

MARKETBEAT

Northern & Central New Jersey

Industrial Q4 2018



NEW JERSEY INDUSTRIAL

Economic Indicators

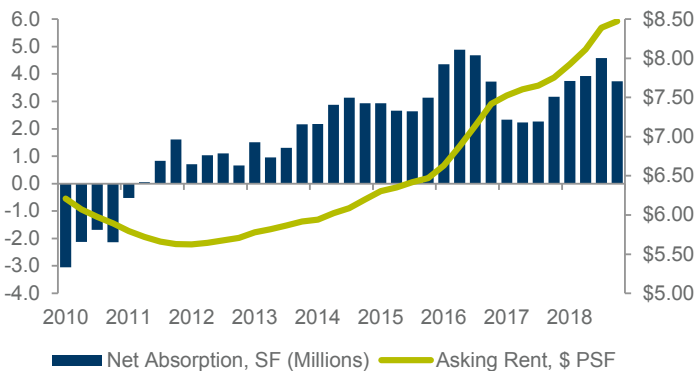
	Q4 17	Q4 18	12-Month Forecast
New Jersey Employment	4.2M	4.2M	▲
New Jersey Unemployment	4.7%	4.0%	■
U.S. Unemployment	4.1%	3.7%	▼

Market Indicators (Overall, All Property Types)

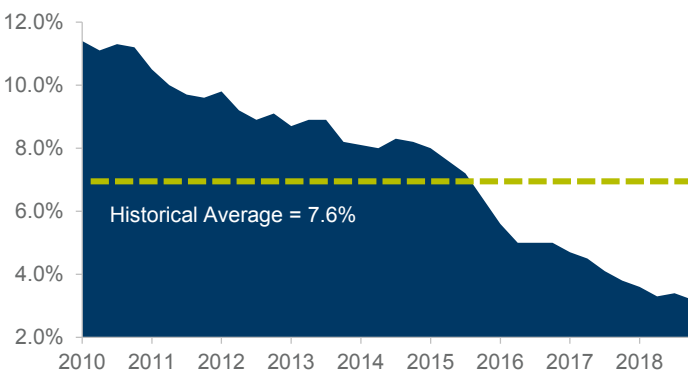
	Q4 17	Q4 18	12-Month Forecast
Vacancy	3.8%	3.2%	■
YTD Net Absorption (sf)	13.5M	14.9M	▼
Under Construction (sf)	10.6M	6.0M	■
Average Asking Rent*	\$8.15	\$8.48	▲

*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

After reaching a century-high mark in October, consumer confidence declined for two consecutive months due in part to the volatile equity markets and the potential fallout from a trade war. However, it finished the year higher than it was at the close of 2017 and remains near historic levels. Among overall healthy economic conditions, eCommerce sales continued to gain traction and now account for 9.8% of all retail sales. Almost \$131.0 billion of transactions originated online, up 14.5% since 2017. Nationwide, warehousing and storage jobs have risen by 52,500 year-over-year, bringing the total to more than 1.06 million—a new high. On the state level, transportation and warehousing employers have added 13,300 jobs, a 6.5% climb. At the Port of NY/NJ, almost 6.6 million TEUs were handled throughout 2018, up 6.5% since 2017, fueled mainly by the continued rise in imports.

Market Overview

The persistent upswing of eCommerce, strong import totals at the Port of NY/NJ, a healthy economy, and robust retail sales all propelled the New Jersey industrial market during the final months of the year. As a result, 2018 ended as another historic year for the industrial market as vacancy once more hit a record low and annual net absorption reached an all-time high. In fact, the three-year stretch from 2016 through 2018 has boasted the strongest run of annual net absorption and new leasing activity in recent history.

Despite the scarcity of space in the New Jersey industrial marketplace, the fourth quarter yielded positive net absorption for the 24th consecutive quarter as vacancy ticked another 20 basis points (bps) lower to 3.2%. Warehouse space finished 2018 at another all-time low of 3.1%, down 30 bps since the third quarter and 50 bps lower than year-end 2017. Central New Jersey warehouse vacancy fell to 2.2%, fueled by diminishing Class A and B space from Exit 12 down through Exit 7A, while Northern New Jersey's rate declined another 30 bps to 4.2% as the Port and Meadowlands submarkets tightened. Throughout 2018, the market recorded 14.9 million square feet (msf) of net occupancy gains, slightly surpassing the previous record from 2016. New Jersey has exceeded 10.0 msf of annual absorption for five straight years, totaling more than 67.0 msf of gains in that time.

