MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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Global Real Estate Solutions℠

4Q08

ECONOMY

Over the last few months, our nation has witnessed several deep and impacting transformations to both our economical and political canvass. Economists are no longer questioning claims of a national recession, but instead argue as to when the economy will recover. Mega companies such as Citigroup, GE and AIG have all been selected for government bailout fund distribution, thus avoiding possible mergers or bankruptcy. Lastly, a new era of presidency has emerged with the election of Barack Obama; who will be tasked with making both political and financial resolutions to regain this country's lost confidence. According to the New Jersey Department of Labor and Workforce Development, the unemployment rate rose to 6.1%, but remained below the U.S. rate of 6.7%, the highest rate in 15 years. November's rate represents the highest statewide unemployment rate since August 1996. Governor Jon S. Corzine recently introduced the creation of a 29-member panel that will counsel him on real estate issues, thereby helping to encourage future investment and improve the State's business climate. However, the recent announcement of an $812 million state spending cut suggests that it may become necessary to re-shuffle some financing for existing incentives programs until the fiscal nature of the state begins to rebound.

OVERVIEW

The overall vacancy rate, currently 16.5%, has been pushed upwards by markets such as Morris County, which added significant sublease space to the market since 2007. Direct weighted average asking rental rates have dipped slightly to $27.12 per square foot (psf). New leasing activity is off par, representing only 79% of totals recorded last year at this time. Most recently, The Hudson Group renewed and expanded, now occupying 62,000 square feet (sf) at One Meadowlands Plaza in East Rutherford. Also this quarter, the United Parcel Service (65,000 sf) renewed at 500 North Franklin Turnpike in Ramsey and GAB Robins North America, Inc. (50,025 sf) stayed in place at 9 Campus Drive in Parsippany for another 10 years. The largest new deal of 2008 was executed by AXA Financial who secured 244,957 sf at 525 Washington Avenue (Newport Office Tower) on the Hudson Waterfront.

Sales activity this year, kept afloat by a 1.1-million-square-foot (msf) portfolio sale, did not deviate far from totals documented last year. KBS REIT II completed their two-phase purchase of the six-building Park Avenue Corporate Center office portfolio in Florham Park from JP Morgan for an estimated $365 million. The first closing involved 100 and 200 Campus Drive which were sold for a total of $180.7 million in September. The second closing included the 300-600 Campus Drive buildings, which were sold for $184.3 million in October.

The sole construction completion this quarter was located in Parsippany. 100 Interpark Boulevard/Interpark Office Campus (76,000 sf) was delivered to the market and remains fully available for lease. Also in Parsippany, 8 Sylvan Way was expanded to 173,156 sf and will house the New Jersey headquarters of The Medicine Companies.

FORECAST

Expansion interest has decelerated and many companies have begun consolidating their services. Overall vacancy rates are likely to increase as job loss escalates and companies begin to shed more space in the coming months. Although renewal activity is on the rise; terms may prove to be shorter, allowing room for future re-negotiation for both landlords and tenants alike.

BEAT ON THE STREET

"The market is experiencing rising sublease space due to the fallout of the financial markets around the world and especially in Manhattan. We expect existing tenants with leases expiring in 2009 and early 2010, to restructure their leases by adding term for a reduction in rental rate from their landlord."

–Marc Rosenberg, Executive Vice President

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

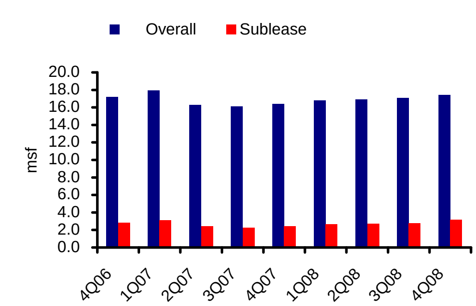
MARKET FORECAST

NEW LEASING ACTIVITY has declined since 2007 and is expected to remain flat in 2009 as more renewals occur.

