

New Jersey Industrial, Q4 2018

Net absorption and deliveries hit new year-end highs

Leasing Activity
6.1 MSF

Net Absorption
4.1 MSF

Availability Rate
6.6%

Average Asking Lease Rate
\$7.02 PSF

*Arrows indicate change from previous quarter.

- Net absorption for the fourth quarter totaled 4.1 million sq. ft., bringing the yearly total to 11.6 million sq. ft., the highest amount since CBRE began tracking the market in 2001. This represented a 21% increase compared to 2017.
- Leasing activity was 6.15 million sq. ft., an 11% decrease over the third quarter. This brought the total for 2018 to 25.2 million sq. ft., roughly 600,000 sq. ft. below the previous year.
- The average asking lease rate was effectively equal to the third quarter, ending a run of four consecutive quarters in which the rate increased.
- Overall, seven buildings totaling just over two million sq. ft. were delivered to the market in the fourth quarter. This led to a new annual record of more than 10 million sq. ft. added to inventory.
- Despite the added inventory, the availability rate dropped 30 bps quarter-over-quarter to 6.6%, the lowest rate posted this year.

MARKET OVERVIEW

The New Jersey industrial market recorded more than four million sq. ft. of net absorption in the fourth quarter, as well as 6.1 million sq. ft. of leasing activity. The latter was on par with the quarterly average for the past two years.

The strong net absorption drove the annual total to 11.6 million sq. ft., the highest annual level recorded since CBRE began tracking the market. Consequently, total available space fell from roughly 56.9 million sq. ft. to 54.3 million sq. ft., a decline of 30 basis points (bps) to 6.6%.

The market added seven buildings totaling just over two million sq. ft. in the fourth quarter. Overall, 2018 saw a record amount of new completions at 10.3 million sq. ft., and the year ended with 24 buildings under construction which will add more than seven million sq. ft. to the market upon completion. Nearly 900,000 sq. ft. (44%) has been preleased.

Although the average asking rent had risen in each of the first three quarters of the year, the fourth quarter saw a very slight reversal, with the overall asking rate falling from \$7.09 to \$7.02 per sq. ft.

Figure 1: Q4 2018 Notable Transactions

Size (sq. ft.)	Tenant	Address	City	Type
544,518	Pioneer Commodities	1665 Jersey Avenue	North Brunswick	Renewal/Expansion
459,822	Gucci	150 Totowa Road	Wayne	New Lease
327,425	East Coast West Coast Logistics	19 Crows Mill Road	Keasbey	New Lease
231,850	De'Longhi America	13 Applegate Drive	Robbinsville	New Lease
208,000	Concordance Healthcare	60 Distribution Boulevard	Edison	New Lease

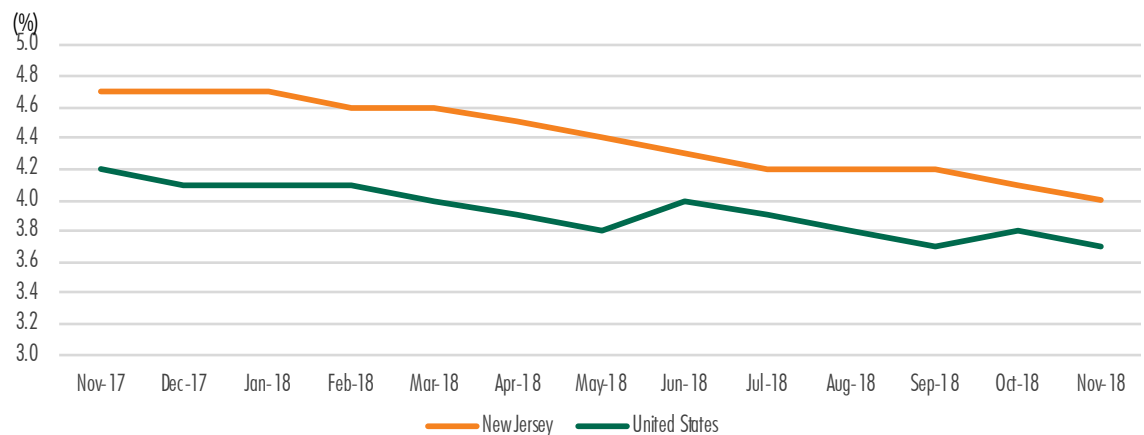
Source: CBRE Research, Q4 2018.

