MARKETBEAT

NORTHERN AND CENTRAL NEW JERSEY INDUSTRIAL REPORT

4Q08

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

ECONOMY

The New Jersey Industrial market this year has been marred with plenty of distractions. The weakening economy has placed a tighter grip on the way banks lend money. After being hit with budget cuts, across the board layoffs have ensued (contributing to the rise in New Jersey unemployment from 4.2% in 2007 to 6.1% as of November 2008). The Northern New Jersey market has been kept afloat by the burgeoning Port Region, which is expected to acquire more demand for industrial space in the coming years. The Port Region is a vital part of New Jersey's economy as trade for consumer goods continues to maintain the overall health of the state. Central New Jersey not only offers a surplus of big box buildings for lease or sale, but it is connected to one of the largest transit hubs in the United States. Looking ahead, although manufacturing jobs in New Jersey are disappearing, a slight increase in manufacturing rents is expected as companies begin to buy into existing manufacturing companies, eventually transitioning them into profitable businesses.

OVERVIEW

Leasing activity totaled over 17.0 million square feet (msf) this year, down from 23.1 msf in 2007. The overall market experienced a surge during the first quarter, which was followed by a 59% dip in the second quarter. The last half of the year rebounded, despite the strain on lending; a direct result of the ongoing credit crunch. Leasing velocity for warehouse/distribution buildings seems to be waning as new construction hasn't attracted the same number of tenants it did a year ago. However, large transactions over 200,000 square feet (sf) did occur throughout the year. South Brunswick was home to two of the largest leases of this year. At the newly built 201 Middlesex Center Boulevard, Fortunoff leased 600,000 sf. Nearby, clothing manufacturer Wicked Fashions, Inc. secured 418,123 sf at 329-333 Herrod Boulevard.

Investors helped to create over 12.6 msf of sales transactions this year, an increase since 2007 when the market witnessed 8.5 msf in sales transactions. This year, investment sales accounted for 60% of user/investor transactions as opportunities were still procured in the struggling economy. KTR Capital Partners continued to add to their investment portfolio with the acquisition of the White Rose Food, Inc. cold and dry storage facilities located at the Port Carteret Industrial Complex in Carteret. The acquisition consists of two buildings totaling over 1.0 msf. Also, in Raritan, logistics company Regency Transportation, purchased the 851,005-sf warehouse/distribution building at 1200 Route 523. Year-to-date, over 4.0 msf of new construction has been completed and a 38% vacancy rate exists within these properties. The largest project under construction is the fully vacant 140 Docks Corner Road (583,376 sf), which will be completed in the Winter of 2009.

FORECAST

Overall vacancy rates are likely to increase as job loss increases and space is put on the market as a result. Manufacturing, a sector that has been in decline in recent years, has been given a spark by investors who look to buy older companies and turn a profit. Proposed projects will become all build-to-suit as developers are in search of commitment from anchor tenants prior to construction.

BEAT ON THE STREET

"The Northern New Jersey market has slowed down, but does not appear to be as sluggish as the big warehouse box market in Central Jersey, Exit 8A specifically."

–Dan Frankel, Senior Managing Director

ECONOMIC INDICATORS

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

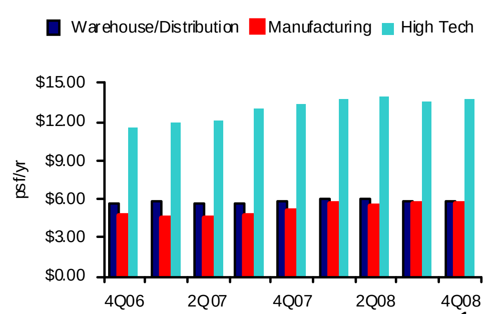
MARKET FORECAST

LEASING ACTIVITY began steadfast in the first quarter, but lagged thereafter, totaling 17.0 msf. Activity may still decrease as fewer tenant moves are expected.

