

# MARKETBEAT



## CENTRAL NEW JERSEY OFFICE REPORT

4Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

### ECONOMY

The national unemployment rate registered 10.0% in November, a 0.1 percentage-point decrease from October; yet still maintaining one of the highest monthly peaks in recent history. The New Jersey unemployment rate, currently 9.7%, experienced a 0.1 percentage-point monthly decrease, not yet surpassing the 10.0% mark. According to data obtained from Rutgers University Bloustein School of Planning and Public Policy, the national economic fallout appears to have affected both white and blue collar employment almost equally, vastly different from previous recessions when the private sector of employment held steady.

### OVERVIEW

The Central New Jersey office market is not in recovery mode and in most sectors, still showing signs of erosion. Statistically, with its increasing vacancy rates and declining rental rates, this market lags behind Northern New Jersey. The fourth quarter overall vacancy rate registered 21.0%, a 0.7 percentage-point increase since first quarter 2009; retaining its record for the highest peak since year-end 2004. The overall weighted average asking rental rate dipped from \$23.47 per square foot (psf) last quarter to \$23.30 psf currently, reaching its lowest year-end total since first the quarter of 2000. New leasing activity declined this quarter tallying its weakest quarterly total for 2009, with only 422,930 square feet (sf) of recorded deals. Additionally, year-over-year leasing activity represents a 42.0% decline.

The most significant deal this quarter took place in Somerset County where Peapack-Gladstone Bank leased 40,793 sf. The financial firm relocated from 159 Route 206 North in Gladstone to 550 Hills Drive in Bedminster. In Bernards Township, pharmaceutical company, Celgene Corporation renewed and expanded at 106 Allen Road, where the company now occupies 80,149 sf. Johnson & Johnson Healthcare Systems (51,504 sf) transitioned their lease from sublease to direct at 1 Centennial Avenue (Building C) in Piscataway.

The economic downturn, though stormy at times, has not completely pushed investment activity towards extinction. Approximately 2.2 million square feet (msf) of sales were recorded this year, surpassing 2008 totals by 23.0%. It is apparent that financially secure investors are taking advantage of the discounted market prices currently being offered. In a recent 480,400-sf portfolio sale, Shaw/Achas Holdings, LLC purchased 50 East State Street and 33 West State Street in Trenton from Brandywine Trenton Urban Renewal, LLC for \$85.0 million.

The current oversupply of inventory in this market is a major cause for the delay of previously proposed projects. However, there is 339,576 sf of product currently under construction. The most anticipated is MetroTop Plaza II, a 253,000-sf speculative class A building which will be centered in the heart of Metropark and delivered during the second quarter of 2010. In Wall Township, two other 20,000-sf buildings known as Executive Plaza (Buildings I and II) are expected to be completed in March of 2010.

### FORECAST

The anticipation of increased demand in this market appears to be idle. Favorable lease terms for tenants and longer commitments will overflow into 2010. Landlords, still hungry from the backlash of the recession, will continue offering generous concession packages in the form of free rent and tenant allowances.

### BEAT ON THE STREET

"With vacancy factors as high as they are, this market is truly a "Tenant's Market". Not only are taking prices typically well below the asking rate, the overall concession packages including a tenant improvement allowance and free rent are extremely beneficial to a tenant, particularly a credit tenant. Tenants are naturally drawn to strong landlords that have a proven track record to live up to their commitments"

-Jon Marks, Director

### ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional *			
Unemployment	6.8%	9.1%	10.7%
Employment Growth	-0.52%	-2.9%	-0.8%

