

New Jersey Industrial, Q2 2019

Record Q2 leasing drives rental rates to new highs

Leasing Activity
6.7 MSF

Net Absorption
3.6 MSF

Availability Rate
6.2%

Average Asking Lease Rate
\$7.39 PSF

*Arrows indicate change from previous quarter.

- Average asking rent reached \$7.39 per sq. ft., a new record for the market. Northern and Central New Jersey also posted new record highs, with Northern New Jersey breaking the \$8.00 barrier.
- Peak taking rents for Class A product approached \$13.00 per sq. ft. in Northern New Jersey and hit \$10.50 per sq. ft. in select Central New Jersey submarkets.
- Leasing activity was down slightly quarter-over-quarter, at 6.7 million sq. ft., but posted the highest second quarter result since 2001.
- Although down 900,000 sq. ft. compared with Q1 2019, net absorption in Q2 was strong at 3.6 million sq. ft.
- The availability rate recorded its best showing in more than 14 years, ending the quarter at 6.2%, a drop of 20 bps compared to the first quarter.
- Seven buildings were delivered to the market in Q2, adding 2.1 million sq. ft. of new product. More than 6.7 million sq. ft. is currently under construction across 20 buildings.

MARKET OVERVIEW

The New Jersey industrial market once again demonstrated a very solid performance in the second quarter of 2019. The market’s overall strength was best exemplified by the continued rise in rents, with transactions approaching \$13.00 per sq. ft. in Northern New Jersey and \$10.50 per sq. ft. in Central New Jersey, well above average asking rates. As the majority of newer product is offered without a published asking rent, the spread between average asking rents and actual taking rents will continue to expand¹.

The overall availability rate continued to improve in Q2, on par with prior quarters, declining by 20 basis points (bps) quarter-over-quarter to 6.2%. This was the lowest rate achieved in the New Jersey industrial market since the beginning of 2005. Leasing activity, at 6.7 million sq. ft., although down just slightly from Q1 2019, was the highest ever recorded for a second quarter since 2001. At 3.6 million sq. ft., net absorption slowed by 900,000 sq. ft. compared to Q1 but marked the 10th consecutive quarter with a positive result.

Figure 1: Q2 2019 Notable Transactions

Size (SF)	Tenant	Address	City	Type
611,320	Geodis Logistics	1 Costco Way	Monroe Township	Renewal
593,720	Confidential Logistics Co.	117 Interstate Blvd.	South Brunswick	New lease
444,940	Confidential Logistics Co.	3 Brickyard Rd.	Cranbury	New lease
382,596	Corbion	700 Union Blvd.	Totowa	New lease
333,059	Menlo Logistics	24 Englehard Dr.	Monroe Township	Renewal

Source: CBRE Research, Q2 2019.

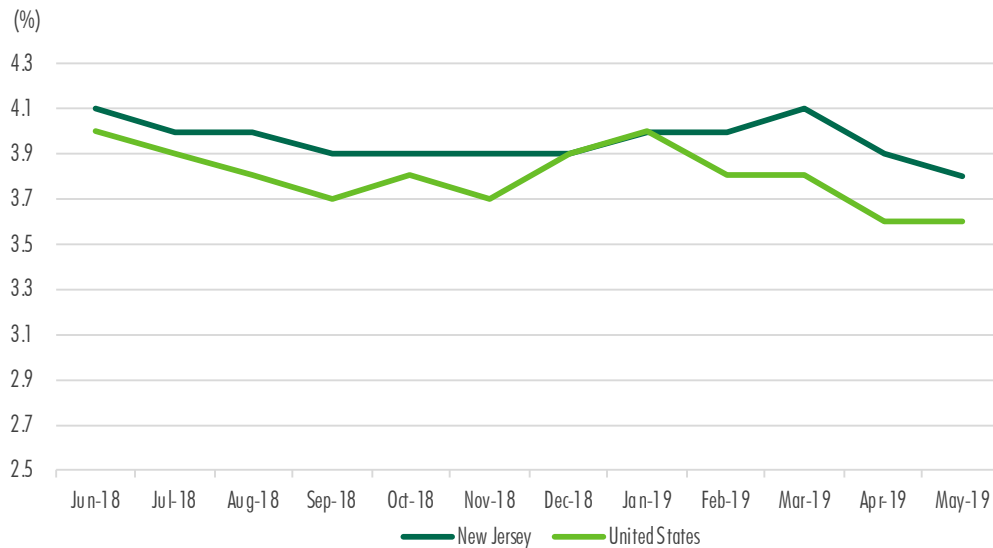
ECONOMY

At 3.8%, New Jersey’s unemployment rate for May was the lowest recorded since April 2001. It also marked the second consecutive month in which the rate saw a small decline. This is a positive signal for the economy, given that the state’s unemployment rate had either been flat or reflected an increase every month between October 2018 and March of this year.

