

New Jersey Industrial, Q3 2016

As NJ's core submarkets near capacity, occupiers must look outside the core

▼ Availability
7.0%

▲ Lease Rate
\$6.18 PSF

▲ Net Absorption
2,579,711 SF

▲ Leasing Velocity
6,804,624 SF

Arrows indicate change from previous quarter.

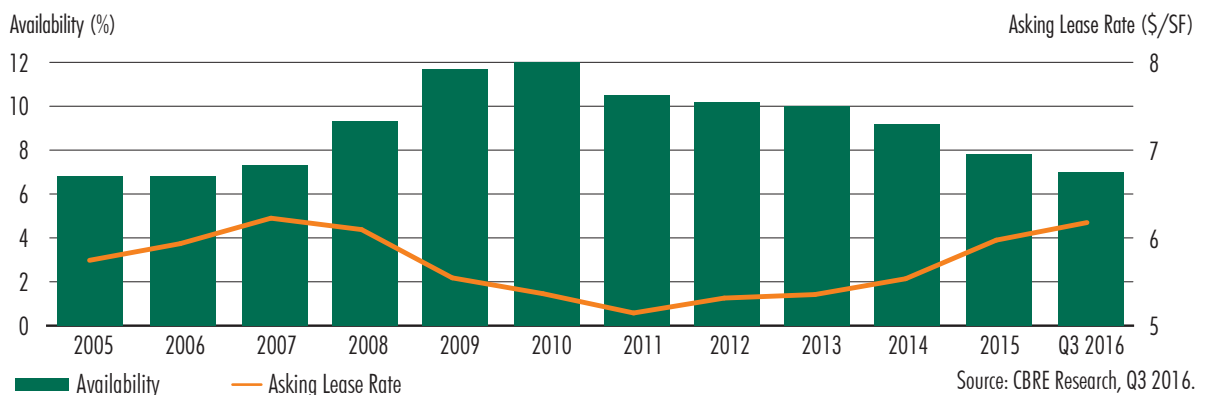
New Jersey's industrial market maintained healthy momentum in Q3 2016, recording 6.80 million sq. ft. of leasing velocity—a 20.9% increase quarter-over-quarter. Continued robust leasing pushed the state's availability rate down to 7.0%—its lowest point since Q2 2007. Moreover, Central New Jersey's availability dropped below 7.0% for the first time since 2005.

Whereas direct-to-consumer product companies dominated leasing in the first half of 2016, demand from courier delivery services companies drove activity and absorption in Q3 2016. FedEx, in particular, added to its seemingly ever-expanding footprint in New Jersey with another 480,000 sq. ft., spread over two separate build-to-suit projects. In order to keep up with e-commerce growth, FedEx

has signed 1.63 million sq. ft. of new leases statewide over the past nine months. It is estimated that two of every three shoppers expect to be able to place an order before 5 p.m. and receive next-day delivery. The majority of these shoppers will pay a premium for expedited shipping due to "time-sensitive reasons."¹ Evolving expectations from consumers are the driving force behind the significant demand seen by courier delivery service companies.

The Turnpike Corridor submarkets accounted for 82.8% of the state's year-to-date leasing velocity. As of Q3 2016, availability in the Turnpike Corridor is 6.4%—with only five blocks of space that can accommodate a requirement of 500,000 sq. ft. or greater. Tightness in the market has clearly driven

Figure 1: Historical Availability Rates vs. Asking Lease Rates



rental rates higher in these submarkets. Select Turnpike Corridor submarkets, including the Meadowlands, Hudson Waterfront, Carteret/Avenel and Exit 8A, now maintain average asking lease rates that sit above their respective pre-recession peaks.

With fewer options available in the core submarkets along the New Jersey Turnpike, Trenton/295 and Princeton are exhibiting new signs of life. Sparse development, relatively lower lease rates and accessibility to the turnpike make these areas the next best option for occupiers. In fact, FedEx is locating one of its two aforementioned build-to-suit projects in the Trenton/295 submarket. Aurobindo USA is another company expanding to this market area, breaking ground on a 567,000-sq.-ft. headquarters facility in East Windsor. Aurobindo USA already occupies industrial space at Exit 8A, but moved its headquarters requirement farther south due to a lack of supply in its current submarket.