ECONOMY

New Jersey's unemployment rate declined again in November, dropping 10 bps to 4.0% to reach its lowest level since June 2001. As Figure 2 indicates, New Jersey had been trailing the overall U.S. rate by as much as 60 bps earlier in the year, but as of October, the gap has been halved, to 30 bps. Year-over-year, employment increased by 60,900, all the gains attributable to private sector employers (+61,900). Since the low point of the recession in February 2010, New Jersey's private sector employers have added more than 406,000 jobs. The transportation and warehousing sector (+13,300) recorded the second highest gain, further evidence of the strength of the New Jersey industrial market.

As 2018 ended, there were several signs of optimism for the New Jersey economy, most notably the recent gains in life sciences (Teva's relocation to Parsippany, Evotec's relocation to Princeton, and others), higher year-over-year employment in professional and business services (+21,600), and Newark's continued rebound.

Figure 2: Monthly Unemployment Rate



Source: NJ Department of Labor, Q4 2018.

PORT OF NEW YORK AND NEW JERSEY

In October, the most recent month for which data has been published, the Port set a record with 658,708 TEUs*, a year-over-year increase of 11.9%. Import loads were up by 11.1% and export loads grew by 7.9%. A recent [CBRE Marketflash](#) took a closer look at the statistics and reasons for the port's record-breaking performance.

Although 2019 should be another outstanding year for the Port, potential impediments could come from several economic uncertainties, including further extension of the trade truce with China, increased volatility in equity markets and declining corporate profits.

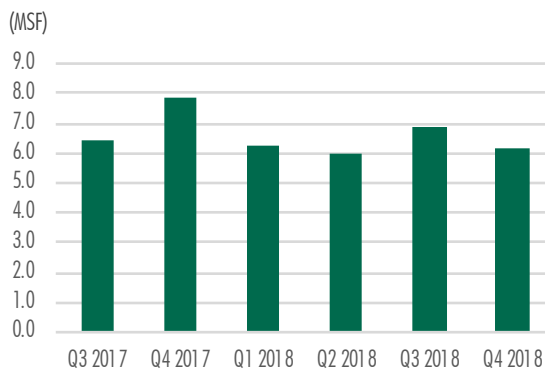
However, the New Jersey economy ended 2018 stronger than the year before and many factors, such as the state's key role in the nation's supply chain, are still in place, serving as the basis for cautious optimism entering the new year.

LEASING

The top five submarkets, in order of total square feet leased for 2018, were not a surprise to those who follow the market: Exit 8A (5.7 million), Rt. 287/Exit 10 (5.0 million), Meadowlands (2.5 million), Rt. 46/23/3 Interchange (2.2 million) and Carteret/Avenel and Hudson Waterfront, which were in a virtual dead heat for fifth place (1.2 million).

On a quarterly basis, however, results were less typical. The Rt. 287/Exit 10 submarket led the way for the quarter with nearly 1.2 million sq. ft., followed by Linden/Elizabeth (735,000), Brunswicks/Exit 9 (669,000), Meadowlands (667,000) and Rt. 46/23/3 Interchange (666,000). The strong leasing in Linden/Elizabeth and Brunswicks/Exit 9, as well as the absence of Exit 8A from the list – which recorded 360,000 sq. ft. for the quarter – reflects both the scarcity of space required by many occupiers in the traditional bellwether submarkets, as well as the increased volumes at the port, pushing demand into other submarkets.

Figure 3: Quarterly Leasing Activity



Source: CBRE Research, Q4 2018

Figure 4: Annual Leasing Activity

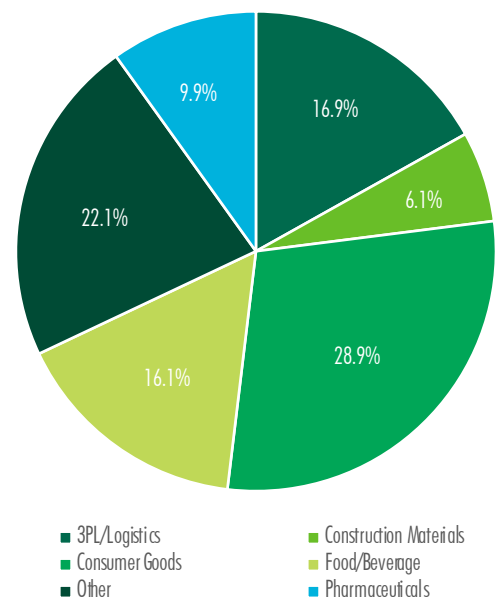


Source: CBRE Research, Q4 2018.