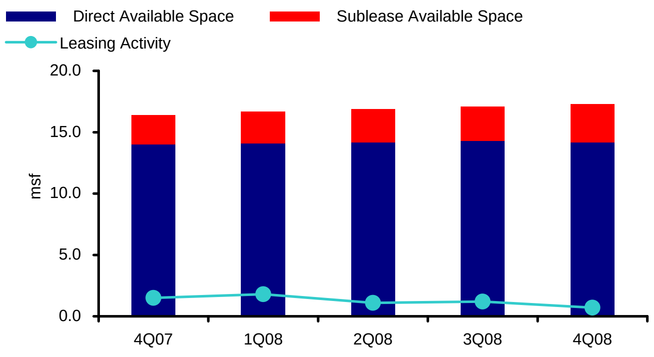
INVESTMENT SALES ACTIVITY is expected to become sluggish during the first half of 2009 as debt financing becomes harder to secure.

CONSTRUCTION: The results of a wounded economy and abundant supply of available space have pushed back the delivery of new projects.

AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



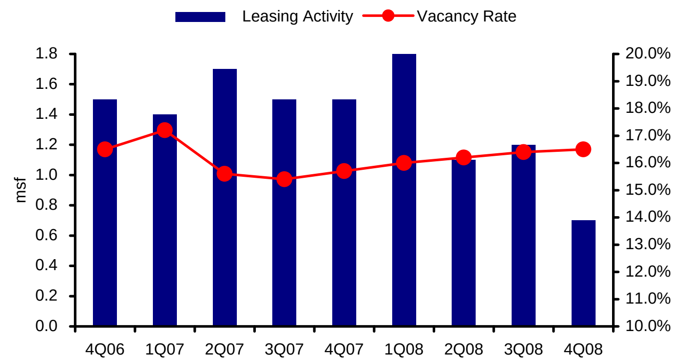
AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



• After peaking during first quarter 2008, leasing activity has tapered off with only 655,907 sf recorded this quarter. Sublease space now represents 18.2% of total available product, most of which is located on the Hudson Waterfront, in Parsippany.

• Direct space comprises over 81.8% of total available product. The most plentiful pockets of direct space are found within the Newark (1.74 msf), Parsippany (1.68 msf) and Morristown (1.05 msf) submarkets.

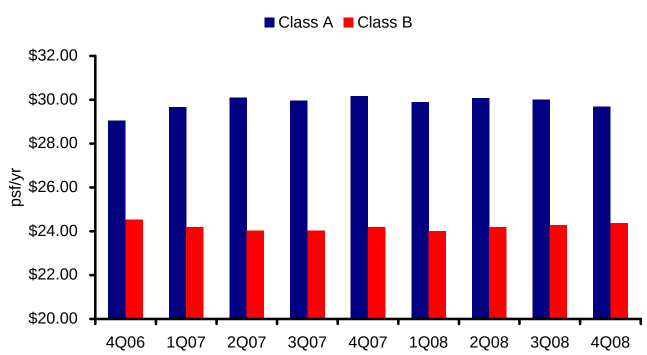
OVERALL LEASING ACTIVITY VS. VACANCY RATE



• 1.8 msf of leasing activity occurred during first quarter 2008, with second quarter 2007 coming in a close second at 1.7 msf. However, leasing activity has since dropped and recently recorded its lowest quarterly total (in recent years) during fourth quarter 2008.

• Overall vacancy rates, still fluctuating, are currently 16.5%, which is 0.8% higher than year-end 2007 totals where leasing activity in both Parsippany and the Hudson waterfront helped to decrease vacancy rates.

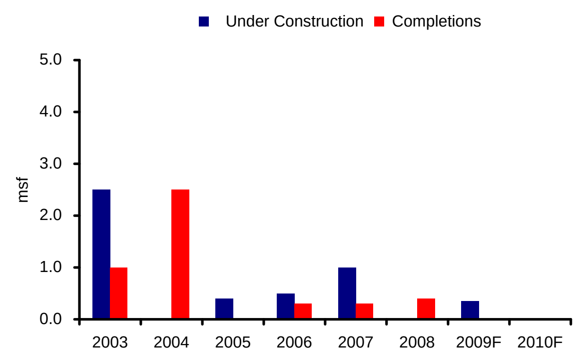
DIRECT RENTAL RATES CLASS A VS. CLASS B



• Although class A direct rents increased slightly during fourth quarter 2007 and second quarter 2008 respectively, they have lost momentum and currently stand at $29.69 psf.