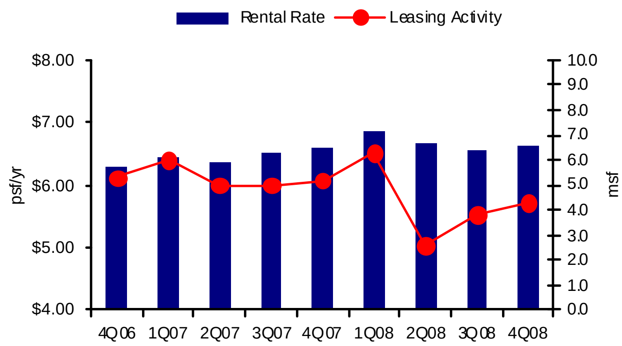
SALES ACTIVITY: Expect the lending market to completely open up towards the beginning of 2010.

CONSTRUCTION: Led by weak demand and oversupply in places such as Middlesex County, construction deliveries are decreasing.

RENTAL RATE COMPAISON

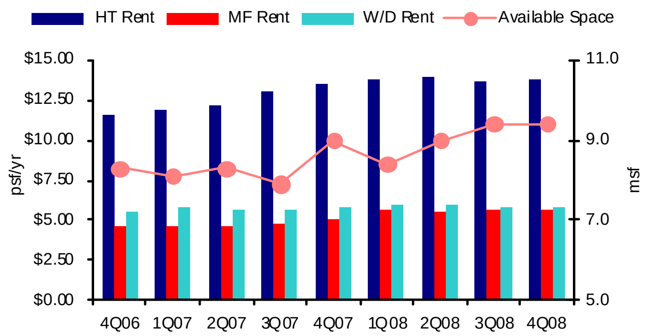


OVERALL RENTAL RATES vs. LEASING ACTIVITY



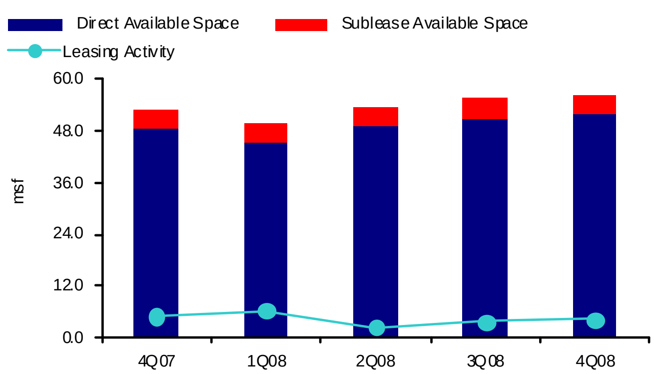
- After a surge during the first quarter 2008, leasing activity hit record lows during the second quarter. Though credit lending became tight during the second half of the year, leasing activity gained momentum to end the year.
- A burgeoning demand for manufacturing and high-technology space has kept rental rates from posting steep declines. Manufacturing overall net weighted average rental rates increased by $0.27 per square foot (psf) this quarter, high-technology increased by $0.13 psf this quarter.

DIRECT RENTAL RATES vs. AVAILABLE SPACE



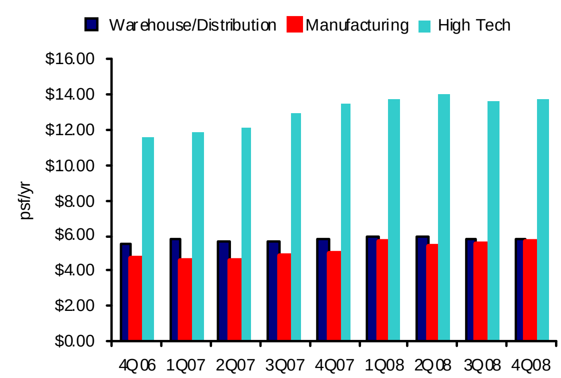
- Manufacturing rental rates have consistently stayed above $5.00 psf over the past year, increasing from the previous year. The increase has been attributed to newfound demand for manufacturing companies which investors feel can be turned around for a profit.
- Central New Jersey is the focal point for vast available space as 91% of the new construction completions are slated for the area, with the bulk in Middlesex County. However, demand in this market is heading towards a downturn, ultimately raising the vacancy rates.

AVAILABLE SPACE TRENDS vs. LEASING ACTIVITY



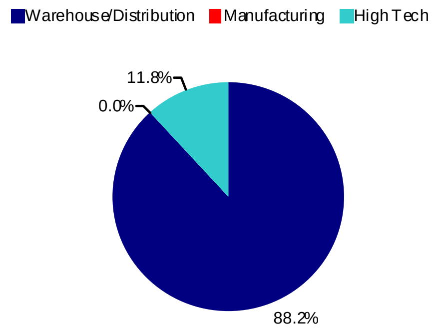
- Direct available space has risen consistently throughout the year as new construction is being completed with little pre-leasing. Expect available space to rise as 83% of the new construction (1.3 msf) has not been pre-leased yet.
- Sublease space has increased as companies continue searching for more cost-efficient areas to work. Recently, Pennsylvania has become the new designation for many industrial companies because transportation costs remain lower than New Jersey.

