

New Jersey Industrial, Q1 2019

NJ Industrial market remains red hot, as key metrics improve

 **Leasing Activity**
6.9 MSF

 **Net Absorption**
4.5 MSF

 **Availability Rate**
6.4%

 **Average Asking Lease Rate**
\$7.25 PSF

*Arrows indicate change from previous quarter.

- The average asking lease rate reversed a quarter-over-quarter decline in Q1 2019, increasing by \$0.23 per sq. ft. and setting a new high of \$7.25 per sq. ft.
- Paced by Central New Jersey, leasing activity totaled 6.9 million sq. ft. in the first quarter. This represented a 12% increase over Q4 2018 and a 13% higher total than the same period last year.
- Net absorption posted the highest first quarter total since CBRE began tracking the market. The 4.5 million sq. ft. absorbed also represented the third-highest quarterly figure in the past five years and an increase of four million sq. ft. over Q1 2018.
- The availability rate—though down a modest 20 bps quarter-over-quarter—was the lowest recorded since Q1 2005, finishing the quarter at 6.4%. The rate was also 40 bps below where it was in the same quarter last year.
- More than three million sq. ft. in 10 buildings was added to inventory in the first quarter. Of the total completed, just under two-thirds was pre-committed—another measure of the market's continuing strength.

MARKET OVERVIEW

The New Jersey industrial market once again demonstrated outstanding fundamentals in the first quarter of 2019 with across-the-board improvement in both year-over-year and quarter-over-quarter metrics. Reflecting that strength was a more than 3% rise in the average asking lease rate to a new high of \$7.25 per sq. ft.

The availability rate ended the first quarter at 6.4%, 20 basis points (bps) below the previous quarter and down 40 bps from Q1 2018. Leasing activity continued to be robust, with 6.9 million sq. ft. of new transactions registered during the quarter—an increase of 750,000 sq. ft. or 12% over Q4 2018. Net absorption, at 4.5 million sq. ft., posted the third-highest quarterly total in the past five years and the best first quarter of all time.

The first quarter ended with 19 developments under construction totaling 5.8 million sq. ft. Ten buildings were completed during the quarter that added 3.3 million sq. ft. to inventory.

Figure 1: Q1 2019 Notable Transactions

Size (sq. ft.)	Tenant	Address	City	Type
953,595	Wayfair	343 Half Acre Road	Cranbury	New lease
870,950	Crate & Barrel	353 Half Acre Road	Cranbury	New lease
338,594	Confidential Logistics Firm	152 Route 206	Hillsborough	New lease
300,000	Capacity LLC	1601 Livingston Avenue	North Brunswick	New lease
295,200	H&M	15 Applegate Drive	Robbinsville	New lease

Source: CBRE Research, Q1 2019.

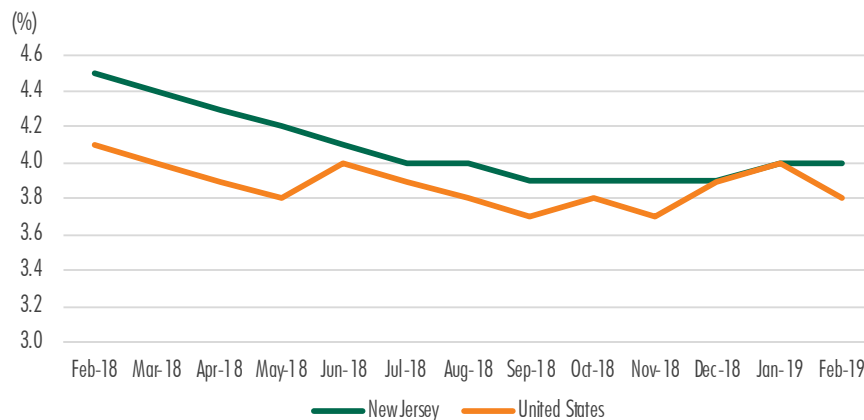
ECONOMY

According to the U.S. Bureau of Labor Statistics, the national unemployment rate fell to 3.8% in February, a drop of 20 basis points (bps) month-over-month, and 30 bps year-over-year. New Jersey's unemployment rate held steady at 4.0% compared to January, but was down a solid 50 bps over February 2018.