Source: Moody's | Economy.com

\*regional data used is on a state level

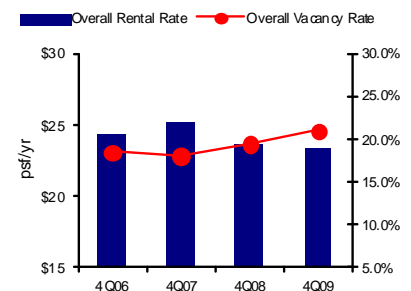
### MARKET FORECAST

**NEW LEASING ACTIVITY** is expected remain fairly flat through the first half of 2010.

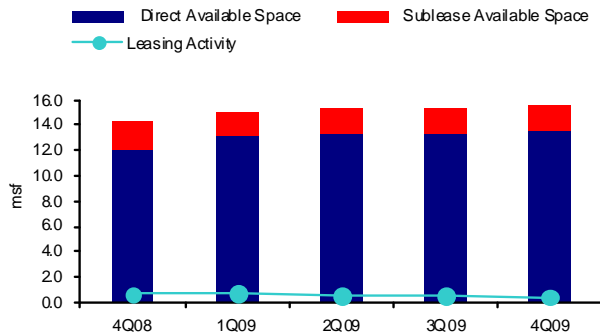
**SUBLEASE SPACE** is not expected to reach the high levels recorded during 2007 and 2008.

**NEW CONSTRUCTION** will be limited in 2010, delivering only those speculative projects currently underway.

### AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE

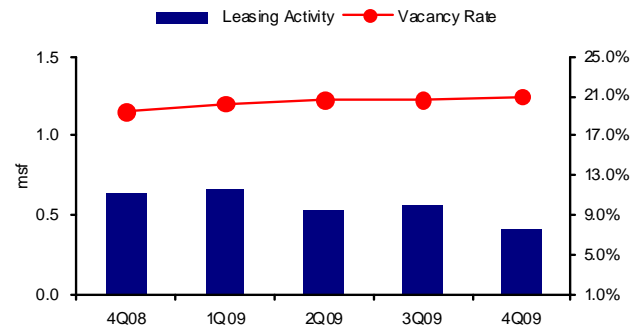


### AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



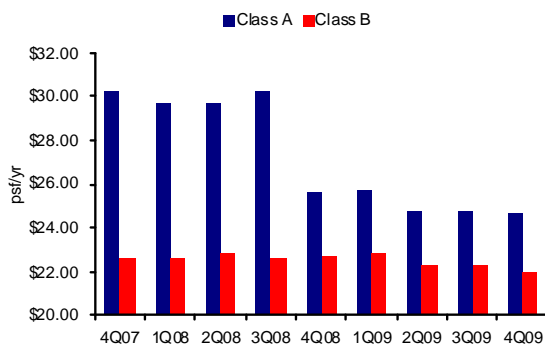
- Quarterly leasing activity spiraled downward throughout the year, currently registering only 422,930 sf.
- Sublease space accounts for 12.6% of total available product, a significant decline since fourth quarter 2008 when sublease space represented 16.4% of available product. However, direct space availability, currently 13.6 msf, reached its highest level this year, representing a 1.6 msf increase since fourth quarter 2008.

### OVERALL LEASING ACTIVITY VS. VACANCY RATE



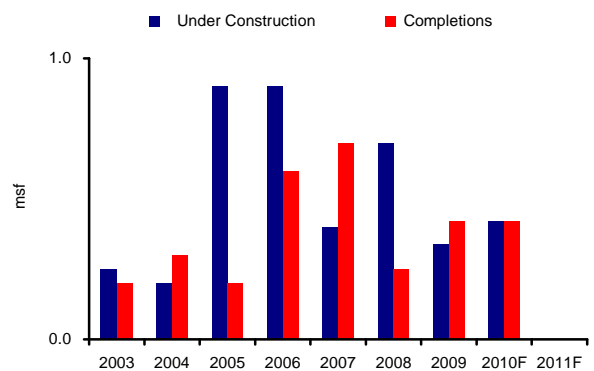
- The overall vacancy rate continued to increase, reaching its highest peak this year at 21.0%. At 4 Paragon Way in Freehold, 44,287 sf became available and at 150 Allen Road in Bernards Township, an additional 24,500 sf was delivered to the market.
- The majority of leasing activity this quarter occurred in Middlesex County where 145,029 sf of activity was recorded. Somerset County, a close second, recorded 135,268 sf.

