparison of the Industrial Square Footage
Third Quarter 2000 vs. Third Quarter 2001

<i>County</i>	Space in 3Q00	Space in 3Q01	Change 00 to 01
Bergen	118,519,022	119,516,335	0.8%
Essex	87,787,772	86,483,861	-1.5%
Hudson	105,438,640	103,927,147	-1.4%
Morris	39,451,767	40,347,261	2.3%
Passaic	57,339,276	56,916,792	-0.7%
Hunterdon	2,813,105	2,576,845	-8.4%
Mercer	19,406,277	19,342,799	-0.3%
Middlesex	158,622,373	172,763,821	8.9%
Monmouth	21,755,278	22,509,278	3.5%
Somerset	37,243,939	37,562,730	0.9%
Union	87,360,494	87,818,536	0.5%
Total	735,737,943	749,765,405	1.9%

Source: CB Richard Ellis

**Figure Twelve: Comparison of Available Industrial Space
Third Quarter 2000 vs. Third Quarter 2001**

County	Available 3Q00	Avail 3Q01	Change
Bergen	7,307,206	8,605,176	17.8%
Essex	7,918,457	7,524,096	-5.0%
Hudson	6,621,547	7,170,973	8.3%
Morris	2,085,338	2,703,266	29.6%
Passaic	4,977,049	5,008,678	0.6%
Hunterdon	1,640,322	440,640	-73.1%
Mercer	324,085	986,483	204.4%
Middlesex	9,915,877	14,684,925	48.1%
Monmouth	911,546	517,713	-43.2%
Somerset	1,757,914	2,103,513	19.7%
Union	3,996,945	3,424,923	-14.3%
Total Northern/Central NJ	45,711,352	50,009,353	9.4%

Source: CB Richard Ellis

V. Check List for Site Consideration

This section summarizes the general considerations for the freight or distribution use of a site. Considerations will vary, sometimes substantially, based on the type of freight use considered. For example, a truck service center would have different site requirements from a warehouse/distribution center. Accordingly, site conditions ultimately have to be evaluated against the specific needs of the potential site use.

Transportation Access:

- | | |
|---------------------|--|
| Road access | <ul style="list-style-type: none"> • Road access is one of the most important considerations in site selection. • In general, road access, particularly to the major highways, should be unimpeded. Immediate access to the Interstate system is most desired. |
| Rail freight access | <ul style="list-style-type: none"> • Rail freight access requirements vary by industry and commodities. Breakbulk and bulk commodities often benefit from having one or more rail sidings directly to their facility. Operations employing intermodal freight movement will consider the overall transportation cost, including truck drayage and, therefore, |

may not need direct rail access. Rather, proximity to intermodal yards may be desired.

Transit access

- While transit access provides a valuable means for workers to travel to and from the facilities, shifts and hours of operation may run 24/7. Accordingly, it is easier to use cars or van pools to commute to the facility.

Property Size and Cost:

- Property size and cost are as key as road access. The overall cost of acquiring and developing the site must allow the owner/developer to charge the going rate for industrial space (generally in the \$4.00 to 6.50/square foot range).
- Property size will vary based on the type of development and the building requirements for the anticipated users.
- A million square foot building requires a minimum of 30 acres (22 acres for the foundation and 8 acres for truck and employ parking), along with additional acreage to meet local property coverage requirements.
- In general for a single user, parcel size can be five to seven acres. Transload facilities can require this size property.

Compatibility with Local Land Use Regulations, Zoning and Community Objectives:

- Subject property should be zoned LI- Light Industrial, Manufacturing, Business Enterprise or some other variation of a business or trade area compatible designation.
- Beneficial overlay designations include Urban Enterprise Zone, Environmental Opportunity Zone or designated redevelopment zone. The designation of a redevelopment zone is most beneficial within one of the 67 communities identified by the New Jersey Redevelopment Authority as a community eligible to participate in low and no interest loans, equity investment loans, equity investment loan

guarantees, and technical assistance. A table of the eligible communities is included as Appendix A.

- In general, site development should be placed within the context of surrounding land uses and be consistent with community objectives.
- The local employment opportunities, tax revenues, and environmental impacts (such as air quality and noise) generated by the anticipated development will be important considerations in community discussions.

* For facilities reliant on cargo movement through the port.

** For facilities reliant on air cargo movement through airport.

Appendix A: NJRA Eligible Municipalities

[Asbury Park City](#)
Bayonne City
Belleville Twp.
Bloomfield Twp
Brick Twp.
Bridgeton City
Burlington City
[Camden City](#)
Carteret Borough
East Orange City
Edgewater Boro
[Elizabeth City](#)
Ewing Twp.
Garfield City
Glassboro Boro
Gloucester City
Gloucester Twp.
Guttenberg Town
Hackensack City
Hamilton Twp.
Harrison Town
Highlands Boro

Hillside Twp
Hoboken City
[Irvington Town Twp.](#)
[Jersey City](#)
Keansburg Boro
Kearny Town
Lakewood Twp.
Lawnside Boro
Lindenwold Boro
Lodi Boro
[Long Branch City](#)
Manchester Twp.
Millville City
Monroe Twp. (Glouc.)
Mount Holly Twp.
Neptune City Boro
[Neptune Twp.](#)
[New Brunswick City](#)
[Newark City](#)
North Bergen Twp.
Old Bridge Twp.
Orange City
Passaic City

Paterson City
Pemberton Twp.
Penns Grove Boro
Pennsauken Twp.
[Perth Amboy City](#)
Phillipsburg Twp.
[Plainfield City](#)
[Pleasantville City](#)
Rahway City
Ridgefield Borough
Roselle Borough
Salem City
South Amboy City
[Trenton City](#)
Union City
[Vineland City](#)
Weehawken Twp.
West New York Town
Willingboro Twp.
Winslow Twp.
Woodbridge Twp.
Woodbury City