

**MARKETVIEW**

 New Jersey  
 Industrial, Q3 2020

# Industrial Leasing Market Finds Stride in Sensational Quarter

**Leasing Activity**  
**7.3 MSF**
**Net Absorption**  
**7.1 MSF**
**Availability Rate**  
**5.8%**
**Class A Avg. Asking Rate**  
**\$11.18**

- Third quarter leasing activity was 7.3 million sq. ft., a 40% increase from Q2 2020, and 33% more than Q3 2019.
- The average asking rent for Class A space was \$11.18 per sq. ft., a 7.0% increase from the previous quarter.
- The average asking rent for all space was \$7.42 per sq. ft., a 1.0% decrease from Q2 2020.
- Average asking rent for all property classes was stable quarter-over-quarter and decreased 1.6% year-over-year to \$7.42 per sq. ft.
- The availability rate for all classes fell by 13 basis points (bps) to 5.8% from Q2 2020 and dropped 14 bps from Q3 2019.
- Net absorption was 7.2 million sq. ft. in Q3 2020, up from 3.7 million sq. ft. in Q2 2020.

The market saw several new records in Q3 2020. Net absorption reached a new high of 7.2 million sq. ft., driven by both strong leasing and new construction deliveries. After COVID-19 temporarily delayed the delivery of projects in Q2 2020, the third quarter saw a record 6.56 million sq. ft. in new inventory hit the market, 80% of which (5.2 million sq. ft.) was pre-leased. The North and Central New Jersey availability rate shrunk to a new low of 5.8%, beating the previous low set in Q2 2020 by 13 bps. The rapid absorption of this new space continues to demonstrate the voracious appetite for high quality space in this market.

Minimal vacancy for premier space kept pressure on Class A asking rents in Q3 2020, which jumped to a new high of \$11.18 per sq. ft., an increase of \$0.73 quarter-over-quarter and \$0.82 since the beginning of the year. With no vacant space over 300,000 sq. ft. in Northern New Jersey and only three blocks in Central New Jersey, easing of Class A rents is unlikely.

## MARKET OVERVIEW

After a noticeable slowdown earlier this year due to COVID-19 uncertainty, the North and Central New Jersey industrial markets came roaring back during the third quarter. Leasing activity reached 7.3 million sq. ft., more than 40% higher than the previous quarter and nearly 33% higher than Q3 2019. Five new e-commerce leases were signed totaling 1.94 million sq. ft., as consumers continued to shop for staples and non-durable goods online despite the reopening of retail stores in the state.

## RENT TRENDS

The average asking rent for all classes of space in Northern and Central NJ during Q3 2020 was \$7.42 per sq. ft., a 1.0% decrease from the previous quarter, and 1.6% higher year-over-year. The Northern NJ overall average asking rent was \$7.89 per sq. ft., down 1.3% from Q2 2020 and 1.9% from Q3 2019. The average asking rent in Central NJ, at \$6.82 per sq. ft., was down 1.0% compared to Q2 2020 and 1.3% greater

Figure 1: Top Lease Transactions | Q3 2020

Size (Sq. Ft.)	Tenant	Address	City	Type
900,022	E-commerce Tenant	2205 Route 27	Edison	New Lease
583,376	G-III Apparel Group	140 Docks Corner Rd	South Brunswick	Renewal
340,400	E-commerce Tenant	10 Princess Rd	Lawrenceville	New Lease
308,550	TSG Cabinets	101 Randolph Rd	Somerset	New Lease
301,320	E-commerce Tenant	Farrington Blvd	Monroe Township	New Lease
300,142	Comptree Inc.	311 Half Acre Rd	Cranbury	New Lease

Source: CBRE Research, Q3 2020

year-over-year. Even with these small declines, the NJ average still ended the quarter 9.8% above the five-year quarterly average.

