

MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q09

ECONOMY

Nationally, the economic temperature, still chilly, is in need of a heat wave. Smaller banks continue closing shop, the government is in the midst of passing a controversial healthcare reform plan, companies are consolidating and people are spending less than they were in previous years. On a more microcosmic level, the New Jersey August unemployment rate registered 9.7%, up from 9.3% in July, also representing a 4.0 percentage point increase since August 2008. According to the New Jersey Department of Labor and Workforce Development, Professional and business services (+1,800), information (+900), construction (+100) and education and health services (+100) contributed to overall monthly employment growth in the state. However, significant losses in industries such as financial activities (-1,200), occurring in both the finance and insurance (-300) and real estate (-900) components continued to occur. In the commercial real estate arena, office demand is primarily dependant upon job growth and the current demand is low. However, hope still lingers and most economists predict that the continued infusion of government funded stimulus will aid in the start of financial recovery towards the first half of 2010.

OVERVIEW

The overall weighted average asking rental rate, currently \$26.03 per square foot per year (psf/yr), continues to decline, dropping by \$0.38 psf/yr since last quarter and \$0.88 psf/yr from a year ago. The overall vacancy rate, now 17.3%, increased by 0.3 of a percentage point since last quarter and is 0.9 of a percentage point higher since this same time last year. The class A overall weighted average asking rental rate, currently \$28.49 psf/yr has also dipped by \$0.24 psf/yr since last quarter when it registered \$28.73 psf/yr and \$0.94 psf/yr less than what was recorded a year ago. The vacancy rate in the class A market, currently 19.8% is 1.6% higher than it was a year ago. Additional sublease space continues to move into the market, now representing nearly 18.0% of the overall availabilities, compared to the 16.6% recorded last year at this time.

Year-over-year, new leasing activity is down by nearly 25.0%. However, a few sizeable deals still occurred. Savvis, Inc., global leader in outsourced internet infrastructure services, executed the most noteworthy new deal. To meet the needs of its customer base, the company leased approximately 209,000 square feet (sf) of additional new data center space at 1919 Park Avenue in Weehawken. At 60 Columbia Turnpike in Morris Township, Smiths Detection leased the full 75,450-square foot (sf) building. Another sizeable deal occurring this quarter was procured by Solix, Inc. The government and commercial markets process outsourcing firm recently secured a 56,230-sf lease at 30 Lanidex Plaza West in Parsippany. In a relocation from 1 Lackawanna Plaza in Montclair, law firm, Garrity, Graham, Murphy, Garofalo & Flinn moved to 72 Eagle Rock Avenue in East Hanover, where the company will now occupy 20,034 sf. Showing signs of continued strength in this unstable economy is Morris County, having posted the second highest totals in leasing activity throughout all of Northern & Central New Jersey year-to-date. There is truly no market that is recession-proof, but in a time where market fundamentals are weakening, Morris County remains active and has fared better than most other office markets during this time. New construction in Northern New Jersey is limited with only 363,688 sf delivered year-to-date, of which 250,000 sf was a build-to-suit for Wyndham Worldwide.

Investment activity showed some improvement since last quarter. The most notable sale occurred in Hoboken where Waterfront Corporate Center I, a class A 531,102-sf property was acquired by HUB Hoboken Properties, LLC for \$143 million. In the Bergen Meadowlands, KABR Real Estate Investment Partners LLC purchased the 129,000-sf property known as 10 Mulholland Drive, from KABR Real Estate Investment Partners LLC, for an estimated \$5.75 million.

FORECAST

The majority of tenants currently surveying the market in search of better opportunities will likely renew in place at current low market rents, rather than incur the costly task of relocation. In addition, the market will continue to perform advantageously for those tenants who chose to move as Landlord concession packages, focused on tenant retention are delivered in the form of substantial free rent, tenant improvements and furniture.

BEAT ON THE STREET

"Tenants are exploring opportunities for up to two years in advance of their lease expirations in order to take advantage of the current economy. Tenants remain hesitant in making long-term commitments and are utilizing the weakness of the market to recast their leases. They are continuing to consider trophy projects due to concessions and reduced rental rates. "Flight to Quality".

Jim Postell - Executive Director

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	6.8%	8.8%	10.1%
Employment Growth	-0.52%	-2.47%	-0.20%

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

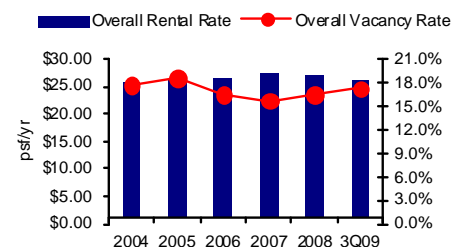
MARKET FORECAST

LEASING ACTIVITY will remain weak through the first half of 2010. ↓

OVERALL RENTS are expected decline slightly as landlords continue lowering asking rents, while still offering up lofty concession packages. ↓

SPECULATIVE CONSTRUCTION activity will remain stagnant in this market as developers purely focus on fundworthy build-to-suit projects. ↓

RENTAL RATE VS. VACANCY RATE OVERALL



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*
Bergen County	26,234,968	365	17.6%	15.2%	821,061	0	0	(343,420)	\$29.54
Essex County	23,690,643	214	14.6%	13.0%	564,250	0	0	(462,133)	\$28.89
Hudson County	23,525,636	102	11.9%	7.4%	635,735	0	0	(675,027)	\$32.84
Morris County	27,761,290	294	23.1%	18.7%	794,907	0	363,688	(101,819)	\$30.21
Passaic County	5,137,419	76	22.7%	22.5%	180,730	0	0	(61,401)	\$20.76
Selected Submarkets									
Meadowlands	7,126,620	61	21.9%	21.3%	304,939	0	0	(11,699)	\$29.09
Parsippany	12,187,171	113	23.7%	16.7%	354,845	0	350,000	(29,419)	\$31.91
Hudson Waterfront	20,123,066	76	9.7%	4.7%	462,849	0	0	(580,948)	\$32.84
Newark	13,519,762	57	15.1%	13.0%	216,529	0	0	(244,185)	\$31.16
Northern NJ Total	106,349,956	1051	17.3%	14.3%	2,996,683	0	363,688	(1,643,800)	\$29.22

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1919 Park Avenue	Hudson Waterfront	Sawis, Inc.	209,000	B
60 Columbia Turnpike	Morristown	Smiths Detection	75,450	B
30 Lanidex Plaza West	Parsippany	Solix, Inc.	56,230	B
200 Park Avenue	Route 10-24 Corridor	Logical Design Solutions	25,740	A
26 Columbia Turnpike	Route 10-24 Corridor	Brown & Brown Insurance*	24,156	C
SIGNIFICANT 3Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Waterfront Corporate Center I	Hudson Waterfront	Hub Hoboken Properties, LLC	570,341	\$143,000,000
10 Mulholland Drive	Bergen Meadowlands	KABR Real Estate Investment Partners LLC	129,000	\$5,750,000
SIGNIFICANT 3Q09 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
N/A				

*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

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

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