

MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q08

ECONOMY

During the first half of September, three fortune 500 companies transitioned; Lehman Brothers filed for bankruptcy, Bank of America acquired Merrill Lynch and American International Group received an \$85 billion loan from the U.S. government. Most recently, Washington Mutual was seized by the federal government, then immediately acquired by JP Morgan Chase and Citigroup is in a bidding war with Wells Fargo to purchase Wachovia Corp. The U.S. government was hard-pressed to approve a \$700 billion rescue plan for the other remaining financial institutions (i.e., JP Morgan Chase, Morgan Stanley, Goldman Sachs, etc...). The plan, recently approved, encompasses rescue missions and stricter regulations that will not only benefit the heavy hitters on “Wall Street”, but also the average American on “Main Street”. In August, the New Jersey unemployment rate registered 5.9%, up by 0.5 percentage points, the highest it’s been in five years. According to the New Jersey Department of Labor, the major component of private sector job losses remained within the professional and business industry where 1,000 jobs were lost during August.

OVERVIEW

As expected, vacancy rates are slowly increasing and overall vacancy currently stands at 16.4%, a 0.2 percentage point increase since last quarter. Direct weighted average rental rates, showing slight signs of decline, now register \$27.20 per square foot (psf), in comparison to the \$27.35 psf recorded last quarter. However, despite this fluctuation, several markets still managed to secure significant leases. Representing the largest lease in both Northern and Central New Jersey, consumer products firm, Reckitt Benckiser, Inc., expanded at Morris Corporate Center IV- Phase I (AKA 399 Interpace Parkway) and signed a new lease totaling 163,386 square feet (sf). At Harborside Financial Center III in Jersey City, Arch Insurance took 106,815 sf. In a, relocation from 4 Becker Farm Road in Roseland, Curtiss Wright Corp., expanded their operations by leasing 29,974 sf at 10 Waterview Boulevard in Parsippany. Other mid-sized deals included; Ralcorp Holdings, Inc., signing on for 28,023 sf at Morris Corporate Center II, in Parsippany and IBM taking 26,678 sf at 930 Sylvan Avenue in Englewood Cliffs. Renewal activity remained strong throughout the state. Intel Dialogics stayed in place at 1515 Route 10 in Parsippany, where they occupy 215,465 sf and Savvis Communication Corp. renewed for 71,474 sf at Harborside Financial Center III on the Hudson Waterfront.

Additional overall space has been delivered to the market this quarter. In Newark, at 520 Broad Street, 256,000 sf recently became available. Construction activity has tempered, with only one completion this quarter. The 120,000-sf NY Jets Football Headquarters in Florham Park is now fully occupied. There are three properties slated for delivery by year-end; Sylvan Way (250,000 sf), 1 Jefferson Road (100,000 sf) and Interpark Office Campus, Plaza 80 (76,000 sf), all are located in Parsippany. Investment deals were minimal when compared to previous years. The most significant deal this quarter occurred when KBS REIT, in a portfolio sale, purchased 100 and 200 Campus Drive in Florham Park. The purchase of the remaining four buildings within the Campus Drive Park will complete the portfolio sale by year-end.

FORECAST

In order to maintain growth in all sectors of business, it is vital for the economy to rebound. Vacancy rates and asking rents will further decline if the current financial unrest continues, causing the commercial real estate market to remain in flux.

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BEAT ON THE STREET

“As we wind down 2008, there are more questions than answers, given the credit problems, consolidation of major financial firms, and a pending election. As a result, tenants that can make commitments will benefit greatly from the excellent market opportunities, as we expect available supply to continue to outpace demand well into 2009.”

Marc Graham – Associate Director

ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.8%	2.0%	1.9%
CPI Growth	3.2%	2.9%	4.4%
Regional			
Unemployment	4.7%	4.3%	5.5%
Employment Growth	0.6%	0.4%	-0.3%

Source: Moody's | Economy.com

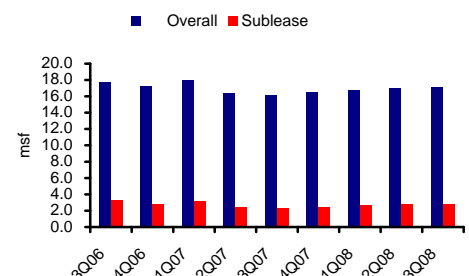
MARKET FORECAST

NEW LEASING ACTIVITY is expected to drop as the increased velocity of job losses continues and the need for expansion space declines. ↓

OVERALL VACANCY RATES will rise as job creation weakens and companies begin to downsize, thereby delivering more space to the market in 2009. ↑

CONSTRUCTION: Fewer speculative projects will break ground as developer hesitation continues to permeate throughout the state. ↓

AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall	Direct	YTD	Under Construction	YTD	YTD	Direct Wtd. Avg. Class A Gross Rental Rate*
			Vacancy Rate	Vacancy Rate	Leasing Activity		Construction Completions	Overall Absorption	
Bergen County	26,101,222	361	16.8%	15.1%	1,157,955	0	196,000	(354,904)	\$30.01
Essex County	23,230,360	212	13.9%	13.1%	471,143	0	0	(391,228)	\$30.40
Hudson County	23,390,106	101	10.2%	6.9%	1,017,276	0	0	170,061	\$39.13
Morris County	27,005,688	284	21.9%	16.8%	1,191,142	426,000	120,000	(619,365)	\$29.27
Passaic County	5,136,244	76	23.4%	23.0%	127,494	0	0	(35,919)	\$20.42
Selected Submarkets									
Meadowlands	6,996,186	60	23.4%	22.3%	558,449	0	0	(42,189)	\$29.03
Parsippany	11,586,760	109	20.1%	13.4%	685,728	0	0	(330,374)	\$30.66
Hudson Waterfront	20,121,066	76	8.1%	4.5%	730,967	0	0	80,106	\$39.13
Newark	13,092,042	56	14.4%	13.5%	204,959	0	0	(294,870)	\$31.69
Northern N.J. Total	104,863,620	1034	16.4%	13.6%	3,965,010	426,000	316,000	(1,231,355)	\$30.00

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Morris Corporate Center IV	Parsippany	Reckitt Benckiser	163,386*	A
Harborside Financial Center III	Hudson Waterfront	Arch Insurance	106,815	A
10 Waterview Boulevard	Parsippany	Curtiss Wright Corp.	29,974	A
Morris Corporate Center II	Parsippany	Ralcorp Holdings	28,023	A
930 Sylvan Avenue	GW Bridge Market	IBM	26,678	A

SIGNIFICANT 3Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
100 & 200 Campus Drive	Route 10/24 Market	KBS REIT II	564,002	Partial Portfolio Sale/N/A

SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1 Jets Way	Route 10/24 Corridor	NY Jets	120,000 sf	9/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Sylvan Way	Parsippany	Wyndham Worldwide	250,000	12/08
1 Jefferson Road	Parsippany	N/A	100,000	12/08
Interpark Office Campus-Plaza 80	Parsippany	N/A	76,000	11/08

*Expansion/renewal

For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

Cushman & Wakefield, Inc.
One Meadowlands Plaza, 7th Floor
East Rutherford, NJ 07073
(201) 935-4000

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

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