

# MARKETBEAT

## CENTRAL NEW JERSEY OFFICE REPORT



A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q09

### ECONOMY

New Jersey's unemployment rate for March, currently 8.3% is the highest it has been since 1992, yet still below the national rate of 8.5%. The only areas of significant job growth this year have been in education and health services, adding over 14,000 jobs over the year. Despite growth in these specific industries, pharmaceutical mergers continue to hover over the state. Focusing on surviving in this battered economy, Pfizer Inc. and Wyeth intend to merge and Merck & Co. and Schering Plough Corp will combine in a \$41.1-billion deal. As a result of its recent \$46.8-billion deal with Genentech, Swiss-pharmaceutical company, Roche may eliminate approximately 1,500 jobs state-wide. Although Central New Jersey is best known for having a talented bio-tech workforce, the recent consolidations and potential mergers could limit job supply in this industry.

### OVERVIEW

While the market statistics continue to fluctuate, overall weighted average asking rental rates have managed to gradually move upwards from \$23.75 per square foot (psf) last year to \$24.14 psf currently. However, the overall vacancy rate stands at 20.3%, a 0.8 percentage point increase since year-end 2008. Construction movement is adjusting to the market, with only three recent deliveries. Loreal's New Jersey headquarters was completed at 50 Connell Drive and Buildings I and II of Mercer Corporate Center now remain fully available for lease. Currently under construction, FMC Corporation's pre-leased buildings at 701 and 801 PrincetonSouth Corporate Center are expected to be delivered in the fall of this year.

One of the more significant deals occurring this quarter was signed by pharmaceutical giant, Johnson & Johnson. The company expanded its existing space from 112,000 square feet (sf) to 162,000 sf at 23 Orchard Road in Somerset County. The Princeton market remained fairly tepid this quarter, with new leasing activity falling far beneath the nearly 500,000 sf recorded last year at this time. However, developer of voice and data technology, Vantage Communications, procured 51,000 sf at 370 Scotch Road in Ewing Township. This site will be the new home to its North American headquarters, housing 150 employees. Renewal activity was highlighted by Virgin Mobile USA, LP. The communications firm renewed its existing lease of 93,376 sf and extended its term at 10 Independence Boulevard in Warren Township. In Piscataway, Paychex will continue to occupy nearly 70,000 sf at 1515 South Washington in Piscataway. Merrill Lynch's former space of 300,000 sf is now being marketed at 800 Scudders Mill Road in Plainsboro.

Although minimal sales activity occurred, this market was kept afloat by Inland Real Estate Acquisitions' \$230.0 million purchase of 55 Corporate Dive in Bridgewater. Sanofi -Aventis currently occupies the 670,000-sf class A property. Although there were only four sales deals in total this quarter, based on square footage, the totals posted surpassed three out of four quarterly totals recorded last year.

### FORECAST

Land value has weakened tremendously in this market because of dwindling development projects. Instead, the value lies in planning and foresight of future development, potentially within the next four to five years. On the leasing side, as long as landlords continue offering flexibility, tenants are empowered to negotiate smarter deal terms. In the investment market, with lenders no longer acting predatory and credit access tightening, the velocity of sales activity will continue to retreat throughout the state.

### BEAT ON THE STREET

"Due to the lack of available debt financing for larger transactions and the wide-bid-ask spread, office investment sales continue to be challenging. Investors are beginning to pursue value-added transactions and few stabilized deals have come to market so far this year."

David Bernhaut-Executive Vice President  
Investment Sales, Capital Markets

### ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	6.8%	8.8%	10.1%
Employment Growth	-4.13%	-3.8%	-1.05%

Source: Moody's | Economy.com  
\*regional data used is on a state level

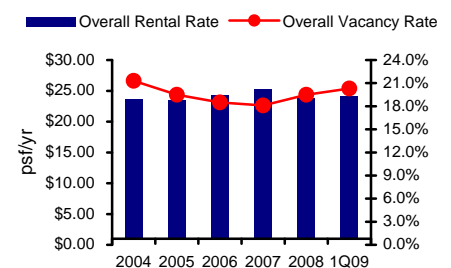
### MARKET FORECAST

**NEW LEASING ACTIVITY** is expected to post lower totals than previous years. Companies will continue consolidating, thus delivering more space to the market. ↓

**DIRECT ABSORPTION** is expected to drop as supply continues to surpass demand throughout the year. ↓

**CONSTRUCTION** activity has declined with only three projects being delivered by year-end 2009, two of which are build-to-suit. ↓

### RENTAL RATE VS. VACANCY RATE OVERALL



### MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Hunterdon County	1,439,544	30	30.6%	30.6%	30,541	0	0	30,541	\$21.69
Mercer County	13,894,805	192	14.7%	13.9%	86,867	110,100	120,000	(67,061)	\$33.94
Middlesex County	24,219,525	258	20.4%	18.3%	159,109	253,000	0	(583,568)	\$28.34
Monmouth County	11,401,930	194	25.9%	25.2%	42,255	0	0	(87,085)	\$18.38
Somerset County	15,612,016	162	23.9%	18.0%	343,773	0	0	(163,244)	\$27.30
Union County	7,307,065	145	11.7%	9.2%	20,799	42,200	187,000	97,704	\$27.80
<b>Selected Submarkets</b>									
I-78 Corridor	13,990,495	148	20.3%	13.7%	188,681	0	187,000	19,967	\$27.89
Somerset Upper 287	4,347,004	35	36.8%	33.8%	23,633	0	0	(31,045)	\$24.52
Princeton/Route 1	12,510,091	159	13.8%	13.0%	84,855	110,100	0	N/A	\$36.06
Woodbridge/Edison	8,149,340	82	18.0%	16.1%	106,655	253,000	0	(111,267)	\$33.16
Middlesex Upper 287	6,520,614	61	21.4%	17.3%	19,200	0	0	(179,580)	\$22.28
<b>Central NJ Total</b>	<b>73,874,885</b>	<b>981</b>	<b>20.3%</b>	<b>17.8%</b>	<b>683,344</b>	<b>405,300</b>	<b>307,000</b>	<b>(772,713)</b>	<b>\$25.69</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
23 Orchard Road	Montgomery	Johnson & Johnson*	162,000	B
370 Scotch Road	Mercer Route 295/Princeton	Vantage Communications	51,000	B
100 Somerset Boulevard	Somerset Route 78 Corridor	Axcan Pharma US, Inc.	19,715	A

SIGNIFICANT 1Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
55 Corporate Drive	Somerset Route 78 Corridor	Inland Real Estate Acquisitions	670,000	\$230,000,000
Old New Brunswick Road	Middlesex Upper 287 Corridor	AT&T Corp.	55,625	\$6,950,000

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
50 Connell Drive	Union Route 78 Corridor	L'Oreal	187,000	3/09
Mercer Corporate Center-Buildings I & II	Mercer Southern Region	N/A	120,000	3/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
MetroTop Plaza II/115 Wood Avenue South	Woodbridge/Edison	N/A	253,000	1/10
701 & 801 PrincetonSouth Corporate Center	Mercer Route 295	FMC Corporation	110,100	9/09
Claremont Corporate Center/535 Springfield Avenue	Union Route 78 Corridor	N/A	42,200	6/09

\*Expansion/renewal

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\*Market terms & definitions based on BOMA and NAIOP standards.

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