The trend in average asking rent was noticeably different for Class A space, which surged 7.0% quarter-over-quarter to \$11.18 per sq. ft. The Class A average asking rent in Northern NJ was \$14.48 per sq. ft., with the Newark submarket posting the highest average at \$16.00, a new high-water mark for any of the NJ submarkets. Taking rents for prime space in Northern NJ pushed to over \$15.00 per sq. ft. on the high end while the floor remained about \$13.00 per sq. ft. in the high-demand areas of the Meadowlands, Hudson Waterfront and Newark.

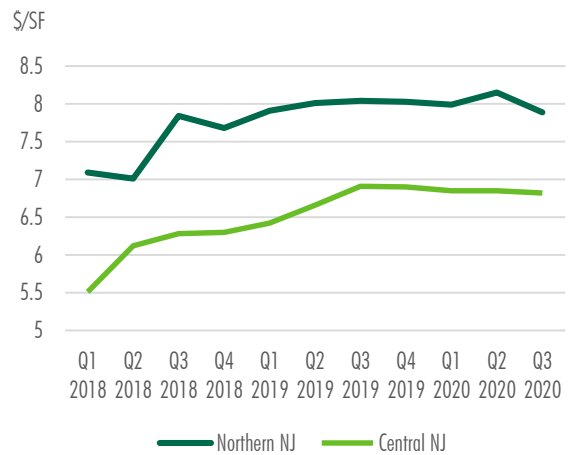
The average asking rent for Class A properties in Central NJ was \$9.79 per sq. ft., down from \$10.29 in Q2 2020 due to a flurry of leasing during the third quarter which took some of highest priced space off the market. The Linden/Elizabeth submarket posted the highest average for Central NJ submarkets at \$12.46 per sq. ft. Top taking rents in Central NJ ranged from \$10.25 to \$12.50 per sq. ft. for well-designed modern space in the sought-after submarkets of Linden/Elizabeth, Carteret Avenel and Route 287/Exit 10.

**LEASING**

After a below-average performance earlier in 2020, Northern and Central NJ leasing activity,

40% compared to Q2 2020, a nearly 33% increase year-over-year and 14% higher than the five-year quarterly average.

Figure 2: Quarterly Average Asking Rent



Source: CBRE Research, Q3 2020

There were 20 leases of 100,000 sq. ft. or greater signed in the third quarter, compared to 12 in the second quarter. Among these large transactions, average deal size decreased slightly to 227,000 sq. ft. from 253,000 sq. ft. in Q2 2020.

Renewals totaled 2.9 million sq. ft. in Q3 2020, 41% greater than the renewal total for Q2 2020, but 21% less year-over-year and 38% higher than the five-year average.

Leasing activity was heavily tilted to Central NJ in Q3 2020, with 5.0 million sq. ft. of new leases recorded, led by the Route 287/Exit 10 and Exit 8A submarkets. Route 287/Exit 10 had the most space leased among Central NJ submarkets with 1.7 million sq. ft., as a large e-commerce company took 900,000 sq. ft. in the submarket and a mix of 3PL and food companies were also active. Leasing in the Exit 8A submarket totaled 1.5 million sq. ft., with six leases over 100,000 sq. ft. including a 300,000 sq. ft. lease of new construction space to a large e-commerce company and another 300,000 sq. ft. lease to Comptree, an e-commerce company specializing in office furniture.

Northern NJ leasing activity during the third quarter was driven by the Hudson Waterfront submarket where 704,000 sq. ft. in new leases were recorded. Additionally, two large e-commerce companies signed commitments for 211,000 sq. ft. at 670 Belleville Tpke in Kearny and 188,000 sq. ft. at 105 Avenue A Building B in Bayonne. The largest non-e-commerce lease in the submarket commitment by All Season Movers at 909 Newark Tpke in Kearny.

