

Rents soar while supply crunch hinders leasing



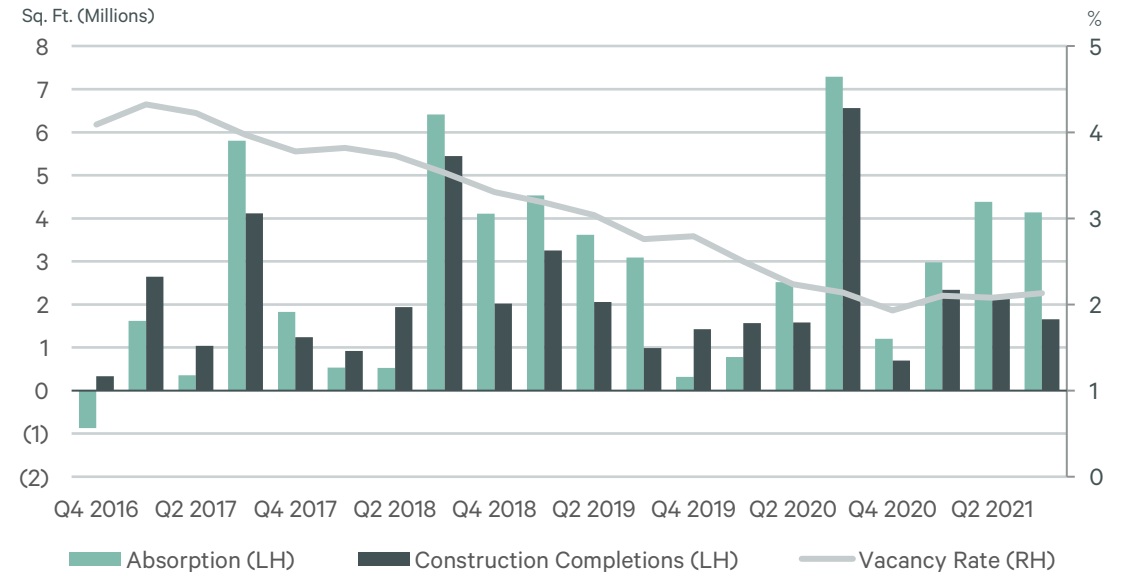
Note: Arrows indicate change from previous quarter.

Market Overview

The combined Northern and Central New Jersey industrial market continued its remarkable run into the second half of 2021. A somewhat lighter quarter in terms of leasing activity—at just 5.4 million sq. ft., it was the fourth lowest quarterly total over the last five years—belied the continued strong demand in the market, and rather reflected the market’s very low availability, which reached a new low water mark of 4.8%. In particular, the market was constrained by the current lack of large block availabilities in quality buildings, as well as a reluctance by owners of properties under construction to strike deals in a market where rents significantly increase month-to-month. Fueled by fierce competition for space, renewal activity was 3.6 million sq. ft. during Q3 2021, 11.2% higher than Q2 2021 and the fourth highest total on record for the combined Northern and Central New Jersey industrial markets. Leasing activity year-to-date reached 22.4 million sq. ft., already passing the 2020 year-end total.

Robust net absorption of 4.1 million sq. ft. of included 1.6 million sq. ft. of construction completions that were delivered fully pre-leased. The increasingly tight market led Class A rents to jump a remarkable 6.9% quarter-over-quarter to \$14.38 per sq. ft., with overall rents climbing 10.2% quarter-over-quarter to \$9.79 per sq. ft.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