As of May, at nearly 4.2 million employed persons, year-over-year employment in New Jersey was higher by 45,900 jobs, with gains recorded in both the private sector (+42,000) and the public sector (+3,900). However, according to estimates produced by the U.S. Bureau of Labor Statistics, New Jersey employers reduced payrolls between April and May, with total employment decreasing by 7,600 jobs concentrated exclusively in the private sector.

Trade, Transportation and Utilities employment remained stable compared to the same period a year ago, with very little change in any of its components: Wholesale Trade, Retail Trade and Transportation, Warehousing, and Utilities.

Figure 2: Monthly Unemployment Rate



Source: U.S. Department of Labor, June 2019.

Figure 3: Trade, Transportation, and Utilities Employment

	May-18	Apr-19	May-19	M-o-M	Y-o-Y
Trade, Transportation and Utilities	887,600	886,700	884,400	(2,300)	(3,200)
Wholesale Trade	215,800	215,100	215,300	200	(500)
Retail Trade	459,600	456,700	455,100	(1,600)	(4,500)
Transportation, Warehousing and Utilities	212,200	214,900	214,000	(900)	1,800

Source: US Department of Labor, June 2019.

PORT OF NEW YORK AND NEW JERSEY

In April, the most recent reporting month, total volume at the Port of New York and New Jersey rose by nearly 10 percent, accounting for more than 605,000 Twenty-foot Equivalent Units (TEUs) compared to just over 551,000 TEUs in April of 2018. This follows a trend of consistent year-over-year growth that began in April 2017, a 25-month streak. The increases brought the total volume for January through April to more than 2,398,000 TEUs, a 7.5% increase over the same period in 2018.

In June, the Port Authority announced the completion of the ExpressRail Port Jersey facility, the final piece of the port and New Jersey’s intermodal rail network. The new facility, coupled with the completion of the raising of the Bayonne Bridge to accommodate mega vessels, has contributed to the record-breaking cargo growth. Given the current trend, the port, already the largest on the east coast, is primed to surpass the Port of Long Beach as the nation’s second-busiest cargo port for the first time in more than two decades.

Data Source: Port Authority of New York and New Jersey, June 2019.

AVERAGE ASKING LEASE RATE

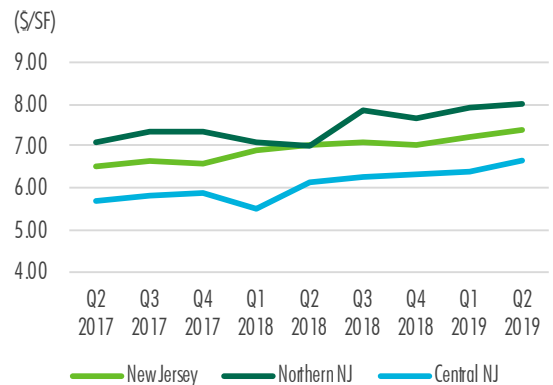
The second quarter once again saw average asking lease rates hit record highs, reaching \$7.39 per sq. ft. This was an approximately 2% increase above the first quarter and marked the fifth quarter in the last six in which the rate indicated quarter-over-quarter growth. It is also worth noting that in the Northern New Jersey portion of the market, the average asking lease rate broke the \$8.00 per sq. ft. barrier for the first time, increasing \$0.10 per sq. ft. over the prior quarter to an average of \$8.01 per sq. ft. Central New Jersey also bested its previous high, jumping \$0.24 to \$6.66 per sq. ft.

However, these rates are misleading due to the large number of buildings that are no longer posting asking rents.

