

MARKETBEAT

CENTRAL NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q08

ECONOMY

The recent surge in oil prices and the looming “recession” have impacted almost every aspect of the national economy. Employment growth has dropped since last year and companies continue to restructure as a means of securing their financial health. Business sectors that have been hit hard by the declining economy have been concentrated within the financial, construction and manufacturing industries. However, in New Jersey, there are still industries such as biotechnology/pharmaceutical, which continue to drive employment and economic growth.

OVERVIEW

As fiscal uncertainty lingers, market fundamentals within Central New Jersey are no longer protected. Overall vacancy rates are significantly higher than last year, currently resting at 20.0%. Direct weighted average rental rates, still fluctuating; currently register \$25.36 per square foot (psf). However, even in this weakening market, year to-date leasing activity remains healthy.

Representing the largest lease this quarter, in a partial relocation from 500 College Road East in Princeton, State Street Bank signed on for 169,585 square feet (sf) at 600 College Road East. This lease will relocate approximately 100 employees. In Somerset County, New Brunswick-based pharmaceutical firm, Johnson & Johnson, leased 112,010 sf at 23 Orchard Road in Montgomery as an expansion of their consumer products division. The firm selected the site because of its close proximity to their other facilities in the region. Also, headquartered in Summit New Jersey, multinational biopharmaceutical company, Celgene Corporation, leased 39,994 sf at Liberty Corner Office Center in Bernards Township.

Although leasing velocity has remained stable, investment activity is reflective of a “softening” market. Sales activity spiraled down this year to register 631,625 sf. This total equates to less than half of the totals recorded last year at this time. The largest sale this quarter occurred at 105 Fieldcrest Avenue in Edison, where The Silverman Group of Short Hills, acquired the 178,000 sf-asset from Ivy Equities, LLC.

Three buildings were constructed this year, including Pond View Professional Park in Monmouth County (Building I - 25,000 sf and Building III-50,000 sf) and Princeton Corporate South Corporate Center II (120,000 sf). Currently 655,000 sf is under construction, an increase since 2007. Among those properties that have broken ground are; 115 Wood Avenue South (253,000 sf) in Woodbridge and Mercer Corporate Center (Bldgs I & II,) in Hamilton Township; all are expected to be delivered before the end of 2008.

FORECAST

The weak area of this market is an oversupply of inventory in areas with declining demand. We hope that the majority of new space being delivered in the coming year will become absorbed in 2009. Overall, it is expected that the market will stay afloat with consistent renewal activity. However, the lifespan of those renewals may be shortened by tenant economic uncertainty.

BEAT ON THE STREET

“Central New Jersey submarkets are extremely diverse. Tenants willing to relocate within a lesser submarket have many options and can reap the benefits of generous concession packages, while tenants in the tighter submarkets (MetroPark, Monmouth County) can have a hard time finding the right space to accommodate their requirements.”


- Jeremy Neuer, Director


ECONOMIC INDICATORS


National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%
Regional			
Unemployment	4.3%	3.8%	4.3%
Employment Growth	.05%	0.18%	0.23%

Source: Moody's | Economy.com

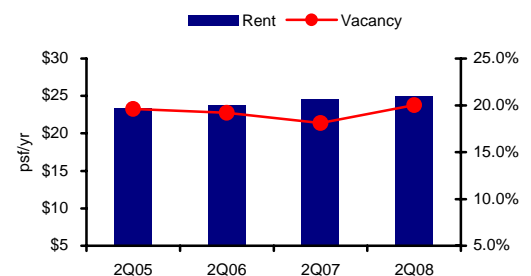
MARKET FORECAST

NEW LEASING ACTIVITY remained healthy this quarter. Renewals and longer term subleases are expected to be the trend in the coming year. 

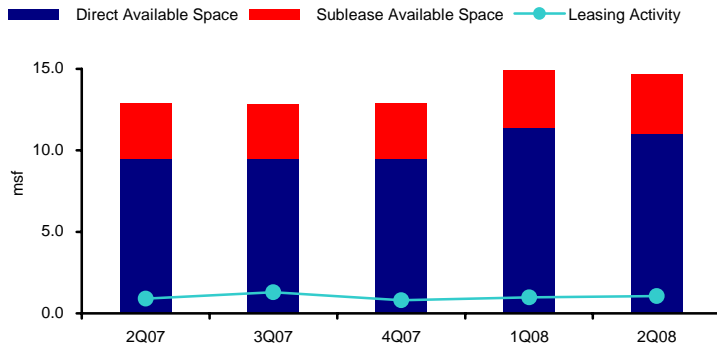
OVERALL RENTS should remain consistent with the current market economics. Landlords will remain cautious in driving up their respective rates while tenant demand lingers. 

CONSTRUCTION is expected to be offset by an oversupply of inventory and not enough demand until the economy rebounds. 