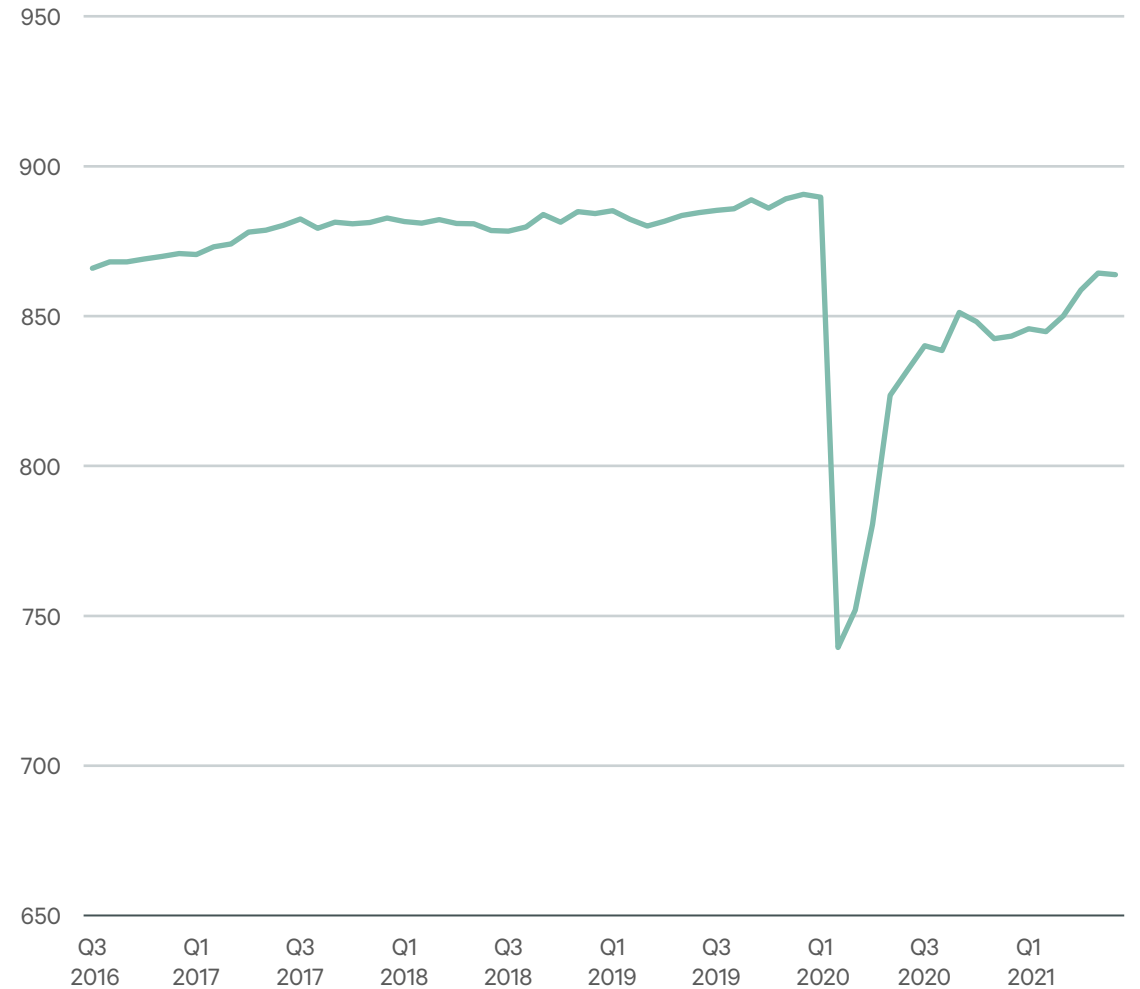
Economic Overview

The summer of 2021 began with a surge of economic activity and employment gains, only to ease back as the Delta variant forced many consumers to rethink their holidays and restaurant visits. Consequently, CBRE pared back the GDP growth outlook for 2021 by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. New Jersey fared decently as the summer closed out, continuing to regain workers, albeit at a slower pace than in previous months, in part thanks to lower virus transmission rates.

Trade, Transportation, and Utilities, a sector which includes warehouse and logistics firms experienced a minor pullback in August of .1%. Overall, the sector now stands at 97.2% of its pre-Covid employment total, up from a trough of 83.2% in March 2020. The manufacturing sector, another major user of industrial space was a bright spot in the months before Covid-19 and continued its brisk recovery through August, adding back workers and rising to 98.1% of its pre-Covid employment level.

Shortages of raw materials and microchips may continue to weigh on the trade and transportation sector, however, the impact of from Covid-19 is likely to lessen as the U.S. economy and health system learn to manage these disruptions moving forward.

FIGURE 2: NJ Trade, Transportation, and Utilities Employment (Thousands)



