

# MARKETBEAT

## NORTHERN AND CENTRAL NEW JERSEY INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q10

### ECONOMY

The national Marketplace is showing signs of minimal recovery, primarily contingent upon overall job growth. In the latest release by The New Jersey Department of Labor, notable gains occurred in manufacturing (+2,500) and financial activities (+1,400). In manufacturing, the gains were spread across industries in both the durable (+1,200) and nondurable (+1,300) goods components. Though these gains are minor, they are still somewhat favorable. Looking ahead, The Port Authority of New York and New Jersey's recent agreement to purchase approximately 130 acres of property at the Marine Ocean Terminal at Bayonne, will represent a major expansion of the ports facilities. This purchase, though only at the inception stage, is expected to make significant fiscal contributions to the Garden State in the future.

### OVERVIEW

The Industrial sector is beginning to feel some reprieve. The second quarter direct triple net weighted average asking rental rate registered \$5.92 per square foot (psf), representing a \$0.54 psf year-over-year decline, yet only a \$0.10 psf decline from last quarter. Despite the recent rental fluctuation, overall available space for Northern and Central New Jersey combined remained fairly flat with a minimal year-over-year increase; primarily due to the absorption of existing space with new leases. At mid-point of this year, Central New Jersey recorded 3.5 million square feet (msf) of deals, equivalent to totals recorded at the same time in 2009; while Northern New Jersey experienced a 400,000-square foot (sf) uptick from the same time period, recording 2.9 msf in total.

New leasing activity, year-to-date is nearly 6.4 msf for Northern and Central New Jersey combined and remains on par with totals recorded last year at this time. There were fifteen new transactions over 100,000 square feet (sf) recorded this quarter, ten of which occurred in the Central region of the state. The most notable deals were executed by Equinix' execution of two leases totaling 324,169 sf in Secaucus. At 800 Secaucus Road, the company leased 206,000 sf and at 105 Enterprise Avenue an additional 118,169 sf. In the Exit 8A submarket, Workflow One signed on for 200,000 sf at 7 Costco Way in Monroe, while GMB leased 192,400 sf at 100 Herrod Boulevard in South Brunswick. Renewal activity also fared very well this quarter. Among the top two renewals were Volkswagen of America's full building 935,000-sf 12-year re-signing at 47 Station Road in Cranbury and Aeropostale's re-up of its 315,000 sf at 2 Brick Plant Road in South River.

Sales activity is regaining its momentum, recording 2.9 msf of activity; a year-over-year increase of nearly 10.0%. Several noteworthy investments occurred during the second quarter. The most significant user sale was Middle Atlantic Products \$29.8-million purchase of 300-330 Fairfield Road in Fairfield from Commercial Realty Group. The AV systems support manufacturing company previously signed a long-term lease within the 417,159-sf property. In Paterson, 297 Getty Avenue, a 700,000-sf manufacturing facility changed ownership. A.L.A Realty Associates acquired the manufacturing facility from Citibank for \$9.5 million. In a partnership between Russo Development, LLC and Sentinel Real Estate Corporation, 800 Cottontail Lane a 228,000-sf warehouse/distribution building in Franklin Township was purchased and will undergo renovation/conversion into a data center.

### FORECAST

Unlike the office market, early renewals have not become as commonplace in the industrial arena. Landlords are less likely to lower their rents for a tenant with little term remaining on their lease. However, tenants continue taking advantage of the current market in the form of relocation to newer/modernized buildings, rather than pay a similar rent for the more antiquated properties they currently occupy.

### BEAT ON THE STREET

"Despite the uptick in leasing, the lack of depth and momentum continues to exist within the Marketplace. Tenants continue their attempts to take advantage of today's competitive pricing, but are not able to execute for reasons such as remaining term left on existing lease obligations, and a need for extensive tenant improvements."

-Robert Adams-Sales Associate

### ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	10.0%	9.9%	9.7%
Employment Growth	-1.0%	-0.3%	1.4%

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

### MARKET FORECAST

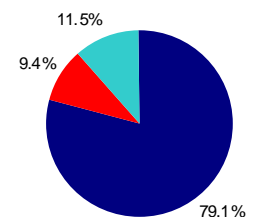
**LEASING ACTIVITY** is on pace to equal or slightly exceed totals recorded in 2009.

