MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions℠

2Q09

ECONOMY

Recovery for Northern New Jersey is contingent upon the improvement of its major market fundamentals, which all appear to be stagnant. The unemployment rate continues its uptick and as of June registered 9.2%, representing a 4.0 percentage point increase since June 2008. A major contributor to the downward spiral in employment is rooted in the reality that many companies are forced to choose consolidation over expansion, which is the primary cause for job elimination. According to the New Jersey Department of Labor and Workforce Development, "There were losses in the leisure and hospitality industry, which declined by 2,600 positions; professional and business services, which lost 2,300; and financial activities, which lost 1,400. Public-sector jobs fell by 600." Government mediation and bailouts continue. After recently being rescued, the U.S. government now has a 60.8% stake in the business of automaker General Motors. Also, Chrysler, one of the leading automakers, was acquired by Italian automaker Fiat, the UAW and the U.S. and Canadian governments. Although the U.S. government has been the broker and the buyer of major troubled assets, many economists still argue about a timeline of true recovery.

OVERVIEW

The overall weighted average asking rental rate, currently $26.41 per square foot per year (psf/yr), has displayed modest fluctuation since first quarter of 2009, dropping by only $0.04 psf/yr, still posting a lower total than at mid-year 2008 when the overall weighted average asking rent registered $27.07 psf/yr. The overall vacancy rate, now 17.0% increased by 0.7 of a percentage point since the first quarter of this year. Although new construction is now limited, additional sublease space continues to be delivered to the market. New leasing activity is down by nearly 44.0% since last quarter and year-to-date overall net absorption posted negative totals throughout all Northern New Jersey counties, with the exception of Passaic.

The most noteworthy new deal executed this quarter was Global Aerospace, Inc's., full-floor lease at Wyndham Worldwide Operations' former 47,891-square foot (sf) location at 1 Sylvan Way in Parsippany. This new address will serve as the U.S. headquarters for the leading aerospace insurer. In a relocation within the same market, entrepreneurial law firm, LeClair Ryan moved from 2 Penn Plaza in Newark to 1 Riverfront Plaza, where the company will now occupy 43,311 sf. Another significant deal occurring this quarter was procured by Science Applications International Corporation (SAIC). The leading provider of scientific, engineering, systems integration and technical services company recently leased 37,100 sf at 155 Passaic Avenue in Fairfield. In most cases, those tenants who have re-evaluated their existing cash-flow are strategically opting to stay in place, rather than move and incur hefty moving costs. Renewal activity for smaller tenants remained fairly steady during the first half of the year, registering nearly 500,000 sf. One of the more significant renewal/expansions recorded this quarter took place at 1 Bridge Plaza in Fort Lee, where Palisades Capital Management, LLC expanded by approximately 5,268 sf and now occupies nearly 17,000 sf for an additional five year-term.

Investors are still cautious about purchasing property and banks continue to keep a tight rein on credit. Year-over-year sales activity took a tremendous dip, totaling less than 50.0% of totals posted last year at this time. However, class A sales activity for the quarter was fairly steady. In Ridgefield Park, the vacant 235,057-sf property known as 85 Challenger Road was acquired by KABR Real Estate Investment Partners, LLC for $10.5 million. In Roseland, 425 Eagle Rock Avenue, a 126,761-sf building was sold to Marcon Roseland, LLC for an estimated $17.5 million. This property is nearly 90.0% occupied.

FORECAST

The recent onset of "negotiable" listed asking rents will continue to pan out favorably for tenants, serving as a tremendous "bargaining chip" in the negotiation of new leases. Landlords will continue offering more concessions and shorter lease terms on renewals as long as the market remains soft.

BEAT ON THE STREET

"Tenants with 1 to 3 years left on their current lease obligations are capitalizing on the weakened economy by procuring long term, below market financial terms with loftier concession packages ensuring significant cost savings and operating expense containment on their bottom line."