### DIRECT RENTAL RATES CLASS A VS. CLASS B



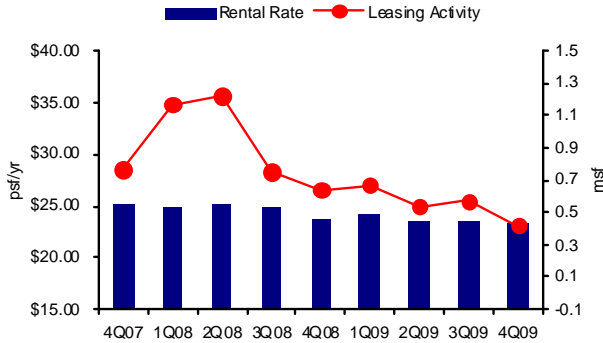
- The class A direct weighted average asking rental rate has not surpassed the \$30.00 psf mark since third quarter 2008 and continues to decline registering \$24.65 psf at fourth quarter 2009.
- The class B direct weighted average asking rental rate, currently \$21.97 psf continues its decline and now represents a negative 3.14 percent change since fourth quarter 2007.

### SF UNDER CONSTRUCTION VS. COMPLETIONS

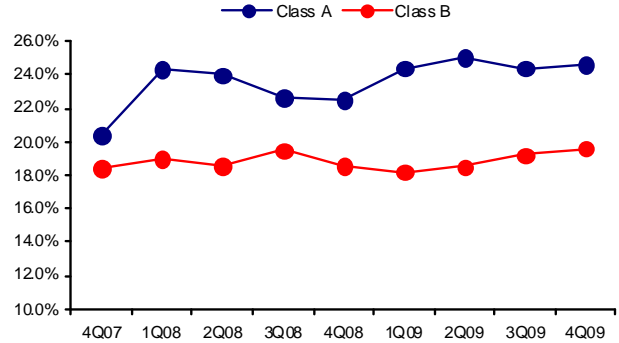


- Year-to-date, five projects totaling 417,100sf were delivered, representing a steep decline in activity since 2007 when 744,278 sf of new construction was delivered.
- All of the 339,576 sf of projects under construction are speculative and are expected to be delivered during the first half of 2010.

### OVERALL RENTAL RATE VS. LEASING ACTIVITY



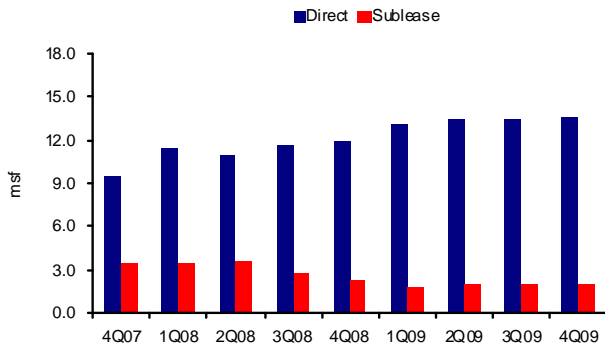
### OVERALL VACANCY RATES CLASS A VS. CLASS B



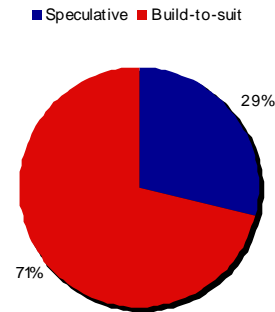
- Fourth quarter 2009 leasing activity remains far off the pace set during the first quarter of 2008, registering only 36.0% percent of totals recorded. The largest lease executed this quarter was located at 500 Hills Drive in Bedminster where Peapack-Gladstone Bank secured 40,793 sf.
- The overall rental rate currently \$23.30 psf fell short of reaching the \$25.00 psf mark posted during second quarter 2008.

- The class A overall vacancy rate fluctuated over the last two years, currently registering 24.6%. After declining for several quarters, the class B vacancy rate is now at its highest peak since third quarter 2008, standing at 19.6%.
- Of the nearly 8.8 msf of available class A space, 25.0% is located within Monmouth County (specifically within the Holmdel market), while 18.0% lies within the Somerset Route 78 Corridor. The Middlesex Upper 287 Corridor houses most of the available class B space, with 1.1 msf currently on the market.

