

# 2008 TREND STUDY



*The Impact of the Port Newark Growth*



## New Jersey Logistical Competitiveness: OMINOUS TRENDLINES

By James W. Hughes and Joseph J. Seneca

The warehousing and logistics sector of the New Jersey economy has been significantly impacted by two cross trends. The first has been the surge in global trade and consumer spending in the post-2000 period, with China emerging as the global factory floor. This has resulted in a sharp sustained increase in the flow of goods through the state's ports and logistical centers to New Jersey and regional markets. However, the end of an era of cheap global credit and the beginning of broad consumer retrenchment in the United States will certainly slow this dynamic, and perhaps even shift it into reverse. The second trend has been the erosion of New Jersey's logistical workforce at a time when the equivalent workforces in Pennsylvania and the United States have been growing quite briskly in response to the surge in global trade and consumer spending. Both trends point to a need to have a stronger public policy focus on the state's logistical future.

### Logistical and Workforce Significance

Warehousing and logistics have access to a broad statewide resident labor pool of more than 4.5 million people, of which 4.3 million have jobs either in New Jersey or in neighboring states. In general, this labor force is highly



skilled and highly educated, as evidenced by recent data in the Census Bureau's American Community Survey. In 2006, New Jersey ranked sixth among the 50 states and the District of Columbia in the proportion of the adult population with a bachelor's degree or higher (33.4 percent), and eighth in

the proportion of the adult population with an advanced degree (12.4 percent). However, competition for this labor pool is quite intense, both from within the economy of the state as well as from the economies of our neighboring states. This competition is a growing problem for the logistical industry, because of its large workforce in the state.

New Jersey's total employment base in 2007 consisted of approximately 4.1 million payroll jobs (annual average). Employment in logistics, which encompasses the wholesale



trade, and transportation and warehousing sectors of the economy, consisted of 390,700 jobs in 2007, or 9.5 percent of the state's total employment. Thus, nearly one out of every ten payroll jobs in New Jersey is directly in logistics, indicating the large economic importance of this sector. Another measure of the logistical sector's substantial economic clout is its share of New Jersey's Gross Domestic Product (GDP). In 2006, logistics accounted for nearly \$50 billion (\$49.6 billion) of the total state GDP (\$453.2 billion), or 10.9 percent. Thus, more than \$1 of every \$10 of New Jersey's total economic output is generated by logistical functions.

Moreover, logistical jobs are generally high paying. The average annual pay for all jobs in New Jersey in 2006 was \$51,645. The average annual pay for all logistical jobs was \$59,034, or 14.3 percent higher. However, the average annual pay varies significantly by logistical sector. The average annual pay for wholesale trade jobs in 2006 was \$69,094, more than a third higher (33.8 percent) than the average pay of all jobs in New Jersey. In contrast, the average annual pay of jobs in transportation and warehousing was \$44,529, or 13.8 percent less than that of all jobs. This below average pay level is one of the reasons for the difficulties of employee

recruitment and retention in transportation and warehousing, particularly given the high cost of living in the state. Other sectors of the economy provide higher paying alternatives, such as professional and business services (\$64,401), manufacturing (\$65,147), information (\$76,636), and