The largest lease signed during the fourth quarter was Pioneer Commodities's 545,000-sq.-ft. renewal and expansion at 1665 Jersey Avenue in North Brunswick. Pioneer is a commodities business that deals mainly with dairies and feedlots in the Pacific Northwest. The Pioneer transaction was followed by Gucci's new 460,000-sq.-ft. lease at 150 Totowa Road in Wayne, and new leases by East Coast West Coast Logistics at 19 Crows Mill Road in Keasbey (327,000 sq. ft.) and Italian appliance manufacturer De'Longhi at 13 Applegate Drive in Robbinsville (232,000 sq. ft.).

Unlike the third quarter, when 3PLs dominated leasing, consumer goods companies led the way in the fourth quarter with 1,589,729 sq. ft. or 29% of all activity. They were followed by "other," including a couple of e-commerce transactions; 3PLs and logistics companies; food and beverage; pharmaceutical organizations; and construction materials.

Figure 5: Leasing by Industry

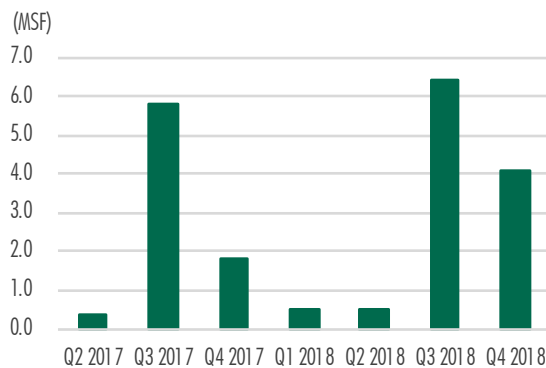


Source: CBRE Research, Q4 2018.

NET ABSORPTION AND AVAILABILITY

Although down from the all-time record of 6.4 million sq. ft. of net absorption posted in the third quarter, the fourth quarter result at 4.1 million sq. ft. was both a 2.3 million sq. ft. improvement year-over-year and the single strongest fourth quarter recorded since CBRE began compiling industrial statistics. It was a fitting end to the year, which saw the strength of the New Jersey industrial market demonstrated by total yearly absorption of nearly 11.6 million sq. ft., another all-time high.

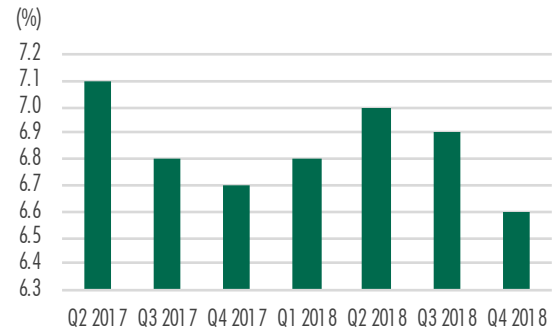
Figure 6: Quarterly Absorption



Source: CBRE Research, Q4 2018.

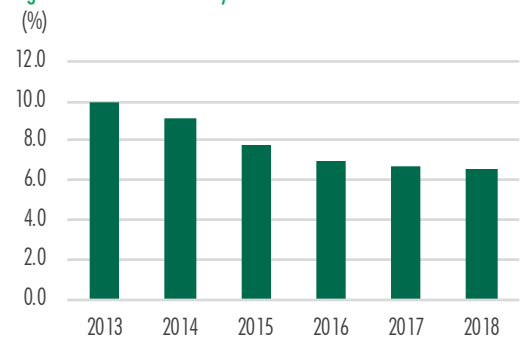
The highest fourth quarter net absorption in an individual submarket took place in Rt. 46/23/3, which at 1.1 million sq. ft., posted its highest-ever quarterly total. Combined leasing of 677,000 sq. ft. at 175 Delawanna Avenue in Clifton and 150 Totowa Road in Wayne were prime factors in the submarket's strong results. The Rt. 287/Exit 10 market had the next highest net absorption for the quarter at 789,000 sq. ft. on the strength of several large leases and 255,000 sq. ft. of pre-commitments in two newly completed buildings. Finishing third was the Linden/Elizabeth submarket, which had three 100,000+ sq. ft leases signed. The submarket saw its availability rate drop by 90 bps over the preceding quarter to 6.0%.