CBRE research indicates that the average overall taking rent for the first half of 2019 in Northern New Jersey was \$8.85 per sq. ft. and \$10.10 per sq. ft. for Class A properties. Similarly, the average taking rent in Central New Jersey was \$7.65 per sq. ft. overall and \$8.15 per sq. ft. for Class A buildings. Taking rents continue to be impacted by landlord concessions that include three to six months of free rent for a typical 10-year lease.

Among the notable submarkets to experience increased average asking rents were the Meadowlands, where prime space has been in high demand (+ 2.7% to \$9.20 per sq. ft.), the Route 46/23/3 Interchange (+ 5.7% to \$7.08 per sq. ft.), Carteret/Avenel (+ 6.8% to \$8.02 per sq. ft.) and Exit 8A (+ 5.5% to \$7.91 per sq. ft.). Several prominent submarkets saw small declines in average asking rates, among them the Hudson Waterfront, Newark, Princeton and Route 287/Exit 10. As the divergence in quarter-over-quarter changes indicates, in some submarkets landlords are seeing a higher level of resistance to increased rates despite the overall strength of the market.

Figure 4: Quarterly Average Asking Lease Rates



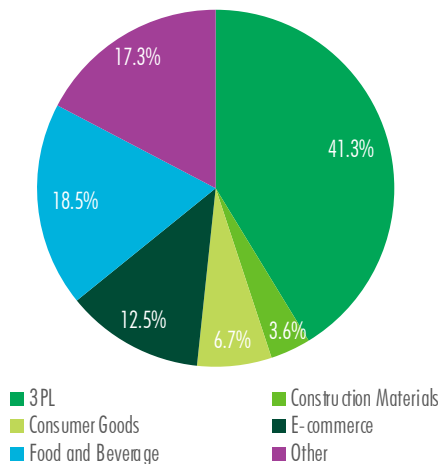
Source: CBRE Research, Q2 2019.

LEASING

At just over 6.7 million sq. ft., leasing activity for Q2 2019 saw the highest total ever recorded for a second quarter. It also reflected an increase of nearly 13% above the same quarter in 2018. Add to that another 2.6 million sq. ft. of renewals and the market totaled a robust 9.3 million sq. ft. in total velocity, underlining the persistent high level of demand the market has come to expect. Overall, approximately 13.6 million sq. ft. of new leases have been signed in the first half of 2019, an increase of more than 11% versus the same period a year earlier.

Of the total second quarter leasing activity, more than 4.5 million sq. ft. – or two-thirds – took place in Central New Jersey. Nine of the 10 largest leases for the quarter occurred in the Central New Jersey portion of the market, all of them in the Exit 8A submarket. The heavy demand at Exit 8A has effectively left little to no existing quality space available, and the resulting shortage has led some occupiers to bank space as a hedge against future needs. Another side effect of the diminished supply has been that despite rising lease rates, Exit 8A experienced a high level of renewals in the second quarter, nearly 1.4 million sq. ft., which brought total velocity for Q2 2019 to more than 3.8 million sq. ft.

Figure 5: Leasing Activity by Industry

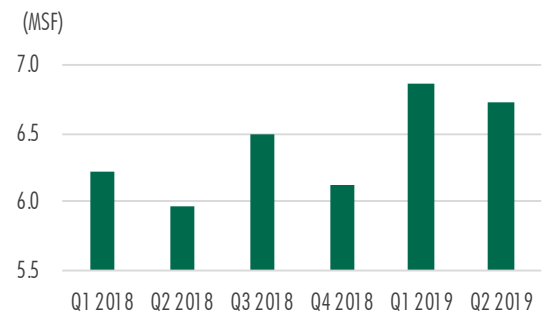


Source: CBRE Research, Q2 2019.

In addition to the Exit 8A submarket, notably strong leasing activity was experienced in Rt. 287/Exit10 (1.1 million sq. ft.), the Meadowlands (860,000 sq. ft.), the Rt. 46/23/3 Interchange (502,000 sq. ft.) and Linden/Elizabeth (491,000 sq. ft.).