Source: BLS

Rent Trends

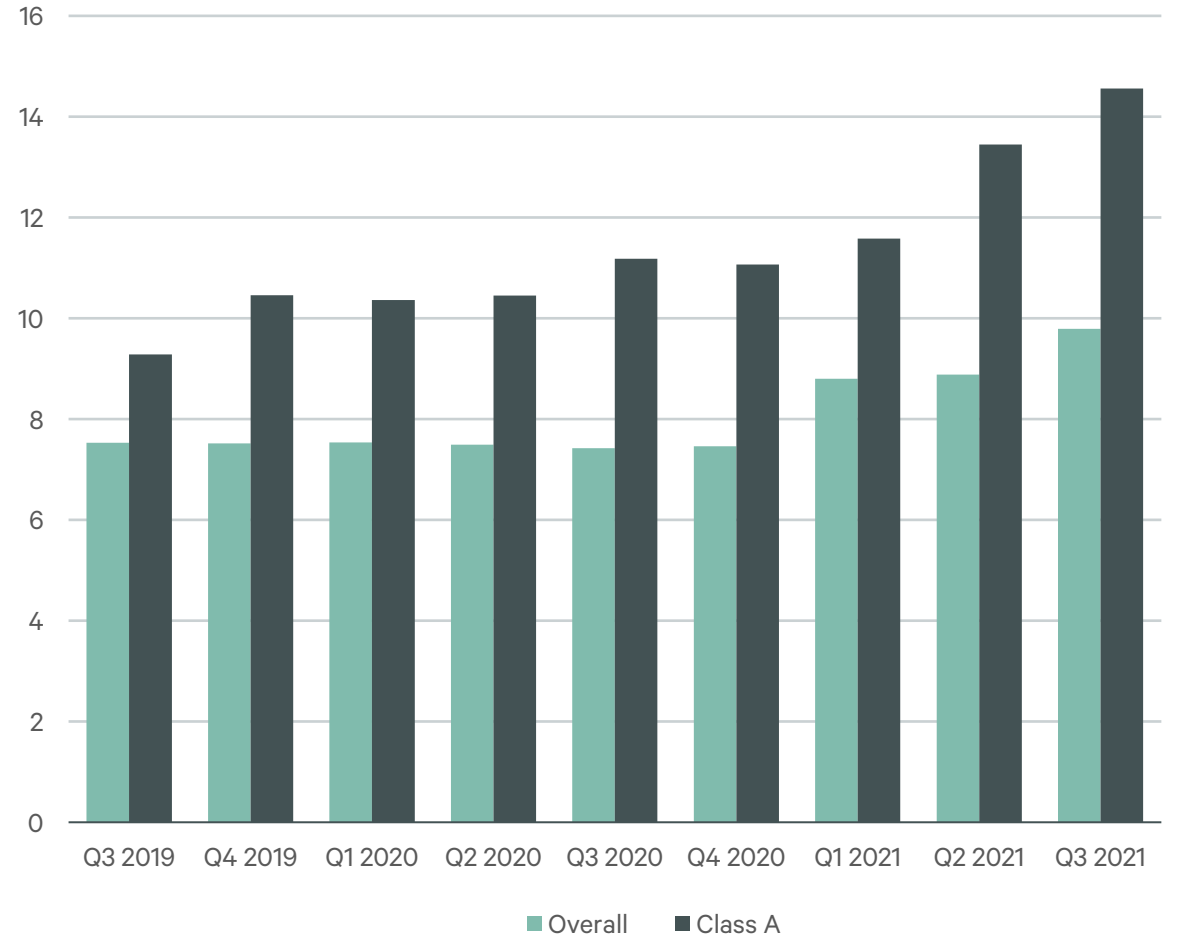
Average Class A asking rent in the combined Northern and Central New Jersey market continued to climb in Q3 2021, reaching \$14.38 per sq. ft., a 6.9% increase quarter-over-quarter. The Class A average asking rent was up by a soaring 28.6% year-over-year, demonstrating the acceleration of new competitions in the New Jersey industrial market.

The Northern New Jersey Class A average asking rent was \$17.42 per sq. ft., 5.7% higher than in Q2 2021 and up 20.3% year-over-year. The Meadowlands submarket had the highest Class A average asking rent at \$21.21 per sq. ft. The average was pulled higher by three developments under construction totaling 1.0 million sq ft., with asking rents as high as \$22 per sq. ft.

The Central New Jersey average Class A asking rent continued moving upward as well at \$12.85 per sq. ft., which was 2.1% higher than Q2 2021 and 34.1% greater year-over-year. Central New Jersey Class A average asking rents were highest in the Carteret/Avenel submarket at \$16.38 per sq. ft. The submarket’s average is being pulled up by the three projects under construction totaling 1.2 million sq. ft., with asking rents between \$16.00 and \$17.00 per sq. ft.

Asking rents for all asset classes increased by 11.3% quarter-over-quarter and 31.9% year-over-year to \$9.79 per sq. ft.

FIGURE 3: New Jersey Average Asking Lease Rates (\$/Per Sq. Ft.)



Source: CBRE Research, Q3 2021

Leasing Activity

The combined Northern and Central New Jersey market recorded nearly 5.4 million sq. ft. of leasing activity in Q3 2021, a quarter-over-quarter decrease of 34.5% and a year-over-year decrease of 26.2%. Leasing activity, which includes new leases and expansions, was 16.6% lower than the five-year quarterly average of 6.5 million sq. ft. Pre-leasing accounted for 1.8 million sq. ft. The muted leasing statistics were the result of a significant lack of supply as demand continues to surge.

Leasing was dominated by consumer goods and third-party logistics companies.

Year-to-date, leasing activity totaled over 22.4 million sq. ft., 37.5% ahead of the same period in 2020, which saw just 16.3 million sq. ft. This year’s strong first and second quarter are keeping the market on track for an exceptional year of leasing, though the lack of supply to meet demand will continue to constrain leasing in Q4.