**NET ABSORPTION AND AVAILABILITY**

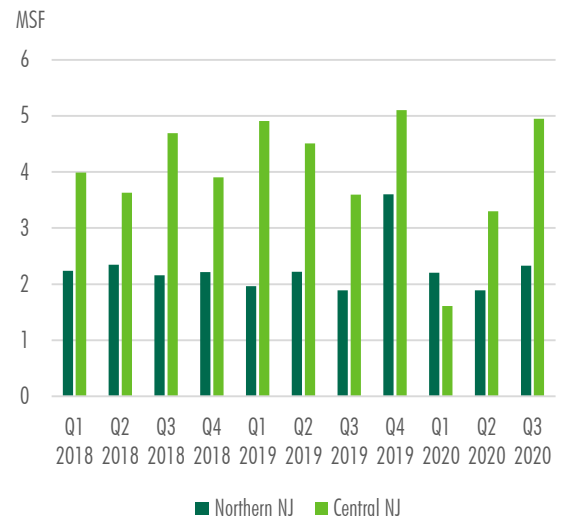
Net absorption was positive 7.2 million sq. ft. in Q3 2020, the 15 consecutive quarter of positive performance and a new record high for the market. The largest contributors were the Route 287/Exit 10 submarket, which had net absorption of 2.5 million sq. ft., and the Somerset submarket with 1.5 million sq. ft.

The net absorption total was a result of vigorous leasing activity as well as 5.2 million sq. ft. of pre-leased new constructed inventory delivered to the market.

The overall availability rate fell to a new record low of 5.8%, 10 bps lower than the previous low of 5.9% in Q3 2019. Central NJ remained the tighter of the two markets with an availability rate of 5.3%, compared to 6.3% in Northern NJ.

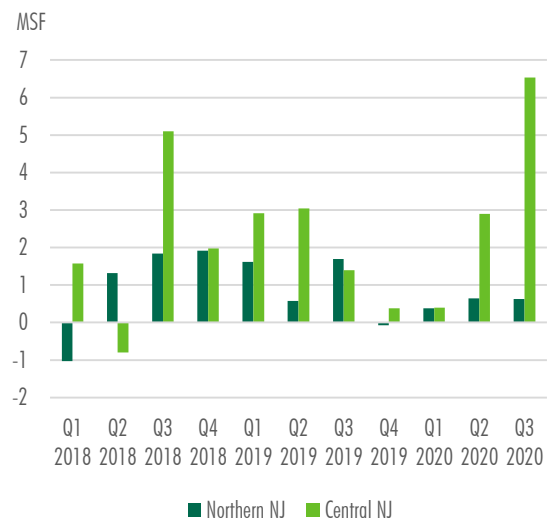
The breakdown of spaces added during the quarter was more favorable to tenants with larger requirements than previous quarters but were far from enough to satisfy market demand. Two availabilities over 300,000 sq. ft. came to market in Q3 2020, one being the recently completed Class A space at 481 Weston Canal Road Building 3 in Somerville.

**Figure 3: Quarterly Leasing Activity**



Source CBRE Research, Q3 2020

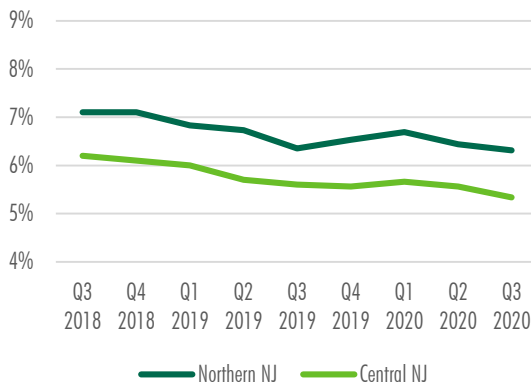
**Figure 4: Quarterly Absorption**



Source CBRE Research, Q3 2020

Five newly constructed Class A spaces between 100,000 sq. ft. and 300,000 sq. ft. were delivered to the market vacant during the quarter, easing some pressure in that size range.