**MARKET RENTS** will remain flat through the second half of the year with no likely increases on existing space.

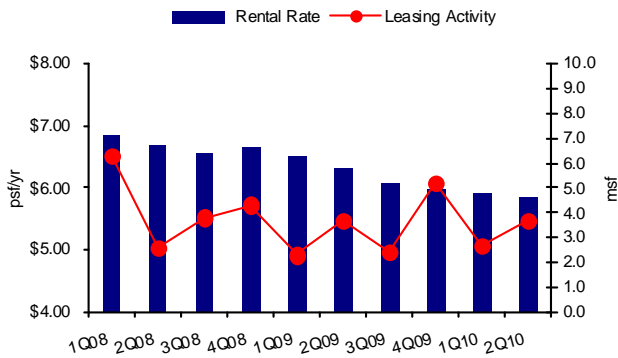
**CONSTRUCTION** activity will continue to be offset by an oversupply of existing inventory. Expect any new construction to be on a build-to-suit basis going forward.

### 2010 AVAILABLE SPACE BY PROPERTY TYPE

■ Warehouse/Distribution ■ Manufacturing ■ High Tech

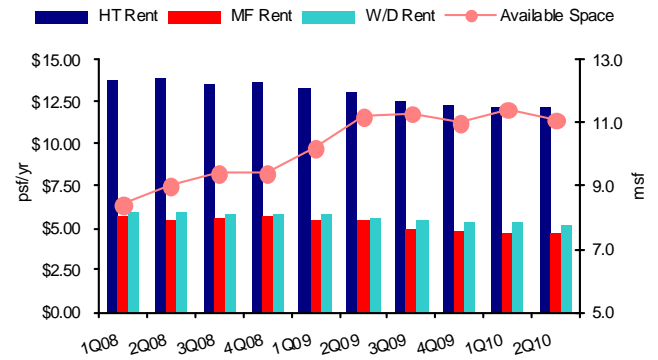


### OVERALL RENTAL RATES vs. LEASING ACTIVITY



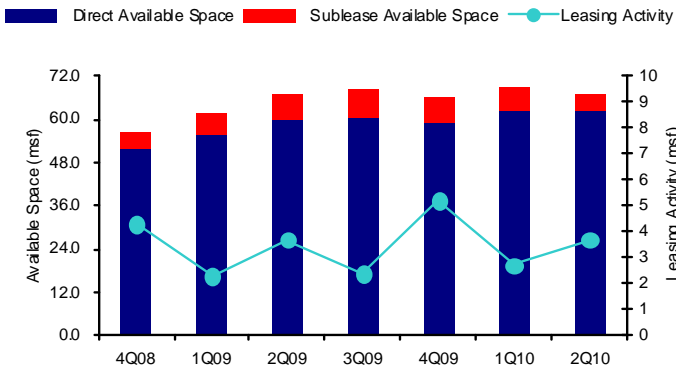
- The market experienced an uptick in leasing activity during the first half of the year. Though many companies are signing more blend and extend leases in order to capture the current market conditions, which also results in leveling of asking rental rates.
- After peaking during first quarter 2008, overall net weighted average asking rental rates decreased and stand at \$5.86 psf, representing a \$0.99 psf dip.

### DIRECT RENTAL RATES vs. AVAILABLE SPACE



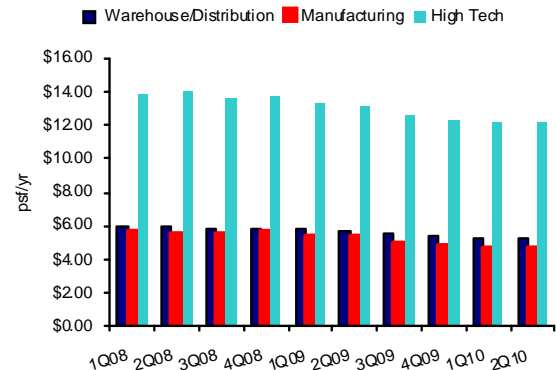
- Since second quarter 2008, available space increased by 2.1 msf. Since year-end 2008, high-tech direct net weighted average asking rental rate declined by \$1.54 psf, representing the highest decline of all industrial property types including manufacturing and warehouse/distribution.
- The majority of available space is located in Central New Jersey which consists of 37.5 msf. An abundance of this space is located within the Exit 8A (8.7 msf) and Lower 287 Corridor (7.0 msf) Corridors.

### AVAILABLE SPACE TRENDS vs. LEASING ACTIVITY



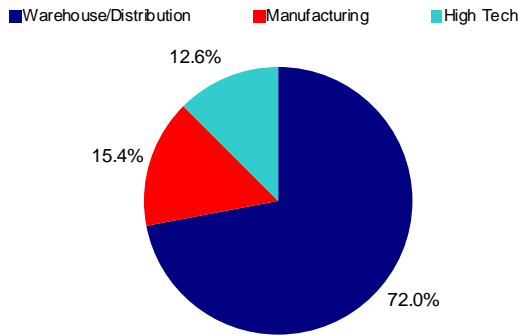
- Direct available space increased by over 10.0 msf since year-end 2008 yet remained flat at 62.3 msf to start the year.
- Middlesex County leads in new leasing activity with 2.7 msf year-to-date. Hudson County follows with 1.1 msf.