DIRECT RENTAL RATE COMPARISON



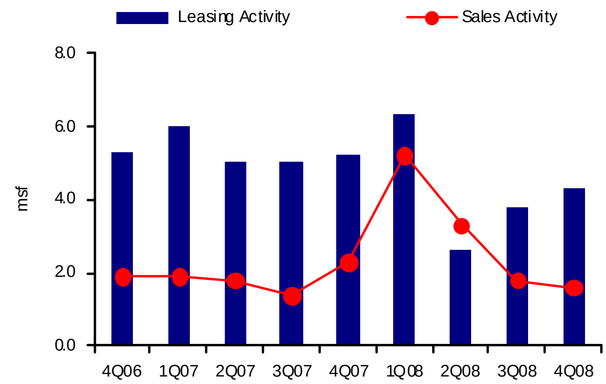
- High-technology overall net weighted average rental rates have increased over the years because companies are attempting to become more energy-efficient and the demand for this space type remains high. High-technology environments offer high voltage power and are easier to convert into office build-out.
- Direct net weighted average rental rates for high-technology space increased from $13.45 psf to $13.70 psf over the last year. These rents are the highest in the New Jersey industrial market.

4Q08 CONSTRUCTION COMPLETIONS



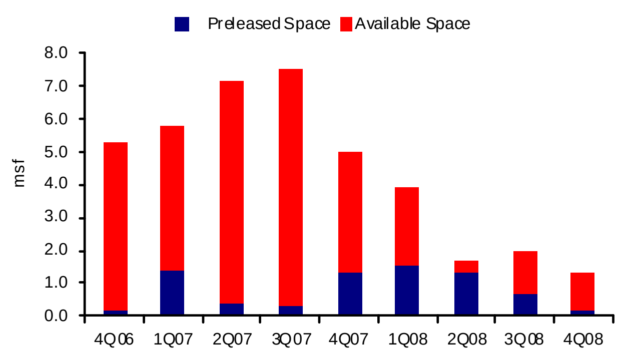
- The warehouse/distribution market continues to be the major attraction of the New Jersey Industrial market. However, with high-technology buildings becoming more desirable, developers are beginning to break-ground on several high-technology properties; including 6 Corporate Place, which is a 90,000-sf high-tech building that is due next year.
- Although a demand for manufacturing companies exists for investors, the industry still continues its regression. There are no planned manufacturing buildings currently under construction.

OVERALL LEASING vs. SALES ACTIVITY



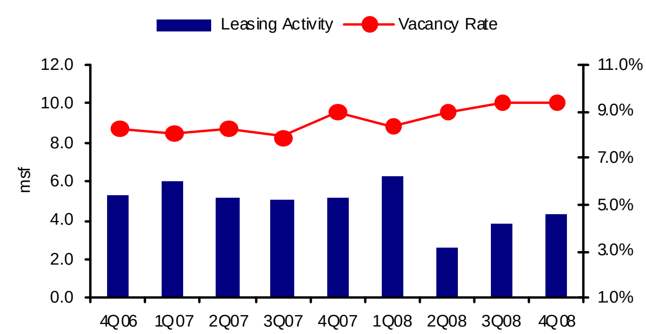
- Second quarter leasing activity declined by over 50% compared to first quarter when 6.3 msf of activity was recorded. The second half of the year rebounded, helping to bring 2008 totals to over 17.0 msf.
- Sales activity tapered off after the first quarter of the year as investors found a harder time obtaining credit amongst a weakening economy.

SPACE IN PROJECTS UNDER CONSTRUCTION



- Currently, out of the 1.3 msf of buildings under construction, only 240,331 sf has been pre-leased, equating to an 83.0% new construction vacancy rate.
- Pre-leasing activity was at its best in 2007 where 1.5 msf of lease transactions occurred in the first and fourth quarter of that year, respectively.

