

MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q08

ECONOMY

Employment in New Jersey has continued to trend downwards. The loss of 10,900 jobs in May, increased the unemployment rate to 5.4%, just 0.1 percentage point below the current national rate, as reported by the Department of Labor and Workforce Development. The continued fallout of from the “credit crisis” has catalyzed the loss of more financial jobs (-600) in this state. Mortgage and credit industries are on a down cycle as large firms such as Citigroup, Goldman Sachs, Merrill Lynch, Washington Mutual and Bank of America continue their nationwide layoffs.

OVERVIEW

Although overall vacancy rates are currently 16.2%, increase of 0.2 percentage points since the first quarter, direct weighted average rental rates still managed to rise from \$27.17 to \$27.35 per square foot (psf). Leasing activity closed the quarter below average compared to previous years and trailed last quarters total by 43.0%. The usual “hot bed” of activity on the waterfront came to a halt this quarter as this market experienced approximately one fourth of first quarters’ total leasing. The most noteworthy waterfront deal came from Tullett Prebon, provider of real-time price information from the wholesale inter-dealer brokered financial markets, signing an expansion and renewal totaling 101,289 square feet (sf) at 101 Hudson Street. Representing the largest new deal this quarter, AXA Equitable Life Insurance Company leased approximately 100,993 sf at 500 Plaza Drive in Secaucus. A division of this New York City-based financial insurance company will be consolidated at the new location from two nearby properties. Also, in Newark, London-based, Standard Chartered Bank, signed a ten year lease for 45,000 sf at Two Gateway Center in Newark; a relocation that will move between 250 and 300 employees from the company’s U.S. headquarters in Manhattan. After several relocation negotiations, Verizon New Jersey intends to remain at their headquarters located at 540 Broad St in Newark and increase its on-site workforce by nearly 50%. The company will keep their existing 650 employees at this location, while adding approximately 300 positions. In Morris Township, Tyco Telecommunications, Inc. leased 40,000 sf at 412 Mount Kemble while Travelers of New Jersey/First Trenton renewed for 69,878 sf at 6 Century Drive in Parsippany.

In the GW Bridge market, buildings 930 and 940 Sylvan Avenue in Englewood Cliffs, were completed this quarter. There is approximately 1.1 million square feet (msf) of space under construction in Northern New Jersey; of which 296,000 sf is expected for delivery before year-end. Sales velocity has simmered down and is off pace from last quarter. Highlighting the largest deal, as part of a portfolio sale, the Witkoff Organization Partnership sold 1 and 2 Executive Drive (600,000 sf) in Fort Lee to the Joseph Chetrit Partnership for \$86.2 million.

FORECAST

The impact from the “credit crisis” appears to be pushing vacancy rates slightly higher in some markets as tenants relocate, thereby adding sublease space to the market. Contrary to recent years where concession offerings were minimal, landlords have now begun enticing tenants with full concession packages or early renewals, rather than lowering their asking rents. It is expected that transactions will continue to take longer to close as tenants are taking a harder look at deal structures as the overall economy continues to waiver.

BEAT ON THE STREET

“Despite overall market conditions, landlords with class A assets in certain submarkets are maintaining high occupancy levels and strong rents. Meanwhile, Tenants that have geographical flexibility now have a great opportunity to trade up to class A product, which has more vacancy than the class B inventory in some NJ submarkets.”

—Marc Graham, Associate 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	4.7%	4.3%	4.8%
Employment Growth	0.6%	0.3%	-0.16%

Source: Moody's | Economy.com

MARKET FORECAST

NEW LEASING ACTIVITY

decreased this quarter. However, renewal and expansion activity will continue to be the trend as the year progresses.



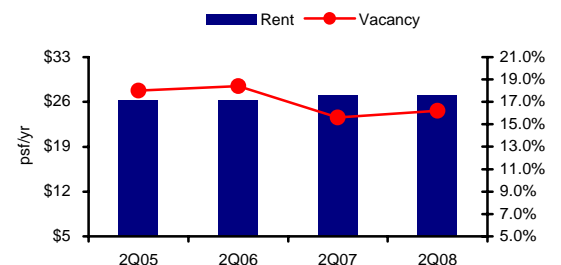
DIRECT RENTS are expected to continue moving upwards. This increase will occur at a slower pace as Landlords continue offering concessions as a better alternative than lowering rents.