After four consecutive months of gains, the state's employment fell slightly in February. Total nonfarm wage and salary employment declined by 7,700 in February to a seasonally adjusted level of nearly 4.2 million. Despite the decrease, that total was the second highest on record. Year-over-year, employment in New Jersey increased by 33,000 jobs, with gains recorded in both the private (+30,600) and public (+2,400) sectors. Since the low point of the last recession in February 2010, New Jersey's private sector employers have added more than 390,000 jobs.

Employment losses in the industrial sector between February and January included the trade, transportation and utilities sector (-4,200) and construction (-300). Manufacturing however, was one of the only two private sector fields to show a gain, with the addition of 200 jobs. Although February revenue collections were up, the governor's revised fiscal year 2019 budget also reflects the overall softness in New Jersey's economy with downward projections of economic indicators such as sales, income and real estate taxes.

Figure 2: Monthly Unemployment Rate



Source: NJ Department of Labor, Q1 2019.

NEW JERSEY MINIMUM WAGE

New Jersey became the fourth state after California, Massachusetts and New York, to pass legislation that would significantly increase the minimum wage, which presently stands at \$8.85 per hour. Under the bill, the schedule for wage increases for most workers will be as follows:

- \$10.00 on July 1, 2019
- \$11.00 on January 1, 2020
- \$1.00 increase every subsequent January 1 until reaching \$15.00 in 2024

With wages having already escalated for warehouse workers due to constrained labor supply, it will be interesting to see if these increases have anything more than a negligible effect on the market.

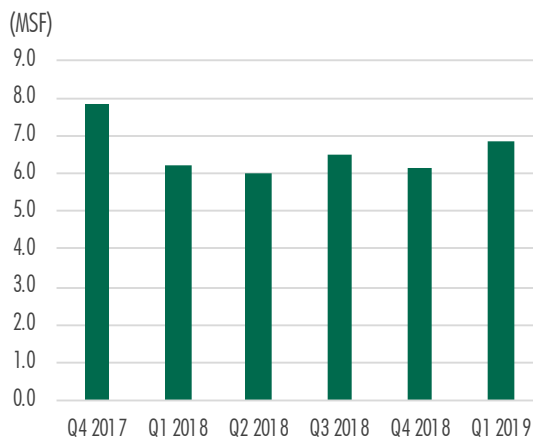
PORT OF NEW YORK AND NEW JERSEY

Building on record-setting 2018 activity, the Port of New York and New Jersey (“The Port”) handled more than 622,000 TEUs* in January, the most ever for the first month of the year and the fifth-highest total for any month in the Port’s history. The record cargo volume handled maintains the Port’s position as the busiest on the East Coast and the third busiest in the nation following Los Angeles and Long Beach, CA.

The cargo growth was supported by a 5.9 percent increase in imported goods, including clothing, furniture, electronics and other everyday products over the previous record for imports set in January 2018. In addition to cargo containers, the Port also set a new January record for cargo handled by rail moving more than 54,700 containers up 8.8 percent over the previous record set in January 2018. Significantly, the Port continues to attract larger container ships due to the completion of the Bayonne Bridge Navigational Clearance Project. Since the bridge project was completed, nearly 30 percent of all containerized cargo is carried on vessels with the capacity to handle 9,000 or more TEUs.

Source: Port Authority of New York and New Jersey

Figure 3: Quarterly Leasing Activity



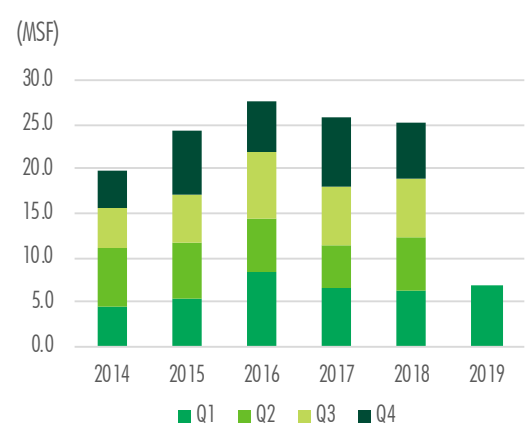
Source: CBRE Research, Q1 2019.

