

# MARKETBEAT

## CENTRAL NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q08

### ECONOMY

As the nation continues on its vigorous financial rollercoaster ride, large banks are furthering their lending apprehension, home prices continue to decline and consumers are generally spending less. Government bailouts are on the rise. Citigroup Inc. received \$25 billion of the first \$125 billion from the \$700 billion bailout bill and recently President Bush announced \$13.4 billion in emergency loans to prevent the collapse of two auto industry giants, General Motors and Chrysler. An additional \$4 billion will become available in February. The overall economic climate is in a state of transition and expectations of an early 2009 recovery appear to be less likely as the rate of unemployment continues to escalate.

### OVERVIEW

Overall vacancy rates currently stand at 19.5%, down from 20.0% at second quarter of this year. There is a total of 14.3 million square feet (msf) available, of which over 2.3 msf is sublease space. Landlords have not only begun to offer more concessions to tenants, but in markets such as Monmouth and Union, we are beginning to see a drop in asking rental rates for available space. Although vacancy rates remain fairly high in comparison to previous years, leasing activity has managed to hold steady. Somerset County witnessed the largest new deal of the quarter with InVentiv Commercial Services, LLC's signing of a 154,035-square foot (sf) lease at 500 Atrium Drive in Franklin Township. Approximately 500 employees will occupy this location in mid-2009. Further South, in Ewing Township, FMC Corporation signed on for two build-to-suit projects at PrincetonSouth Corporate Center (Buildings 801 and 701), totaling approximately 110,100 sf in total. Both of these buildings are currently under construction with and expected delivery during the Fall of 2009. There is approximately 712,300 sf of construction underway in Central New Jersey; of which 297,100 sf are build-to-suit.

Investment sales activity continued to temper, posting year-end totals of 1.5 msf compared to the 4.6 msf recorded at the end of 2007. User sales in this market were minimal. Many investors, still insecure about the volatile economy, now seek to shelter their existing assets, rather than acquire more immediate debt. The most significant sale this quarter occurred in Franklin Township where Pomegranate Investments, LLC purchased 347 Elizabeth Avenue (40,238 sf) for \$2.45 million. However, earlier this year, the Woodbridge/Edison market was home to the largest investment deal of the year. Spear Street Capital acquired 101 Wood Avenue South, a 272,817-sf asset for \$36.9 million.

### FORECAST

Landlords will likely become more creative in trying to secure financial stability as they seek adaptive re-uses for vacated properties. Much of the recently built speculative construction and immediate pipeline construction is not expected to incur lease-up in the immediate future. Many proposed projects have transitioned from speculative to build-to suit as developers and landlords seek large tenant commitments prior to construction starts. Lastly, obtaining credit and project financing are expected to become increasingly difficult as banks continue to maintain a tight grip on available funds, potentially into 2010.

### BEAT ON THE STREET

"The two key areas of Metro Park and Princeton continue to maintain rental rates with little determination. Landlords are focused on keeping their tenants and are willing to create early tenant renewals with 15 to 18 months remaining on the lease. Concessions are increasing with 20% more in work and extra free rent."

—Peter Hamburger, Senior Director

### ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%

Regional	2007	2008	2009F
Unemployment	4.2%	6.1%	7.0%
Employment Growth	0.7%	-0.18%	-1.13%

Source: Moody's | Economy.com  
\*regional data used is on a state level

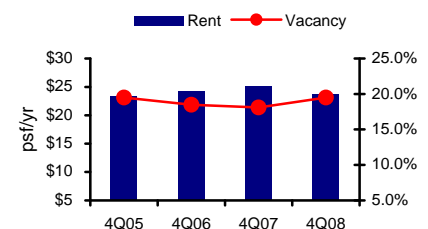
### MARKET FORECAST

**NEW LEASING ACTIVITY** was fairly stable in this market, posting similar 2007 year-end totals. Activity may taper off in the coming months as little tenant movement is predicted. ↓