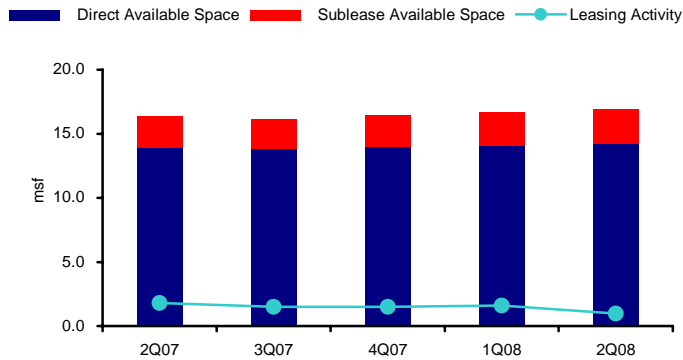
CONSTRUCTION cost inflation may limit the amount of proposed projects that break ground in 2009.



OVERALL RENTAL VS. VACANCY RATES

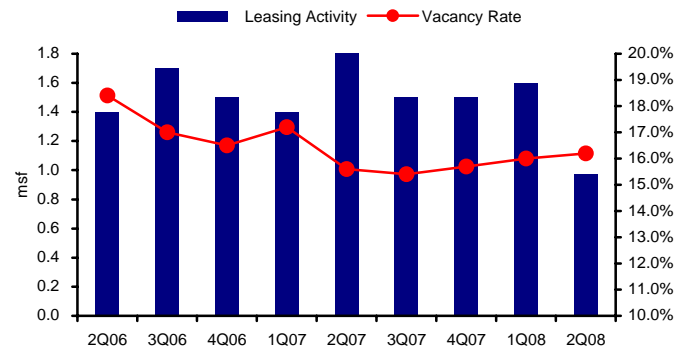


AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



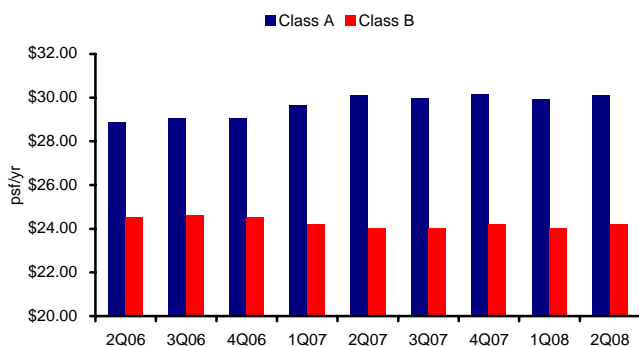
- After peaking during second quarter 2007 and first quarter 2008, leasing activity has tapered off with only 966,204 sf recorded. Sublease space now represents 16.0% of total available product, most of which is located on the Hudson Waterfront, in Parsippany and throughout the Morris Route 10/24 market.
- Direct space comprises over 83.9% of total available product. The most plentiful pockets of direct space are found within the Parsippany (1.68 msf) and Newark (1.58 msf) submarkets.

OVERALL LEASING ACTIVITY VS. VACANCY RATE



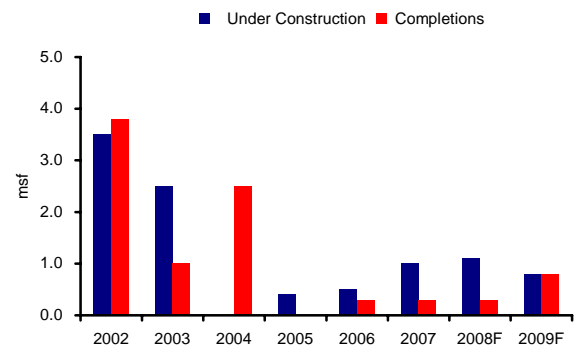
- Almost 1.8 msf of leasing activity occurred during second quarter 2007, representing the highest total recorded over the last few years in Northern New Jersey. However, after spiking again during first quarter of this year, leasing activity has dropped by almost 50% this quarter.
- Overall vacancy rates, still fluctuating, are currently 16.2%, which is 0.6% higher than second quarter 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