LEASING

Leasing started the year on a strong note with nearly 6.9 million sq. ft. of activity, 4.9 million sq. ft. of which was attributable to transactions in Central New Jersey. Volume was bolstered in large part due to two large build-to-suit projects in Cranbury in the Exit 8A submarket. The larger of the two deals was Wayfair.com’s 954,000-sq.-ft. lease at 343 Half Acre Road. This was followed by Crate & Barrel’s 871,000-sq.-ft. transaction at neighboring 353 Half Acre Road.

At 6.9 million sq. ft., Q1 2019 leasing activity was the highest first quarter total since 2016, and easily surpassed the 6.1 million sq. ft. seen in both the previous quarter and the same period a year earlier. With 22 transactions greater than 100,000 sq. ft. for the quarter, it was not surprising that the market fared so well. On the other hand, lease renewals, which registered 1.4 million sq. ft., were down compared to both last quarter, which totaled 1.8 million sq. ft. and the first quarter of 2018, when 2.3 million sq. ft. of space was renewed. One possible reason for the drop off may be the “sticker shock” many tenants have experienced because of rental rates being so much greater than they were five years ago, when many leases were signed.

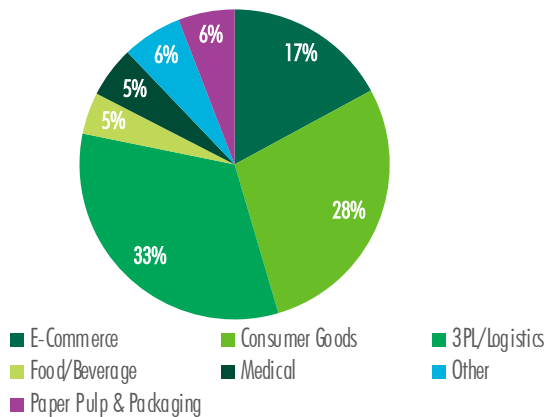
Figure 4: Annual Leasing Activity



Source: CBRE Research, Q1 2019.

As indicated in Figure 5 below, new leasing was paced by 3PL's and logistics companies with nearly one-third of the 25 largest transactions, followed by consumer goods companies with 28% and e-commerce merchants with 17%. Taken together, these three categories comprised 75% of the market's top deals.

Figure 5: Leasing by Industry



Source: CBRE Research, Q1 2019.

The Wayfair and Crate & Barrel transactions in Cranbury propelled the volume in the Exit 8A submarket ahead of the others, recording more than two million sq. ft. of new leasing for the quarter. This was followed in order by two of the market's other bellwethers, the Meadowlands at 628,000 sq. ft. and Route 287/Exit 10 with 606,000 sq. ft. of activity.

One developing trend, given the scarcity of suitable space, is that occupiers have begun leasing more space than required for their immediate needs and subleasing the balance in order to hedge against future growth requirements.

AVERAGE ASKING LEASE RATE

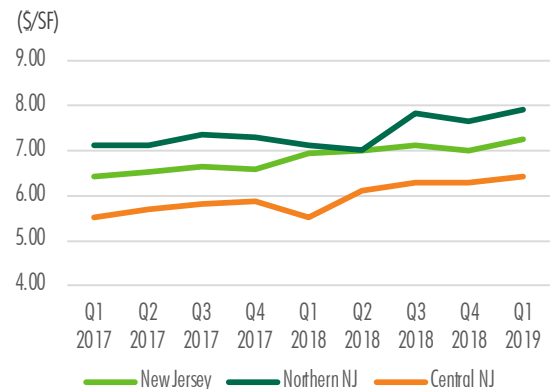
After seemingly taking a break in the fourth quarter of 2018—when the average asking lease rate indicated a very slight decline, breaking a skein of three consecutive quarter-over-quarter

increases—the rate jumped \$0.23 per square foot in the first quarter, recording a new all-time high of \$7.25. That rate represents a nearly 5% increase over the same quarter a year ago, so while the growth has not been dramatic, it reflects slow and steady progress in favor of landlords. Terms however, have remained about the same: two to three months of free rent for a five-year lease and three to six months for a ten-year commitment.

Looking at the two submarket clusters, we see a significant difference in average asking rates. Northern New Jersey ended Q1 2019 with a rate of \$7.91 per square foot—nearly 25% higher than the rate of \$6.42 in central New Jersey. This was approximately the same differential as a year ago, although the disparity between the two clusters has become slightly more widespread compared to the fourth quarter of last year.

