

# MARKETBEAT

## NORTHERN AND CENTRAL NEW JERSEY INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q09

### ECONOMY

The New Jersey industrial major market fundamentals, still in slow decline managed to show signs of life in the midst of the current economic climate. In an attempt to reduce expenses, many companies that signed leases at the height of the market are looking to take advantage of landlord flexibility by restructuring existing terms or renewing prior to lease expiration. As of June 2009, the New Jersey unemployment rate crept up to 9.2%, from 8.8% in May. In light of this news, continued demand within various submarkets, along with recent big box warehouse/distribution (WD) leasing activity in Central New Jersey, prevented this market from shifting into more treacherous waters.

### OVERVIEW

Despite the fact that recent economic conditions have plagued nearly every facet of the market, some experts believe that the industrial market has not been as adversely affected as other major U.S. markets. At the end of the second quarter, the direct weighted average asking rental rate registered \$6.46 per square foot per year (psf/yr), which represents a \$0.26 psf/yr decline from fourth quarter 2008. The overall vacancy rate for the state increased to 8.6% from 7.2% at year-end 2008. Companies are still cutting costs by consolidating and returning additional space to the market.

Logistics and shipping businesses helped create solid leasing activity in the second quarter. Over 3.2 million square feet (msf) of leasing activity occurred this quarter, a 1.2-msf increase since first quarter. However, year-to-date leasing activity represents only 60.0% of the total recorded last year at this time. Leasing activity was off pace, yet there were still several transactions over 100,000 square feet (sf). The most notable lease this quarter was Lasar Logistics, which took 248,000 sf at 147 West Manor Way in Washington Township. In South Brunswick, LA Enterprises renewed and expanded to occupy a total of 233,515 sf at 231 Herrod Boulevard. The financing requirements imposed by lending companies have become more rigid since the end of 2008. Sales activity took a steep dip from last year when investors took advantage of market decline in price. Representing the largest sale this quarter is U.S. Foodservices, Inc.'s \$15.4-million sale of 360 South Van Brunt Street in Englewood to SeoulShik Poom Inc. This 156,300-sf warehouse/distribution (WD) property will be used as the Asian food importer's primary distribution center.

### FORECAST

The mix of economic stress and lack of investment capital will keep leasing and construction moderately lower than in previous years. The decline will primarily affect the construction-heavy Central New Jersey which incurred over 820,000 sf of construction completions thus far. Since 2006, an average of 3.1 msf of new construction completed each year leading to a surplus of space, while demand has continued to lose momentum.

### BEAT ON THE STREET

"We've seen tenant activity pick up in the last quarter, primarily among those who have occupied the same facility for many years and are now exploring relocation to one of the many available state-of-the-art, high bay facilities. Due to the large inventory of this product type, tenants are weighing the long-term cost savings and increased operational efficiencies with the short-term capital expense required to relocate versus the minimal disruption of business by renewing."

-Noah Balanoff-Sales Associate

### 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

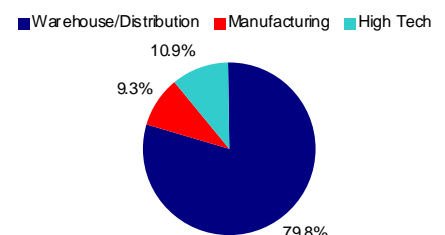
### MARKET FORECAST

**LEASING ACTIVITY** gained steam during the second quarter, but isn't expected to continue that trend. Expect slower activity until the end the year. ↓

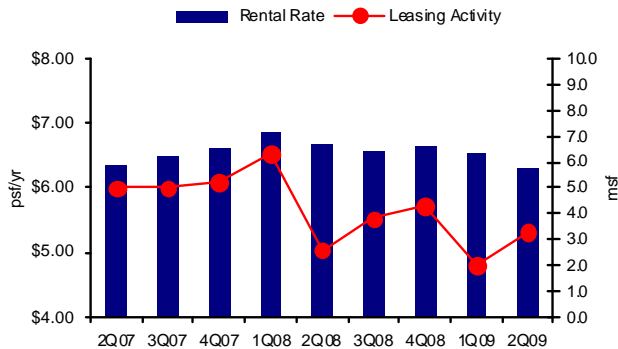
**SALES ACTIVITY** dropped due to lack of attainable credit. Activity will remain quiet throughout the year. ↓