Central New Jersey had the largest amount of quarterly leasing activity with 3.6 million sq. ft. The Linden/Elizabeth submarket was the most active of all submarkets with nearly 1.1 million sq. ft. of leasing activity. Peloton took 840,203 sq. ft. at 600 Linden Logistics Way in Linden. This was the submarket’s largest new lease transaction.

The Hunterdon/Warren submarket had the second highest leasing activity in Central New Jersey with over 510,000 sq. ft. leased due to Alan Ritchey, a 3PL, leasing 511,200 sq. ft. at 39 Strykers Rd. in Philipsburg.

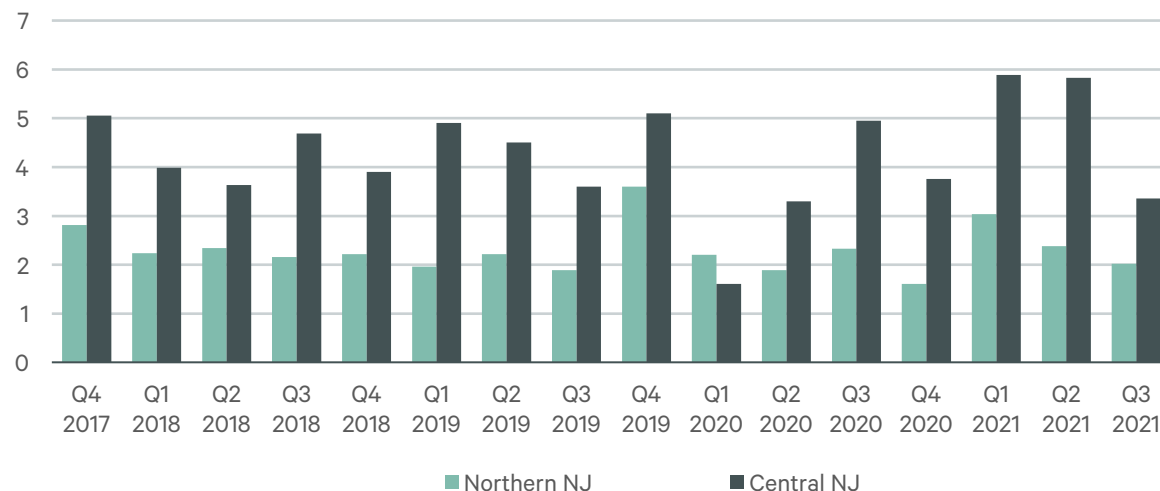
Quarterly renewals totaled over 3.5 million sq. ft., which was 62.1% higher than the five-year quarterly average of 2.2 million sq. ft. The much of the renewals were in the Exit 8A and Carteret/Avenel submarkets, where a combined 2.4 million sq. ft. of leasing renewals occurred. The largest renewal transaction of the quarter was Volkswagen, renewing 935,000 sq. ft. in the Exit 8A submarket at 47 Station Rd in Cranbury.

FIGURE 4: Top Lease Transactions, Q3 2021

Size	Tenant	Address	City	Transaction Type
935,000	Volkswagon	47 Station Rd.	Cranbury	Renewal
840,000	Peloton	600 Linden Logistics Way	Linden	New Lease
511,000	Alan Ritchey	39 Strykers Rd.	Phillipsburg	New Lease
508,000	DSV Solutions	1005 Middlesex Ave.	Port Reading	Renewal
413,000	E-Commerce Company	35 Market St.	Elmwood Park	New Lease

Source: CBRE Research, Q3 2021

FIGURE 5: Historical Industrial Leasing Activity (Million Sq. Ft.)



Source: CBRE Research, Q3 2021

Net Absorption and Availability

The market saw its 19th consecutive quarter of occupancy growth, with 4.1 million sq. ft. of net absorption in Q3 2021. This quarter’s positive absorption total brought the 2021 year-to-date \ total up to 11.4 million sq. ft., 15% above this point last year.

