

New Jersey Industrial, Q3 2019

Voracious demand for space inhibited by diminishing supply

Leasing Activity
5.5 MSF

Net Absorption
3.1 MSF

Availability Rate
5.9%

Class A Asking Rent
\$9.28

Arrows indicate change from previous quarter.

- The average asking rent for Class A space in North and Central New Jersey continued its upward march to \$9.28 per sq. ft.
- The average asking rent for all classes of industrial properties increased quarter-over-quarter by \$0.15 per sq. ft. and set a new high of \$7.54 per sq. ft.
- Leasing activity totaled 5.49 million sq. ft. in Q3 2019, an 18% decrease from Q2 2019 and 8% lower than Q3 2018.
- Net absorption declined 15% to 530,000 sq. ft. from Q2 2019, marking the second straight quarterly decline in net absorption.
- The availability rate for Class A space in most submarkets is under 1%. The availability rate for all classes continued its downward trend to 5.9%, the lowest point since CBRE began tracking the NJ industrial market in 2001.

MARKET OVERVIEW

The New Jersey industrial leasing and sales market continued exhibiting vigorous demand in Q3 2019. The market’s overall strength was illustrated across all metrics with the exception of leasing velocity, as a lack of high-quality space on the market inhibited deal making. Overall availability in the combined North and Central New Jersey markets dropped nearly 2.20 million square feet with more than 1.72 million sq. ft. of that decline in warehousing and distribution centers. Class A availability was under 1% in most submarkets.

The average asking rent for the shrinking inventory of Class A space in North and Central New Jersey rose to \$9.28 per sq. foot. The highest priced average asking rent for Class A space in North and Central New Jersey was in the Meadowlands, at \$13.68 per sq. ft. The highest average asking rent for Class A space in Central New Jersey was in the Linden/Elizabeth submarket at \$11.50 per sq. ft. The insatiable demand for industrial space has emboldened owners to post more aggressive rents,

Figure 1: Q3 2019 Notable Transactions

Size (SF)	Tenant	Address	City	Type
1,145,000	Barnes & Noble	1 Barnes & Noble Way	Monroe Township	Renewal
977,616	Home Depot	225 Elm Street, Building 2	Perth Amboy	New lease
575,000	Essendant	100 Liberty Way	Cranbury	Renewal
411,616	XPO Logistics	25 South Middlesex Road	Monroe Township	Renewal
332,800	Home Depot	225 Elm Street, Building 1	Perth Amboy	New lease

Source: CBRE Research, Q3 2019.

displayed by the rise of average asking rents for all classes of industrial properties. The average asking rent in the combined North and Central New Jersey markets for all classes of industrial space increased 6.3% to \$7.54 per sq. ft. compared to \$7.09 per sq. ft. in Q3 2018.

North and Central New Jersey net absorption was strong again during the third quarter despite the relative scarcity of desirable supply. The 3.09 million sq. ft. of net absorption represented the 11th consecutive quarter of positive net absorption, which has been running at the steady average rate of approximately 2.90 million sq. ft. per quarter. The new development pipeline is strong at approximately 8.37 million sq. ft. though insufficient to meet the current demand for industrial product which remains voracious despite the prolonged trade war and rumblings about a possible recession on the horizon.

ECONOMY

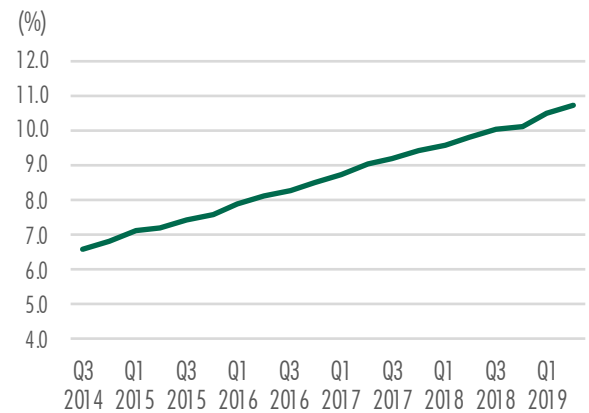
The fundamentals driving the demand for industrial space in New Jersey remain strong. The continued growth of e-commerce sales, which according to the most recent Census Bureau data increased from 9.8% of overall national retail sales in Q2 2018 to 10.7% in Q3 2019ⁱ, fuels the ever-expanding demand for warehouse space among large e-commerce companies, especially in locations near large population centers like New York City and Northern New Jersey. According to the most recent data from the Port Authority of NY and New Jersey, the amount of loaded TEUs (twenty-foot equivalent cargo container units)

processed by NY and New Jersey ports in Q2 2019 increased 3.1% compared to Q2 2018ⁱⁱ.

