

# MARKETBEAT

## CENTRAL NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q08

### ECONOMY

Despite previous signs of stable growth, the overall economic climate has finally begun to show significant signs of recession. Wall Street's recent financial downfall has caused turbulence throughout the nation. The unemployment rate for August registered 5.9%, the highest it has been in five years, however, still lower than the national rate of 6.1%. Job growth continues to decline. Despite this loss, the Department of Labor stated that in August New Jersey job gains were inclusive of information (+700) and education and health services (+600). Advances in the telecommunications industry helped move employment higher in information, while hiring in the health care and social services component (+800) was responsible for the gain in education and health services. Although these advances are typically a good sign for Central New Jersey, confidence in the economy has eroded and companies previously interested in expanding are now halting job and space expansion until the economy recovers.

### OVERVIEW

Direct average asking rental rates crept up slightly since last quarter, now registering \$25.52 per square foot (psf). Overall vacancy rates register 19.8% from the 20.3% at the start of this year. However, leasing activity this quarter recorded a drastic decline and was less than 50% of the total recorded last quarter. Representing the largest deal this quarter, bio-pharmaceutical company, Celgene Corporation expanded by an additional 37,962 square feet (sf) at 106 Allen Road in Bernards Township, where they currently occupy 39,994 sf. HSBC re-upped for 110,000 sf at 200 Somerset Corporate Boulevard in Bridgewater. HSBC originally signed on at this location ten years ago.

Investment activity was on an upswing this quarter, posting the highest totals recorded this year. In Woodbridge, the 272,817-sf property located at 101 Wood Avenue South was acquired by Spear Street Capital. At 200 Milik (Former Pathmark Headquarters) in Cartaret, the 150,000-sf building was recently sold and added to the market. Also, in Bernards Township, 120 Mountainview Boulevard – Building C (133,960 sf), traded for \$30,000,000 million and The Hampshire Fund VII acquired 19 Schoolhouse Road (89,000 sf) in Franklin Township from Provident Partners LLC/Provident Sunnyside NJ LLC.

Contrary to the construction boom of the 1990s, activity is beginning to recess. Construction completions were minimal this quarter. Metropark South II (53,000 sf) in Old Bridge was the only property delivered to the market. There are the five buildings totaling a collective 602,200 sf currently under construction. L'Oreal's New Jersey headquarters in Berkeley Heights represents the only build-to-suit property in this cluster. It is anticipated that once space demand is re-ignited, Governor Corzine's recently signed bill providing a three-year extension for both commercial and residential property permits will help solidify the future ground-breaking of proposed projects currently in the states' pipeline.

### FORECAST

Over the last several months, it has become quite apparent that most companies are now focused on long-term growth and remain apprehensive about expanding their operations. Until there are considerable signs of economic improvement, tenants in some markets will continue to benefit from their stable renewal options, rather than procure new deals.

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### BEAT ON THE STREET

Economic concerns continue to plague the market as developers and tenants are finding it more difficult to secure loans and finance projects. However, the New Jersey commercial real estate market has endured financial depression in years past and is expected to recover.

### ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.8%	2.0%	1.9%
CPI Growth	3.2%	2.9%	4.4%

Regional			
Unemployment	4.3%	3.8%	5.0%
Employment Growth	0.01%	0.2%	0.2%

Source: Moody's | Economy.com

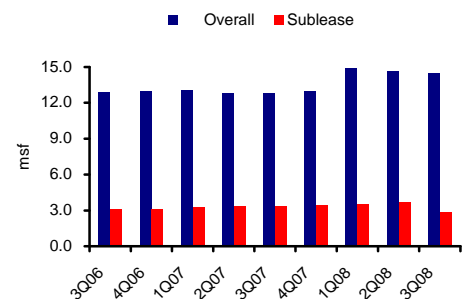
### MARKET FORECAST

**LEASING ACTIVITY** in this market has contracted in comparison to last quarter and is expected to post lower year-end totals before recovering. ↓

**INVESTMENT ACTIVITY** has remained steady in this market. However, with rising construction costs and increased difficulty in obtaining loans, activity will eventually taper. ↓

**VACANCY RATES** are likely to remain stable within the prime areas of this market as tenants continue to renew. ↔

### AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



### MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall	Direct	YTD	YTD	YTD	Direct Wtd. Avg.	
			Vacancy Rate	Vacancy Rate	Leasing Activity	Under Construction	Construction Completions	Overall Absorption	Class A Gross Rental Rate*
Hunterdon County	1,439,544	30	32.3%	32.3%	39,409	0	0	(36,331)	\$21.65
Mercer County	13,714,805	189	13.9%	12.7%	451,269	120,000	120,000	84,902	\$34.19
Middlesex County	24,139,525	258	18.7%	14.6%	1,194,613	253,000	53,000	(403,998)	\$32.76
Monmouth County	11,390,187	193	25.5%	24.8%	190,362	0	75,000	(1,967,855)	\$26.57
Somerset County	15,611,760	162	24.7%	15.5%	702,877	0	0	(70,916)	\$27.40
Union County	7,075,279	142	12.0%	9.5%	266,343	229,200	0	(107,059)	\$27.89
<b>Selected Submarkets</b>									
I-78 Corridor	13,803,239	147	19.5%	13.0%	636,028	187,000	0	63,392	\$28.14
Somerset Upper 287	4,347,004	35	40.7%	26.8%	67,061	0	0	(185,979)	\$24.78
Princeton/Route 1	12,331,160	158	12.6%	11.1%	941,812	0	120,000	N/A	\$36.24
Woodbridge/Edison	8,149,340	82	16.5%	14.5%	302,260	253,000	0	(216,722)	\$34.98
Middlesex Upper 287	6,520,614	61	23.7%	19.5%	146,206	0	0	(330,401)	\$20.34
<b>Central NJ Total</b>	<b>73,371,100</b>	<b>974</b>	<b>19.8%</b>	<b>15.8%</b>	<b>2,844,873</b>	<b>602,200</b>	<b>248,000</b>	<b>(2,501,257)</b>	<b>\$30.26</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
106 Allen Road	Somerset Route 78 Corridor	Celgene Corporation	37,962	A
1085 Morris Avenue	Clark/Cranford	Department of Homeland Security	28,011	A
2500 Kuser Road- Bldg 300	Mercer Southern Region	Princeton Healthcare Systems	18,000	A
14 Commerce Drive	Clark/Cranford	Hilb, Rogal & Hobbs	16,250	B

#### SIGNIFICANT 3Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
101 Wood Avenue South	Woodbridge/Edison	Spear Street Capital	271,230	\$36,908,917
200 Milik Street	Arthur Kill Region	Cofinance, Inc.	150,000	\$15,000,000
200 & 220 Centennial Avenue	Middlesex Upper 287 Corridor	Ambiani Realty	146,856	\$8,250,000/Portfolio Sale
120 Mountainview Boulevard	Somerset Route 78 Corridor	KBS REIT II	133,960	\$30,000,000

#### SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Metropark South II-14 Cliffwood Ave.	The Brunswicks	Broadcom Corporation	53,000	9/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
115 Wood Avenue South	Woodbridge/Edison	N/A	253,000	10/09
Connell Corporate Center	Union Route 78 Corridor	L'Oreal	187,000	1/09
Mercer Corporate Center, Bdgs I & II	Mercer Southern Region	N/A	120,000	12/08
535 Springfield Avenue	Union Route 24 Corridor	N/A	42,000	1/09

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\*Market terms & definitions based on BOMA and NAIOP standards.

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