• Class B direct rents remained flat with little movement in second and third quarters of 2007. However, after experiencing a slight decrease in first quarter 2008, class B rents now stand at $24.38 psf, the highest they have been since year-end 2006.

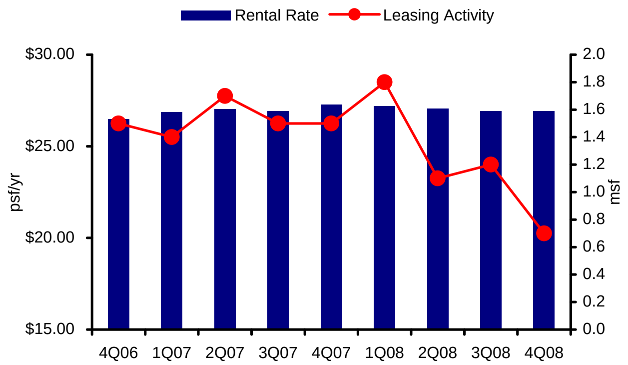
SF UNDER CONSTRUCTION VS. COMPLETIONS



• Construction deliveries are still slow and off the pace set in 2003 when completions registered nearly 3.8 msf. There have only been five properties totaling 392,000 sf delivered to the market during this year.

• There is currently 350,000 sf under construction in Northern New Jersey, significantly lower than this time last year when there were nearly 1.0 msf under construction. Those properties currently under construction are the speculative 100,000-sf building at 1 Jefferson Road and the build-to suit Wyndham Worldwide headquarters at Sylvan Way (250,000 sf), both in Parsippany.

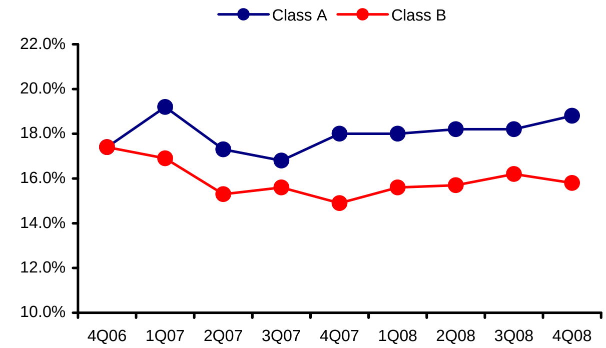
OVERALL RENTAL RATE VS. LEASING ACTIVITY



- After regaining momentum during first quarter, leasing activity took a steep decline in second quarter 2008 and again during fourth quarter 2008, registering only 655,907 sf. Overall rental rates remained flat over the last two consecutive quarters, currently standing at $26.91 psf.

- Representing the largest new deal of this quarter, BNP Paribas signed on for 37,877 sf at Newport Office Tower on the Hudson Waterfront.

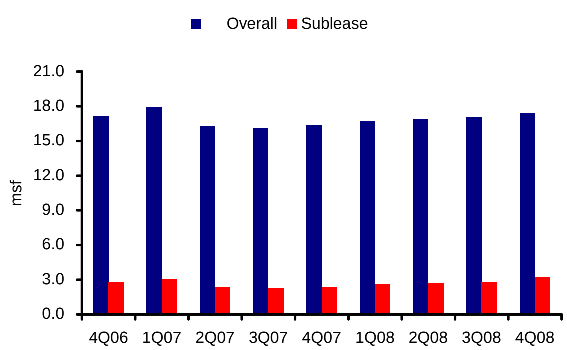
OVERALL VACANCY RATES CLASS A VS. CLASS B



- After remaining fairly flat from fourth quarter 2007 through third quarter 2008, class A overall vacancy rates have moved upwards and currently stand at 18.8%. After increasing during third quarter 2008, class B overall vacancy rates dropped to 15.8% at the end of fourth quarter 2008.