Employment that supports trade and warehousing has grown as well. New Jersey warehousing and storage employment grew to 54,900 in August, 600 more than last August's employment number despite previous years' hiring surge.

Manufacturing employment has also expanded, increasing 1.9% in August 2019 compared to August 2018 to reach 253,000.

Figure 2: E-Commerce Sales as a Percentage of Total Retail Sales



Source: CBRE Research, Q3 2019.

AVERAGE ASKING RENT

The Q3 2019 average asking rent continued 2019's string of new record highs, with Class A space at \$9.28 per sq. ft. and the average for all classes of space reaching \$7.54 per sq. ft., a 6.3% increase above Q3 2018. Northern New Jersey's overall average asking rent, at \$8.04 per sq. ft. in Q3 2019, added three cents to the previous quarter's record

Figure 3: Trade, Transportation, and Utilities Employment

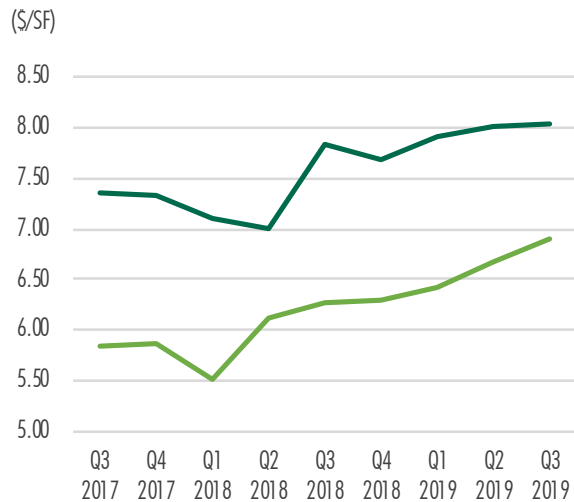
	Aug-19	Aug-18	Aug-14	Y-o-Y	5-Year
Manufacturing	253.0	248.4	239.9	1.9%	5.5%
Durable Goods	117.4	116.0	109.5	1.2%	7.2%
Pharmaceutical and Medicine Manufacturing	22.2	22.1	23.3	0.5%	-4.7%
Trade, Transportation, and Utilities	884.0	881.7	837.8	0.3%	5.5%
Warehousing and Storage	54.9	54.3	27.6	1.1%	98.9%
General Freight Trucking	27.5	28.5	25.4	-3.5%	8.3%

Source: CBRE Research, Q3 2019.

high and was 2.6% greater than the average for Q3 2018. The Class A average asking rent for space in the Meadowlands reached \$13.68 per sq. ft., the highest among all the submarkets.

Average asking rents in Central New Jersey increased by 10% in Q3 2019 to \$6.91 per square foot for all classes. The average asking rent for Class A space breached \$10 per sq. ft. in two Central New Jersey submarkets this quarter. Linden/Elizabeth had an average asking rate of \$13.25 per sq. ft. for Class A space and Route 287/Exit 10 had an average asking rent for Class A space of \$11.93. The increases in Central New Jersey asking rents have been attributed to users of space being priced out of the rapidly heating North New Jersey market and the lack of higher quality space in North New Jersey. This is especially true for smaller tenants who are finding it more cost effective to take space outside of high rent areas and incur the increased transit costs associated with accessing the region's core.

Figure 4: Quarterly Average Asking Lease Rates

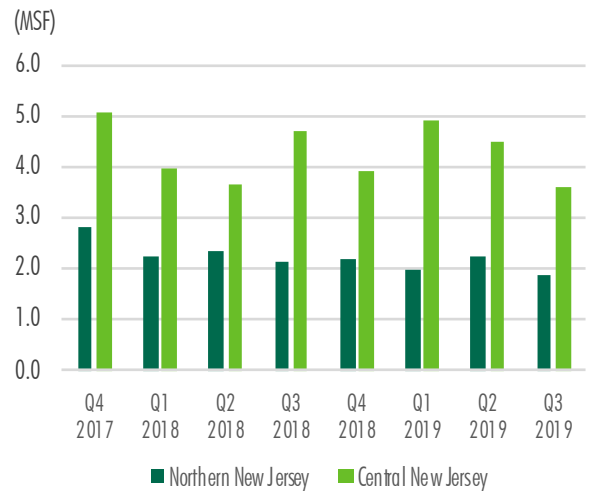


Source: CBRE Research, Q3 2019.