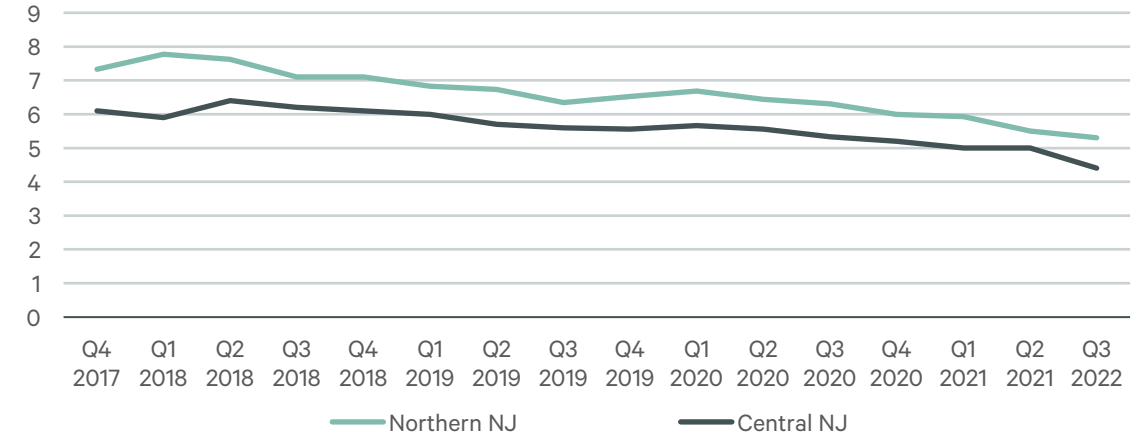
The overall availability rate for the combined Northern and Central markets hit an all-time low of 4.8, a quarter-over-quarter decrease of 16 basis points (bps). Central New Jersey saw a 31 bps decrease in availability to 4.4%. Northern New Jersey had a decrease in availability of 16 bps to 5.3%.

The third quarter’s net absorption total resulted from a combination of strong leasing, the completion of 1.7 million sq. ft. of new developments that were fully preleased and few large space additions. Two of the three submarkets with the largest totals were in Central New Jersey; Linden/Elizabeth with 1.3 million sq. ft. of net absorption and Route 287/Exit 10 with 810,000 sq. ft. The Meadowlands, with 529,000 million sq. ft. of net absorption, had the highest total for a submarket in Northern New Jersey.

Class A availability compressed 140 bps in Q3 2021 to 1.4% and direct availability of Class A space ended the quarter just under 1%. There were no Class A availabilities added to the market during Q3 2021.

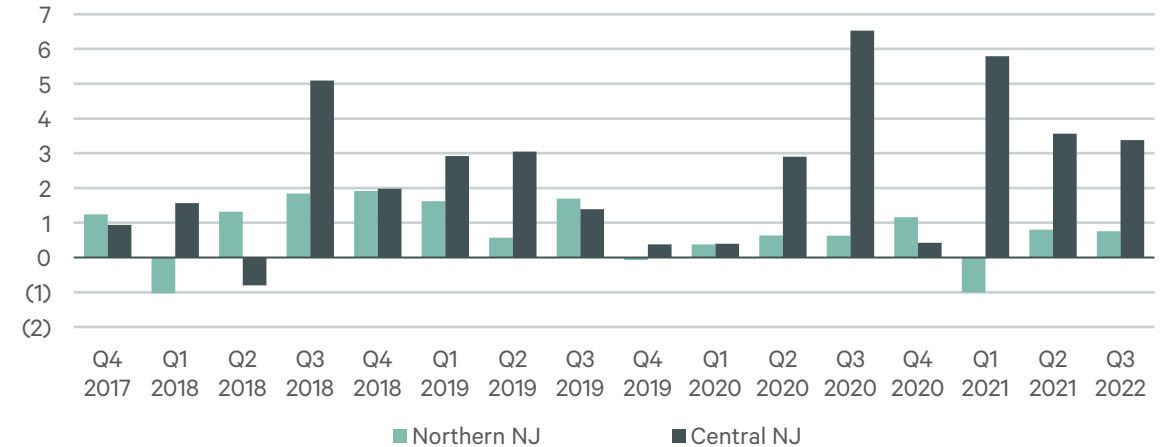
There were no new availabilities over 200,000 sq. ft. added in Q3 and nine over 100,000 sq. ft. Geographically, the new availability in larger blocks was evenly spread between Northern and Central New Jersey.

FIGURE 6: Availability Rate (%)



Source: CBRE Research, Q3 2021

FIGURE 7: Net Absorption (Million Sq. Ft.)