Among the larger submarkets—those exceeding 10 million sq. ft.—the highest asking rates were found in Northwest Bergen (\$9.15), the Meadowlands (\$8.96), Central Bergen (\$8.25), and Fairfield (\$8.18), all in Northern New Jersey, as well as Monmouth (\$8.02) in Central New Jersey. In Northern New Jersey in particular, landlords have been trying to push Class A rents higher, but there has been continued resistance, especially at the top end of the range.

Figure 6: Quarterly Average Asking Lease Rate



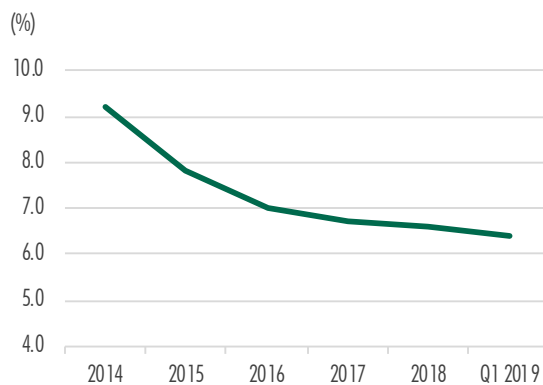
Source: CBRE Research, Q1 2019.

As was the case in Linden/Elizabeth, one transaction, a 567,000 sq. ft. build-to-suit for Aurobindo Pharma, was primarily responsible for the strong performance.

The availability rate continued to tighten in the first quarter, ending at 6.4%, 20 basis points (bps) below Q4 2018 and 40 bps down from the first quarter in 2018. The rate was the lowest the market has seen since Q1 2005. Availability was particularly low in the Route 280 Corridor and Suburban Essex, which recorded rates of 3.1% and 4.0%, respectively. Princeton and North West Bergen also saw availability rates below 5% as the first quarter ended.

Among the largest blocks of space that came back to the market were 377 Roosevelt Avenue in Carteret (256, 175 Sq. Ft.) 45 Distribution Boulevard in Edison (202,234 Sq. Ft.) and 1000 New County Road in Secaucus (199,503 Sq. Ft.). In all, six blocks exceeding 100,000 Sq. Ft. were returned to the ranks of space available for lease.

Figure 7: Annual Availability



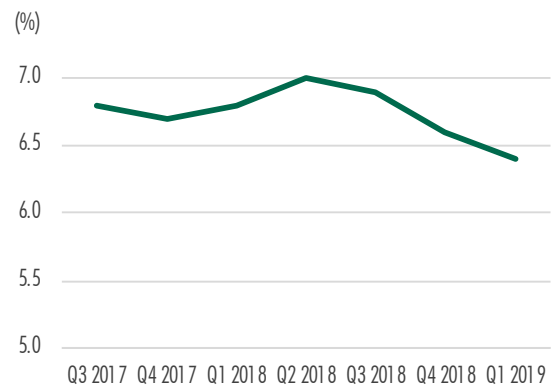
Source: CBRE Research, Q1 2019.

NET ABSORPTION AND AVAILABILITY

Net absorption for Q1 2019 exceeded 4.5 million sq. ft., more than 400,000 sq. ft. greater than Q4 2018 and roughly four million sq. ft. above the first quarter a year earlier. It was also the largest first quarter total since CBRE began tracking the industrial market nearly 20 years ago. This as an auspicious start to 2019, which follows a year in which the market set a new all-time high with 11.6 million sq. ft. of space being absorbed.