### AVAILABLE SPACE TRENDS DIRECT VS. SUBLEASE



### 2009 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- Sublease space reached 3.43 msf during fourth quarter 2007, and showed a steady decrease in the quarters to follow. After slightly fluctuating throughout this year, available sublease space remains fairly steady at 1.95 msf. The abundance of sublease space is located throughout the Somerset Route 78 Corridor, where nearly 900,000 sf remains on the market.
- The majority of available direct space is located throughout Middlesex (4.6 msf), Monmouth (3.03 msf) and Somerset (3.0 msf) counties.

- Of the five construction completions in this market, the three build-to-suit projects included L'Oreal's 187,000-sf New Jersey headquarters at 50 Connell Drive in Berkeley Heights and FMC Corporation's offices at 801 and 901 PrincetonSouth Corporate Center (120,000 sf) in Hamilton Township.
- In Hamilton Township, Mercer Corporate Center (Buildings I & II) totaling 120,000 sf, were also delivered fully vacant with an asking rental range of \$30.00 psf to 31.00 psf.

### 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*
Hunterdon County	1,439,544	30	30.0%	29.4%	54,767	0	0	29,413	\$21.07
Mercer County	14,004,905	194	13.7%	12.9%	414,367	0	230,100	26,686	\$34.16
Middlesex County	24,219,525	258	21.3%	18.9%	637,907	253,000	0	(858,214)	\$24.43
Monmouth County	11,418,130	193	27.7%	26.5%	229,173	40,000	0	(286,339)	\$18.31
Somerset County	15,636,416	163	25.5%	19.1%	697,981	0	0	(569,276)	\$28.15
Union County	7,382,015	146	11.6%	10.1%	165,653	46,576	187,000	54	\$28.43
<b>Selected Submarkets</b>									
I-78 Corridor	14,014,895	149	21.1%	14.5%	512,713	0	187,000	(230,624)	\$28.57
Somerset Upper 287	4,347,004	35	37.8%	35.2%	129,857	0	0	(131,757)	\$24.20
Princeton/Route 1	12,620,191	161	14.3%	13.2%	384,337	0	110,100	N/A	\$35.81
Woodbridge/Edison	8,149,340	82	18.2%	17.0%	388,734	0	0	(194,081)	\$29.61
Middlesex Upper 287	6,520,614	61	21.5%	16.3%	81,867	0	0	(171,793)	\$21.59
<b>Central NJ Total</b>	<b>74,100,535</b>	<b>984</b>	<b>21.0%</b>	<b>18.3%</b>	<b>2,199,848</b>	<b>339,576</b>	<b>417,100</b>	<b>(1,657,676)</b>	<b>\$24.65</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
23 Orchard Road	Montgomery Market	Johnson & Johnson	162,000	B
1 University Square Drive	Princeton	Otsuka America Pharmaceutical, Inc.	67,531	A
110 Allen Road	Somerset Route 78 Corridor	Mylan Laboratories	53,517	A
370 Scotch Road	Mercer Route 295 Corridor	Vantage Communications	51,000	B
500 Hills Drive	Somerset Route 78 Corridor	Peapack-Gladstone Bank	40,793	A
SIGNIFICANT 2009 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
55 Corporate Drive	Somerset Route 78 Corridor	Inland Real Estate Acquisitions	670,000	\$230,000,000
33 West State Street and 50 East State Street	Trenton	Shaw/Achas Holdings, LLC	480,400	\$85,000,000
2147 Route 27 South	Woodbridge/Edison	The Morris Companies	250,000	\$14,200,000
1100 Campus Drive-Phase I	Exit 8A/North	Dividend Capital Total Realty Trust	167,000	N/A
SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
50 Connell Drive	Union Route 7 Corridor	L'Oreal	187,000	3/09
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
111 Wood Avenue South	Woodbridge/Edison	N/A	253,000	5/10
535 Springfield Avenue	Union Route 24 Corridor	N/A	46,576	3/10



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

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