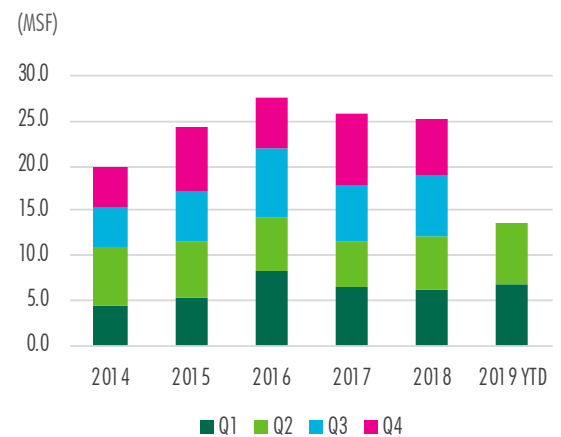
As seen in Figure 5, third-party logistics providers (3PLs) dominated second quarter leasing with more than 41% of the activity. Food and Beverage at 18.5% and E-commerce with 12.5% rounded out the top three industries driving second quarter demand. These same three industries plus consumer goods companies also seized the lion's share of activity in the first quarter, when 3PL providers captured 33% of the market.

Figure 6: Quarterly Leasing Activity



Source: CBRE Research, Q2 2019.

Figure 7: Annual Leasing Activity



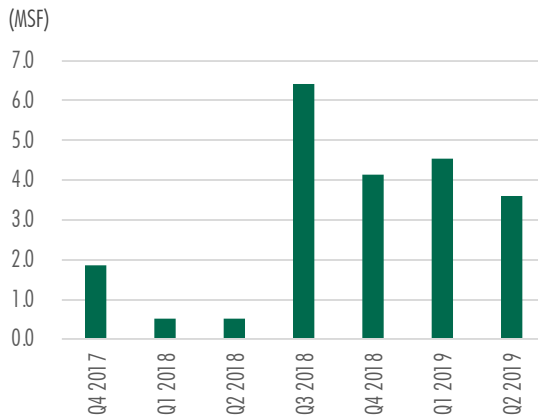
Source: CBRE Research, Q2 2019.

NET ABSORPTION AND AVAILABILITY

Net absorption for the second quarter posted a very solid 3.6 million sq. ft., the 10th consecutive quarter with a positive result. While this was more than 900,000 sq. ft. below the total recorded in Q1 2019, it was still more than one million sq. ft. above the quarterly average of 2.5 million sq. ft. recorded since the beginning of 2016. In addition, the year-to-date total of 8.2 million sq. ft. represents the highest first half net absorption since 2001 when CBRE began tracking the market. Seeing these numbers, it is hard to believe that between 2005 and 2010, the New Jersey industrial market recorded negative annual net absorption every year.

Both Northern and Central New Jersey posted positive net absorption for the quarter with 573,000 sq. ft. and 3.0 million sq. ft., respectively. The Central New Jersey total was bolstered by strong performances in the Rt. 287/Exit 10 submarket, which recorded 1.4 million sq. ft. of net absorption and Exit 8A, which posted just under 672,000 sq. ft. The Trenton/295 submarket at 630,000 sq. ft. and Linden/Elizabeth with 344,000 sq. ft. also excelled in the second quarter. In Northern New Jersey, the Meadowlands with 382,000 sq. ft. of net absorption and Newark with 276,000 sq. ft. led all other submarkets.

Figure 10: Quarterly Absorption

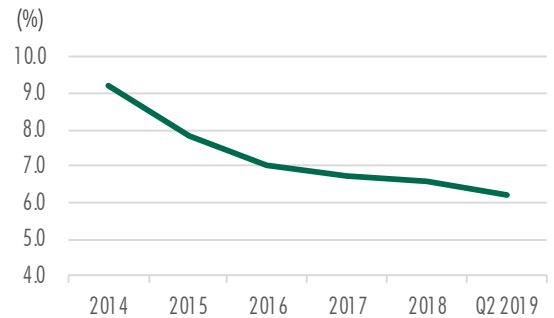


Source: CBRE Research, Q2 2019.

Availability grew ever tighter in the second quarter, falling to 6.2%—its lowest level since the first quarter of 2005. Over the past four quarters, the availability rate, as shown in Figure 9, has decreased by 80 bps, a decline of more than 11%. The vacancy rate has similarly decreased by 80 bps over the same period and reached a very low 3.0% as the second quarter came to an end.