Figure 7: Quarterly Availability



Source: CBRE Research, Q4 2018.

Figure 8: Annual Availability



Source: CBRE Research, Q4 2018.

AVERAGE ASKING LEASE RATE

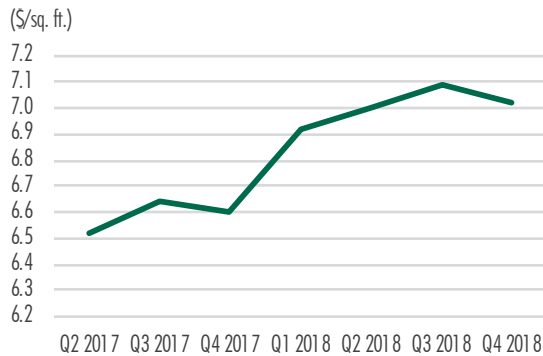
After posting quarter-over-quarter increases in each of the first three quarters of 2018, the average asking lease rate fell in the fourth quarter, by a miniscule \$0.07 per sq. ft. Nevertheless, at \$7.02 per sq. ft., the rate reflects a healthy \$0.42 per sq. ft. increase over the end of 2017. In the past five years, the rate has increased by \$1.48 per sq. ft. or nearly 27%. Northern New Jersey saw its rate fall quarter-over-quarter to \$7.68 per sq. ft., while central New Jersey remained essentially flat at \$6.30 per sq. ft.

The submarket with the highest asking rate was in the 3.4 million-sq.-ft. Route 280 corridor, which again broke the \$10.00 barrier, ending the year at \$10.38 per sq. ft. The remainder of the submarkets with the highest average asking rates were also in northern New Jersey: North East Bergen (\$8.99), North West Bergen (\$8.69), Meadowlands (\$8.59) and Fairfield (\$8.50).

The Fairfield rate is particularly notable in that it reflects an \$0.84 per sq. ft. (11%) increase over the preceding quarter. Among the largest submarkets, the Exit 8A rate rose by \$0.35 per sq. ft., to \$7.19, but the Rt. 287/Exit 10 rate was virtually unchanged at \$6.47 per sq. ft.

Given the continued tight conditions throughout the market, the observations that were made in our third quarter 2018 Marketview still hold true. Desirable space is in short supply, despite the continued growth of new inventory, which has reflected itself in longer lease terms, reduced concessions and higher escalations. In addition, larger transactions are still taking longer to consummate, as tenants seek ways to mitigate the higher rents.

Figure 9: Quarterly Average Asking Lease Rate



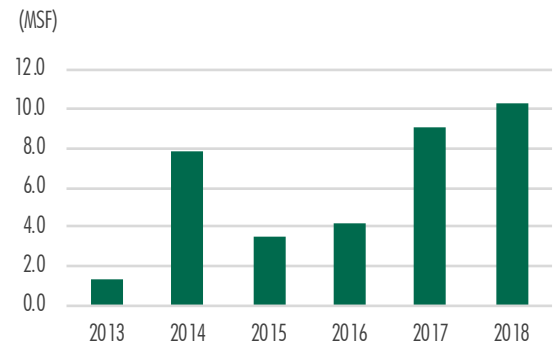
Source: CBRE Research, Q4 2018.

CONSTRUCTION

In the fourth quarter, seven completions totaled 2.0 million sq. ft., of which 894,000 sq. ft. (44%) was preleased. Over 2018, 31 buildings equating to 10.3 million sq. ft., or 14.4% above 2017 were completed. This swelled market inventory to nearly 825 million sq. ft. The annual total square feet delivered for both 2017 and 2018 are by far the highest CBRE has ever tracked, with 2018 setting a new record.

Looking at future development, 7.1 million sq. ft. was under construction in 24 individual buildings at the end of 2018. This was down from year-end 2017, when 31 buildings totaling 13.1 million sq. ft. were under construction. Of the total currently under construction, 4.7 million sq. ft. or 66% is in central New Jersey. More than 1.6 million sq. ft. of that is in the Rt. 287/Exit 10 submarket, followed by 750,000 sq. ft. at Exit 8A and 615,000 sq. ft. in the Linden/Elizabeth submarket. In northern New Jersey, more than 1.5 million sq. ft. is currently being constructed in Newark, followed by 460,000 sq. ft. in the Rt. 46/23/3 Interchange submarket. Some of the largest individual projects are 1080 King Georges Post Road in Edison (635,000 sq. ft.), 117 Interstate Boulevard in South Brunswick (594,000 sq. ft.) and 700 Kapkowski Road in Elizabeth (540,000 sq. ft.)