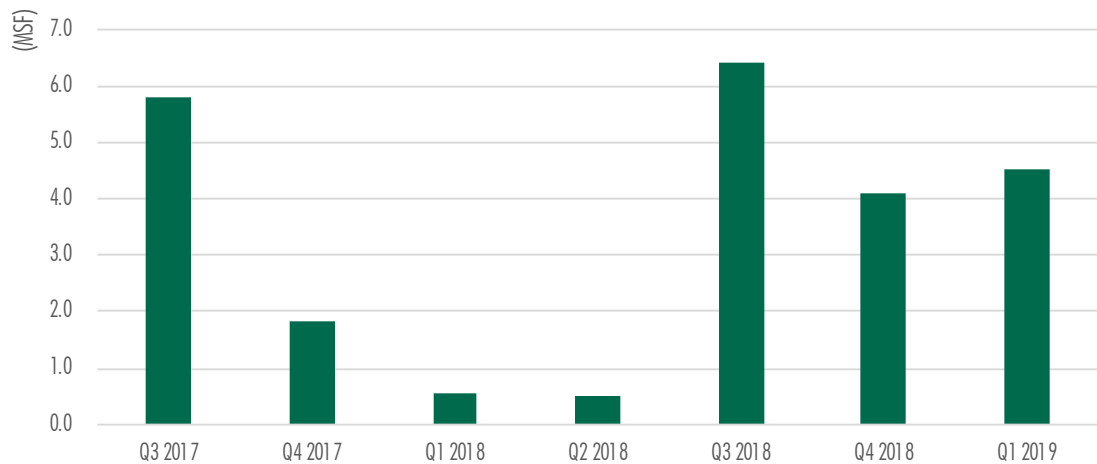
For the second consecutive quarter, the Route 46/23/3 Interchange submarket posted the highest total absorption with 873,157 sq. ft. Following closely behind was the Linden/Elizabeth submarket with 860,150 sq. ft., the topmost single quarter of positive absorption that the submarket has seen since Q2 2003, and the greatest Q1 absorption since CBRE began tracking the market. The record total was in large part due to the 540,000 sq. ft. delivery of 700 Kapkowski Street in Elizabeth that was 100% preleased to Breakthru Beverage, which subsequently merged with Allied Beverage. The third largest total was recorded in the Princeton submarket, which ended the quarter with 612,205 sq. ft. of positive absorption.

Figure 8: Quarterly Availability



Source: CBRE Research, Q1 2019.

Figure 9: Quarterly Absorption



Source: CBRE Research, Q1 2019.

INVESTMENT SALES

Due in part to two portfolio sales exceeding five million sq. ft, the New Jersey industrial market saw a record amount of trading during the first quarter with 10.4 million square feet changing hands. In all, there were 39 separate sales throughout the market. Buyers comprised some of the industry's most familiar names: Prologis, Oxford Properties, Colony Capital, Liberty Property Trust and Russo Development, among others. Sellers also encompassed a number of notable investors and developers, including Ivanhoé Cambridge (IHC), Rubenstein Properties, TIAA and Rockefeller Group.

Figure 10: Q1 2019 Notable Investment Sales Transactions

Address	City	Size (sq. ft.)	Price	Price/SF	Buyer
20-21 Wagaraw Road*	Fair Lawn	736,000	\$88,460,446	\$47.00	Silverman Group
340 Middlesex Center Boulevard**	South Brunswick	1,351,200	\$66,364,432	\$98.00	Oxford Properties
1 Sharp Plaza	Mahwah	271,195	\$62,000,000	\$229.00	Colony Capital
400 Ferry Street (5 Buildings)	Newark	1,100,000	\$61,000,000	\$55.00	JPM Chase J/V Turnbridge
171 River Road	Piscataway	311,000	\$58,000,000	\$187.00	DWS (Deutsche Bank)

Source: CBRE Research, Q1 2019.

*Allocation. Part of large portfolio.

**Allocation; Part of portfolio sale. Other NJ properties included 101 Middlesex Center Boulevard (750,000 sq. ft.), 301 Middlesex Center Boulevard (450,000 sq. ft.), 1065 Cranbury- South River Road, South Brunswick (450,330 sq. ft.), and 699 Kapkowski Street, Elizabeth (342,705 sq. ft.). Total sale price was \$166,044,056.

Further reflecting the strength of the New Jersey market, a recent CBRE report, [*Global Industrial and Logistics Prime Yields*](#), indicated that out of 63 industrial markets around the world, New Jersey ranked seventh for lowest cap rates. Given the market's high rental rates and net absorption, coupled with a growing demand among investors for stabilized assets, it was no surprise that New Jersey recorded a cap rate of 4.0% in 2018 and is poised to continue along the same path in the current year.