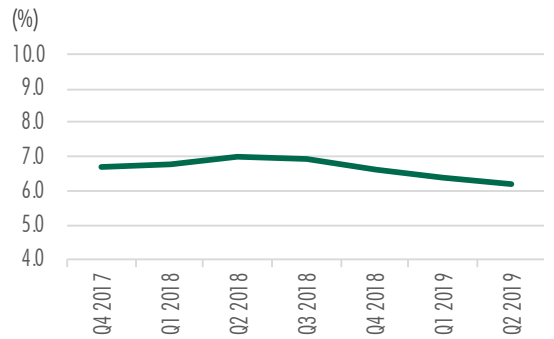
The strongest submarkets were especially tight with effectively no vacancy. In Princeton, the vacancy rate dropped to 0.9% and was followed closely by Exit 8A (1.2%), Fairfield (1.8%), Newark (1.9%), Carteret/Avenel (2.0%) and Rt. 287/Exit 10 (2.1%). Among the largest submarkets, only the Morris Region, at 5.7%, recorded a vacancy rate exceeding 4%.

Figure 8: Annual Availability



Source: CBRE Research, Q2 2019.

Figure 9: Quarterly Availability



Source: CBRE Research, Q2 2019.

Figure 11: Major Blocks of Space Added in Q2 2019

Address	City	SF
315 Half Acre Rd.	Cranbury	649,081
150 Milford Rd.	Hightstown	615,000
38 Market St.	Elmwood Park	425,000
200 Docks Corner Rd.	Dayton	309,925
311 Half Acre Rd.	Cranbury	299,779
260 Prospect Plains Rd.	Cranbury	232,886

Source: CBRE Research, Q2 2019.

INVESTMENT SALES

With the Central New Jersey market experiencing high levels of occupier demand, it is not surprising to see that every one of the top five sales transactions – and seven of the top 10 – occurred in this cluster of submarkets. Overall, nearly 3.7 million sq. ft. of transactions took place during the second quarter with a net average sale price of \$89.99 per sq. ft. This was the highest average since Q3 2018 and well above the average of \$74.90 per sq. ft. for all last year. In all, 35 buildings changed hands, four fewer than the previous quarter.

Familiar names were once again prominent among investors in the second quarter with Liberty Property Trust, Colony Capital², Seagis Property Group and Dermody Properties involved in five of the ten largest transactions for the quarter. Notable among sellers during the quarter was the Rockefeller Group, which disposed of the two Ridge Road properties shown in Figure 12, below.

UNDER CONSTRUCTION

As the second quarter ended there were 20 buildings under construction, eight in Northern New Jersey and 12 in Central New Jersey. In all, 6.7 million sq. ft. was under construction, with roughly 65% in progress in Central New Jersey submarkets. This compared with 19 buildings totaling 5.8 million sq. ft. in the first quarter of the year and 31 buildings totaling 11.4 million sq. ft. in the second quarter a year ago. The reduction in new construction is due in part to a shrinking supply of developable land and the high cost of acquisition and less to developers’ belief that demand will be contracting any time soon. Nevertheless, there were nine construction starts during the second quarter, the second highest total in the past six quarters.

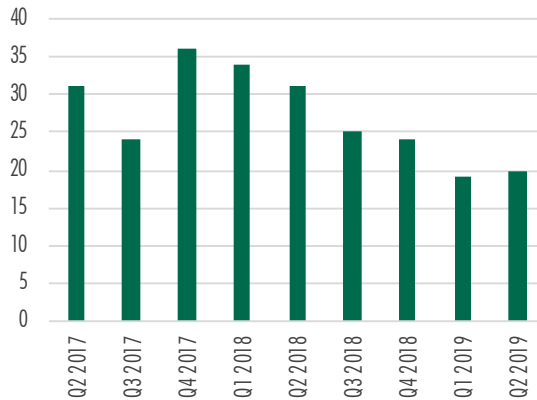
Figure 12: Q2 2019 Notable Investment Sales Transactions

Address	City	Size (SF)	Price	Price/SF	Buyer
150 Milford Rd.	Hightstown	608,442	\$56,100,000	\$92.20	Dermody Properties
400 Ridge Rd. - Bldg. 4 (A/K/A 171 River Rd.)	Piscataway	468,900	\$70,333,322	\$150.00	Kiss Products
400 Ridge Rd. - Bldg. 5	Piscataway	396,750	\$59,512,500	\$150.00	SHI International
700 Blair Rd.	Carteret	235,000	\$19,500,000	\$82.98	Colony Capital ²
140 Carter Dr.	Edison	218,000	\$26,500,000	\$121.56	Liberty Property Trust

Source: CBRE Research, Q2 2019.