OVERALL LEASING vs. VACANCY RATES



- The overall vacancy rate has increased this year due to the addition of 4.0 msf; of which only 38% has been pre-leased.
- The largest transaction of the quarter was Fortunoff, which leased 600,000 sf at the newly built 201 South Middlesex Center Boulevard in South Brunswick. In total, there were fifteen leases over 200,000 sf.

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MARKET/SUBMARKET STATISTICS

								DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
MARKET/SUBMARKET	INVENTORY**	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	HT	MF	OS***	W/D
Bergen County	121,238,048	1,269	7.0%	2,550,900	15,000	82,350	(2,260,224)	$12.14	$7.64	N/A	$6.67
Essex County	69,864,026	649	4.5%	851,068	0	191,196	(384,797)	$10.58	$5.16	N/A	$6.58
Hudson County	91,343,116	512	4.7%	2,343,146	0	0	(68,439)	$17.09	$5.77	N/A	$6.36
Morris County	45,849,533	468	7.7%	1,310,203	0	27,000	(72,658)	$9.87	$5.94	N/A	$7.30
Passaic County	46,181,410	448	5.5%	613,852	0	22,000	157,339	$11.95	$4.82	N/A	$6.75
Northern NJ Total	**374,476,133**	**3,346**	**5.9%**	**7,669,169**	**15,000**	**322,546**	**(2,628,779)**	**$11.43**	**$5.95**	**N/A**	**$6.70**
Mercer County	30,020,684	235	18.0%	398,559	0	879,677	462,184	$19.98	$5.43	N/A	$4.61
Middlesex County	235,738,784	1,594	8.6%	6,888,202	883,707	2,320,550	1,308,504	$16.38	$5.17	N/A	$5.40
Monmouth County	17,512,335	183	8.7%	281,341	0	341,000	1,123,138	$12.18	$6.00	N/A	$6.67
Somerset County	43,914,971	392	5.1%	921,038	86,400	0	146,082	$11.81	$7.87	N/A	$5.63
Union County	71,973,650	643	6.2%	898,071	385,000	143,756	(262,466)	$14.29	$5.01	N/A	$5.19
Central NJ Total	**399,160,424**	**3,047**	**8.5%**	**9,387,211**	**1,355,107**	**3,684,983**	**2,777,442**	**$15.26**	**$5.31**	**N/A**	**$5.31**
TOTAL	**773,636,557**	**6,393**	**7.2%**	**17,056,380**	**1,370,107**	**4,007,529**	**148,663**	**$13.70**	**$5.65**	**N/A**	**$5.85**

*Rental rates reflect $psf/year

**Estimated Inventory

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

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

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
201 Middlesex Center Boulevard	Exit 8A Market	Fortunoff	600,000	Warehouse/Distribution
329-333 Herrod Boulevard	Exit 8A Market	Wicked Fashions, Inc.	418,213	Warehouse/Distribution
25 South Middlesex Avenue	Exit 8A Market	Menlo Logistics Inc.	411,600	Warehouse/Distribution
2-8 Germak Drive	Lower 287 Corridor	P.C. Richard & Son	299,625	Warehouse/Distribution
111 Herrod Boulevard	Exit 8A Market	VSE Corp	256,390	Warehouse/Distribution

SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
380-400 Middlesex Avenue/580 Port Carteret Drive	Lower 287 Corridor	KTR Capital Partners	1,014,931	Portfolio Sale
1200 Route 523	Raritan & Somerville Market	Regency Transportation	851,005	$17,000,000
324 Half Acre Road	Exit 8A Market	USAA Real Estate Co.	680,787	$58,030,283
1300-1500 Lower Road	Clark & Cranford Market	Seagis	427,286	N/A
250 Carter Drive	Lower 287 Corridor	ML Cedars Group LLC	408,022	$18,500,000

SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1051 Amboy Avenue-Building 1	The Arthur Kill Region	U.S. Foods Service	614,500	10/08
201 Middlesex Center Boulevard	Exit 8A Market	Fortunoff	600,000	4/08
1051 Amboy Avenue-Building 2	The Arthur Kill Region	Best Buy	517,000	7/08
16 Applegate Drive	Southern Region	N/A	480,240	6/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
140 Docks Corner Road	Exit 8A Market	N/A	583,376	1/09
Linden Airport	Clark & Cranford Market	N/A	385,000	12/09

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