

MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q09

ECONOMY

The New Jersey unemployment rate remained steady, registered 9.7% in November, showing little movement since October, yet still a 2.9% percentage point increase since December 2008. According to the New Jersey Department of Labor and Workforce Development, "the largest over-the-month private sector job losses were recorded in trade, transportation and utilities, (-9,700), construction (-2,800), professional and business services (-1,900) and financial activities (-1,200)." Banks are beginning to re-pay their TARP loans to the government and health care reform is at its final stage of approval. Though we are still in the midst of the largest financial crisis in recent history, signs of recovery are no longer lingering in the backdrop. In some New Jersey markets, companies that have maintained sufficient capital continue taking advantage of discounted market rates by relocating and/or expanding. At the recently conducted third annual New Jersey Economic Policy Forum, company executives who were previously forced to reduce staff, lower wages and consolidate offices, revealed that they expect to see some revenue increase in 2010.

OVERVIEW

As the economy begins to show small signs of improvement, some Northern New Jersey markets are on slightly sturdier ground. The overall vacancy rate, decreased from 17.3% last quarter to 16.9%, displaying a 0.4 of a percentage-point decrease. The overall weighted average asking rental rate, currently \$26.02 per square foot (psf), remained flat, decreasing by only \$0.01 psf since last quarter. Year-over-year new leasing activity is down by 9.4%. However, fourth quarter leasing activity surpassed quarterly totals posted throughout the entire year. Fourth quarter overall net absorption was positive throughout all Northern New Jersey counties, with the exception of Essex.

Year-end leasing activity was driven by a few unexpected large deals in core markets. Taking advantage of one of New Jersey's incentive programs, Depository Trust & Clearing Corporation leased 415,000 sf at Newport Office Center VI (570 Washington Avenue), located on the Hudson Waterfront. The company will relocate approximately 1,600 employees from Manhattan to occupy the property in 2013. The twenty-year deal includes a ten-year sublease from JP Morgan Chase. Further North, electronics leader Samsung Electronics America, Inc., signed on for 193,916 sf at 85 Challenger Road in Ridgefield Park, in a relocation of their US headquarters. Earlier this year, the 235,057-sf, previously vacant class A asset was sold to KABR Real Estate Investment Partners, for nearly \$10.3 million. In Jersey City, Broadridge Financial Solutions, Inc. renewed and expanded at 2 Journal Square Plaza and now occupy the full 320,282-sf property. Renewal activity continues to hold its own. Novartis Pharmaceuticals Corporation represented one of the more significant renewals recorded this quarter, re-upping the 145,920 sf it currently occupies at 180 Park Avenue (Bldg 104) in Florham Park. Also, at 10 Exchange Place in Jersey City, Kuehne & Nagel, Inc. renewed 59,612 sf for a seven-year and ten month term.

With nine sales over 100,000 sf this year, investment fundamentals in Northern New Jersey remain fairly balanced. However, year-over-year sales activity still lagged far behind 2008 totals, accounting for only 60.0% of last years totals. The most noteworthy sales occurring this quarter included 1 Paragon Drive, a 105,804-sf class A asset was sold to Samson Management, LLC for approximately \$14.2 million and 208 Harristown Road in Glen Rock, which sold for an undisclosed sum. Developers remain hesitant in committing to new projects. Banks are still holding a tight grasp on loan distribution, causing new construction in this market to lose momentum.

FORECAST

Ultimately, the key indicator for a market in recovery is job growth. Until there are significant upticks in private sector employment, the office market fundamentals will remain fairly unpredictable. It is likely that the market will not see positive speculative construction growth in 2010 and possibly 2011, allowing opportunity for tenants to absorb some of the excess space currently on the market. Lucrative concession packages along with multifaceted incentive packages will continue luring tenants to lease-up existing blocks of space.

BEAT ON THE STREET

"We do not see a consistent or clear path towards recovery, although market activity increased during the fourth quarter of this year."

Richard Baumstein, Executive Vice President

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

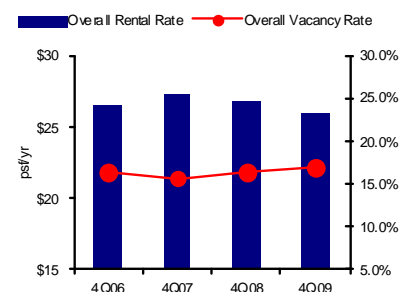
MARKET FORECAST

NEW LEASING ACTIVITY surpassed first quarter totals and is expected to remain balanced throughout 2010.