Figure 5: Availability Rate



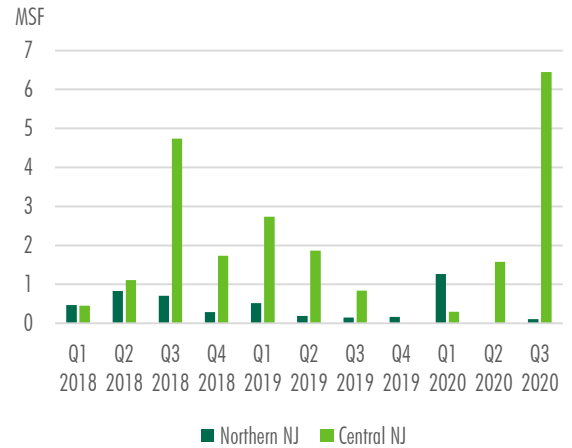
Source CBRE Research, Q3 2020

**CONSTRUCTION ACTIVITY**

New construction activity was substantially interrupted in Q2 2020 by Governor Phil Murphy’s executive order, in effect between April 10 and May 18, halting all non-essential construction to combat the spread of COVID-19. The moratorium delayed the delivery schedule of several projects, leading to a surge of completions during the third quarter.

During Q3, 19 buildings totaling 6.6 million sq. ft. were completed, a new high for quarterly deliveries. Central NJ had all but one of the projects and the Route 287/Exit 10 submarket recorded the most completions by sq. ft., with four buildings totaling 2.3 million sq. ft. The two-building, 1.2 million sq.-ft. Steel Run Logistics Center in Perth Amboy was the largest of the projects completed in the submarket and is fully leased to The Home Depot. The largest single building delivered was in the 976,000-sq.-ft. 942 Memorial Parkway Building 7 in Phillipsburg, which is fully leased to Uniqlo. Phase 2 of this project in the emerging NJ submarket of Warren County is in the planning phase, with two Class A buildings and 1.7 million sq. ft.

Figure 6: Quarterly Deliveries



Source: CBRE Research, Q3 2020

There were six new starts in Q3 2020 totaling 2.7 million sq. ft., but the large volume of completions in the quarter led to a net 3.9 million sq.-ft. decline resulting in 9.7m sq. ft. of current active construction. With over 80% pre-leasing in the third quarter’s new deliveries and substantial demand for large blocks of quality space, investors will continue to seek out construction and conversion opportunities in the market.

**INVESTMENT SALES**

Investor demand for industrial product has remained strong throughout the pandemic, which saw transaction volume grow to \$304 million in Q3 2020, an increase of 9.0% from the previous quarter. The largest transactions were two deals in the Meadowlands submarket, which together accounted for 40% of the quarter’s total sales. Among these was the sale of Lincoln Gateway Development, a 19.93-acre property located at 2701 Route 3 Way in Secaucus. Clarion Partners acquired the asset from BetheneGreenOak for \$63 million.

Prologis completed the second biggest sale in the quarter, buying 2200 Secaucus Rd for \$59 million and leasing it back to Resources Warehousing and Consideration Services, the previous owner.

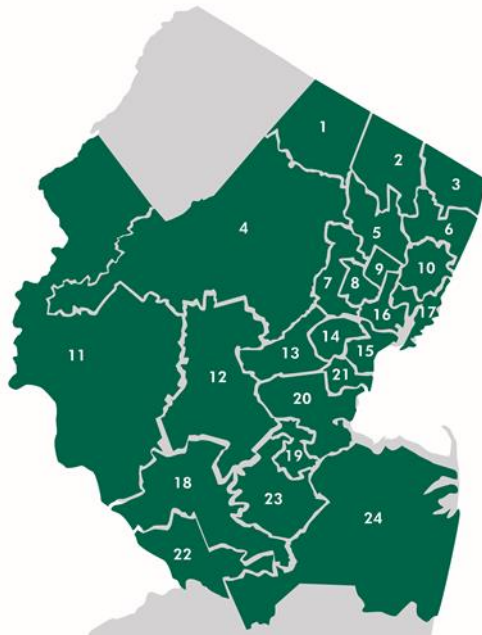
The building is located on a privately-owned rail line between the Holland and Lincoln Tunnels with easy access to the region's major ports.