Construction activity remains strong in New Jersey. During Q3 2016, seven projects totaling 1.93 million sq. ft. came to market, with 61.2% of this new space delivered with occupier commitments in place. The 3.93 million sq. ft. of new deliveries recorded year-to-date surpasses the volume seen for 2015 overall by more than 400,000 sq. ft. With regard to new groundbreakings, Q3 2016 recorded nine new projects totaling 2.10 million sq. ft. Year-to-date, construction starts total 6.15 million sq. ft.—the second highest annual volume recorded in New Jersey since CBRE started tracking this information. The average lease-up time of newly delivered product continues to be six months.

As New Jersey’s core submarkets along the New Jersey Turnpike continue to tighten, new demand for large blocks will be forced to look southward. With an average quarterly leasing velocity of 6.64 million sq. ft. over the past year, 2016 is on pace to exceed 27 million sq. ft. in leasing, a level of volume not recorded in New Jersey since 2011.

Figure 2: Q3 2016 Notable Lease Transactions

Size (SF)	Tenant	Address	City	Type
411,600	Menlo Logistics	25 S Middlesex Ave	Monroe Township	Renewal
361,489	Port Logistics	125 Delawanna Ave	Clifton	Renewal
340,000	FedEx	530 Route 130	Trenton	New Lease
281,000	Creative Logistics	377 Davidson Mill Rd	South Brunswick	New Lease
261,377	Iron Mountain	100 Harbor Dr	Jersey City	Renewal

Source: CBRE Research, Q3 2016.

Figure 3: Q3 2016 Notable Sale Transactions

Size (SF)	Buyer	Address	City	Type
600,600	Deutsche Asset & Wealth Management	401 Cabot Dr	Hamilton Township	Sold to Investor
316,000	Central Jersey Trucking and Rigging	9 Finderne Ave	Bridgewater	Sold to User
267,000	TIAA Investment Management	51 Commerce Dr	South Brunswick	Sold to Investor
155,000	West Crescent Realty	230 W Crescent Ave	Allendale	Sold to Investor
151,290	OEG Building Material	6001 Bordentown Ave	Sayreville	Sold to User

Source: CBRE Research, Q3 2016.

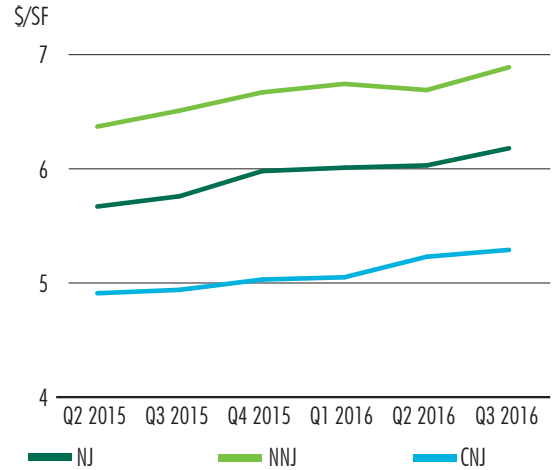
AVERAGE ASKING LEASE RATE

The average asking lease rate for industrial space in New Jersey continued its steady climb, up 2.5% quarter-over-quarter, reaching \$6.18 per sq. ft.— just \$0.11 below the peak rate achieved in Q2 2008. Both Northern and Central New Jersey recorded increases in their average asking rates. Increasingly tight availability in the market will continue to support rental rate growth.

AVERAGE ASKING SALE RATE

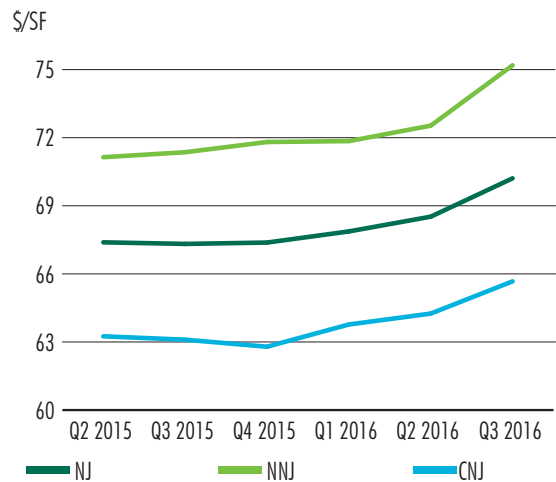
The average asking sale rate for industrial space in New Jersey rose to \$71.08 per sq. ft., representing a 5.5% increase year-over-year and the highest recorded sale rate since Q3 2009. Northern New Jersey saw an average asking sale rate of \$73.90 per sq. ft., while Central New Jersey recorded a sale rate of \$65.47 per sq. ft.