LEASING

Leasing activity in Q3 2019 slowed compared to Q2 2019 and Q3 2018 due to a dearth of desirable space available on the market. The nearly 5.49 million sq. ft. of new leases in Q3 2019 was 18.4% less than Q2 2019 and 19.9% less than Q3 2018. Given an environment of robust demand and diminishing options, tenant renewal activity was at its most active since Q1 2016. Combined Northern and Central New Jersey industrial lease renewal activity was 3.43 million sq. ft. in the third quarter, almost four times the 729,170 sq. ft. of activity in Q3 2018 and 31.0% greater than Q2 2019.

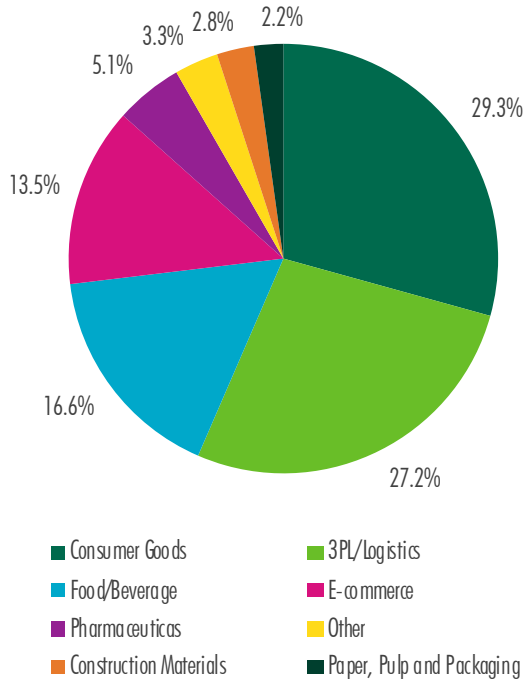
Figure 5: Quarterly Leasing Activity



Source: CBRE Research, Q3 2019.

Leasing activity in Central New Jersey outpaced that in Northern New Jersey for the quarter, 3.56 million sq. ft. to 1.89 million sq. ft. Central New Jersey activity was driven by big leases including an early 978,000 sq. ft. distribution/warehouse lease in the Route 287/Exit 10 submarket and two warehouse/distribution center deals over 300,000 sq. ft. in the Exit 8A submarket. Northern New Jersey leasing was led by the Meadowlands submarket, where smaller and mid-sized deals carried leasing activity to over 712,000 sq. ft., 17.2% less than Q2 2019 but 69.4% greater than Q3 2018.

Figure 6: Leasing Activity by Industry



Source: CBRE Research, Q3 2019.

NET ABSORPTION AND AVAILABILITY

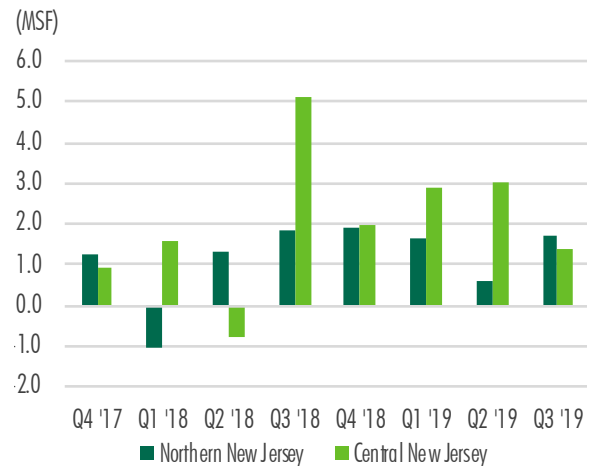
Net absorption in the third quarter was nearly 3.09 million sq. ft., the 11th consecutive quarter with positive absorption and slightly above the 24-month quarterly net absorption average of 3.08 million sq. ft. Northern and Central New Jersey posted positive net absorption for the quarter with approximately 1.69 million sq. ft. and 1.39 million sq. ft. respectively. The Northern New Jersey total was boosted by the Meadowlands submarket and the Route 46/23/3 Interchange, which recorded positive net absorption of nearly 649,000 sq. ft. and slightly over 477,000 sq. ft. respectively. The biggest contributors to the Central New Jersey net absorption total were the Route 287/Exit 10 submarket with 1.13 million sq. ft. and the Exit 8A submarket with 679,000 sq. ft.