Jon Williams, Associate

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	6.8%	9.2%	10.3%
Employment Growth	-0.52%	-3.16%	-0.15%

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

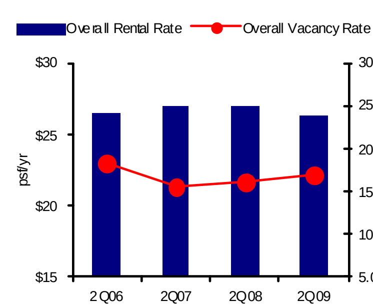
MARKET FORECAST

NEW LEASING ACTIVITY receded by over 500,000 sf since first quarter and will remain sluggish throughout the remainder of 2009.

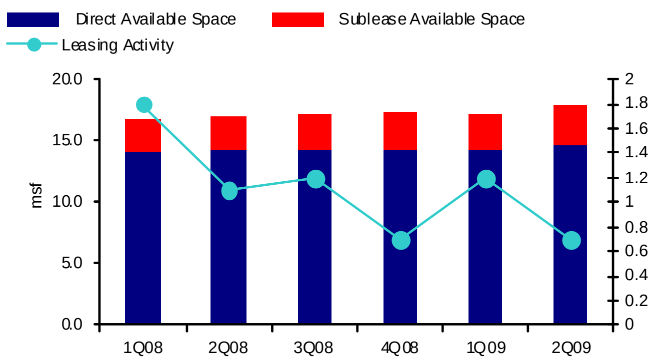
OVERALL ABSORPTION is not expected to show positive numbers as more space is delivered to the market.

CONSTRUCTION is flat in this market and there are no potential projects set for immediate ground-breaking.

OVERALL RENTAL VS. OVERALL VACANCY



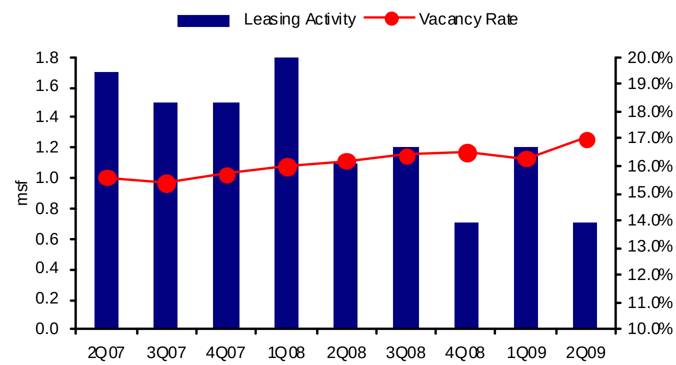
AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



• After peaking in first quarter 2008 and again in first quarter 2009, leasing activity declined in second quarter back to fourth quarter 2008 levels; representing approximately 0.7 sf. Sublease space now represents nearly 18.4% of total available product, most of which is located in Hudson and Morris Counties.

• At 225 Summit Avenue in Montvale, Teva Pharmaceuticals recently delivered 142,500 sf of sublease space to the market. The most plentiful pockets of direct space are found within the Newark (1.70 msf), Parsippany (2.05 msf), Morristown (1.17 msf) and Morris Route 206 Corridor (1.05) submarkets.

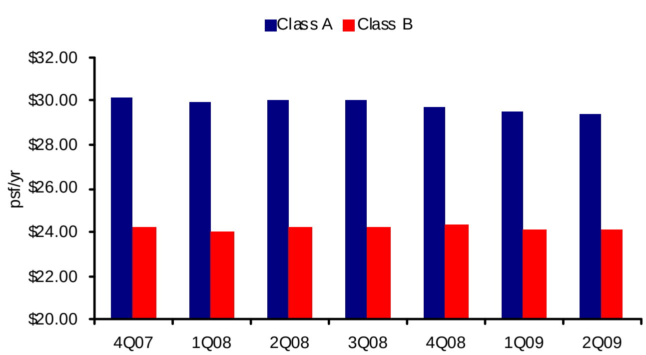
OVERALL LEASING ACTIVITY VS. VACANCY RATE



• Second quarter 2007 and first quarter 2008 posted the highest quarterly leasing activity totals in recent years. However, after registering 1.2 msf during first quarter 2009, (highlighted by Verizon at 290 West Mount Pleasant Avenue in the Essex 280 Corridor and Eisai Medical Research Inc.'s two leases at 155 and 300 Tice Boulevard in Bergen County), leasing activity has since dropped and recently recorded its second lowest quarterly total (in recent years).

• Overall vacancy rates, currently 17.0%, increased 1.4 percentage points since second quarter 2007.

