

# MARKETBEAT



## CENTRAL NEW JERSEY OFFICE REPORT

2Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

### ECONOMY

The Central New Jersey office market appears to be following the same slippery path as most other markets in this current financial climate. With unemployment rates on the rise and employment growth predictions still in the negative, various fundamentals appear to be lagging. However, this economic crisis can be slowly remedied if companies make tactical efforts to heal their financial wounds. Some firms, acting more strategic than ever and thinking towards future expansion, are taking advantage of the state's many incentives programs. The New Jersey Economic Development Authority board recently approved tax incentives for six companies that will generate more jobs. Pharmaceutical companies Otsuka America Pharmaceutical, Inc. and PsychoGenics Inc. were two of the companies awarded incentives, acquiring approximately \$1.4 million each. Both companies will be housed in this market.

### OVERVIEW

At the close of the second quarter, the overall vacancy rate registered 20.7%, a 0.4 percentage-point increase since first quarter 2009 and at the highest peak since year-end 2004. In a market where tenants now govern, landlords, eager to negotiate deals, have begun to lower asking rents. At 1 Continental in Cranbury, the 494,000-square foot (sf) class A building marketed for \$4.95 Net per square foot per year (psf/yr), although a Net amount, illustrates a tremendous decline since last year. Overall weighted average asking rental rates have gradually moved downwards from \$23.75 psf/yr last quarter to \$23.45 psf/yr currently.

Large renewals were prevalent during the first half of this year. Two of the more significant renewals of this quarter included Bristol Myers Squibb Company, occupying 71,724 square feet (sf) at 100 Nassau Park Boulevard in West Windsor and International Business Machines Corporation (IBM), maintaining 54,418 sf at 194 Wood Avenue South in Edison. The previous trend in commitment to large leases has diminished, as evidenced by the lack of significantly-sized deals this year. Year-to-date, only three deals surpassed the 100,000-sf mark. The largest lease this quarter was Otsuka America Pharmaceutical, Inc, which took one full floor accounting for approximately 67,531 sf at 1 University Square Drive in West Windsor. Another significant deal occurring this quarter was signed by the second largest generic pharmaceutical company in the United States, Mylan Laboratories. The company secured 53,517 sf at 110 Allen Road in Bernards Township. The lease, although currently a sublease, will become direct in 2011 and run through most of 2015.

The investment market is in severe decline; owners who have low occupancy and significant debt on their assets are struggling to find tenants to sustain a steady flow of income. Investors are not interested in purchasing these properties that prove to have difficult lease-up capabilities. However, even in this unstable market, Hampshire Global Partners recently purchased 186 Wood Avenue South in Edison. The 98,459-sf, fully vacant asset traded at \$16.1 million. The new owner plans to redevelop and upgrade the office building, which now sits on 19.4 acres.

Development opportunities abound in this market. However, there is an oversupply of inventory garnering little demand. Though there were no significant construction completions this quarter, there is 471,300 sf currently under construction, including MetroTop Plaza II, a 253,000-sf speculative building that will be centered in the heart of Metropark. Since Metropark is a very active high-end market, it is expected that this property will incur lease-up fairly easily once the economy rebounds.

### FORECAST

In this volatile economy, the only recourse for companies trying to stay afloat seems to be reducing overhead and consolidating space. This trend is expected to continue throughout the year before the market regains its stability and tenant movement begins to accelerate its pace.

### BEAT ON THE STREET

"Leasing activity in Central New Jersey continues to lag historical values, however tremendous opportunity exists for stable corporations to reduce costs and take advantage of the competitive incentive packages landlords have to offer."