Figure 4: Historical Average Asking Lease Rate



Source: CBRE Research, Q3 2016.

Figure 5: Historical Average Asking Sale Rate

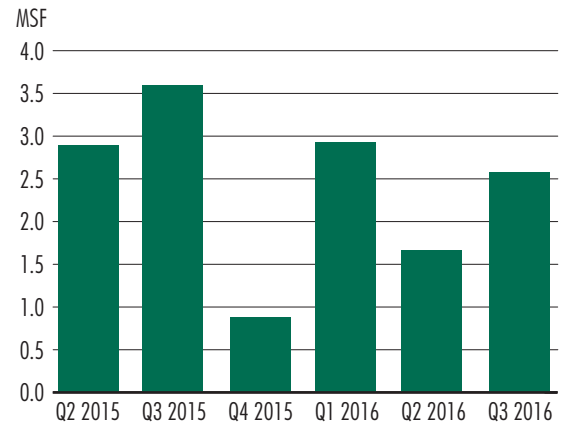


Source: CBRE Research, Q3 2016.

NET ABSORPTION

Net absorption for Q3 2016 totaled 2.58 million sq. ft., representing the 22nd quarter of positive absorption over the past six years. Central New Jersey accounted for 98.4% of this positive momentum. Year-to-date, the market recorded total absorption of 7.19 million sq. ft. With increasingly limited supply of big-block space, the pace of absorption will likely slow in the coming quarters.

Figure 6: Historical Net Absorption

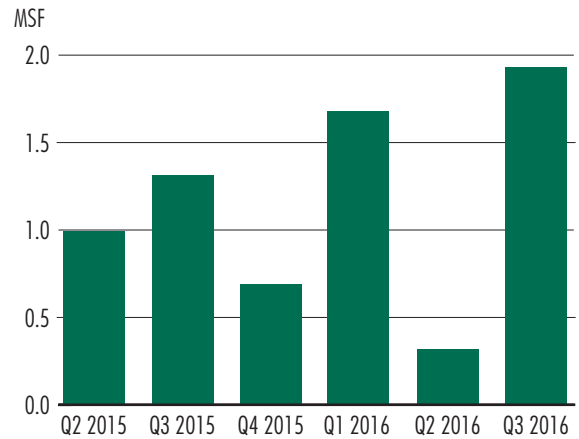


Source: CBRE Research, Q3 2016.

CONSTRUCTION

In Q3 2016, seven projects totaling 1.93 million sq. ft. were delivered to the market and nine new construction projects broke ground. The total inventory under construction in New Jersey is now 28 projects, totaling 7.90 million sq. ft. Of these projects, 61.5% are being built on spec. Year-to-date, construction starts surpassed 2015's total. By the end of the year, an additional 2.19 million sq. ft. will be introduced to the market.

Figure 7: Historical Construction Completions



Source: CBRE Research, Q3 2016.

PORT OF NY AND NJ ACTIVITY

Activity at the New York and New Jersey port terminals decreased slightly in the second quarter. Year-to-date loaded container traffic in TEUs is down 2.1% from the same period last year. The Port Authority of New York and New Jersey (PANYNJ) is continuing to partake in the U.S. port industry's East Coast race to upgrade infrastructure in preparation for the larger cargo vessels that will now pass through the Panama Canal. The State of New Jersey and the

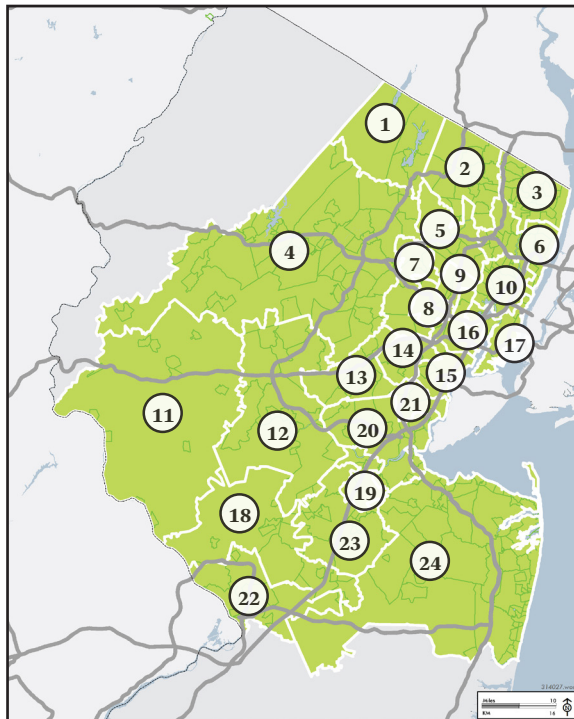
PANYNJ are continuing the "Raise the Roadway" project that will add an additional 64 feet of air draft to the Bayonne Bridge, ultimately allowing new super-container ships access to the ports.