Figure 10: Historical Deliveries



Source: CBRE Research, Q4 2018.

INVESTMENT SALES

Investors were once again active in the fourth quarter with 43 sales taking place, matching the total recorded in the previous quarter. Larger properties were most desirable to buyers with 24 of the sales representing buildings equal to or greater than 100,000 sq. ft. Consequently, the total size of all properties that traded exceeded 6.8 million sq. ft., an increase of nearly 13% above the third quarter. In all, the steady flow of deals throughout 2018 resulted in total square feet changing hands surpassing 20 million for the first time since 2013.

Figure 11: Q4 2018 Notable Investment Sales Transactions

Address	City	Size (sq. ft.)	Price	Price/SF
530 Route 130	Trenton	340,000	\$85,300,000	\$250.88
549 Mill Road	Edison	571,000	\$83,000,000	\$145.36
1 Turner Place	Piscataway	451,800	\$75,000,000	\$166.00
100 Jefferson Road	Parsippany	548,500	\$60,200,000	\$109.75
700 Union Boulevard	Totowa	382,596	\$51,000,000	\$133.30
200 Central Avenue	Teterboro	212,114	\$20,649,000	\$97.35

Source: CBRE Research, Q4 2018.

The single largest property to be sold during the quarter was 47-49 Station Road in Cranbury, the Audi & Volkswagen Parts Distribution Center. The 929,000-sq.-ft. facility was a build-to-suit for Volkswagen in 2002. The selling price has not yet been disclosed.

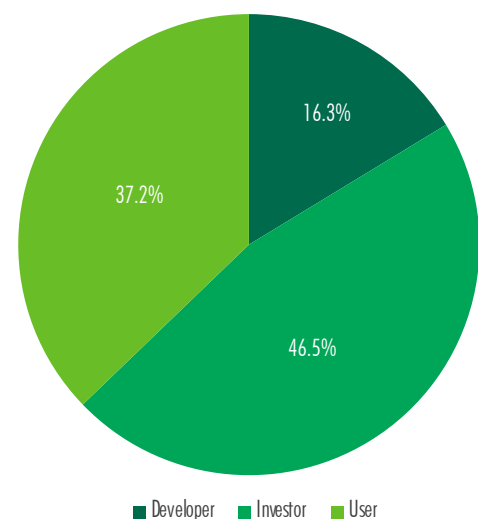
With so many larger properties trading during the quarter, the average sale price reached \$133.25 per sq. ft. Analyzing properties above 100,000 sq. ft., the highest per square foot average prices were achieved by 530 Route 130 in Trenton (\$251.00), 100 West Forest Avenue in Englewood (\$229.00) and 100 Hollister Road in Teterboro (\$177.00).

Of the 43 properties sold, 20 or 47% were acquired by investors, with the remainder being split by users (16) and developers (7). This was in marked contrast to the third quarter, when occupiers purchased more than half the properties (54%) and investors bought another 37%, with developers making up the remainder.

The greatest concentration of sales took place in Middlesex County (14), primarily along the Turnpike corridor, with another eight sales occurring in Bergen County. Four of the Bergen County transactions were in the Meadowlands submarket, two each in Carlstadt and Teterboro, with an additional transaction in Secaucus, making five individual sales for the quarter.

Among the well-known buyers active in the market in the fourth quarter were Duke Realty, Sitex, Bentall Kennedy, Cohen Asset Management, Goodman North America and a joint venture between Harbor Group International and Turnbridge Equities. Sellers included Gramercy Property Trust, Prologis, Matrix Development and two joint ventures: LaSalle Investment Management and F. Greek Development and J.P. Morgan Asset Management and J.G. Petrucci Co.