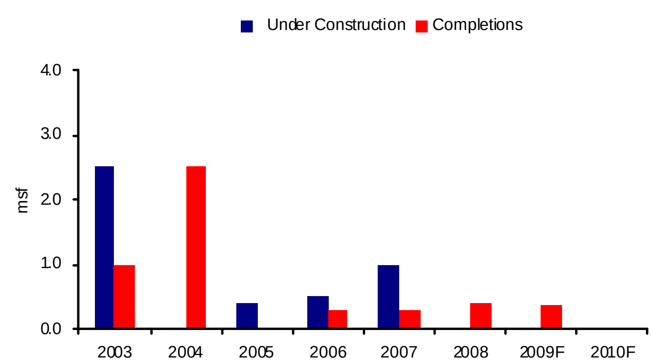
DIRECT RENTAL RATES CLASS A VS. CLASS B



• At year-end 2007, class A direct weighted average asking rental rates registered $30.16 psf/yr and have since declined, failing to surpass the $30.00 psf/yr mark over the last year.

• After peaking during fourth quarter 2008, class B direct weighted average asking rental rates declined and stand at $24.16 psf/yr, representing a $0.22 psf/yr dip.

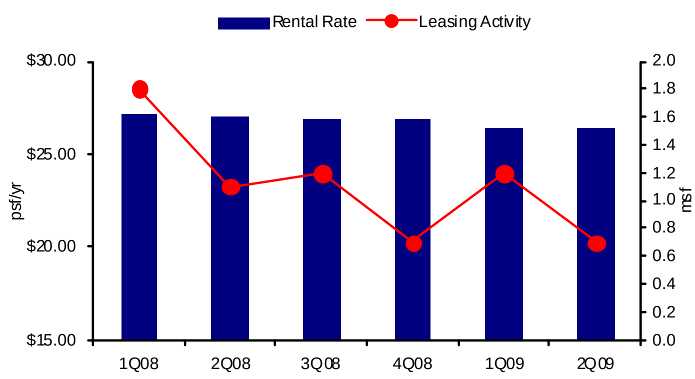
SF UNDER CONSTRUCTION VS. COMPLETIONS



• Construction deliveries in this market dropped significantly and are off the pace set in 2004 when completions registered nearly 2.5 msf. Only been three properties, totaling 363,688 sf, delivered to the market during the first half of this year.

• New construction in this market is flat due to lack of developer interest in the current economic environment. There is no immediate pipeline for significant groundbreaking or deliveries.

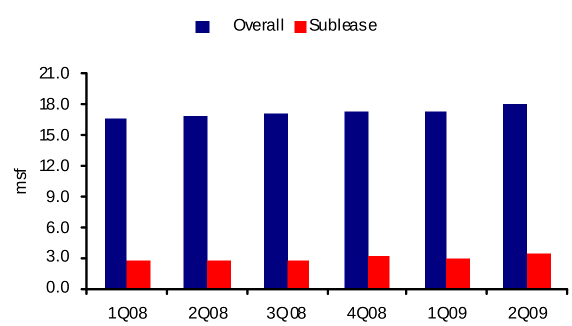
OVERALL RENTAL RATE VS. LEASING ACTIVITY



• After regaining momentum during first quarter 2008, leasing activity exhibited a steep decline through fourth quarter 2008 registering only 655,907 sf and again during second quarter 2009 where only 682,474 sf leased. The overall weighted average asking rental rate, currently $26.41 psf/yr has not reached the $27.00 psf/yr mark since second quarter 2008.

• Representing the largest new deal of this quarter, Global Aerospace, Inc. signed on for 47,891 sf at Mack-Cali's property located at 1 Sylvan Way in Parsippany.

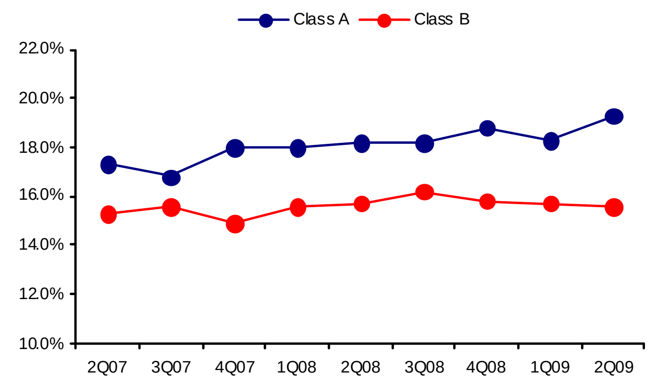
AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



• Since first quarter 2008, the overall vacancy rate has moved upwards by 1.3 percentage points and now accounts for 18.0 msf of space.