- Large vacancies over 100,000 sf can be found within 3000 Continental Drive in Mount Olive, 290 West Mount Pleasant Avenue in Livingston and 445 South Street in Morris Township and 125 Chubb Avenue in Lyndhurst.

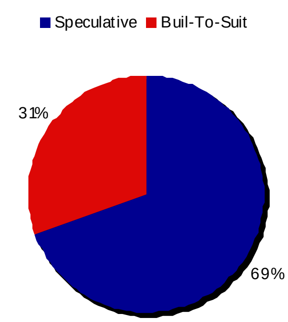
AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



- The amount of available sublease space available is currently 3.2 msf and the amount of direct space is 17.4 msf, both are the highest availabilities recorded since first quarter 2007.

- On the Hudson Waterfront, some financial companies are beginning to shed space. The Dow Jones is marketing approximately 87,156 sf of sublease space at Harborside Financial Center II and at Newport Office Center IV, US Trust Company of NY is marketing 77,472 sf of sublease space.

2008 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- There were 392,000 sf of construction completions this year; four were speculative and one was a build-to-suit for the 120,000-sf New York Jets headquarters and new training facility in Florham Park.

- Original 2008 delivery dates for some under construction projects have been pushed back to 2009.

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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	26,098,126	361	17.2%	15.4%	1,389,379	0	196,000	(446,237)	$30.15
Essex County	23,230,360	212	13.8%	12.7%	619,590	0	0	(440,960)	$30.85
Hudson County	23,390,106	101	10.1%	6.2%	1,219,386	0	0	38,743	$39.03
Morris County	27,257,192	286	23.0%	17.4%	1,424,818	350,000	196,000	(699,324)	$29.50
Passaic County	5,136,244	76	20.8%	20.5%	130,999	0	0	(49,446)	$20.33
Selected Submarkets									
Meadowlands	6,993,090	60	23.3%	22.1%	686,316	0	0	(14,743)	$29.36
Parsippany	11,835,916	111	21.6%	14.2%	771,892	350,000	76,000	(287,374)	$30.31
Hudson Waterfront	20,121,066	76	8.0%	3.8%	898,080	0	0	(54,986)	$39.03
Newark	13,092,042	56	14.2%	13.3%	246,588	0	0	(300,680)	$31.59
Northern NJ Total	105,112,028	1036	16.5%	13.5%	4,784,172	350,000	392,000	(1,597,224)	$29.69

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Newport Office Center	Hudson Waterfront	AXA Financial	244,957	A
180 Park Avenue	Morris Route 10/24	Novartis	220,000	A
Morris Corporate Center IV Phase I	Parsippany	Reckitt Benckiser, Inc.	163,386	A
Harborside Financial Center III	Hudson Waterfront	Arch Insurance	106,815	A
101 Hudson Street	Hudson Waterfront	Tullett Prebon*	101,289	A
500 Plaza Drive	Hudson Meadowlands	AXA Equitable Life Insurance Co.	100,993	A

SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
100-600 Campus Drive-Park Avenue Corporate Center	Morris Route 10/24	KBS REIT II	1,114,008	$365,000,000
1 & 2 Executive Drive	GW Bridge Market	Joseph Chetrit Partnership	600,000	$86,200,000
200, 210, 220 & 230 Park Avenue; 3040 Route 22 West; 310 Madison Avenue	Route 10/24 Market; Somerset Rt 78 Corridor; Morristown	Normandy Real Estate Partners	497,402	Portfolio Sale
2200 Fletcher Avenue	GW Bridge Market	James Campbell Co.	220,000	$53,000,000

SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
930 & 940 Sylvan Avenue	GW Bridge Market	Unilever	130,000	5/08
1 Jets Drive	Morris Route 10/24	New York Jets	120,000	9/08
100 Interpark Boulevard	Parsippany	N/A	76,000	11/08
117 West Century Road	Bergen Route 4 East Corridor	N/A	66,000	2/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Sylvan Way	Parsippany	Wyndham Worldwide	250,000	3/09
1 Jefferson Road	Parsippany	N/A	100,000	1/09

**Expansion/renewal*

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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.