The average direct asking rent for industrial space ticked lower for the first time since the first quarter of 2017, slipping to \$8.49 per square foot (psf). However, the decline was not attributed to landlords reducing rents due to softening market conditions, but to the leasing up of higher-quality warehouse space throughout the market. In addition, the current competitive environment of the market is causing Class A asking rents to be withheld as demand outweighs supply. Despite the recent direction in the equity markets and the industrial market's year-end rental rate ticking marginally lower since the previous quarter, the average asking rate remained near historic levels. For warehouse space, which accounts for almost 76.0% of the industrial inventory, the trend was similar, falling \$0.31 to \$8.16 psf. Although it regressed slightly, it finished the year 4.9% higher than at year-end 2017 and 34.6% above the average of \$6.06 psf recorded at the close of 2015.

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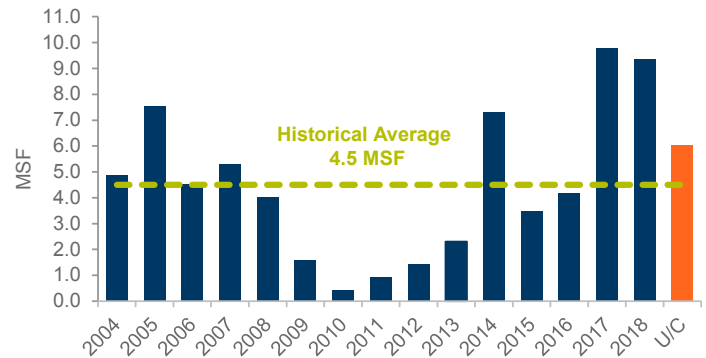
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Construction completions for the year reached 9.4 msf, slightly behind the century-high mark of 9.8 msf achieved throughout 2017. Of the total square footage built in 2018, there was 87.2% leased either during development or upon completion of the project. The Exit 8A (3.7 msf) and the Upper 287 Corridor (1.6 msf) submarkets accounted for 56.7% of the total square footage built this year. The need for Class A big-box product was evident throughout 2018 as the majority of the projects built in the market exceeded 250,000 sf in size. Meanwhile, there are just over 6.0 msf of industrial developments ongoing in the Garden State, 42.5% of which are leased already. The majority of the construction is concentrated within the Port Region, Upper 287 Corridor, and Exit 8A. Most of the projects currently under construction are anticipated to deliver by the end of 2019, with a handful more slated to break ground in the coming months. Of the 21 projects currently under development in the Garden State, 10 are 250,000 sf or larger and seven of those are still available for lease.

New Supply

NEW DEVELOPMENTS TOTALED MORE THAN 19.0 MSF DURING 2017 AND 2018 WITH ANOTHER 6.0 MSF IN THE IMMEDIATE PIPELINE

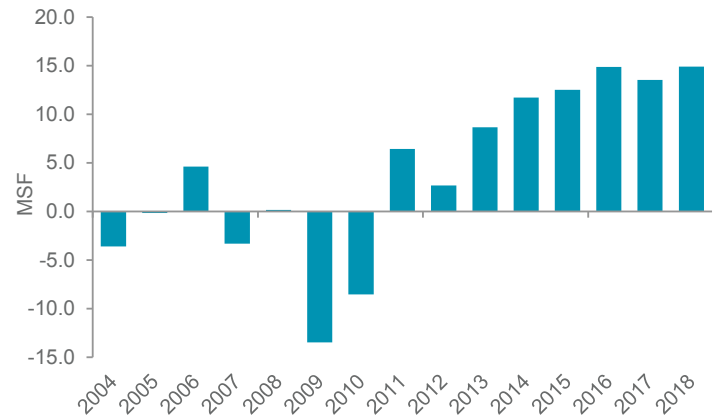


THE 2018 RECORD ANNUAL ABSORPTION TOTAL WAS FUELED IN LARGE PART BY THE EXIT 8A & LOWER 287 CORRIDOR SUBMARKETS

With fewer existing space options across the marketplace, specifically along the New Jersey Turnpike, new leasing activity slowed as 5.3 msf of new deals were inked during the fourth quarter. The scarcity of modern warehouse space in areas such as Lower 287 and Exit 8A tempered leasing totals in the final months of the year; however, tenant interest along the Turnpike and some tertiary markets persisted. Demand totals in the Port Region, the Meadowlands, and Upper 287 Corridor remained steady. However, the Passaic County submarket led the way during the fourth quarter with 1.2 msf of new deals transacted—fueled in large part by Gucci's 418,000-sf lease in Wayne and Corbion's 391,515-sf deal in Totowa. There were 17 new leases signed during the quarter greater than 100,000 sf, but just five exceeded 200,000 sf as big-box options remained limited throughout much of the state.