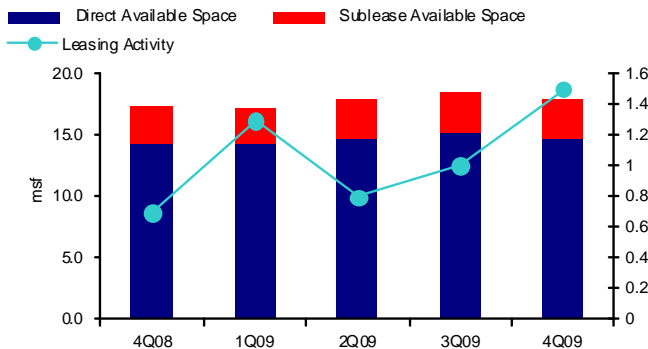
OVERALL ABSORPTION is expected to improve slightly as tenants become financially confident and begin to absorb more of the vacant space in the market.

CONSTRUCTION remains flat in this market with no significant development plans in the pipeline for the next two years.

OVERALL RENTAL VS. OVERALL VACANCY



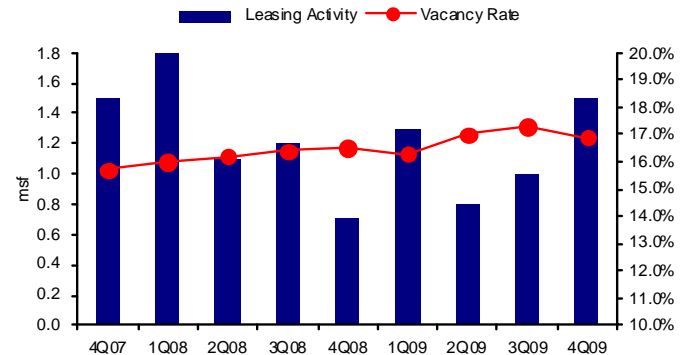
AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



- After dropping during fourth quarter 2008 and again during second quarter 2009, leasing activity reached its highest peak during fourth quarter 2009, representing nearly 1.5 msf. Sublease space now represents nearly 18.5% of total available product, most of which is located in Hudson and Morris Counties.

- The most plentiful pockets of direct space are found within the Newark (1.8 msf), Parsippany (1.8 msf), Morristown (1.1 msf) and Morris Route 206 Corridor (1.0) submarkets.

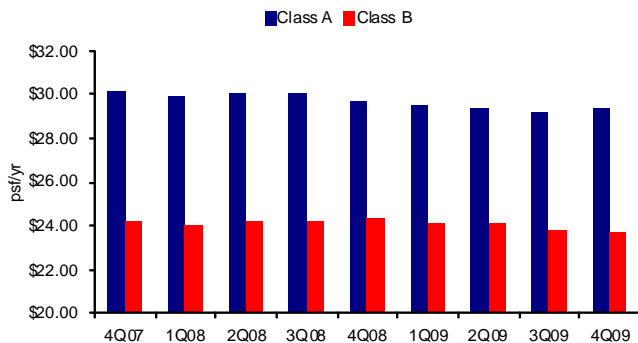
OVERALL LEASING ACTIVITY VS. VACANCY RATE



- Fourth quarter leasing activity, primarily driven by Depository Trust & Clearing Corporation (415,000 sf) and Samsung Electronics, Inc. (193,916 sf) leases, mirrored that of fourth quarter 2007, registering approximately 1.5 msf.

- Overall vacancy rates in this market, currently 16.9% have dropped and are at their lowest recorded quarterly total since first quarter 2009.