Source: CBRE Research, Q3 2021

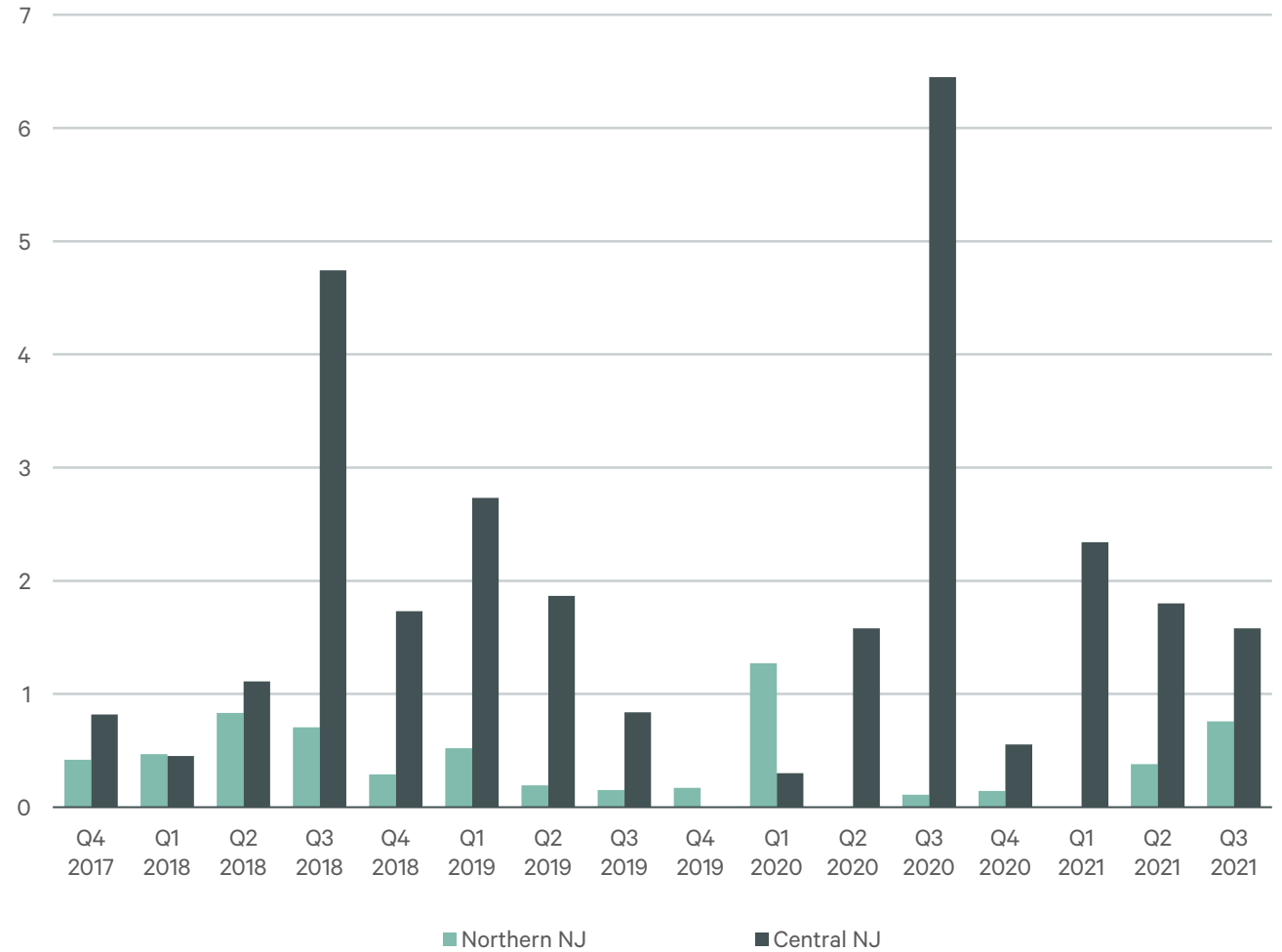
Construction Activity

Seven buildings completed construction in Q3 2021, totaling 1.65 million sq. ft. with a cumulative pre-lease rate of 100%. The largest completion was 150 Old New Brunswick Rd in the Route 287/ Exit 10 submarket, a 622,230-sq.-ft. Class A building preleased by Bob’s Discount Furniture. The second largest delivery was 39 Strykers Rd., a 511,200-sq.-ft. Class A building fully leased by Alan Ritchey. The remaining completion over 200,000 sq. ft. was 481 Blackhorse Ln in North Brunswick, a 245,232-sq.-ft. Class A building fully leased to TricorBraun/ Herman Warehouse.

Six projects began construction in Q3 2021 totaling 1.3 million sq. ft. One million sq. ft. of the total starts were in Central New Jersey and only 300,000 of the starts were in Northern New Jersey, where developable land is scarce. The largest construction start was Black Creek’s 148 Princeton Hightstown Rd. – Building A in East Windsor at 407,000 sq. ft. Black Creek also began work on Building B at the same address, which totals 168,000 sq. ft. The second largest start was 1 Wiley Dr. in Somerset, which will be 356,000 sq. ft. Rounding out the top three was 1150 McBride Ave in Woodland Park, at 205,000 Sq Ft.

There was a total of 13.3 million sq. ft. of new industrial product under construction in Q3 2021, 300,000 sq. ft. less than in Q2. Despite a constant flow of new supply to the market, recent quarters’ high rates of pre-leasing show that more supply is needed to fulfill demand in the market.