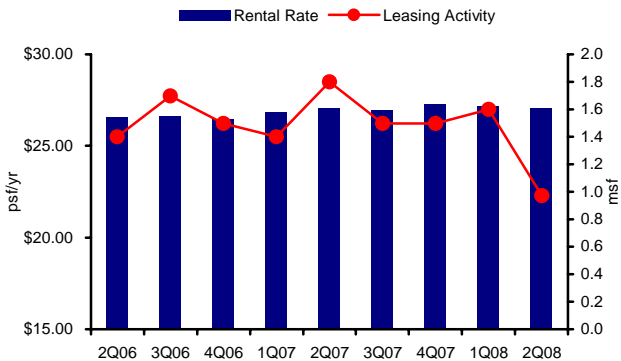
- Although class A direct rents decreased slightly during third quarter 2007 and first quarter 2008 respectively, they have once again gained momentum and currently stand at \$30.08 psf. This increase in rent can be attributed the consistent demand for high-end space.
- Class B direct rents remained flat with little movement in second and third quarters of 2007. However, after experiencing a slight decline last quarter, class B rents now stand at \$24.20 psf, mirroring that of year-end 2007.

SF UNDER CONSTRUCTION VS. COMPLETIONS



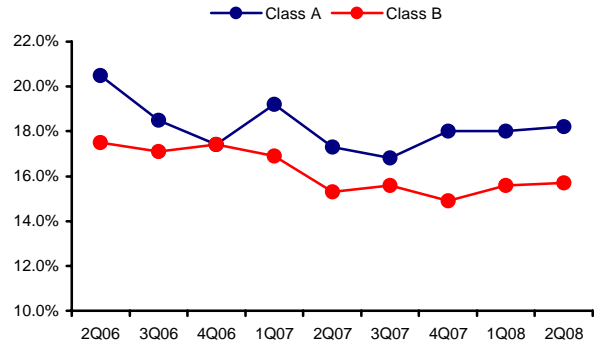
- Construction deliveries are still slow and off the pace set in 2002 when completions registered nearly 3.8 msf. There have only been three properties totaling 196,000 sf delivered to the market during the first half of this year.
- There is currently 1,096,000 sf under construction in Northern New Jersey, significantly higher than this time last year. Among those under construction are the speculative project at Waterfront Corporate Plaza III (550,000 sf) in Hoboken and the Wyndham Worldwide headquarters at Sylvan Way (250,000 sf) in Parsippany.

OVERALL RENTAL RATE VS. LEASING ACTIVITY



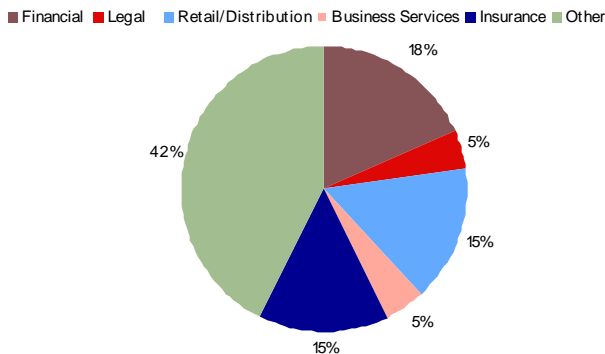
- After regaining momentum during fourth quarter 2007, leasing activity took a harsh dip this quarter and recorded the lowest total in years, registering only 966,204 sf. Due to a decrease in sublease space asking rents, overall rental rates dipped slightly and now stand at \$27.07 psf.
- Representing the largest new deal of this quarter, in a consolidation, AXA Equitable Life Insurance Company signed a long-term lease for approximately 97,823 sf at 500 Plaza Drive in Secaucus.