**Harlan Hollander-Associate Director**

### ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%

Regional *			
Unemployment	6.8%	9.2%	10.3%
Employment Growth	-0.52%	-3.16%	-0.15%

Source: Moody's | Economy.com

\*regional data used is on a state level

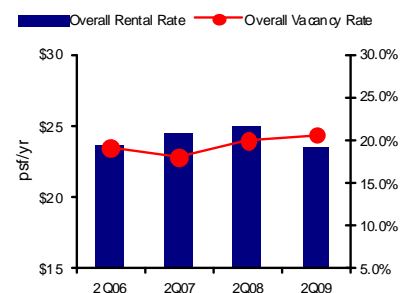
### MARKET FORECAST

**NEW LEASING ACTIVITY** in the second quarter will remain limited through the remainder of 2009. ↓

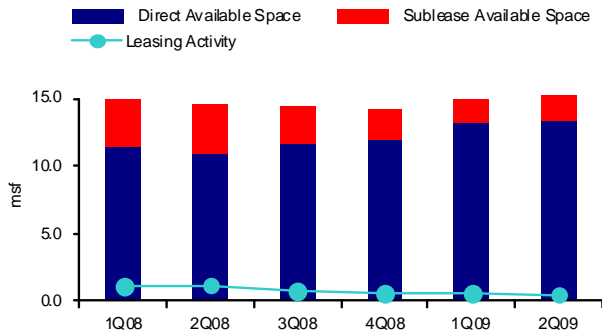
**OVERALL ABSORPTION** will remain flat as companies continue to find lease extensions preferable over relocations and space expansions. ↓

**CONSTRUCTION** will slow down. Rising vacancy rates and cautious tenants will influence developers and landlords to halt construction plans for the year to come. ↓

### AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE

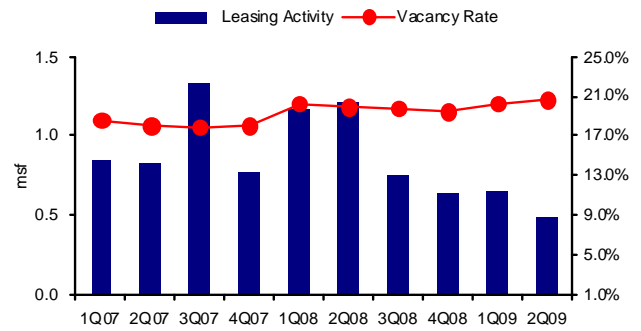


### AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



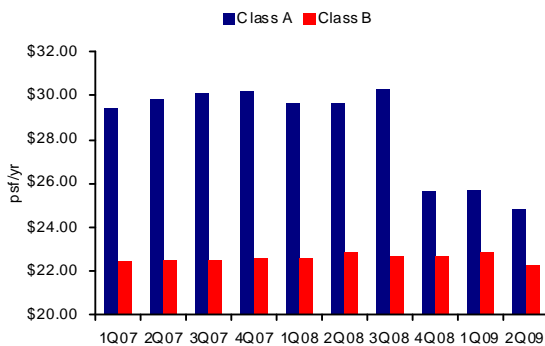
- After posting totals of 1.22 msf during second quarter 2008, quarterly leasing activity has since spiraled downward, currently registering only 495,408 sf.
- Currently, sublease space constitutes 12.8% of total available product, a significant decline since first quarter 2008 where sublease space represented 23.5% of overall available product. Direct space availability reached its highest level this year with nearly 13.4 msf on the market, representing a 1.5 msf increase since fourth quarter 2008.

### OVERALL LEASING ACTIVITY VS. VACANCY RATE



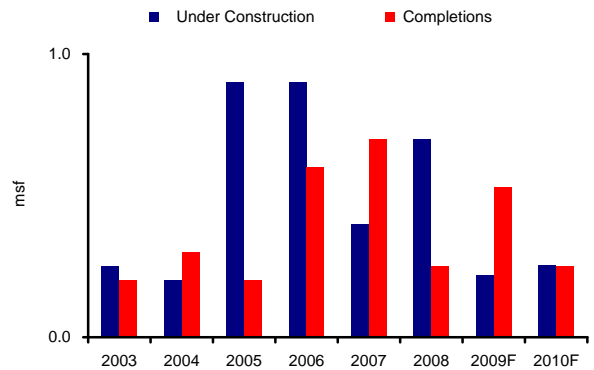
- After increasing to 20.3% during first quarter 2008, overall vacancy rates declined to 19.5% during fourth quarter 2008, but recently crept back up to 20.7%. Second quarter 2009 leasing activity posted its lowest totals in the last two years.
- The majority of leasing activity this quarter occurred in Mercer County where 160,225 sf was leased. Middlesex County, a close second, recorded 130,712 sf of leasing activity.