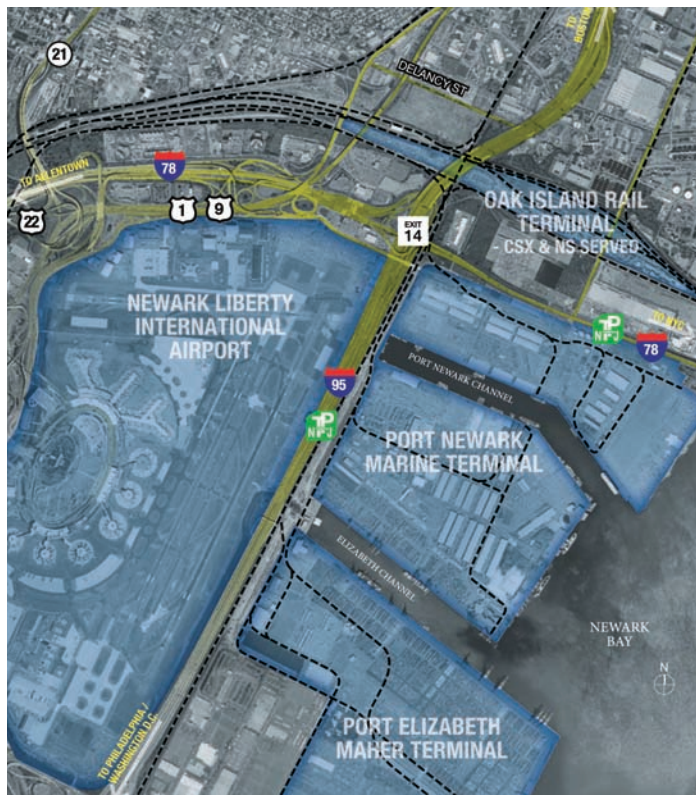
### Port of NY and NJ

- Will invest \$2 billion over the next ten years. Projects include upgrading marine facilities, dredging harbor to 50 feet and constructing express rail system to handle 1.3 million shipping containers per year which equals 500,000 truck trips.
- 2007 Value of cargo moved through port - \$166 billion
- 2007 Volume - 5,299,105 T.E.U.s in 5,445 ship calls
- Port related jobs - 36,000
- Vehicles handled - 852,297
- Top 5 imports - furniture, women & infant wear, beer, plastic products and apparel
- Top 5 exports - paper, automobiles, metal scrap, auto parts and household goods
- Top 5 importers - China, India, Italy, Germany and Brazil
- Top 5 export partners - China, India, Netherlands, United Kingdom and Germany

financial activities (\$83,672). National surveys have shown that non-competitive pay levels hinder the attraction of entry-level logistical employees, and that logistical firms find it difficult to attract employees with appropriate math, computer, writing, technical, and analytical skills.

### Competitive Position

A major concern is whether New Jersey is losing competitiveness to other transportation/distribution centers. Between 2003 and 2007, New Jersey lost 4,700 jobs (-1.2



percent) in logistics (rounded off); 2,000 jobs were lost in wholesale trade (-0.9 percent) and 2,600 jobs were lost in transportation and warehousing (-1.6 percent). To put this in context, logistics employment nationally grew by 7.9 percent during the same time frame. Thus, New Jersey's losses were not due to efficiency and productivity gains, but to reductions in activity.

In contrast to New Jersey's decline, logistics employment in Pennsylvania, a key competitor, grew by 33,800 jobs between 2003 and 2007, an increase of 8.0 percent. This approximates the national experience (7.9 percent). Employment in wholesale trade grew by 14,800 jobs (6.5 percent) in Pennsylvania while employment in transportation and warehousing increased by 19,000 jobs (9.6 percent). Logistical companies in Pennsylvania are growing despite average annual pay levels considerably below those of New Jersey. These lower pay levels are most likely linked to considerably lower living costs. Housing costs in New Jersey are more than 50 percent (52 percent) higher than those of the nation while housing costs in Pennsylvania are nearly 10 percent (9.3 percent) lower than those of the nation.

In an even more ominous trend, logistics employment in the Allentown-Bethlehem-Easton, PA-NJ metropolitan statistical area, which straddles the Delaware River and Interstate Route 78, grew by 22.8 percent between 2003 and 2007, nearly triple the growth rate for Pennsylvania as a whole! This metropolitan area includes Lehigh,



Northampton, and Carbon counties in Pennsylvania and Warren County in New Jersey. All of the 2003-2007 total logistical growth in the metropolitan area took place in the three Pennsylvania counties. This stands as a stark warning of the stagnation of New Jersey's competitive logistical position, and the western migration of logistical activity and workforce across the Delaware River.



## Consumer Retrenchment: Logistical Implications

A significant element in the growth of the importance of the logistics sector has been the sustained increase in international trade in this decade. Imports into the United States totaled \$2.1 trillion in 2007 and were up by 47 percent since 2000. However, the consumer spending binge that buoyed

### Portfield Sites Currently Under Consideration for Development

Property	Developer	Municipality	SF
Saw Mill Park	Russo	Kearny, NJ	300,000
BASF Site	River Terminal	Kearny, NJ	300,000
Dupont/Doremus Avenue	TBD	Newark, NJ	TBD
Newark Industrial Area	TBD	Newark, NJ	TBD
Nexus Port East	Summit Assoc.	Newark, NJ	810,000
Motiva	Equity Industrial	Newark, NJ	TBD
Wakefern	TBD	Elizabeth, NJ	290,000
North Port	IDI	Elizabeth, NJ	340,000
Elizabeth Seaport Business Park	Prologis	Elizabeth, NJ	1,050,000
MOTBY	Fidelco Group	Bayonne, NJ	TBD
Elizabeth Bayway Area	TBD	Elizabeth, NJ	TBD
Linden Airport	Morris Companies	Linden, NJ	400,000
Tremley Point – Du Pont ISP	TBD	Linden, NJ	TBD
I-Port 12	Panattoni	Carteret, NJ	2,000,000
Port Reading Business Park	Prologis	Carteret/Woodbridge, NJ	3,200,000
I-Port 440	Panattoni	Perth Amboy, NJ	2,000,000
Amboy Corporate Center	Morris Companies	Perth Amboy, NJ	1,100,000
Secaucus Road		Secaucus, NJ	70,000
Meadowlands	Rockefeller Group	Jersey City, NJ	550,000
Nuodex	Morris Companies	Woodbridge, NJ	180,000
Middlesex Logistics Center	Petrucci	Edison, NJ	570,000