**CONSTRUCTION** has and will be offset by an oversupply of inventory and weak demand. ↓

### 2009 AVAILABLE SPACE BY PROPERTY TYPE

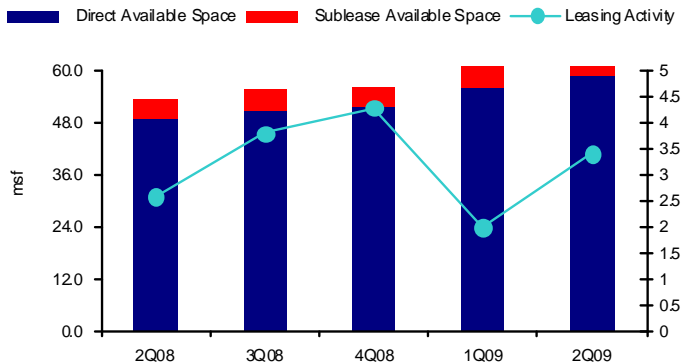


### OVERALL RENTAL RATES vs. LEASING ACTIVITY



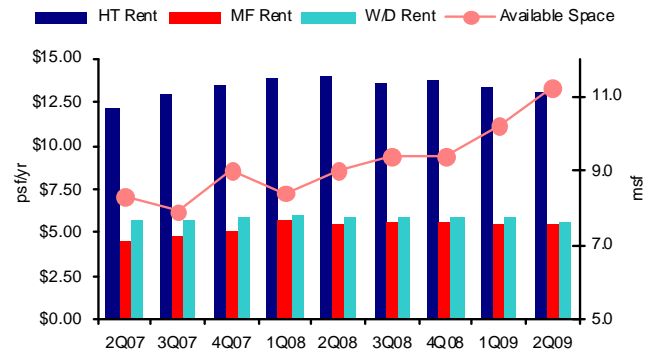
- A surge in leasing activity during the second quarter produced nearly 3.3 msf of transactions. However, leasing activity is not expected to near the 2008 totals.
- After peaking during fourth quarter 2008, overall direct weighted average asking rental rates decreased and now stand at \$6.32 psf/yr, representing a \$0.33 psf/yr dip.

### AVAILABLE SPACE TRENDS vs. LEASING ACTIVITY



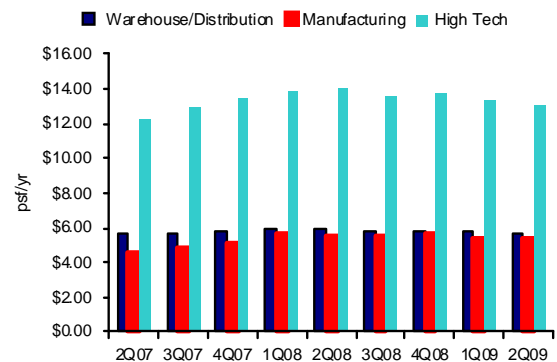
- Direct available space rose consistently throughout the year as new construction competed with little pre-leasing. Expect available space to rise; 87.0% of the new construction (836,137 sf) delivered has not yet been leased.
- Leasing activity increased from 2.0 msf during first quarter of 2009 to 3.2 msf this quarter due to companies taking advantage of lower rents through restructured leases.

### DIRECT RENTAL RATES vs. AVAILABLE SPACE



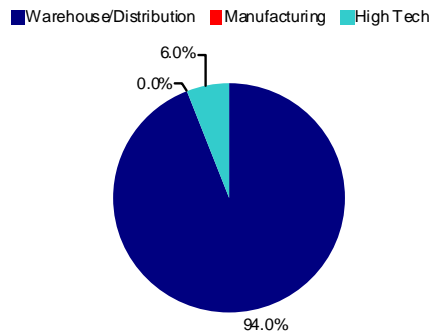
- Over 2.2 msf of available space delivered to the market since second quarter 2008. Companies continue to look towards space consolidation and are taking advantage of decreasing rental rates.
- Central New Jersey is the focal point for vast available space including 87.0% of new construction completions which are still vacant. Demand is weak which is ultimately raising vacancy rates.