FIGURE 8: Construction Completions (Million Sq. Ft.)



Source: CBRE Research, Q3 2021

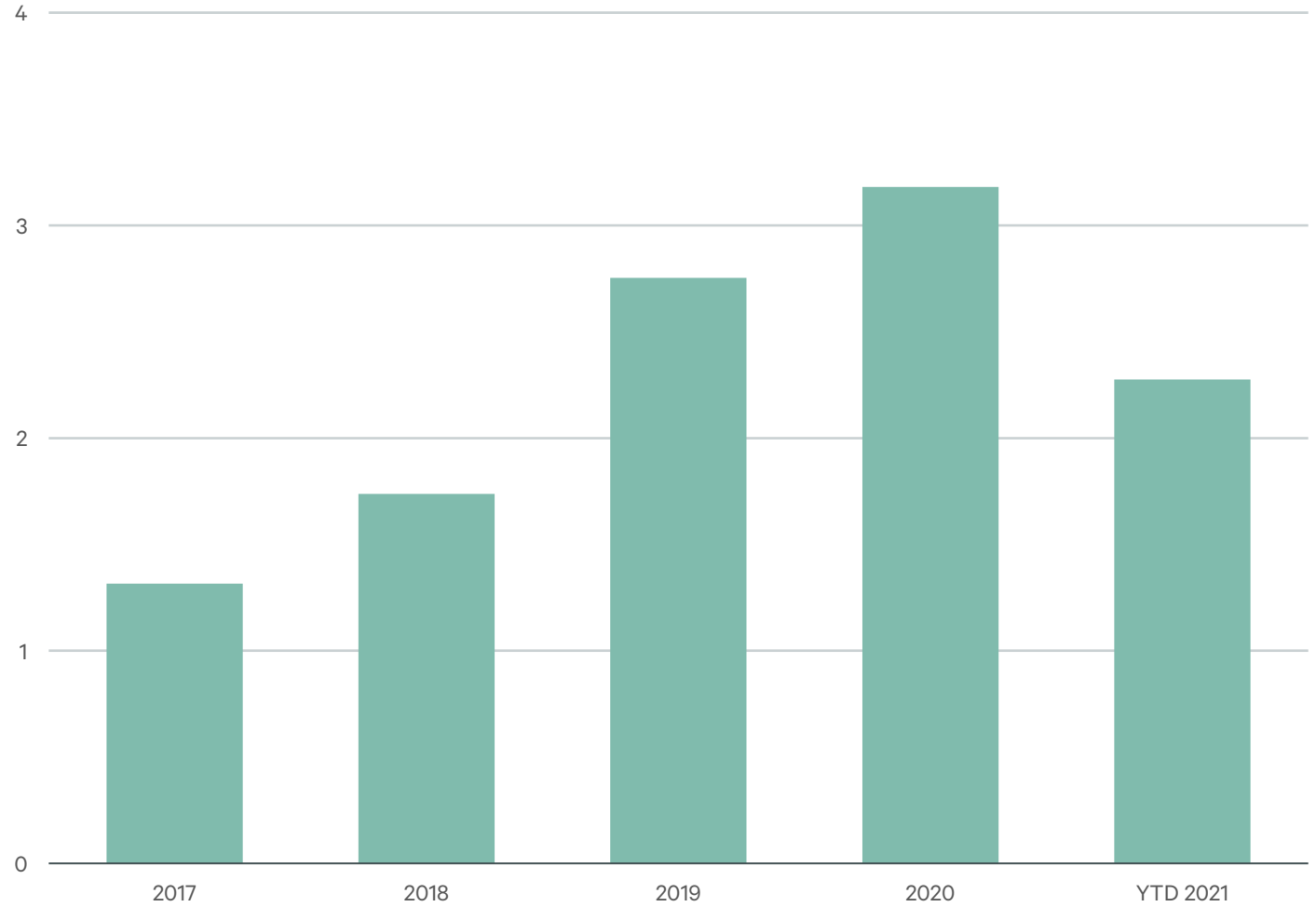
Investment Sales

Investment sales activity in Q3 2021 ticked up for the second straight quarter, increasing 9.7% quarter-over-quarter to 616.6 million. The average sales price per sq. ft. also increased quarter-over-quarter by 10.9% to \$142 per sq. ft. Properties totaling 4.3 million sq. ft. of properties sold during Q3 2021, down 45.6% quarter-over-quarter and 12.2% below the five-year average.

The most valuable individual investment sale during Q3 2021 was the 91 million sale (\$332 per sq. ft.) of 63 Stults Rd. in Dayton to CenterPoint Properties. The building is fully leased long-term to FedEx and the site also has the capacity for further development.