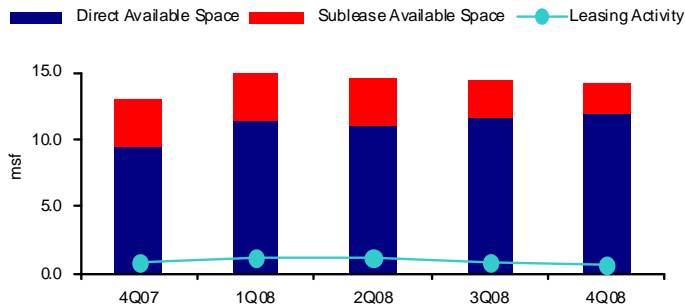
**OVERALL RENTS** are likely to decline in specific markets yet remain fairly stable in others as Landlords offer discounts in the form of concessions. ↔

**CONSTRUCTION:** Developer fear of delivering fully vacant properties may postpone some construction completions in 2009. ↓

### OVERALL RENTAL VS. VACANCY RATES

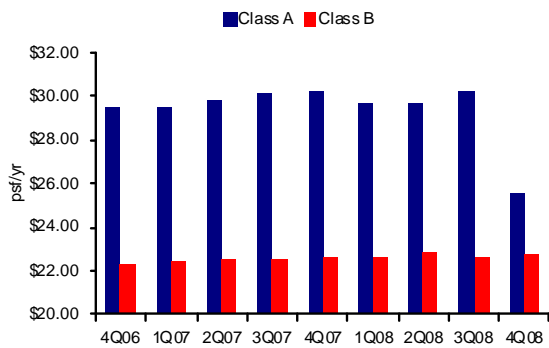


### AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



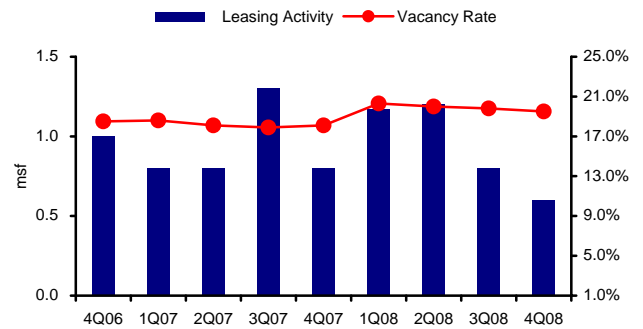
- After rebounding during second quarter 2008 and recording 1.2 msf, leasing activity dropped significantly during fourth quarter 2008, registering only 636,023 sf.
- Currently, sublease space comprises 16.4% of total available product, a decrease since fourth quarter 2007; where sublease space represented 26.5% of overall available product. Direct space availability has reached its highest level this year with nearly 12.0 msf on the market.

### DIRECT RENTAL RATES CLASS A VS. CLASS B



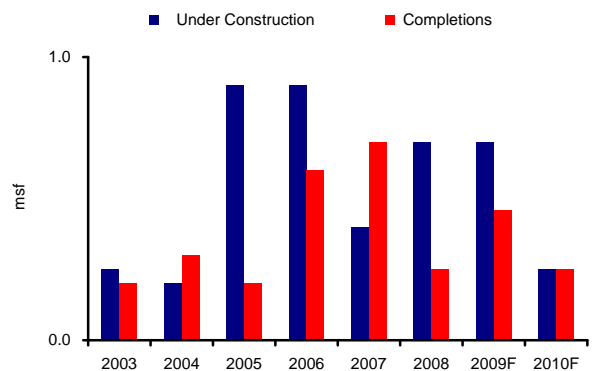
- Since displaying a steady increase from first quarter 2007 through fourth quarter 2007, and then spiking again in third quarter 2008, class A direct rental rates have since declined, registering \$25.61 per square foot (psf). This decline is primarily due to rents being lowered in some Middlesex and Monmouth county submarkets.
- Since fourth quarter 2007, class B rents have fluctuated and currently rest at \$22.71 psf, the highest since second quarter 2008.