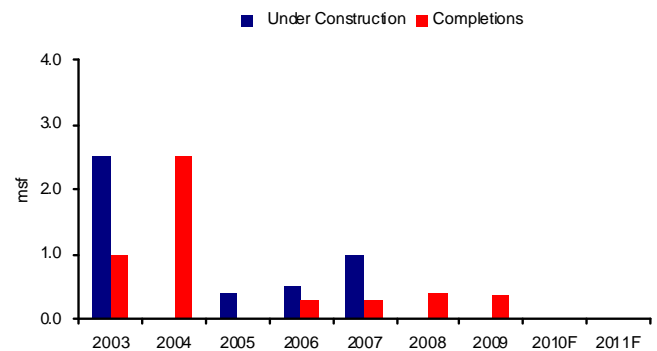
DIRECT RENTAL RATES CLASS A VS. CLASS B



- At year-end 2007, class A direct weighted average asking rental rates registered \$30.16 psf and have since declined, still teetering below the \$30.00 psf mark, currently at \$29.41 psf.

- After peaking during fourth quarter 2008, class B direct weighted average asking rental rates declined and stand at \$23.72 psf, the lowest rate in years.

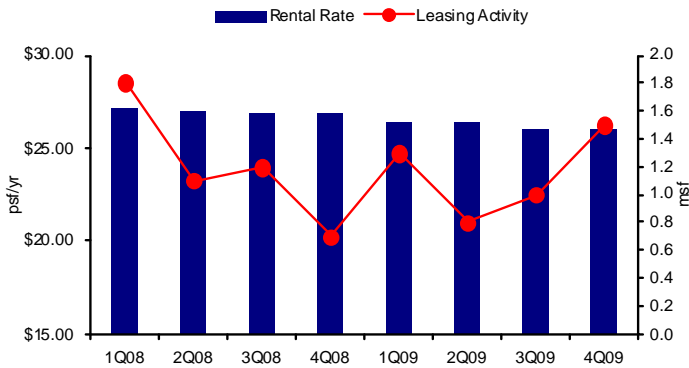
SF UNDER CONSTRUCTION VS. COMPLETIONS



- Construction deliveries in this market continue to decrease and are off the pace set in 2004 when completions registered nearly 2.5 msf. Only three properties, totaling 363,688 sf, were delivered to the market this year, all occurring during the first half of this year.

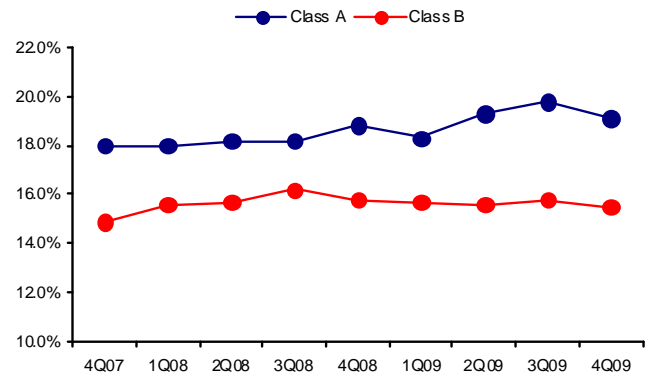
- Until developers regain their confidence in the economy, new construction is expected to remain stagnant over the next two years. Most developers now seek a committed tenant to anchor the majority of their proposed property and will not build unless the commitment is achieved.

OVERALL RENTAL RATE VS. LEASING ACTIVITY



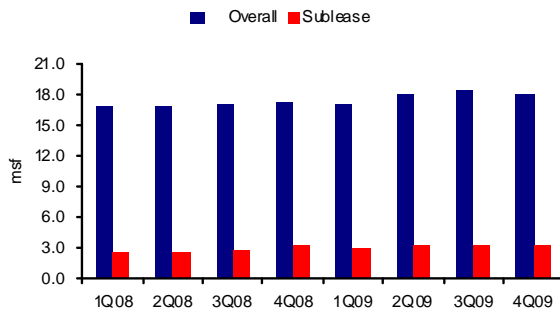
- Leasing activity, currently 1.5 msf, reached its highest level since first quarter 2008. However, the overall weighted average asking rental rate continues to decline, currently \$26.02 psf, not yet surpassing the \$27.00 psf mark since second quarter 2008.
- Some of the more significant deals contributing to the recent surge in new leasing activity this year include Savvis, Inc (209,000 sf) at 1919 Park Avenue in Weehawken, Samsung Electronics America, Inc. (193,916 sf) at 85 Challenger Road in Ridgefield Park and Day Pitney (100,000 sf) at 1 Jefferson Road in Parsippany.