Figure 12: Buyer Composition

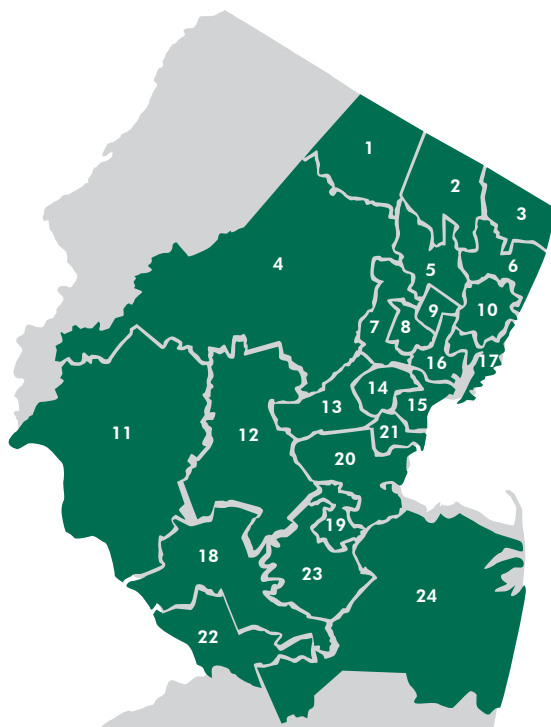


Source: CBRE Research, Q4 2018.

Figure 13: Q4 2018 Market Statistics

Submarket	Market Rentable Area (SF)	Availability (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	31,464,400	1,876,675	6.0	8.46	98.38	128,612	49,266	281,769
Fairfield Market	18,506,105	1,346,230	7.3	8.50	107.80	10,400	(111,106)	48,251
Hudson Waterfront	63,890,558	4,027,902	6.3	6.55	115.38	179,504	264,320	(96,860)
Meadowlands	95,798,058	7,259,274	7.6	8.59	106.17	667,262	230,502	733,739
Morris Region	42,853,436	4,118,644	9.6	7.34	136.01	200,694	209,179	(133,460)
Newark	51,760,160	3,012,893	5.8	6.84	65.56	226,195	327,840	1,056,215
North East Bergen	7,971,744	734,114	9.2	8.99	89.90	0	18,997	(300,643)
North West Bergen	19,023,038	1,062,206	5.6	8.69	53.02	121,000	68,219	583,646
Route 23 North	553,533	58,660	10.6	7.84	82.65	0	0	54,300
Route 280 Corridor	3,755,100	128,018	3.4	10.38	69.29	0	(4,815)	72,750
Route 46/23/3 Interchange	56,845,411	4,590,526	8.1	6.94	96.61	666,150	1,065,523	1,260,809
Suburban Essex	12,070,135	498,249	4.1	4.51	44.47	15,500	9,480	(24,096)
Northern New Jersey Total	404,491,678	28,713,391	7.1	7.68	94.33	2,215,317	2,127,405	3,536,420
Brunswick/Exit 9	25,445,726	2,037,046	8.0	6.60	104.74	668,518	35,794	(771,560)
Carteret/Avenel	25,689,742	1,581,634	6.2	6.85	104.59	233,085	(3,619)	400,556
Central Union	25,128,137	1,712,723	6.8	6.55	76.34	35,000	43,307	343,038
Exit 8A	76,801,037	3,754,133	4.9	7.19	92.52	360,232	16,882	2,714,263
Hunterdon	6,398,635	917,398	14.3	3.07	74.32	0	0	62,062
Linden/Elizabeth	45,060,831	2,717,477	6.0	6.99	84.79	735,000	386,830	(74,749)
Monmouth	24,294,973	1,344,033	5.5	8.27	88.11	58,807	(218)	364,658
Princeton	10,908,613	607,975	5.6	7.25	73.39	0	(6,400)	580,990
Route 287/Exit 10	103,093,782	5,288,294	5.1	6.47	75.16	1,167,710	788,617	3,430,615
Route 78 East	9,783,021	715,683	7.3	4.21	67.26	0	87,900	103,802
Somerset	37,707,582	2,858,887	7.6	6.26	92.71	402,432	264,708	214,067
Trenton/295	29,911,536	2,060,715	6.9	4.92	43.23	243,283	365,358	678,937
Central New Jersey Total	420,223,615	25,595,998	6.1	6.30	79.49	3,904,067	1,979,159	8,046,679
New Jersey Total	824,715,293	54,309,389	6.6	7.02	86.52	6,119,384	4,106,564	11,583,099

Source: CBRE Research, Q4 2018.



- | | |
|---------------------------|-----------------------|
| 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.