OVERALL RENTAL RATES VS. VACANCY RATES

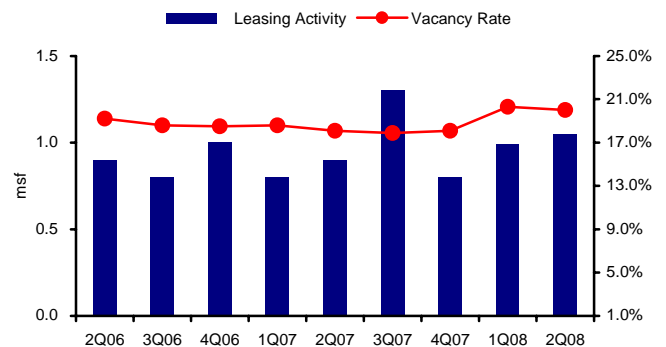


AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



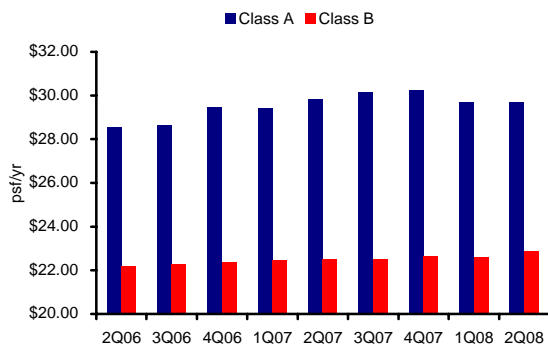
- After a decrease in leasing activity during fourth quarter 2007, overall leasing activity has increased, registering approximately 1.1 million square feet (msf) this quarter.
- Currently, sublease space comprises 24.9% of total available product, a slight decrease since fourth quarter 2007; where sublease space represented 26.5% of overall available product.

OVERALL LEASING ACTIVITY VS. VACANCY RATE



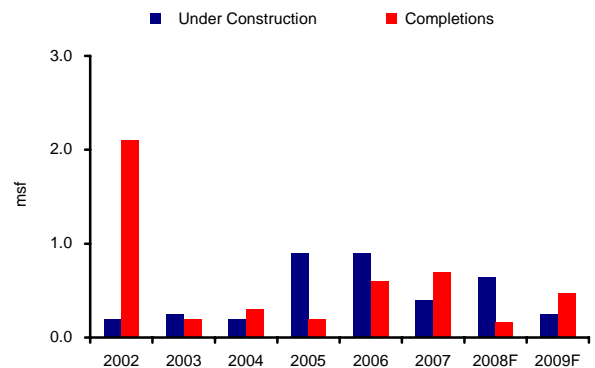
- Overall vacancy rates have increased drastically since fourth quarter 2007 due to the 1.9 msf of space added by Lucent in Monmouth County. However, despite this increase, overall leasing activity has reached its highest point since third quarter 2007.
- The majority of leasing activity this quarter occurred in Middlesex County where 442,369 sf was leased. Somerset County, a close second, recorded 320,100 sf of leasing activity.

DIRECT RENTAL RATES CLASS A VS. CLASS B



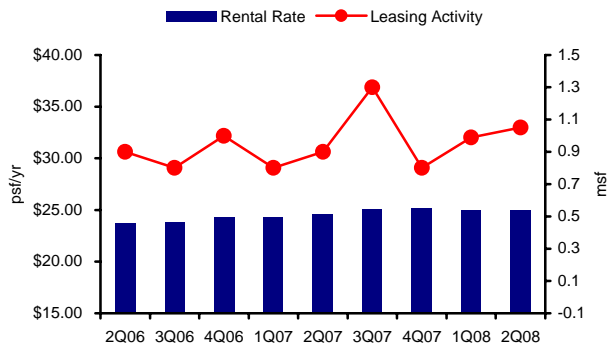
- Since displaying a steady increase from second quarter 2006 through fourth quarter 2007, class A direct rental rates have remained flat, registering \$29.68 psf since first quarter 2008. However, class B rents have increased slightly from first quarter 2008 to register \$22.86 psf.
- Since first quarter 2006, class A rents and class B rents have moved at almost the same pace, respectively.

SF UNDER CONSTRUCTION VS. COMPLETIONS



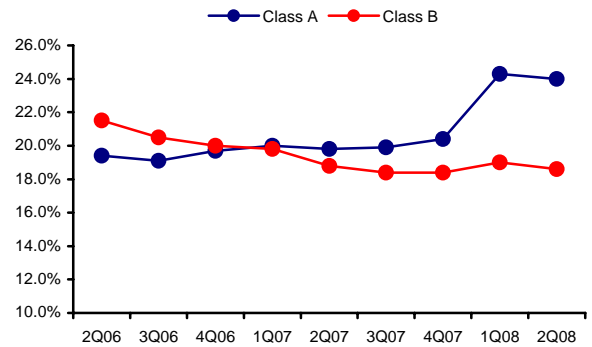
- In previous years, Princeton was the favorable location for new product. After 495,000 sf of new construction since the start of 2007, there are currently no buildings under construction in the Princeton market.
- There is currently 655,000 sf under construction in this market, an increase since 2007. Properties being delivered before the end of this year include: Metropark South II (53,000 sf) in the Brunswicks and further south in Hamilton Township, two 60,000-sf buildings (I & II) at Mercer Corporate Center.