• On the Hudson Waterfront, financial companies are shedding space. US Trust continues to market over 100,000 sf of sublease space at Newport Office Center III and the Dow Jones & Company is marketing 87,156 sf of space at Harborside Financial Center II. Bank of New York recently offered up 46,277 sf of sublease space at Newport Office Center VII and the Royal Bank of Scotland is now marketing an additional 41,344 sf at Newport Office Center III.

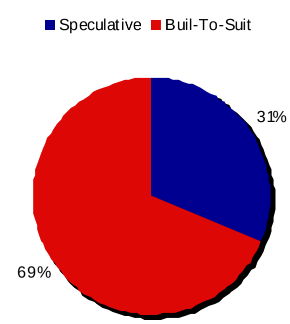
OVERALL VACANCY RATES CLASS A VS. CLASS B



• After displaying signs of stability from fourth quarter 2007 through third quarter 2008, class A overall vacancy rates recently moved upwards and currently stand at 19.3%. The class B overall vacancy rate dropped to 15.6% currently, after increasing during third quarter 2008.

• Some of the better known large contiguous class A and B vacancies over 100,000 sf can be found within 125 Chubb Avenue in Lyndhurst, Glenpointe Center in Teaneck, 2100 North Center Avenue in Fort Lee, 461 From Road in Paramus, 85 Challenger Road in Ridgefield Park and 290 West Mount Pleasant in Livingston.

2009 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



• Of the 363,688 sf of construction completions this year, two were speculative and one was a build-to-suit for the 250,000-sf Wyndham Worldwide headquarters at 22 Sylvan Way in Parsippany.

• Last year at this time, there were three projects that totaled 196,000 sf under construction, all of which were speculative.

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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	26,172,968	364	17.6%	15.2%	649,555	0	0	(336,716)	$29.41
Essex County	23,688,980	214	14.1%	12.6%	487,344	0	0	(320,103)	$29.28
Hudson County	23,685,328	102	10.3%	5.9%	345,445	0	0	(258,476)	$37.78
Morris County	27,712,535	292	23.6%	19.2%	344,413	0	363,688	(228,215)	$30.19
Passaic County	5,138,119	76	21.1%	20.7%	79,618	0	0	14,979	$20.76
Selected Submarkets									
Meadowlands	7,002,372	60	21.6%	20.7%	270,873	0	0	80,141	$29.10
Parsippany	12,185,916	113	23.5%	16.8%	185,094	0	350,000	(29,792)	$31.17
Hudson Waterfront	20,407,006	77	8.7%	3.9%	177,832	0	0	(343,377)	$37.78
Newark	13,519,762	57	14.5%	12.6%	186,163	0	0	(156,243)	$32.89
Northern NJ Total	106,397,930	1048	17.0%	13.8%	1,906,375	0	363,688	(1,128,531)	$29.39

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1 Sylvan Way	Parsippany	Global Aerospace, Inc.	47,891	A
1 Riverfront Plaza	Newark	LeClair Ryan	43,311	A
155 Passaic Avenue	Fairfield	Science Applications International Corporation (SAIC)	37,100	A
5 Paragon Drive	Bergen Route 17/ GSP North	Doosan Heavy Engineering & Services, LLC	31,302	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
85 Challenger Road	Bergen Route 95 South Corridor	KABR Real Estate Investment Partners, LLC	235,057	$10,500,000
425 Eagle Rock	Essex Route 280	Marcon Roseland LLC	126,761	$17,500,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
330 Changebridge Road Montville Office Plaza-bldg B)	Morris Route 23 Corridor	Little Learner Academy	13,688	6/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE

N/A

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.
1 Meadowlands Plaza, 7th Fl.
East Rutherford, NJ 07073
(201) 935-4000

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