OVERALL VACANCY RATES CLASS A VS. CLASS B



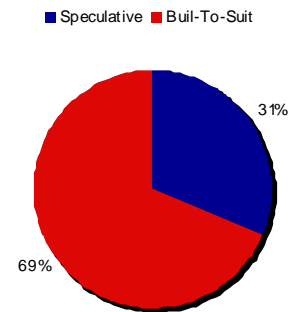
- After increasing from first quarter to third quarter 2009, the class A overall vacancy rate dipped during fourth quarter and now stands at 19.1%. The class B overall vacancy rate fluctuated modestly throughout the year dropped to 15.5% from 15.8% at third quarter 2009.
- Existing vacancies over 200,000 sf can be found within 3000 Continental Drive North in Mount Olive, 445 South Street in Morris Township, 125 Chubb Avenue in Lyndhurst, 570 Haynes Avenue in Newark.

AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



- After increasing to 18.4 msf of space during the third quarter 2009, the amount of available space in this market is now virtually the same as in second quarter 2009, registering nearly 18.0 msf.
- The amount of available sublease space remained steady over the last three quarters. However, in various markets, small blocks of space were made available. In the Morris Route 10/24 Corridor, 31,491 sf of sublease space was delivered to the market at 1 Giralda Farms in Madison.

2009 CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- Construction completions this year totaled 363,688 sf; two were speculative and one was a build-to-suit.
- At 22 Sylvan Way in Parsippany, a build-to-suit 250,000-sf headquarters for Wyndham Worldwide was completed. After being delivered to the market earlier this year, 1 Jefferson Road, also in Parsippany, was immediately leased-up by Day Pitney.

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	26,239,227	365	17.2%	14.7%	1,299,948	0	0	(240,879)	\$29.74
Essex County	23,690,643	214	15.0%	13.5%	620,211	0	0	(556,150)	\$29.21
Hudson County	23,612,349	103	11.4%	6.6%	1,181,766	0	0	(612,769)	\$31.59
Morris County	27,778,578	294	22.3%	18.1%	1,204,359	0	363,688	34,272	\$29.90
Passaic County	5,156,196	76	19.3%	19.2%	225,602	0	0	108,941	\$22.30
Selected Submarkets									
Meadowlands	7,151,365	62	23.4%	20.2%	357,298	0	0	(102,378)	\$28.93
Parsippany	12,194,359	113	22.1%	15.0%	628,525	0	350,000	166,237	\$31.23
Hudson Waterfront	20,185,034	76	9.1%	4.5%	1,001,943	0	0	(496,965)	\$34.07
Newark	13,519,762	57	15.3%	13.5%	238,919	0	0	(289,773)	\$32.24
Northern NJ Total	106,476,993	1052	16.9%	13.7%	4,531,886	0	363,688	(1,266,585)	\$29.41

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
570 Washington Boulevard-NOC VI	Hudson Waterfront	Depository Trust & Clearing Corporation	415,000	A
2 Journal Square Plaza	Hudson Waterfront	Broadridge Financial Solutions, Inc.*	320,082	A
1919 Park Avenue	Hudson Waterfront	Sawvis, Inc.	209,000	B
85 Challenger Road	Bergen Route 95 South Corridor	Samsung Electronics America, Inc.	193,916	A
290 West Mount Pleasant Avenue	Essex Route 280 Corridor	Verizon	153,000	A
SIGNIFICANT 2009 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
111 River Street	Hudson Waterfront	HUB Hoboken Properties, LLC	570,341	\$143,000,000
1 Meadowlands Plaza	Bergen Meadowlands	CB Richard Ellis Investors	422,220	\$61,000,000
85 Challenger Road	Bergen Route 95 South Corridor	KABR Real Estate Investment Partners, LLC	235,057	\$10,275,000
611 Route 46 West/10 Mulholland Drive	Bergen Meadowlands	KABR Real Estate Investment Partners, LLC	129,000	\$5,750,000
425 Eagle Rock Avenue (280 Corporate Center)	Essex Route 280 Corridor	Marcon Roseland LLC	126,761	\$17,500,000
SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
22 Sylvan Way	Parsippany	Wyndham Worldwide	250,000	3/09

* Renewal/Expansion



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

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