Figure 7: Market Statistics

Submarket	Market Rentable Area (SF)	Availability Rate (%)	Class A Avg. Asking Rent <sup>i</sup> (\$/SF)	All Space Avg. Asking Rent (\$/SF)	Leasing Activity (SF)	Net Absorption (SF)
Central Bergen	31,407,676	5.9%		\$8.35	358,022	505,378
Fairfield Market	18,530,665	6.5%		\$7.97	10,000	226,379
Hudson Waterfront	65,274,524	6.1%	\$15.03	\$7.39	703,582	316,574
Meadowlands	94,221,456	7.1%	\$14.96	\$8.91	380,959	(396,352)
Morris Region	42,963,398	7.6%	\$9.08	\$7.63	615,293	482,850
Newark	52,426,699	4.7%	\$16.00	\$6.65	17,250	534,709
North East Bergen	8,016,737	6.7%		\$7.57	158,434	145,014
North West Bergen	19,073,458	7.6%		\$8.30	42,000	(162,824)
Rt 23 North	553,533	4.3%		\$9.80	0	0
Rt 280 Corridor	3,815,100	1.2%		\$12.85	37,540	(1,375)
Rt 46/23/3 Interchange	57,629,592	6.4%	\$11.59	\$7.37	15,000	(152,161)
Suburban Essex	12,070,135	3.0%		\$4.37	0	121,942
Northern New Jersey Total	405,982,973	6.3%	\$14.48	\$7.89	2,338,080	1,620,134
Brunswicks/Exit 9	26,631,926	4.1%	\$9.79	\$7.96	14,930	897,220
Carteret/Avenel	26,125,480	5.7%	\$12.00	\$7.50	125,250	602,368
Central Union	25,145,322	6.9%		\$6.81	26,000	(181,151)
Exit 8A	80,520,183	3.7%	\$8.62	\$8.00	1,519,462	1,078,959
Hunterdon/Warren	14,027,850	9.3%	\$7.58	\$5.38	0	1,142,220
Linden/Elizabeth	45,775,719	5.1%	\$12.46	\$7.40	243,470	624,104
Monmouth	25,188,045	7.5%	\$9.23	\$7.85	111,762	(241,261)
Princeton	12,057,360	6.8%	\$8.25	\$6.69	340,400	366,990
Rt 287/Exit 10	108,497,386	4.1%	\$10.25	\$7.45	1,723,876	2,988,822
Rt 78 East	9,783,021	7.6%		\$5.02	49,760	(54,860)
Somerset	40,428,119	7.7%	\$9.17	\$7.46	798,743	2,558,798
Trenton/295	30,438,586	5.8%	\$8.05	\$5.28	0	84,278
Central New Jersey Total	444,618,997	5.3%	\$9.58	\$6.82	4,953,653	9,866,487
<b>NJ TOTAL</b>	<b>850,601,970</b>	<b>5.8%</b>	<b>\$11.18</b>	<b>\$7.42</b>	<b>7,291,733</b>	<b>11,486,621</b>

Source: CBRE Research, Q3 2020

<sup>i</sup> Includes existing properties and projects under construction



- |                           |                       |
|---------------------------|-----------------------|
| 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/Warren      | 23. Exit 8A           |
| 12. Somerset              | 24. Monmouth          |

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**DEFINITIONS**

**Asking Rent:** Weighted average asking rent.

**Availability Rate:** The amount of space currently being marketed for lease, divided by the total current inventory of built space in the market, expressed as a percentage.

**Leasing Activity:** Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing, but excluding renewals.

**Leasing Velocity:** Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing and renewals.

**Net Absorption:** The change in the amount of occupied sq. ft. within a specified period of time.

**Taking Rent:** Actual, initial base rent in a lease agreement.

**Vacancy:** Unoccupied space available for lease