Although pre-commitments in under construction projects have tended to vary widely in the past, the current degree of pre-leasing, 24.8%, is down from the 36.5% and 32.6% recorded in Q1 2019 and Q4 2018, respectively. The second quarter total also represented the lowest percentage of pre-commitments since Q4 2015.

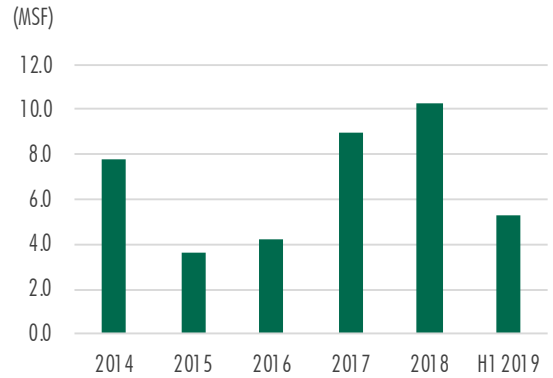
Figure 13: Quarterly Under Construction (No. of Buildings)



Source: CBRE Research, Q2 2019.

Seven projects were completed during the second quarter, a reduction from the 10 buildings delivered in the first quarter of this year. Six of the seven buildings, which added 1.9 million sq. ft. to the inventory, were in Central New Jersey. Of that total, 43% or 805,000 sq. ft. was pre-committed upon completion. Four of the six new properties were in the Rt. 287/Exit 10 submarket, while two others were in the Trenton/295 submarket. The lone delivery in Northern New Jersey was 5 Ethel Boulevard in Wood-Ridge, in the Meadowlands. The 194,000 sq. ft. building was partially leased in Q4 2018 to Grace Kennedy Foods. More than 5.3 million sq. ft. has been delivered thus far in 2019 which compares favorably with the 10.3 million sq. ft. added to inventory in all of 2018.

Figure 14: Historical Deliveries

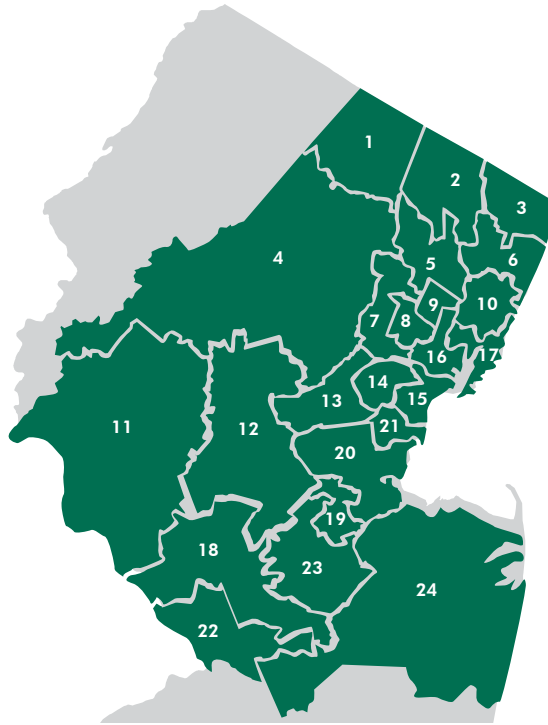


Source: CBRE Research, Q2 2019.

