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## Demand for Offices, but Not Homes

By ANTOINETTE MARTIN

AFTER more than five years, the huge inventory buildup of commercial office space in New Jersey is beginning to diminish. Coincidentally, as best the pundits can tell, the inventory of unsold homes has hit a record high.

“Markets do have lives of their own,” said Jeffrey G. Otteau, an analyst specializing in residential real estate, “even though factors such as the health of the economy and interest rates come into play in all real estate sectors.”

In north/central New Jersey, which is home to 90 percent of the state’s commercial office space, the overall vacancy rate was down by a percentage point, to 16.6 percent, during this year’s second quarter, according to the real estate services company Cushman & Wakefield.

The vacancy rate in the northern half of the state “plummeted” 1.6 points to 15.6 percent for the quarter, according to Cushman. The northern sector covers Bergen, Essex, Hudson, Morris and Passaic Counties.

In central New Jersey, the vacancy rate remained higher — 18.1 percent. Nonetheless, Cushman’s analysts predicted “slow and steady growth” statewide for the rest of the year. This region takes in Hunterdon, Mercer, Middlesex, Monmouth, Somerset and Union Counties.

As for the residential market, the latest report from the Otteau Appraisal Group, Mr. Otteau’s East Brunswick-based firm, is downbeat. “Any significant recovery will likely be pushed off until 2008 at the earliest,” it predicted.

By June 1, the number of unsold homes in New Jersey hit 71,000, which the Otteau Group calls the highest on record since it began its monitoring in 1986. The previous record, 68,000, was set last September, according to Mr. Otteau.

The supply of homes on the market right now is enough to meet demand for the next eight months, he said, and several brokers agreed. A year ago, there was a seven-month supply of homes for sale, the Otteau Group reported.

What is more, Mr. Otteau said, the inventory is likely to keep increasing over the summer months, when people are more likely to put homes up for sale, and not recede until fall.

“As the inventory grows,” he said, “it is very unlikely home prices will hold at current levels.” He estimated that prices had already sunk about 10 percent since last year. “It appears there will be additional decreases over the second half of the year.”

Many real estate sales agents insist that isn't so. “If doom and gloom is happening, then it isn't happening here,” proclaimed Linda Grotenstein, a sales agent based in Montclair. Her Coldwell Banker colleague Elaine Pruzon said she had sold three homes priced around \$1 million in Short Hills within one week earlier this month.

Weichert's vice president for northern New Jersey, Dominick Prevete, says he does weekly calculations for sales at 33 offices, and has not seen a drop in average prices.

As for the buildup in inventory, Mr. Prevete termed it a “very localized” matter. In Madison, for example, there is a 5.5-month supply of homes for sale, he said, while in Sparta there is a 12.5-month supply.

On the commercial market, as the inventory shrinks, “upward pressure” is being placed on rental rates, according to Cushman & Wakefield's midyear report. For several years after Sept. 11, 2001, when any and all available sublease space was rushed to the market in anticipation of a Manhattan exodus that did not materialize, the overall vacancy rate in north/central New Jersey was stuck at around 20 percent, and the average rent of all classes of office space hovered in the low to middle \$20s per square foot.

The average rent for office space in northern New Jersey is \$27.19 per square foot, according to Cushman; in central Jersey it is \$25.01.

Gualberto Medina, executive managing director of Cushman & Wakefield's New Jersey operations, called the dip in commercial inventory “highly significant” in that it occurred despite the fact that new job creation has been lagging.

“Employment has been sluggish for the past several years,” Mr. Medina said, “but, meanwhile, demand for commercial space in New York has been so great, and the cost of space has increased so significantly there, a lot of pressure has been put on tenants to consider New Jersey.”

Manhattan companies will continue to migrate to prime space along the Hudson waterfront, Mr. Medina predicted. “As a result, increased tenant movement likely will begin to trickle to other areas, including Newark, where activity is expected to escalate in the coming months.”

Another factor in the lower inventory is that new office construction has severely slowed in the Garden State in the past two years, he said.

The two biggest recent deals for commercial space were made in Parsippany, the site of high vacancies ever since the so-called dot-com bust of 2000, which hit Lucent and other large companies headquartered there. Average office rents recently declined by about \$1 per square foot in Parsippany, Cushman reported; the

average rent there fell below \$30 per square foot for the first time since 1999.

Now, the Wyndham Worldwide Corporation, a hotel company, has committed to a 250,000-square-foot corporate headquarters there, and Deloitte & Touche has decided to expand its presence in Parsippany by 70,000 square feet.

Another large deal occurred in Montvale, where the former Toys “R” Us headquarters, vacant for three years, was leased to Barr Pharmaceuticals. Its headquarters and 250 employees will move from Woodcliff Lake to the 144,000-square-foot building, which has been “redeveloped” and “repositioned.”

Along the commercial corridor of Interstate 287, Sanofi-Aventis put an additional 415,000 square feet of space onto the market after it vacated offices in Somerset Corporate Center in Bridgewater, the Cushman report noted. But along Interstate 78, another strong commercial corridor, availability is tightening, it said.

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