### DIRECT RENTAL RATE COMPARISON



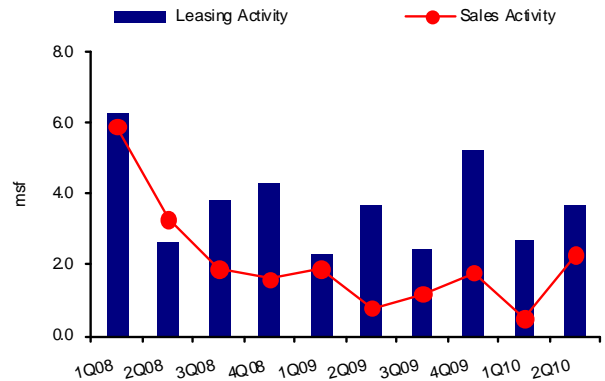
- The direct net weighted average asking rental rate for warehouse/distribution space decreased by \$0.79 psf from its peak of \$5.98 psf at first quarter 2008; while manufacturing rents decreased by \$0.98 psf from the same time period.
- Though high-technology direct net weighted average asking rental rates recorded the highest decline since first quarter 2008, they remain significantly higher than manufacturing and warehouse/distribution. High-technology environments offer high voltage power and are easier to convert into office build-out, which companies seek in order to become energy efficient.

### INVENTORY BY PROPERTY TYPE



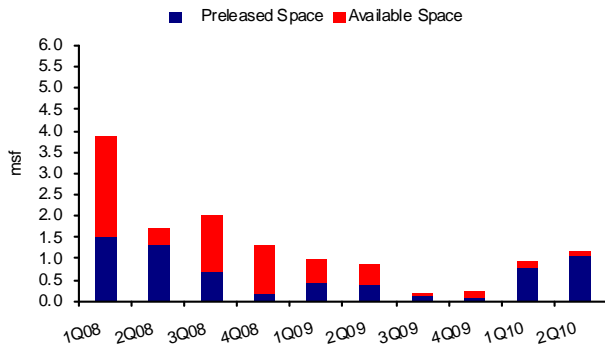
- High-technology inventory will increase in the coming years due to the flexibility of the buildings which can support both warehouse and office requirements. There are currently five buildings under construction all of which are high-technology and total 1,171,000 msf.
- Manufacturing, historically a booming industry, is stagnant and continues to suffer the repercussions of the recession; including company relocations to less expensive areas where transportation costs prove to be more affordable.

### OVERALL LEASING vs. SALES ACTIVITY



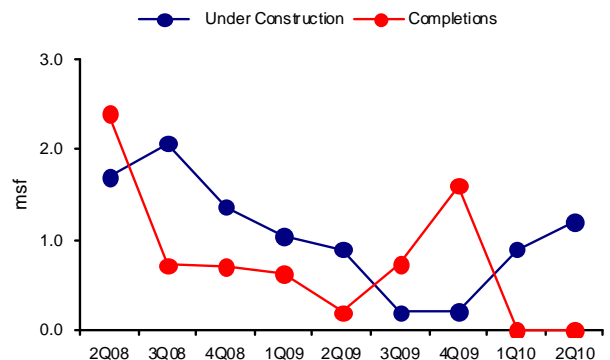
- The first six months of leasing activity recorded 6.4 msf, a slight year-over year uptick. Year-end totals could likely surpass the 2009 total of 13.6 msf, although still falling short of the 2008 total of 17.0 msf.
- Sales activity this quarter posted its strongest quarter since second quarter 2008 (3.3 msf), currently recording 2.3 msf; which signifies investor turnaround.

### SPACE IN PROJECTS UNDER CONSTRUCTION



- Of the 1,171,000 sf of buildings under construction, 126,000 sf remains vacant, equating to a 89.3% new construction occupancy rate.
- In the current economy, only build-to-suit buildings are expected to be constructed in the near future. The largest build-to-suit under construction is the New York Stock Exchange 400,000-sf high-technology property at 1700 MacArthur Boulevard in Mahwah.

### SF UNDER CONSTRUCTION VS COMPLETIONS



- The upsurge in under construction projects is due to the recent boom in data center/high technology facilities in this traditionally warehouse/distribution heavy market.
- Though there have been no construction deliveries during the first half of this year, the second half is expected to yield over 750,000 sf of new high-technology product onto the market.

### MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY**	NO. OF BLDGS	OVERALL VACANCY RATE***	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
									HT	MF	OS***	WD
Bergen County	85,559,376	1,293	11.7%	974,732	400,000	0	(1,582,468)	(1,458,701)	\$10.08	\$6.33	N/A	\$5.88
Essex County	44,369,994	657	6.8%	278,724	0	0	(146,949)	(135,449)	\$8.96	\$5.10	N/A	\$5.69
Hudson County	68,923,829	520	9.5%	1,140,121	0	0	(733,400)	(769,862)	\$17.17	\$3.71	N/A	\$5.99
Morris County	42,533,482	471	15.7%	318,584	0	0	(1,312,563)	(1,058,020)	\$8.57	\$4.99	N/A	\$6.13
Passaic County	37,437,517	457	9.4%	190,010	285,000	0	(513,267)	(656,868)	\$11.46	\$3.78	N/A	\$5.87
<b>Northern NJ Total</b>	<b>278,824,198</b>	<b>3,398</b>	<b>10.7%</b>	<b>2,902,171</b>	<b>685,000</b>	<b>0</b>	<b>(4,288,647)</b>	<b>(4,078,900)</b>	<b>\$9.88</b>	<b>\$4.94</b>	<b>N/A</b>	<b>\$5.94</b>
Mercer County	25,712,628	236	21.4%	35,293	0	0	(21,750)	(21,750)	\$20.62	\$7.50	N/A	\$4.33
Middlesex County	194,715,710	1,608	11.0%	2,713,588	420,000	0	(2,267,748)	(1,333,892)	\$14.17	\$3.90	N/A	\$4.51
Monmouth County	13,947,242	186	7.8%	45,025	0	0	(109,220)	(109,220)	\$11.38	\$5.62	N/A	\$6.80
Somerset County	33,198,350	399	11.5%	278,521	66,000	0	(578,898)	(589,748)	\$11.70	\$9.09	N/A	\$4.65
Union County	57,128,125	651	9.9%	416,173	0	0	(290,624)	(170,961)	\$12.01	\$4.40	N/A	\$5.01
<b>Central NJ Total</b>	<b>324,702,055</b>	<b>3,080</b>	<b>11.5%</b>	<b>3,488,600</b>	<b>486,000</b>	<b>0</b>	<b>(3,268,240)</b>	<b>(2,225,571)</b>	<b>\$14.05</b>	<b>\$4.48</b>	<b>N/A</b>	<b>\$4.60</b>
<b>TOTAL</b>	<b>603,526,253</b>	<b>6,478</b>	<b>11.1%</b>	<b>6,390,771</b>	<b>1,171,000</b>	<b>0</b>	<b>(7,556,887)</b>	<b>(6,304,471)</b>	<b>\$12.16</b>	<b>\$4.74</b>	<b>N/A</b>	<b>\$5.19</b>

\*Rental rates reflect \$psf/year

\*\*New Jersey industrial inventory has been revised to reflect a new benchmark of the total size of the market. This benchmark replaces the estimated inventory used in past reports with a more accurate actual count of space.

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

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

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
202 Port Jersey Boulevard	Waterfront Region	East Coast Logistics*	312,000	Warehouse/Distribution
800 Secaucus Road	Hudson Meadowlands Region	Equinix	206,000	Warehouse/Distribution
7 Costco Way	Exit 8A Market	Workflow One	200,000	Warehouse/Distribution
100 Herrod Boulevard	Exit 8A Market	GMB North America, Inc.	192,400	Warehouse/Distribution
45 East Linden Avenue	Waterfront Region	Continental Terminals Inc.	190,100	Warehouse/Distribution

#### SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
297 Getty Avenue	Clifton & Paterson Market	A.L.A.Realty Associates	700,000	\$9,500,000
300-330 Fairfield Road	Essex-Suburban Region	Middle Atlantic Products	417,159	\$29,800,000
800 Cottontail Lane	Somerset-Upper 287 Corridor	Russo Development & Sentinel Real Estate Corporation	228,000	\$12,540,000
30 Engelhard Drive	Exit 8A Market	Cosmetics and Perfume & Filling & Packaging Inc.	198,400	\$9,500,000
400 Kennedy Drive	The Brunswicks	DCT Industrial Trust	150,000	\$9,500,000

#### SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1700 MacArthur Boulevard	Route 17 No & GSP N Corridor	New York Stock Exchange	400,000	8/10
201 Main Avenue	Clifton & Paterson Market	Credit Suisse	285,000	5/11

\* 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.

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