the U.S. economy, and its logistical sector, for so long in this decade is over. The first pillar of this spending – low interest rates and easy credit – is now gone, and is unlikely to re-emerge for some time. The subprime mortgage debacle has led to the end of using one's home as a piggy bank. During the housing boom years (2000-2005) over \$1 trillion dollars of home equity loans were made, mostly to finance consumer expenditures (including imports). All that lending has now disappeared. Consequently, significant consumer



retrenchment is already taking place due to America's deep housing slump, significant and growing credit constraints, high energy costs, slowing employment and income growth, and declining consumer confidence. American and New

Jersey consumers are facing the heretofore unknown (at least in the 21st century) problem of having to live within their means!

New Jersey has benefited significantly from the past expansion in world trade and the subsequent effects on the logistics industry in our state. However, internal competitive forces have recently reduced employment in this sector, and now, changing national and international economic conditions are likely to dampen trade volumes for some time to come. Accordingly, ensuring the competitiveness of the state's logistics industry is critical to the ability of this important sector to continue to provide jobs, income, and economic security for New Jersey. ■



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[www.locationnj.com/portfields.asp](http://www.locationnj.com/portfields.asp)



# New Jersey's Office Market: BENEFICIARY OF THE PORT EXPANSION?



By Andrew B. Zezas, SIOR  
President & CEO Real Estate Strategies Corporation

So, what's all the noise about New Jersey's Port Expansion? Lots of talk about the positive economic impact on the State because of warehouses and distribution facilities, imports, exports, trucks, ships, and rail, and increased freight capacity! But, how will this important economic initiative impact the rest of the office market?

Developers and commercial brokers who specialize in office real estate have been asking how the Port Expansion will benefit them. The likely reality is that it will have little direct positive impact on office space in New Jersey. Other than when needed to support port operations in the



facility, in most cases, these companies don't need to locate their corporate, sales, or back offices near the Port. Those facilities need to be located in places where people can do business with other people, where meetings can take place, and where decisions and deals can be made, not where boxes, and containers, ships, trucks, and freight cars move from place to place.

Historically, the growth of distribution facilities has run at a separate pace to that of office development. The two rarely track each other because of they depend on separate aspects of the economy...geographically speaking and otherwise. It is logical to assume that as the economy grows and the rate of imports and exports moving through the Port also grows, so will the need for companies to hire more people to process and track the movement of those goods. Companies will need people, housed in office space, to sell, market, and advertise in order to generate more revenue and to stimulate the economy. The point here is that as other sectors of the commercial real estate market are positively influenced by the inevitable growth of the Port, those market sectors may not be located at the Port. In fact, they could be located elsewhere in the State or around the country!

The good news in this equation is that warehouse and distribution real estate developers focused on land near the Port will not have to compete with office developers. Office developers typically pay higher prices for land that could support the construction of office buildings. Those developers have historically outbid warehouse developers when pursuing parcels of land that could support either type of development. The good news here is that the few remaining land sites in and around the Port will be able to suit the demands of the most valuable commodity at the Port....warehouse and distribution facilities needed for the movement of our nation's goods and products.

Despite the fact that the Port Expansion is expected to have little impact on New Jersey's commercial office market, will it will certainly be good for the State's overall economy at a time when the region needs a good jumpstart! ■

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The SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® is the leading professional commercial and industrial real estate association. With more than 3,200 members in 562 cities in 22 countries, SIOR represents today's most knowledgeable, experienced, and successful commercial real estate brokerage specialists.

### *Transaction dollar amount*

Last year SIOR members reported an average per person dollar volume of more than US \$33.5 million worth of property leased or sold. Cumulative dollar volume for all SIOR members was \$85.6 billion of property leased or sold.

For further information, [www.siornj.com](http://www.siornj.com) or [www.sior.com](http://www.sior.com)

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