The largest port on the East Coast and the third largest in the U.S., the Port of New York and New Jersey is a passageway to one of the largest and most important consumer markets in the world.

Figure 8: Q3 2016 Market Statistics

Submarket	Market Rentable Area (SF)	Availability (SF)	Availability Rate (%)	Avg. Asking Lease Rate (\$/SF/Yr)	Avg. Asking Sale Rate (\$/SF)	Leasing Velocity (SF)	Net Absorption (SF)
Central Bergen	31,386,683	2,203,937	7.0	6.98	98.46	151,500	19,028
Fairfield Market	18,497,533	1,498,529	8.1	7.07	95.52	148,656	26,656
Hudson Waterfront	63,516,686	3,310,828	5.2	7.06	97.31	117,330	8,430
Meadowlands	94,592,915	7,340,555	7.8	7.31	102.70	912,101	156,836
Morris Region	43,398,924	4,751,702	10.9	6.40	68.28	219,825	11,356
Newark	51,503,429	2,796,292	5.4	6.32	62.59	164,943	(195,882)
North East Bergen	7,946,728	528,536	6.7	6.89	95.36	49,362	87,180
North West Bergen	19,244,843	1,657,360	8.6	7.89	38.19	123,533	(74,685)
Route 23 North	553,533	111,932	20.2	8.17	82.65	0	0
Route 280 Corridor	3,713,850	120,683	3.2	5.88	78.43	0	(1,000)
Route 46/23/3 Interchange	56,625,610	4,462,333	7.9	7.07	60.48	305,686	(71,495)
Suburban Essex	12,733,135	484,732	3.8	4.16	39.43	15,920	73,810
Northern New Jersey Total	403,713,869	29,267,419	7.2	6.89	73.90	2,208,856	40,234
Brunswicks/Exit 9	25,445,726	1,317,970	5.2	5.26	58.86	256,102	330,772
Carteret/Avenel	24,549,833	2,500,329	10.2	6.85	53.50	143,894	2,639
Central Union	24,974,952	1,578,229	6.3	5.43	66.18	231,840	127,190
Exit 8A	70,939,383	3,770,957	5.3	5.23	72.96	1,745,893	667,227
Hunterdon	6,306,635	899,460	14.3	3.07	11.96	62,338	9,338
Linden/Elizabeth	43,976,351	2,625,244	6.0	6.18	101.15	408,367	686,497
Monmouth	24,243,648	1,513,916	6.2	7.66	71.09	9,200	(38,831)
Princeton	9,846,509	483,912	4.9	6.42	59.71	0	38,000
Route 287/Exit 10	98,896,682	6,865,799	6.9	4.93	68.74	916,708	307,791
Route 78 East	9,768,961	812,468	8.3	3.71	25.83	67,554	67,554
Somerset	37,544,385	2,122,614	5.7	5.71	90.23	323,872	39,572
Trenton/295	28,777,091	2,843,290	9.9	4.08	34.65	430,000	301,728
Central New Jersey Total	405,270,156	27,334,188	6.7	5.29	65.47	4,595,768	2,539,477
New Jersey Total	808,984,025	56,601,607	7.0	6.18	71.08	6,804,624	2,579,711

Source: CBRE Research, Q3 2016.



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|---------------------------|-----------------------|
| 1. Route 23 North | 13. Route 78 East |
| 2. North West Bergen | 14. Central Union |
| 3. North East Bergen | 15. Linden/Elizabeth |
| 4. Morris Region | 16. Newark |
| 5. Route 46/23/3 Corridor | 17. Hudson Waterfront |
| 6. Central Bergen | 18. Princeton |
| 7. Fairfield Market | 19. Brunswicks/Exit 9 |
| 8. Route 280 Corridor | 20. Route 287/Exit 10 |
| 9. Suburban Essex | 21. Carteret/Avenel |
| 10. Meadowlands | 22. Trenton/295 |
| 11. Hunterdon | 23. Exit 8A |
| 12. Somerset | 24. Monmouth |

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SOURCES

1. UPS's Pulse of the Online Shopper, June 2016