Historical Overall Net Absorption

YTD NET ABSORPTION HIT AN ALL TIME RECORD FOR 2018

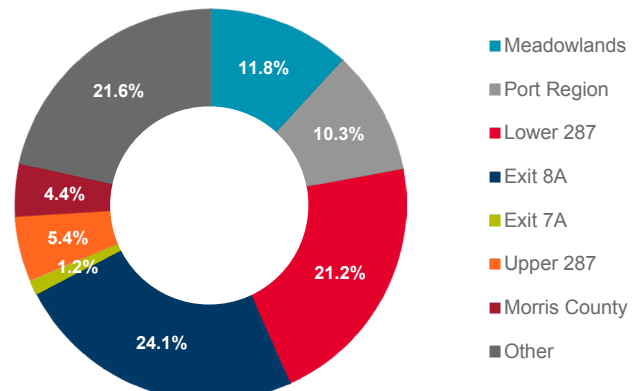


Outlook

- While the New Jersey industrial market has recently recorded some of its best years on record, and while rents, vacancy and absorption have reached historic levels, there is still some room left in the expansion cycle. However, expect most improvements in 2019 to be moderate in comparison to those from 2016 to 2018.
- With the lack of existing space options in the core submarkets, anticipate leasing activity to return to more normalized levels. The backdrop of continued record-low vacancy combined with supply constraints continuing to limit new development should continue to push rent growth even higher, albeit at a slower pace. As a result, some tenants could begin to get priced out of the higher-demand, turnpike-centric submarkets.

Year-to-Date W/D Leasing by Submarket

EXIT 8A AND LOWER 287 (EXITS 10-12) HAVE ACCOUNTED FOR THE BULK OF NEW TENANT DEMAND THUS FAR IN 2018, DRIVEN BY BIG-BOX LEASES



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (HT)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Bergen County	1,302	86,505,743	2,985,518	824,932	3.6%	1,120,066	193,085	\$10.57	\$7.08	\$10.02
Essex County	677	44,912,608	876,652	320,592	2.8%	103,191	661,530	\$10.30	\$9.22	\$7.46
Hudson County	531	73,640,136	2,869,504	818,118	2.6%	1,714,287	50,967	\$11.66	N/A	\$7.91
Morris County	470	41,141,065	1,378,379	391,242	8.3%	-952,487	215,440	\$9.92	\$4.55	\$7.45
Passaic County	474	40,510,001	2,351,702	298,973	4.0%	-239,634	556,073	\$10.01	\$7.74	\$8.69
NORTHERN NJ TOTAL	3,454	286,709,553	10,461,755	2,653,857	4.0%	1,745,423	1,677,815	\$10.28	\$6.66	\$8.76
Mercer County	244	31,343,400	372,979	121,138	6.4%	992,713	527,050	\$8.08	\$4.00	\$5.07
Middlesex County	1,660	213,127,969	12,726,246	961,053	1.6%	11,726,669	3,233,203	\$15.05	\$8.75	\$7.22
Monmouth County	178	13,504,768	184,109	40,340	3.6%	52,178	0	\$12.41	N/A	\$6.60
Somerset County	404	34,577,526	553,525	163,426	2.6%	335,092	55,900	\$11.83	\$8.50	\$6.81
Union County	678	58,292,194	1,370,295	184,918	4.0%	70,084	541,000	\$16.34	\$12.63	\$8.13
CENTRAL NJ TOTAL	3,164	350,845,857	15,207,154	1,470,875	2.6%	13,176,736	4,357,153	\$12.77	\$6.58	\$7.34
NEW JERSEY TOTALS	6,618	637,555,410	25,668,909	4,124,732	3.2%	14,922,159	6,034,968	\$11.88	\$6.64	\$8.18

*Rental rates reflect gross asking \$psf/year HT = High Tech MF = Manufacturing W/D = Warehouse/Distribution

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET
150 Totowa Road, Wayne	418,750	Gucci	Warehouse/Distribution	Suburban Passaic
700 Union Boulevard, Totowa	391,515	Corbion	Warehouse/Distribution	Suburban Passaic
19 Crows Mill Road, Kearsby	327,425	East Coast/West Coast Logistics	Warehouse/Distribution	Lower 287 Corridor
275 North Street, Teterboro	230,728	Party Rental	Warehouse/Distribution	Meadowlands