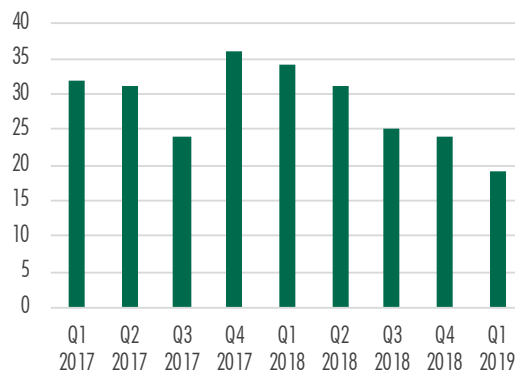
An interesting phenomenon that has recently developed in New Jersey, as well as some other markets, is tenant opposition to higher taxes resulting from rising prices when the buildings are sold and then reassessed. Consequently, tenants are beginning to seek protection via their lease agreements from these unforeseen escalations

UNDER CONSTRUCTION

There were 19 buildings totaling 5.8 million sq. ft. under construction as the first quarter came to an end. This was considerably below the 36 buildings and more than 13 million sq. ft. that were under way in the same quarter last year. The decline in new construction is reflective of the lack of suitable land and attendant high cost that now prevails due to the long bull market for industrial real estate in New Jersey.

Of the 19 buildings being built, 12 were in Central New Jersey and seven in Northern New Jersey. Further, five of the 19 were build-to-suits and 14, therefore, were being built on speculation. The high percentage of speculative projects is yet another sign of the faith many have that we are still a long way from seeing the top of the market. The largest number of projects, five, were in the Route 287/Exit 10 submarket, with an additional three in Trenton.

Figure 11: Quarterly Under Construction (No. of Buildings)

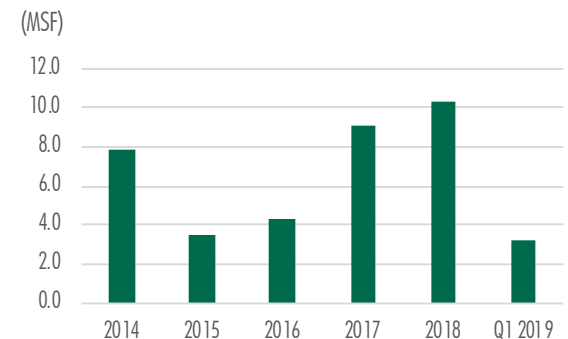


Source: CBRE Research, Q1 2019.

Three of the projects exceed 600,000 sq. ft., the two largest being in the Newark submarket and the third in the Route 287/Exit 10 submarket. All three are speculative. The most active developer is the Rockefeller Group Development Corp. with three individual projects. Other well-known companies with one or more projects under construction are Duke Realty (2), Matrix Development (2), and Seagis Property Group and J.G. Petrucci Co. with one each.

Of the 10 buildings completed in the first quarter, eight were in Central New Jersey. Three of those were in the Exit 8A submarket and two in the Route 287/Exit 10 submarket. Overall, 65% of the nearly 3.3 million sq. ft. added to inventory was pre-leased. The single largest project, at 594,000 sq. ft., was 117 Interstate Boulevard in South Brunswick, which is available in its entirety. Another project looking for its first tenant is 3 Brickyard Road in Cranbury, a 445,000-sq.-ft. development. By contrast, six of the buildings completed in Q1 2019 are fully leased.

Figure 12: Historical Deliveries (MSF)

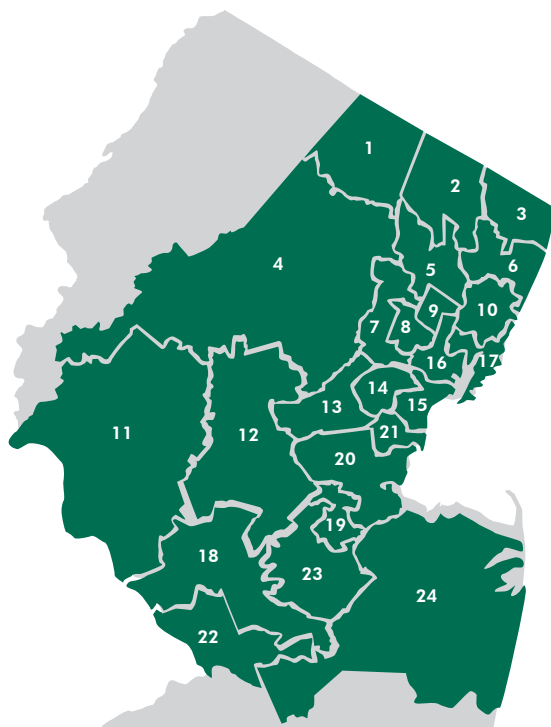


Source: CBRE Research, Q1 2019.