OVERALL VACANCY RATES CLASS A VS. CLASS B



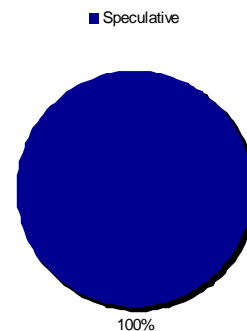
- After a steady decline from first quarter through third quarter 2007, class A overall vacancy rates have moved upwards and currently stand at 18.2%. Class B overall vacancy rates decreased to 14.9% during fourth quarter 2007, but have increased and currently register 15.7%.
- Large vacancies can be found within 3000 Continental Drive in Mount Olive, 290 West Mount Pleasant Avenue in Livingston and 445 South Street in Morris Township.

2Q08 LEASING ACTIVITY BY INDUSTRY



- Financial services and retail/distribution firms accounted for approximately 48.2% of all new leasing activity in Northern New Jersey this quarter.
- Financial services firms registered 18.1% of the overall leasing in this region. Standard Charter Bank took 45,000 sf in Newark and Tullet Prebon renewed and expanded to occupy 101,289 sf at 101 Hudson Street in Jersey City.

2008 YTD CONSTRUCTION COMPLETIONS (BTS VS. SPECULATIVE)



- There have been 196,000 sf of construction completions this year; all were speculative with no pre-leasing activity.
- There is still apprehension from developers to build on vacant land or redevelop unless there is a signed commitment from tenants. Delivery dates for projects currently under construction have been pushed back because of economic flux.

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	26,109,080	361	17.7%	15.9%	787,881	0	196,000	(417,945)	\$30.18
Essex County	23,230,360	212	13.0%	12.4%	337,433	0	0	(171,014)	\$30.52
Hudson County	23,390,106	101	9.6%	6.8%	781,728	550,000	0	320,421	\$38.56
Morris County	26,885,193	283	22.2%	17.0%	680,949	546,000	0	(721,581)	\$29.43
Passaic County	4,949,244	75	22.4%	21.2%	81,472	0	0	(130,050)	\$20.74
Selected Submarkets									
Meadowlands	6,996,044	60	25.9%	24.8%	377,289	0	0	(93,349)	\$29.83
Parsippany	11,586,265	109	20.2%	14.5%	283,812	426,000	0	(345,867)	\$30.92
Hudson Waterfront	20,121,066	76	7.3%	4.2%	585,771	550,000	0	239,011	\$38.56
Newark	13,092,042	56	13.0%	12.1%	145,314	0	0	(107,726)	\$31.97
Northern NJ Total	104,563,983	1032	16.2%	13.6%	2,669,463	1,096,000	196,000	(1,120,169)	\$30.08

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
101 Hudson Street	Hudson Waterfront	Tullett Prebon	101,289*	A
500 Plaza Drive	Hudson Meadowlands	AXA Equitable Life Insurance Co.	100,993	A
Two Gateway Center	Newark	Standard Charter Bank	45,000	A
412 Mount Kemble	Morristown	Tyco Telecommunications, Inc.	40,000	A

SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1 & 2 Executive Drive	GW Bridge Market	Joseph Chetrit Partnership	600,000	Portfolio Sale
200 Kimball Drive	Parsippany	Principal Real Estate Investors	175,000	\$49,000,000

SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
930 Sylvan Avenue	GW Bridge Market	N/A	70,000	5/08
940 Sylvan Avenue	GW Bridge Market	Unilever	60,000	5/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Waterfront Corporate Plaza III	Hudson Waterfront	N/A	550,000	11/09
Sylvan Way	Parsippany	Wyndham Worldwide	250,000	12/09
NY Jets Football Company	Morris Route 10/24	NY Jets	120,000	8/08
1 Jefferson Road	Parsippany	N/A	100,000	9/08
Interpark Office Campus-Plaza 80	Parsippany	N/A	76,000	8/08

*Expansion/renewal

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

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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