Combined total availability of industrial space in Northern and Central New Jersey shrank in the third quarter, falling to 49.3 million sq. ft., 13.3% lower than the third quarter of 2018. The total

availability rate hit a new record low of 5.94%. The previous record low was 6.17% recorded in the first quarter of 2001.

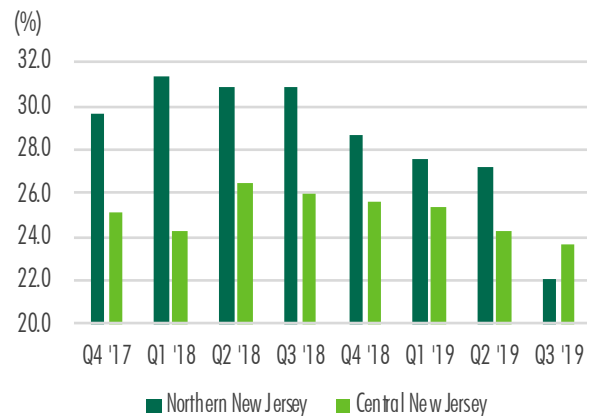
The submarkets which experienced the greatest declines in available space in Q3 2019 compared to Q2 2018 were just outside the prime interior submarkets. The Route 46/23/3 Interchange submarket, just west of Secaucus, tightened by 1.40 million sq. ft. The Brunswicks/Exit 9 and Route 287/Exit 10 submarkets, to the southwest of the Linden/Elizabeth and Carteret/Avenel submarkets, lost 1.14 million square feet and nearly 993,000 sq. ft. respectively.

Figure 7: Quarterly Absorption



Source: CBRE Research, Q3 2019.

Figure 8: Quarterly Availability



Source: CBRE Research, Q3 2019.

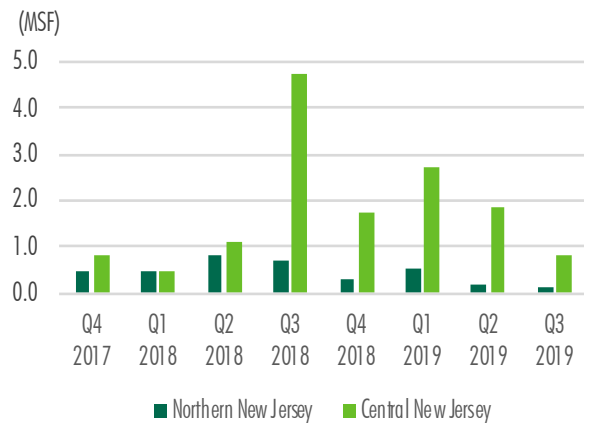
INVESTMENT SALES

Overall industrial investment sales increased slightly by three transactions and almost 300,000 sq. ft. compared to Q2 2019. Notably, the biggest difference between the two quarters was in the type of buyer. The confluence of demand for large blocks of space and a deep supply of cheap capital has attracted more investor and institutional interest into the New Jersey industrial sales market and has crowded out owner-users. Investors accounted for 22 transactions in Q3 2019, seven more than Q2 2019. Owner-users accounted for 12 transactions, at nearly 887,000 sq. ft. Sale-leaseback transactions are also increasing as user-owners are looking to capitalize on their rapidly appreciating assets.

UNDER CONSTRUCTION

New construction activity at the end of Q3 2019 totaled 21 buildings and 8.37 million sq. ft. New construction starts as of Q3 2019 stand at five buildings and 2.63 million sq. ft. These new projects are all located in Central New Jersey, with three buildings and 1.93 million sq. ft. in the Route 287/Exit 10 submarket. Completions in Q3 2019 totaled over 989,000 sq. ft., composed of four buildings with almost 839,000 sq. ft. pre-leased. Approximately 150,000 sq. ft. in two buildings was completed in Northern New Jersey in 3Q 2019.