Figure 15: Q2 2019 Market Statistics

Submarket	Market Rentable Area (SF)	Available (SF)	Availability Rate (%)	Avg. Asking Lease Rate (\$/SF)	Avg. Asking Sale Rate (\$/SF)	Leasing Activity (SF)	Net Absorption (SF)	YTD Net Absorption (SF)
Central Bergen	31,477,676	2,268,358	7.2	8.58	95.99	6,072	(446,664)	(391,683)
Fairfield Market	18,530,665	1,147,814	6.2	7.71	103.55	149,426	126,790	198,416
Hudson Waterfront	63,949,862	3,769,576	5.9	7.18	107.78	332,599	77,161	258,326
Meadowlands	95,687,863	7,255,009	7.6	9.20	104.67	860,106	382,182	198,070
Morris Region	42,477,136	3,702,641	8.7	7.65	135.52	181,366	56,557	416,003
Newark	51,940,160	2,744,834	5.3	6.95	75.46	188,606	276,248	268,059
North East Bergen	7,971,744	698,354	8.8	8.92	79.09	0	(35,590)	35,760
North West Bergen	19,073,458	1,062,568	5.6	8.91	107.49	0	(114,852)	(362)
Rt 23 North	553,533	58,660	10.6	7.84	88.70	0	0	0
Rt 280 Corridor	3,815,100	74,868	2.0	12.54	65.53	0	43,010	113,150
Rt 46/23/3 Interchange	57,322,733	4,024,925	7.0	7.08	93.83	501,669	152,266	1,025,423
Suburban Essex	12,070,135	425,929	3.5	4.37	52.22	0	56,320	72,320
NORTHERN NJ	404,870,065	27,233,536	6.7	8.01	92.49	2,219,844	573,428	2,193,482
Brunswicks/Exit 9	25,546,076	1,278,126	5.0	6.59	106.83	185,000	566,565	758,920
Carteret/Avenel	25,754,742	1,935,793	7.5	8.02	149.22	65,000	(94,919)	(354,159)
Central Union	25,128,137	1,704,487	6.8	6.90	82.20	11,556	10,474	8,236
Exit 8A	77,807,278	3,821,164	4.9	7.91	89.45	2,469,216	671,957	1,277,129
Hunterdon	6,398,635	803,801	12.6	3.01	73.06	0	(10,800)	113,597
Linden/Elizabeth	45,600,831	2,053,756	4.5	7.24	88.52	491,270	343,571	1,203,721
Monmouth	24,294,973	1,526,978	6.3	7.98	93.97	20,500	(151,241)	(182,945)
Princeton	11,653,055	498,195	4.3	7.36	73.39	11,000	64,575	676,780
Rt 287/Exit 10	104,690,462	5,171,432	4.9	6.98	74.49	1,149,134	1,401,763	1,683,542
Rt 78 East	9,783,021	648,662	6.6	3.92	67.26	0	67,021	67,021
Somerset	37,848,853	2,798,423	7.4	6.65	97.72	102,839	(453,334)	116,364
Trenton/295	30,438,586	1,995,154	6.6	5.00	49.02	0	629,576	592,611
CENTRAL NJ	424,944,649	24,235,971	5.7	6.66	87.09	4,505,515	3,045,208	5,960,817
NJ TOTAL	829,814,714	51,469,507	6.2	7.39	89.99	6,725,359	3,618,636	8,154,299

Source: CBRE Research, Q2 2019.



- | | |
|---------------------------|-----------------------|
| 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 |

THINGS TO NOTE

¹At present, 72.3% of Class A buildings with availabilities do not publish an asking rental rate.

²The Colony acquisition, from Hampshire Real Estate, was part of a 1.35-million sq. ft. New Jersey portfolio that traded for approximately \$178 million or \$132 per sq. ft. The portfolio was more than 99% occupied at time of sale.

All historic data relating to leasing activity and leasing velocity have been revised since original publication. The revisions are based on a change in terminology that went into effect January 1, 2018. As of this date, all reports by CBRE Tri-State use the term leasing activity to refer to the total amount of new square footage leased in the market within a specific time period, including all new leases, expansions and all pre-leasing, but excluding renewals. Also, the term leasing velocity is used to refer to all leasing activity and renewals.

Effective July 1, 2018, all historical absorption figures have been revised since original publication to more accurately reflect the state of the New Jersey Industrial market.

CONTACTS

Nicole LaRusso
Director, Research & Analysis
 +1 212 984 7188
 Nicole.LaRusso@cbre.com

Steve Gardner
Senior Research Analyst
 +1 201 712 5832
 Steve.Gardner@cbre.com

Tim O'Neill
Researcher
 +1 201 712 5663
 Tim.Oneill@cbre.com

CBRE OFFICES IN NEW JERSEY

Saddle Brook
 Park 80 West, Plaza Two
 250 Pehle Avenue, Suite 600
 Saddle Brook, NJ 07663

East Brunswick
 Two Tower Center Boulevard, 20th Floor
 East Brunswick, NJ 08816

Florham Park
 100 Campus Drive
 Florham Park, NJ 07932

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at:
www.cbre.com/researchgateway.