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



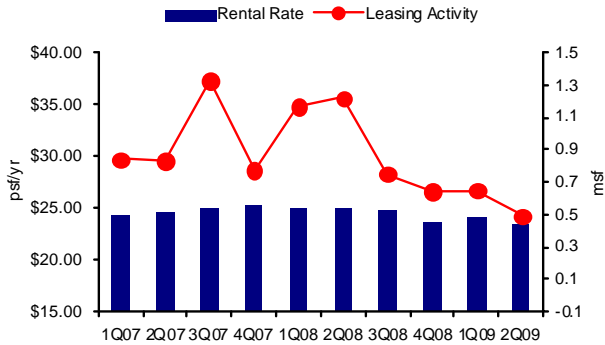
- The class A direct weighted average asking rental rate fluctuated significantly over the last two years and steadily declined since third quarter 2008, registering \$24.82 psf/yr. This decline is primarily due to landlords lowering their asking rents in some Middlesex and Monmouth County submarkets.
- In the last two years, the class B direct weighted average asking rental rate of \$22.29 psf/yr, has shown little quarterly movement and has yet to surpass the \$23.00 psf/yr.

### SF UNDER CONSTRUCTION VS. COMPLETIONS

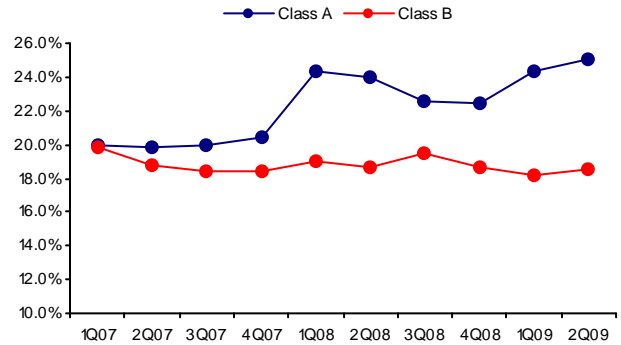


- Year-to-date, three projects totaling 307,000 sf delivered. In comparison to previous years, construction velocity has slowed down and is not expected to rebound until developers regain confidence in the economy.
- There is currently 471,300 sf under construction in this market. Build-to-suit projects represent only 110,100 sf, while speculative projects encompass 361,200 sf. Almost all are expected to be delivered before the end of 2009, with the exception of 115 Wood Avenue South (253,000 sf), which is expected to be delivered during the first quarter of 2010.

### OVERALL RENTAL RATE VS. LEASING ACTIVITY



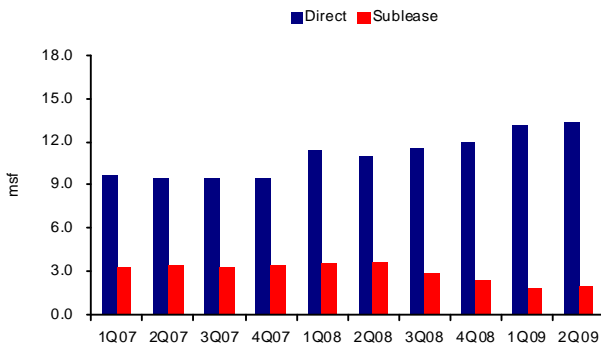
### OVERALL VACANCY RATES CLASS A VS. CLASS B



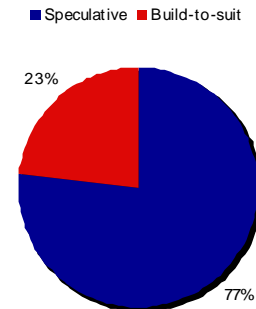
- After spiking in third quarter 2007 and second quarter 2008, respectively, leasing activity has declined significantly. Small to mid-sized deals were the trend this quarter. Representing the largest lease this quarter, at 1 University Square Drive in West Windsor, Otsuka America Pharmaceutical, Inc, secured approximately 67,531sf.
- From 2007 through second quarter 2009, the overall weighted average asking rental rate fluctuated and is now at its lowest total, currently \$23.45 psf/yr.