Figure 13: Q1 2019 Market Statistics

Submarket	Market Rentable Area (SF)	Availability (SF)	Availability Rate (%)	Avg. Asking Lease Rate (\$/SF)	Avg. Asking Sale Rate (\$/SF)	Leasing Velocity (SF)	Net Absorption (SF)	YTD Net Absorption (SF)
Central Bergen	31,464,400	1,821,694	5.8%	\$8.25	\$103.73	57,165	54,981	54,981
Fairfield Market	18,530,665	1,274,604	\$0.07	\$8.18	\$107.80	216,699	71,626	71,626
Hudson Waterfront	63,890,558	3,846,737	6.02%	\$7.31	\$115.38	185,823	181,165	181,165
Meadowlands	95,494,058	7,443,386	7.79%	\$8.96	\$105.20	628,263	(184,112)	(184,112)
Morris Region	42,477,136	3,759,198	8.85%	\$7.47	\$131.92	60,800	359,446	359,446
Newark	51,760,160	3,021,082	5.84%	\$7.11	\$67.12	106,410	(8,189)	(8,189)
North East Bergen	7,971,744	662,764	8.31%	\$8.92	\$77.68	116,503	71,350	71,350
North West Bergen	19,073,458	947,716	4.97%	\$9.15	\$107.49	236,346	114,490	114,490
Route 23 North	553,533	58,660	10.60%	\$7.84	\$82.65	0	0	0
Route 280 Corridor	3,815,100	117,878	3.09%	\$11.00	\$68.21	41,250	70,140	70,140
Route 46/23/3 Interchange	57,305,233	4,177,191	7.29%	\$6.70	\$92.38	316,087	873,157	873,157
Suburban Essex	12,070,135	482,249	4.00%	\$4.37	\$44.47	0	16,000	16,000
Northern New Jersey Total	404,406,180	27,613,159	6.8%	\$7.91	\$93.59	1,965,346	1,620,054	1,620,054
Brunswicks/Exit 9	25,546,076	1,844,691	7.2%	\$6.62	\$99.12	300,000	192,355	192,355
Carteret/Avenel	25,689,742	1,840,874	7.2%	\$7.51	\$149.22	91,460	(259,240)	(259,240)
Central Union	25,128,137	1,714,961	6.8%	\$6.78	\$74.70	38,944	(2,238)	(2,238)
Exit 8A	77,780,197	4,493,121	5.8%	\$7.50	\$84.49	2,052,835	605,172	605,172
Hunterdon	6,398,635	793,001	14.3%	\$3.01	\$73.06	0	124,397	124,397
Linden/Elizabeth	45,600,831	2,397,327	5.3%	\$6.96	\$84.79	462,028	860,150	860,150
Monmouth	24,294,973	1,375,737	5.7%	\$8.02	\$90.05	238,475	(31,704)	(31,704)
Princeton	11,475,613	562,770	4.9%	\$7.60	\$73.39	45,000	612,205	612,205
Route 287/Exit 10	103,319,782	5,232,515	5.1%	\$6.86	\$77.31	605,505	281,779	281,779
Route 78 East	9,783,021	715,683	7.3%	\$4.21	\$67.26	28,153	0	0
Somerset	37,848,853	2,345,089	6.2%	\$6.26	\$96.67	472,806	569,698	569,698
Trenton/295	29,911,536	2,097,680	7.0%	\$4.97	\$43.36	569,545	(36,965)	(36,965)
Central New Jersey Total	422,777,396	25,413,449	6.0%	\$6.42	\$83.50	4,904,751	2,915,609	2,915,609
New Jersey Total	827,183,576	53,026,608	6.4%	\$7.25	\$88.19	6,870,097	4,535,663	4,535,663

Source: CBRE Research, Q1 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 |

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THINGS TO NOTE

*TEU: "Twenty-Foot Equivalent Unit," which can be used to measure a ship's cargo-carrying capacity. The dimensions of one TEU are 20 feet long, 8 feet tall.

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.