### OVERALL LEASING ACTIVITY VS. VACANCY RATE



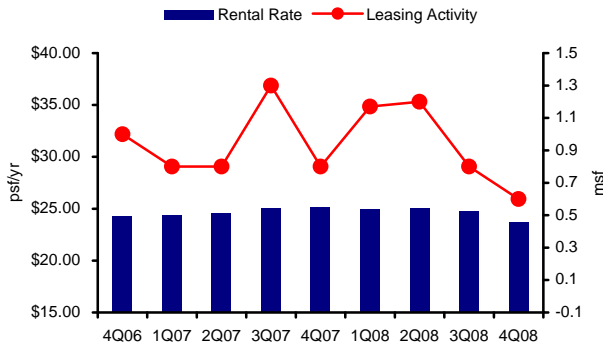
- After increasing to 20.3% during first quarter 2008, overall vacancy rates have slowly decreased to 19.5%. However, despite this decrease, overall leasing activity is still below the totals posted during third quarter 2007.
- The majority of leasing activity this quarter occurred in Middlesex County where 233,537 sf was leased. Somerset County, a close second, recorded 232,840 sf of leasing activity.

### SF UNDER CONSTRUCTION VS. COMPLETIONS



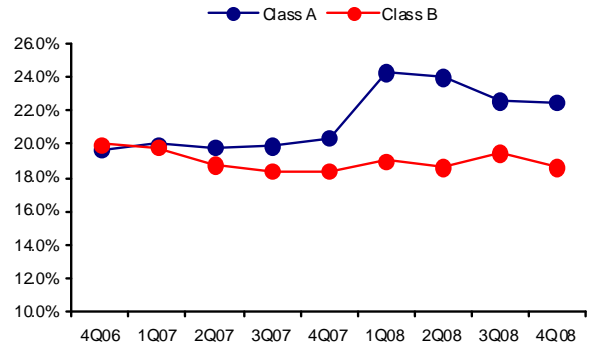
- The total square feet of construction completions this year were the lowest since 2005 recording only 248,000 sf. The largest building delivered this year was Opus East, LLC's PrincetonSouth Corporate Center II (120,000 sf).
- There is currently 712,300 sf under construction in this market, a surprising increase since 2007. Build-to-suit projects represent nearly 300,000 sf, while speculative projects encompass 415,200 sf under construction. All are expected to be delivered before the end of 2009, with the exception of 115 Wood Avenue South (253,000 sf).

### OVERALL RENTAL RATE VS. LEASING ACTIVITY



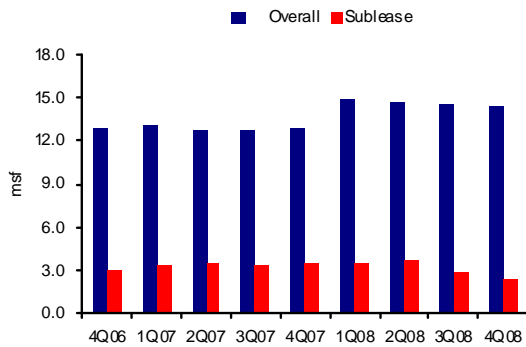
- Leasing activity displayed a drastic decline from second quarter to fourth quarter 2008 and quarterly leasing activity is still far from the levels reached during third quarter 2007. Representing the largest lease this quarter in Central New Jersey, at 500 Atrium Drive in Franklin Township, InVentiv Commercial Services secured 154,035 sf.
- Overall rental rates have dropped to \$23.75 psf after peaking during fourth quarter 2007.

### OVERALL VACANCY RATES CLASS A VS. CLASS B



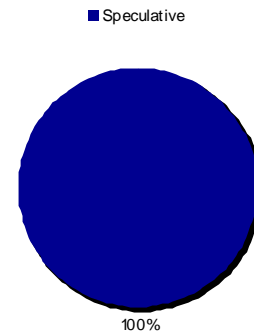
- After following the same trend-line from fourth quarter 2007 through second quarter 2008, class A and B overall vacancy rates began to fluctuate in different patterns. From the 7.9 msf of available class A space, 26.7% is located within Monmouth County (specifically within the Holmdel market).
- Although Hunterdon County maintains the highest class B vacancy rate at 31.9%, the Middlesex Upper 287 Corridor has over 1.2 msf available.

### AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



- The trend in overall space has remained fairly consistent since first quarter 2008. However, the amount of available sublease space available is only 68% of totals recorded at year-end 2007.
- At 1551 South Washington Avenue in Piscataway, Revlon is marketing 33,000 sf of sublease space.

### 2008 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- All 248,000 sf of construction completions this year were speculative. Buildings I and III at Pond View Professional Park (75,000 sf) in Monmouth County, were delivered to the market.
- New construction pre-leasing activity was minimal as only 26,000 sf was absorbed. At the recently built property located at 14 Cliffwood Avenue in Old Bridge, Broadcom Corporation took 21,000 sf.

### MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall	Direct	YTD	YTD	YTD	Direct Wtd. Avg. Class A Gross Rental Rate*
			Vacancy Rate	Vacancy Rate	Leasing Activity	Under Construction	Construction Completions	
Hunterdon County	1,439,544	30	32.8%	32.8%	39,409	0	0	\$21.65
Mercer County	13,774,805	190	13.6%	12.6%	682,153	230,100	120,000	\$34.21
Middlesex County	24,139,525	258	19.4%	16.9%	1,511,611	253,000	53,000	\$29.12
Monmouth County	11,390,187	193	25.3%	24.6%	283,440	0	75,000	\$18.07
Somerset County	15,611,760	162	23.0%	14.4%	929,850	0	0	\$27.40
Union County	7,075,279	142	11.3%	9.0%	328,165	229,200	0	\$27.86
<b>Selected Submarkets</b>								
I-78 Corridor	13,803,239	147	19.5%	13.1%	715,219	187,000	0	\$27.77
Somerset Upper 287	4,347,004	35	36.3%	23.0%	225,466	0	0	\$24.66
Princeton/Route 1	12,331,160	158	12.4%	11.5%	1,217,284	110,100	120,000	\$36.17
Woodbridge/Edison	8,149,340	82	18.0%	15.7%	356,006	253,000	0	\$33.98
Middlesex Upper 287	6,520,614	61	21.7%	17.3%	276,766	0	0	\$20.45
<b>Central NJ Total</b>	<b>73,431,100</b>	<b>975</b>	<b>19.5%</b>	<b>16.3%</b>	<b>3,774,628</b>	<b>712,300</b>	<b>248,000</b>	<b>\$25.61</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
477 Martinsville Road	Somerset Route 78 Corridor	Everest Reinsurance, Inc.*	230,519	A
600 College Road East	Middlesex South 8A	State Street Bank	169,585	A
1100 Campus Drive-Phase I	Middlesex South 8A	Novo Nordisk	167,000	A
500 Atrium Drive	Somerset Upper 287	InVentiv Commercial Services, LLC	154,035	A
23 Orchard Road	Montgomery	Johnson & Johnson	112,010	B
SIGNIFICANT 2008 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
101 Wood Avenue South	Woodbridge/Edison	Spear Street Capital	272,817	\$36,908,917
105 Fieldcrest Avenue	Woodbridge/Edison	The Silverman Group of Short Hills	178,000	\$31,750,000
200 Milik Street	Arthur Kill Region	Cofinance, Inc.	150,000	\$15,000,000
120 Mountainview Boulevard-Bldg C	Somerset Route 78 Corridor	KBS REIT II	133,960	\$30,000,000
SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
PrincetonSouth Corporate Center II	Mercer Route 295	N/A	120,000	2/08
1101 West Main Street, Bldgs I & III	Monmouth	N/A	75,000	6/08
Metropark South II	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	7/09
Mercer Corporate Center, Bdgs I & II	Mercer Southern Region	N/A	120,000	2/09
701 & 801 PrincetonSouth Corporate Center	Mercer Route 295	FMC Corporation	110,100	9/09

\*renewal/expansion



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at [www.cushmanwakefield.com/knowledge](http://www.cushmanwakefield.com/knowledge)

Cushman & Wakefield, Inc.  
1 Meadowlands Plaza, 7<sup>th</sup> Fl.  
East Rutherford, NJ 07073  
(201) 935-4000

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

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.  
©2009 Cushman & Wakefield, Inc. All rights reserved.