OVERALL RENTAL RATE VS. LEASING ACTIVITY



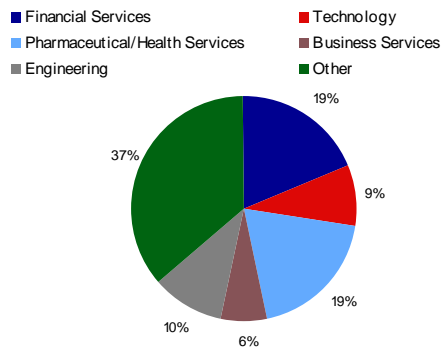
- Although overall leasing activity has increased since tapering off during fourth quarter 2007, overall rental rates still seem to be fluctuating, currently registering \$25.02 psf.
- Representing the largest lease this quarter in Central New Jersey, at 600 College Road East in Princeton, State Street Bank leased 169,585 sf. This lease represents a relocation of approximately 100 employees coming from 500 College Road East.

OVERALL VACANCY RATES CLASS A VS. CLASS B



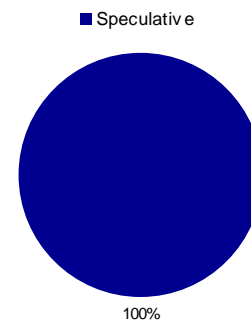
- Class A and Class B overall vacancy rates have followed the same trend-line since fourth quarter 2007. From the 8.4 msf of available class A space, 31.6% is located within Somerset County (specifically within the Route 78 Corridor).
- Middlesex County maintains the highest class B vacancy rate and the Upper 287 Corridor has over 1.3 msf available.

2Q08 LEASING ACTIVITY BY INDUSTRY



- Pharmaceutical and health services accounted for approximately 19.0% of all leasing activity in Central New Jersey this quarter.
- Financial Services, technology and engineering firms are all still fairly active in Central New Jersey leasing, representing approximately 38.0% of the overall leasing activity this quarter.

2008 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- All 195,000 sf of construction completions this year were speculative, representing increased apprehension from developers as commitments from large tenants have decreased.
- Representing the largest completion so far this year, Princeton Corporate South Corporate Center II was delivered to the market in February. The entire 120,000-sf building remains fully available for lease.

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	33.4%	33.4%	20,753	0	0	(49,897)	\$21.76
Mercer County	13,714,805	189	13.6%	12.5%	393,611	120,000	120,000	124,301	\$33.87
Middlesex County	24,036,645	257	18.4%	12.7%	1,007,675	306,000	0	(267,413)	\$30.94
Monmouth County	11,390,187	193	25.9%	25.2%	151,985	0	75,000	(1,955,697)	\$26.54
Somerset County	15,611,760	162	25.8%	15.0%	509,394	0	0	(163,701)	\$27.46
Union County	7,268,574	142	13.0%	8.1%	90,000	229,000	0	(252,970)	\$29.39
Selected Submarkets									
I-78 Corridor	13,803,239	147	21.7%	12.9%	375,005	187,000	0	(180,679)	\$28.31
Somerset Upper 287	4,347,004	35	39.1%	25.1%	52,464	0	0	(120,062)	\$24.78
Princeton/Route 1	12,541,700	159	13.9%	12.2%	910,642	0	120,000	N/A	\$35.93
Woodbridge/Edison	8,137,920	82	14.6%	10.1%	246,352	253,000	0	(52,409)	\$33.78
Middlesex Upper 287	6,520,614	61	23.7%	19.2%	117,876	0	0	(294,380)	\$20.34
Central N.J. Total	73,461,515	973	20.0%	15.0%	2,173,418	655,000	195,000	(2,565,377)	\$29.68

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
600 College Road East	Princeton	State Street Bank	169,585	A
23 Orchard Road	Montgomery	Johnson & Johnson	112,010	B
30 Knightsbridge	Middlesex Upper 287 Corridor	DMJM +Harris	59,652	B
301 College Road East	Princeton	Taylor Technologies	57,000*	B
106 Allen Road	Somerset Route 78 Corridor	Celgene Corporation	39,994	A

SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
105 Fieldcrest Avenue	Woodbridge/Edison	The Silverman Group of Short Hills	178,000	\$31,750,000
73 Mountain View Boulevard	Somerset Route 78 Corridor	Affinity Federal Credit Union	126,000	\$38,539,800
200 Sheffield Street	Union Route 24 Corridor	Blair Realty	102,000	\$15,670,000

SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1101 West Main Street, Bldg III	Monmouth	N/A	50,000	6/08
1101 West Main Street, Bldg I	Monmouth	N/A	25,000	6/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
115 Wood Avenue South	Woodbridge/Edison	N/A	253,000	10/09
Connell Corporate Center	Union Route 78 Corridor	L'Oreal	187,000	1/09
Mercer Corporate Center, Bldgs I & II	Mercer Southern Region	N/A	120,000	12/08
14 Cliffwood Avenue (Metropark South II)	The Brunswicks	N/A	53,000	8/08
525 Springfield Avenue	Union Route 24 Corridor	N/A	42,000	1/09

*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

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

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