- While class A overall vacancy rates have increased over the last two years, currently registering 25.0%, class B vacancy rates have recently declined and now stand at 18.5%. Of the 8.9 msf of available class A space, nearly 26.0% is located within Monmouth County (specifically within the Holmdel market).
- In some submarkets, landlords are beginning to lower asking rents. This quarter, a significant drop in the direct asking rental rate at 1 Continental Drive (491,000 sf) in Cranbury caused the Middlesex County class A overall weighted asking rental rate to decline.

### AVAILABLE SPACE TRENDS DIRECT VS. SUBLEASE



### 2009 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- From first quarter 2007 through second quarter 2008, the amount of available sublease space has shown little movement. However at third quarter 2008, available sublease space declined from 3.65 msf to 2.87 msf, and currently stands at 1.96 msf, representing 14.7% of the overall availability.
- The abundance of sublease space is located throughout the Somerset Route 78 Corridor, where nearly 900,000 sf is on the market.

- Of the three construction completions in this market, the largest was L'Oreal's 187,000-sf New Jersey headquarters at 50 Connell Drive in Berkeley Heights. In Hamilton Township, two speculative buildings, Mercer Corporate Center (Buildings I & II), totaling 120,000 sf, also completed.
- New construction pre-leasing activity included the build-to-suit 187,000 sf absorbed by L'Oreal. The lack of pre-leasing activity in this market is a direct result of the decline in market activity throughout the state. Tenants are still hesitant to make commitments.

### MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Hunterdon County	1,439,544	30	30.0%	30.0%	46,960	0	0	30,312	\$21.70
Mercer County	13,894,805	192	14.0%	13.2%	254,092	110,100	120,000	18,331	\$34.06
Middlesex County	24,317,984	259	21.1%	18.6%	305,278	253,000	0	(802,866)	\$25.63
Monmouth County	11,391,447	192	27.0%	26.1%	58,032	40,000	0	(202,935)	\$18.41
Somerset County	15,612,016	162	25.4%	18.8%	402,025	26,000	0	(292,298)	\$27.09
Union County	7,307,065	145	10.8%	9.3%	80,419	42,200	187,000	73,142	\$27.75
<b>Selected Submarkets</b>									
I-78 Corridor	13,990,495	148	20.8%	13.9%	252,795	26,000	187,000	5,728	\$27.98
Somerset Upper 287	4,347,004	35	39.3%	36.4%	57,150	0	0	(146,685)	\$24.26
Princeton/Route 1	12,510,091	159	14.0%	13.1%	239,689	110,100	0	N/A	\$35.87
Woodbridge/Edison	8,247,799	83	17.9%	16.4%	191,397	253,000	0	(143,145)	\$32.59
Middlesex Upper 287	6,520,614	61	22.8%	17.5%	14,700	0	0	(248,220)	\$22.30
<b>Central NJ Total</b>	<b>73,962,861</b>	<b>980</b>	<b>20.7%</b>	<b>18.1%</b>	<b>1,146,806</b>	<b>471,300</b>	<b>307,000</b>	<b>(1,176,314)</b>	<b>\$24.82</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1 University Square Drive	Princeton	Otsuka America Pharmaceutical, Inc.	67,531 <sup>±</sup>	A
110 Allen Road	Somerset Route 78 Corridor	Mylan Laboratories	53,517	A
2147 Route 27 South (Towne Corporate Center)	Woodbridge/Edison Market	Dr. Leonards Healthcare Corporation	15,029	B
1465 Route 31 (Concourse at Beaver Brook I)	Hunterdon Route 78 Corridor	The Arc of Hunterdon County, Inc.	14,878	B
430 Mountain Avenue	Union Route 78 Corridor	IPC Systems, Inc.	12,935	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
186 Wood Avenue South	Woodbridge/Edison Market	Hampshire Global Partners	98,459	\$16,100,000
150 Morristown Road	Somerset Route 78 Corridor	Denholtz 150 LLC	55,520	\$5,937,500
145 Belmont Drive	Somerset Upper 287 Corridor	Belmont Properties, LLC	38,349	\$2,940,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MetroTop Plaza II/115 Wood Avenue South	Woodbridge/Edison	N/A	253,000	1/10
701 & 801 Princeton South Corporate Center	Mercer Route 295	FMC Corporation	110,100	9/09



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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.

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