The largest portfolio sale during the quarter was the 1.3 million sq. ft. sale of the five-building New Market Ave. Harris Manufacturing Complex in South Plainfield for \$138.2 million (\$106.47) per sq. ft. to Link Logistics.

FIGURE 9: Annual Sales Volume (\$ Billions)



Source: CBRE Research, Q3 2021

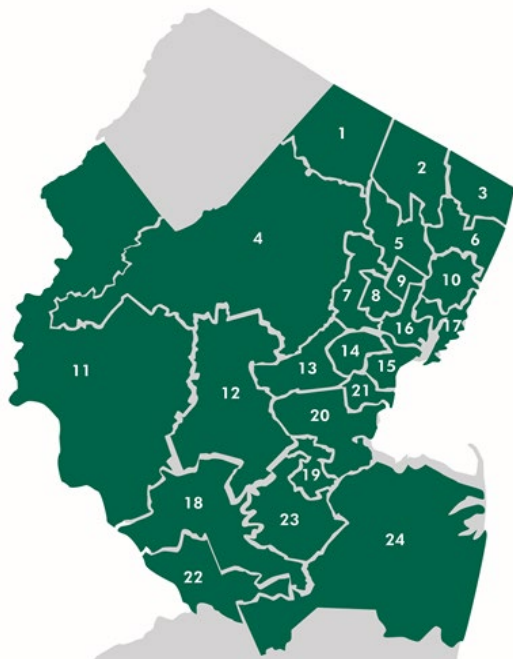
FIGURE 10: Submarket Statistics

District	Inventory (SF)	Availability Rate (%)	Class A Avg. Asking Rent (\$/Sq. Ft.)	All Space Avg. Asking Rent (\$/Sq. Ft.)	Leasing Activity (Sq. Ft.)	Net Absorption (Sq. Ft.)
Central Bergen	34,099,388	5.51		10.15	444,600	(63,853)
Fairfield Market	18,560,152	4.18	13.75	8.54	152,453	89,237
Hudson Waterfront	64,372,294	4.23	16.26	9.50	153,360	122,059
Meadowlands	94,080,705	6.60	21.21	11.52	669,761	529,335
Morris Region	41,678,188	7.07	10.52	8.10	66,107	(119,047)
Newark	54,108,568	2.94	16.72	10.99	396,333	169,544
North East Bergen	8,111,473	7.19		9.87	0	(100,870)
North West Bergen	19,610,545	6.70		10.55	136,748	(20,988)
Rt 23 North	603,533	3.95		9.80	0	0
Rt 280 Corridor	4,428,850	2.06		0.00	0	0
Rt 46/23/2 Interchange	58,385,698	5.75	19.00	8.83	4,260	166,131
Suburban Essex	11,015,635	2.97		9.23	0	(12,000)
Northern New Jersey Total	409,055,029	5.34	17.42	9.91	2,023,622	759,548
Brunswicks/Exit 9	27,524,498	4.15		8.85	367,542	334,686
Carteret/Avenel	28,345,996	4.84	16.38	15.30	154,062	290,465
Central Union	25,082,386	6.00		8.28	0	(22,044)
Exit 8A	77,202,410	2.77	11.96	11.24	469,969	78,209
Hunterdon/Warren	14,856,983	6.78		7.22	511,200	498,600
Linden/Elizabeth	45,433,789	3.42	12.95	9.42	1,095,203	1,288,614
Monmouth	25,652,321	6.86	10.25	8.62	0	(46,354)
Princeton	15,285,834	2.39	11.00	8.73	0	(35,641)
Route 287/Exit 10	110,914,919	3.11	13.75	11.35	339,434	810,059
Route 78 East	9,917,276	6.13		7.61	0	(75,550)
Somerset	40,368,395	7.52	14.36	8.48	149,785	(261,641)
Trenton/295	32,221,750	5.96	9.20	6.83	271,863	522,769
Central NJ Total	452,806,557	4.39	12.85	9.57	3,359,059	3,382,172
NJ Total	861,861,586	4.84	14.38	9.79	5,382,680	4,141,720

Source: CBRE Research, Q3 2021

Market Area Overview

1. Route 23 North
2. North West Bergen
3. North East Bergen
4. Morris Region
5. Route 46/23/3 Corridor
6. Central Bergen
7. Fairfield Market
8. Route 280 Corridor
9. Suburban Essex
10. Meadowlands
11. Hunterdon/Warren
12. Somerset



13. Route 78 East
14. Central Union
15. Linden/Elizabeth
16. Newark
17. Hudson Waterfront
18. Princeton
19. Brunswicks/Exit 9
20. Route 287/Exit 10
21. Carteret/Avenel
22. Trenton/295
23. Exit 8A
24. Monmouth

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

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