Figure 9: Quarterly Deliveries



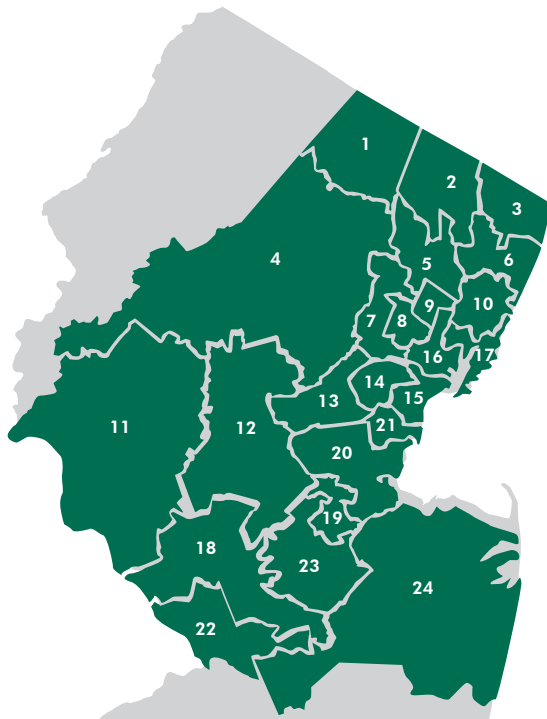
Source: CBRE Research, Q3 2019.

Figure 10: Q3 2019 Market Statistics

Submarket	Market Rentable Area (SF)	Available (SF)	Availability Rate (%)	Class A Avg. Asking Rent (\$/SF)	All Space Avg. Asking Rent (\$/SF)	Leasing Activity (SF)	Net Absorption (SF)	YTD Net Absorption (SF)
Central Bergen	31,477,676	2,265,036	7.20%	-	\$8.42	151,931	3,322	-388,361
Fairfield Market	18,530,665	1,342,225	7.24%	-	\$7.86	87,934	-194,411	4,005
Hudson Waterfront	63,949,862	3,494,470	5.46%	\$13.40	\$7.30	99,400	275,106	533,432
Meadowlands	93,867,257	6,605,731	7.04%	\$13.68	\$9.24	712,063	649,278	847,348
Morris Region	42,531,712	3,578,047	8.41%	\$7.73	\$7.73	40,605	179,170	595,173
Newark	51,940,160	2,656,409	5.11%	\$12.34	\$7.16	6,500	88,425	356,484
North East Bergen	7,971,744	555,790	6.97%	-	\$8.50	120,260	142,564	178,324
North West Bergen	19,073,458	1,113,320	5.84%	-	\$8.81	5,000	-50,752	-51,114
Rt 23 North	553,533	23,860	4.31%	-	\$9.80	0	34800	34800
Rt 280 Corridor	3,815,100	44,868	1.18%	-	\$14.00	103,491	30,000	143,150
Rt 46/23/3 Interchange	57,373,309	3,547,506	6.18%	-	\$7.28	475,915	477,419	1,502,842
Suburban Essex	12,070,135	366,653	3.04%	-	\$4.37	84,250	59,276	131,596
Northern NJ	403,154,611	25,593,915	6.35%	-	\$8.37	1,887,349	1,694,197	3,887,679
Brunswicks/Exit 9	25,546,076	857,126	3.36%	\$7.95	\$7.38	16,000	421,000	1,179,920
Carteret/Avenel	25,792,509	1,888,160	7.32%	\$10.97	\$7.55	583,944	47,633	-306,526
Central Union	25,128,137	1,500,098	5.97%	-	\$6.94	115,260	204,389	212,625
Exit 8A	78,010,766	3,345,221	4.29%	-	\$8.16	963,122	679,431	1,956,560
Hunterdon	6,398,635	803,801	12.56%	\$6.82	\$3.01	0	0	113,597
Linden/Elizabeth	45,709,053	2,581,805	5.65%	\$11.50	\$7.58	0	-528,049	675,672
Monmouth	24,294,973	1,357,248	5.59%	-	\$7.87	0	169,730	-13,215
Princeton	11,653,055	1,068,239	9.17%	-	\$7.30	221,500	-570,044	106,736
Rt 287/Exit 10	105,495,548	4,672,679	4.43%	\$9.92	\$7.60	1,526,094	1,133,839	2,817,381
Rt 78 East	9,783,021	622,104	6.36%	-	\$4.42	14,878	26558	93579
Somerset	37,848,853	3,151,601	8.33%	\$8.59	\$7.20	49,980	-353,178	-236,814
Trenton/295	30,438,586	1,832,270	6.02%	\$7.75	\$5.15	106,892	162,884	755,495
Central NJ	426,099,212	23,680,352	5.56%	-	\$6.68	3,597,670	1,394,193	7,355,010
NJ TOTAL	829,253,823	49,274,267	5.94%	-	\$7.54	5,485,019	3,088,390	11,242,689

Source: CBRE Research, Q3 2019.

Figure 11: New Jersey Industrial Submarkets



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

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THINGS TO NOTE

- i Source: U.S. Census Bureau
- ii Source: Port Authority of New York and New Jersey

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.