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PROPERTY TYPE	PRICE / \$PSF	SUBMARKET
100 Jefferson Road, Parsippany	548,500	PNY Technologies / Turnbridge Equities / Harbor Group International	Warehouse/Distribution	\$65,133,000 / \$119	Parsippany
1 Turner Place, Piscataway	451,800	LaSalle Investment Management / Greek Development / Bentall Kennedy	Warehouse/Distribution	\$73,700,000 / \$163	Upper 287 Corridor
19 Crows Mill Road, Kearsby	348,065	Lefcourt Associates / Liberty Property Trust	Warehouse/Distribution	\$41,000,000 / \$118	Lower 287 Corridor
530 Route 130, Hamilton Township	340,000	SunCap Property Group / Monmouth Real Estate Investment Corporation	Warehouse/Distribution	\$85,248,352 / \$251	Exit 7A/8 Market

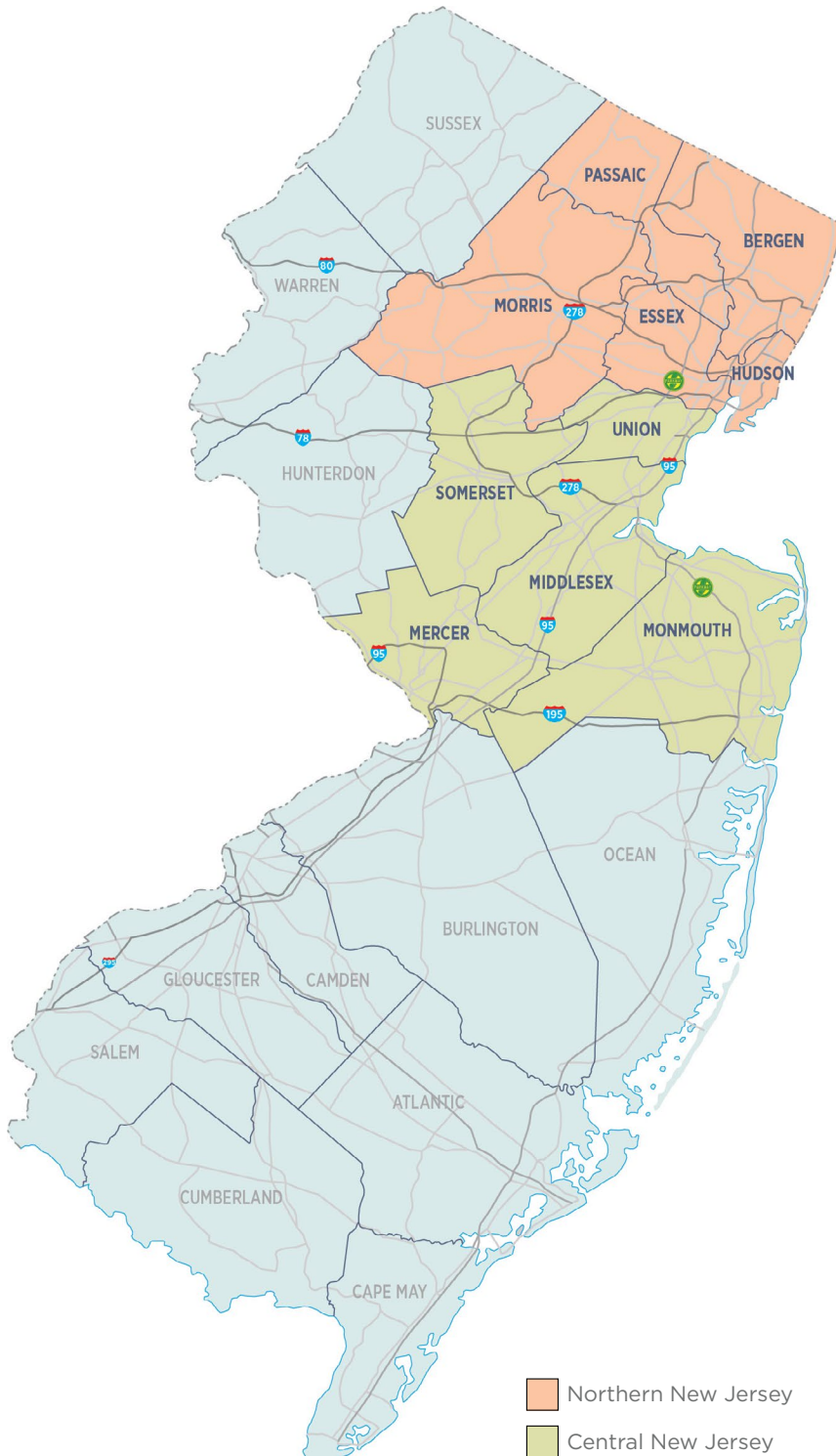
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INDUSTRIAL SUBMARKETS NORTHERN & CENTRAL NEW JERSEY



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