### DIRECT RENTAL RATE COMPARISON



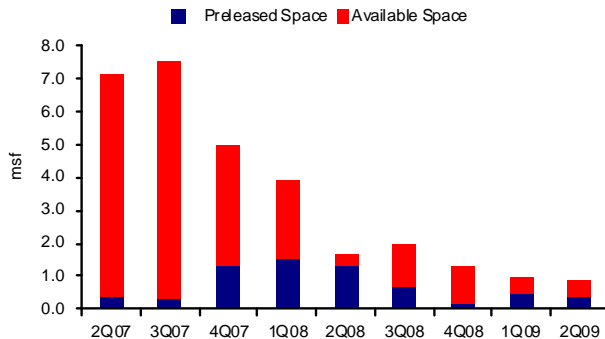
- High-technology direct net weighted average asking rental rates remain significantly higher than manufacturing and warehouse/distribution rental rates. High-technology environments offer high voltage power and are easier to convert into office build-out, which companies are looking for in order to become energy efficient.
- The direct net weighted average asking rental rate for high-technology space decreased to \$13.06 psf/yr from its peak of \$13.97 psf/yr a year ago. These rents are still the highest in the New Jersey industrial market.

### 2009 CONSTRUCTION COMPLETIONS



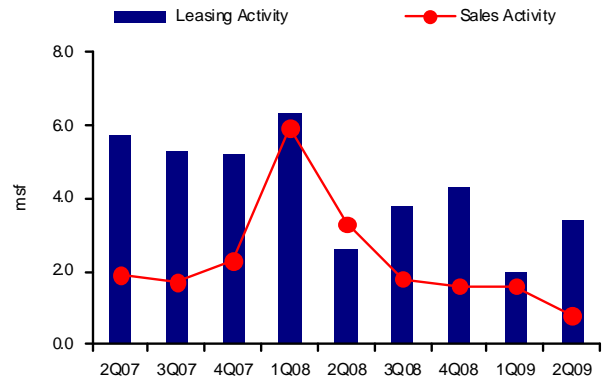
- The warehouse/distribution sector continues to be the major attraction for the New Jersey Industrial market. However, demand for high-technology buildings has increased, allowing speculative developers to break ground on several high-technology projects; including 6 Corporate Place, a 90,000-sf building due at the end of the 2009.
- Although a demand for manufacturing companies exists for investors, the industry still continues its regression. There are no manufacturing buildings currently under construction.

### SPACE IN PROJECTS UNDER CONSTRUCTION



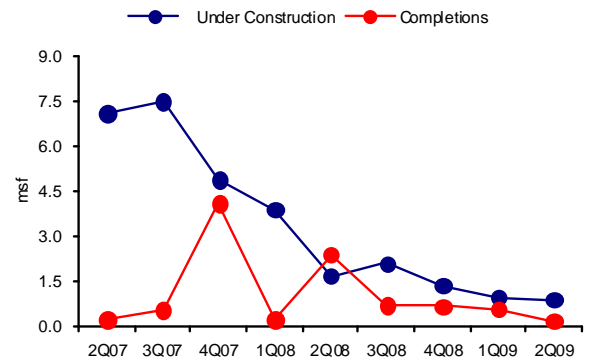
- Currently, out of the 898,776 sf of buildings under construction, 507,000 sf has pre-leased, equating to a 44.0% new construction vacancy rate.
- In the current economy, pre-leasing activity will continue to dwindle as companies reconsider making long-term commitments.

### OVERALL LEASING vs. SALES ACTIVITY



- Second quarter leasing activity increased by over 40.0% from to first quarter when 2.0 msf of leasing was recorded. However, leasing activity is not paced to surpass the 2008 total of 17.0 msf.
- Sales activity tapered off since the first quarter of 2008 when 5.9 msf of activity occurred. Obtaining financing during the current fiscal crisis has made purchases scarce.

### SF UNDER CONSTRUCTION VS. COMPLETIONS



- The number of projects currently under construction began to decline after peaking during third quarter 2007. Many speculative projects were put on hold once demand for new product deteriorated.
- Construction completions are now contingent on a tenant leasing or purchasing space before the building is fully developed.

### MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY**	NO. OF BLDGS.	OVERALL VACANCY RATE***	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								HT	MF	OS****	W/D
Bergen County	121,253,048	1,284	7.7%	545,228	0	15,000	(1,048,466)	\$11.53	\$7.49	N/A	\$6.79
Essex County	69,864,026	653	4.2%	286,021	0	0	(189,310)	\$9.13	\$5.16	N/A	\$6.33
Hudson County	91,343,116	516	7.4%	513,636	0	0	(2,828,791)	\$16.95	\$3.87	N/A	\$6.19
Morris County	45,849,533	470	9.7%	433,231	0	0	(1,288,776)	\$9.62	\$5.86	N/A	\$6.57
Passaic County	46,181,410	451	6.7%	488,578	0	0	(689,639)	\$12.72	\$3.79	N/A	\$6.30
<b>Northern NJ Total</b>	<b>374,491,133</b>	<b>3,374</b>	<b>7.1%</b>	<b>2,266,694</b>	<b>0</b>	<b>15,000</b>	<b>(6,044,982)</b>	<b>\$10.84</b>	<b>\$5.51</b>	<b>N/A</b>	<b>\$6.49</b>
Mercer County	30,020,684	236	19.9%	571,825	0	0	(685,202)	\$19.49	\$5.43	N/A	\$4.40
Middlesex County	236,423,491	1,601	10.2%	1,953,757	513,776	684,707	(3,757,154)	\$15.57	\$5.03	N/A	\$4.96
Monmouth County	17,562,335	186	9.3%	59,055	0	50,000	(74,422)	\$12.14	\$7.01	N/A	\$6.64
Somerset County	44,001,371	396	8.0%	206,118	0	86,400	(1,243,140)	\$12.33	\$9.22	N/A	\$5.10
Union County	71,973,650	646	7.3%	434,378	385,000	0	(1,039,675)	\$13.05	\$5.16	N/A	\$5.40
<b>Central NJ Total</b>	<b>399,981,531</b>	<b>3,065</b>	<b>10.1%</b>	<b>3,225,133</b>	<b>898,776</b>	<b>821,107</b>	<b>(6,799,593)</b>	<b>\$14.70</b>	<b>\$5.26</b>	<b>N/A</b>	<b>\$5.02</b>
<b>TOTAL</b>	<b>774,472,664</b>	<b>6,439</b>	<b>8.6%</b>	<b>5,491,827</b>	<b>898,776</b>	<b>836,107</b>	<b>(12,844,575)</b>	<b>\$13.06</b>	<b>\$5.39</b>	<b>N/A</b>	<b>\$5.61</b>

\*Rental rates reflect \$psf/year

\*\*Estimated Inventory \*\*\*Estimated Vacancy Rate

\*\*\*Office Services inventory does not exist within this market

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
147 West Manor Way	Southern Region	Lasar Logistics	248,000	Warehouse/Distribution
231 Herrod Boulevard	Exit 8A Market	LA Enterprises*	233,515	Warehouse/Distribution
260 Prospect Plains	Exit 8A Market	Market Resource Packaging	232,886	Warehouse/Distribution
261 River Road	Clifton & Paterson Market	International Paper	230,953	Warehouse/Distribution

#### SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
360 South Van Brunt Street	Englewood & Fort Lee Market	Seoul Shik Poom, Inc.	156,300	\$15,400,000
169 Littleton Road	Parsippany Market	Parsippany Self Storage LLC	98,000	\$6,600,000
70 Demarest Drive	Passaic-Suburban Region	Electronics Expo, Inc.	90,618	\$4,700,000

#### SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
35 Commerce Drive	Exit 8A Market	CRP Industries	101,331	5/09
70 Schoolhouse Road	Somerset-Upper 287 Corridor	N/A	86,400	6/09

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Port Reading Business Park -Building 1	Lower 287 Corridor	Confidential	252,776	9/09
6 Corporate Place	MiddleN-Upper 287 Corridor	N/A	90,000	12/09

\* 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)

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

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