



MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q07

ECONOMY

Despite recent economic concern, underlying market fundamentals remain fairly stable across most sectors of New Jersey. The state has gained 24,000 jobs so far this year and the unemployment rate stood at 4.2% in November, down from 4.3% in September, yet still lower than the national rate of 4.7%. National employment in office-using industries decreased from an average of 59,000 jobs per month in 2006 to 22,000 at mid-year of 2007. A portion of this decline is due to financial services job loss which limited growth nationwide. In New Jersey, although employment in the area of financial activities peaked in July, it presented a decline for four straight months. This decline in employment has begun to trickle down into the commercial real estate market, where the velocity of leasing activity within the typical financial regions has shown a slight decrease since the start of this year.

However, at this time last year, overall employment in New Jersey fell by 2,300 jobs and the recent gain of 2,100 jobs in November of 2007 visibly represents some progress. Nearly half of the state's businesses expect New Jersey economic conditions to decline in the first six months of 2008, as the collective effect of increased energy prices and a decline in residential home prices creates a need for cautionary movement within the market.

OVERVIEW

Overall vacancy rates displayed modest growth to 15.7% this quarter, a 0.3 percentage-point increase since third quarter 2007, yet direct average rental rates managed to rise, currently standing at \$27.42 per square foot (psf). Year-end leasing activity on the waterfront was slightly off pace from earlier this year, but still significant. During the first half of 2007, BNP Paribas signed on for 110,174 square feet (sf) at Newport Center for its North American support functions headquarters, and Deutsche Bank took 81,000 sf at Harborside Financial Center II. Merrill Lynch and Lehman Brothers also expanded their presence at 101 Hudson Street.

Despite recent concerns about the ongoing credit crunch, 2007 sustained a robust year in leasing activity, specifically within Parsippany. At the formerly vacant 11 Waterview, IMS Health leased the entire 120,000-sf property. Highlighting one of the most significant deals this quarter, The Medicines Company leased 173,156 sf at 8 Sylvan Way. This property is currently 105,000 sf and is being expanded to fully accommodate its new tenant. In July, Daiichi Sankyo Inc. renewed and expanded at 2 Hilton Court. Earlier this year, representing the largest lease in New Jersey, Wyndham Worldwide committed to 250,000 sf for a new corporate headquarters at Sylvan Way.

Towards the latter part of 2007, investors expressed some apprehension towards furthering their property acquisitions. Sales in this region were down this quarter from a very active first quarter, where sales activity registered nearly 1.3 million square feet (msf). Among those significant sales this year was the purchase of the Meadows Office Complex I & II portfolio, in a joint venture between Onyx Equities, LLC. and SL Green. There were only two construction completions recorded this year and both were build-to-suit. Prudential moved its staffers out of the 385,000 sf of class A office space at Eisenhower Corporate Campus to other New Jersey locations, making the full building available for immediate occupancy.

FORECAST

The pace of job creation is expected to slow down during the first half of 2008 as concern remains for the continued growth of typical strong sectors of the economy, more specifically within the finance and professional services industries.

BEAT ON THE STREET

“This year the Hudson Waterfront benefited from NYC firms relocating and expanding their presence, utilizing the state incentives offered by NJ and avoiding the skyrocketing rental rates found in NYC.


“However, the waterfront's dependence on financial services firms makes it susceptible to a mid-2008 downturn as the effects of the sub-prime meltdown ripple through the financial and real estate markets.”


– Ed Duenas, Senior Director


ECONOMIC INDICATORS			
	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	4.6%	4.4%	4.5%
Employment Growth (Regional)	0.8%	0.2%	0.4%

Source: Moody's | Economy.com

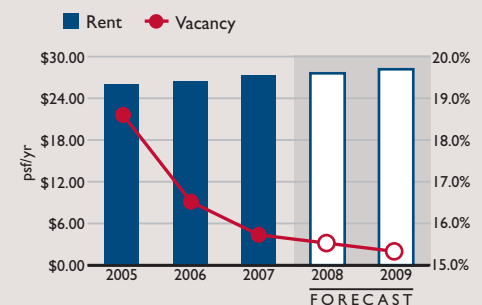
MARKET FORECAST

OVERALL LEASING ACTIVITY is expected to remain steady despite predictions of further economic uncertainty within the financial services sector. 

DIRECT ABSORPTION improved this year and is expected to remain stable as the economy recovers post mid-year 2008. 

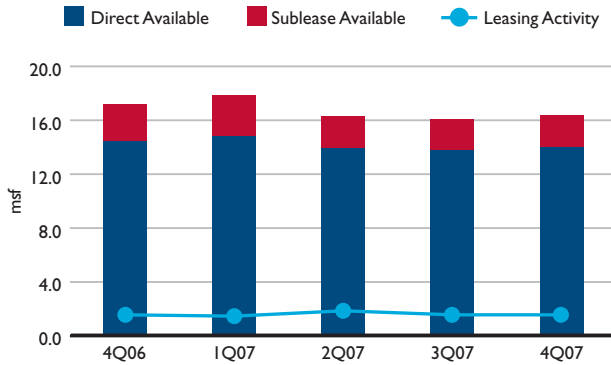
CONSTRUCTION: More than 50% of construction activity is located within this region. However, activity will subside as only 411,000 sf is expected for completion in 2008. 

OVERALL RENT VS. VACANCY



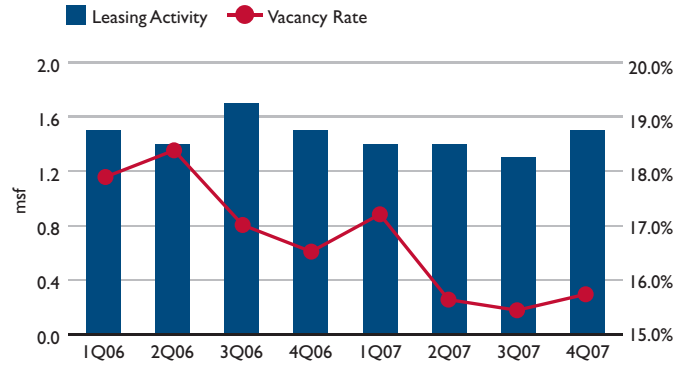
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AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



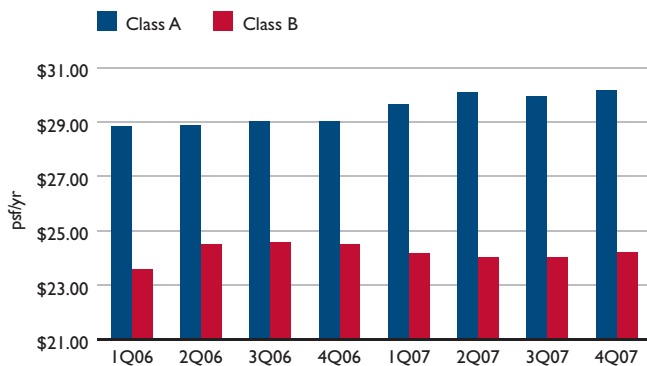
- After peaking during second quarter 2007, leasing activity remains fairly stable, registering nearly 1.5 msf currently, which is a slight increase since last quarter. Sublease space only represents 14.0% of total available product, more than half of which is located on the Hudson Waterfront.
- Currently, direct space comprises over 85.0% of total available product. The most plentiful pockets of direct space are found within the Parsippany (1.7 msf) and Newark (1.6 msf) submarkets.

OVERALL LEASING ACTIVITY VS. VACANCY RATE



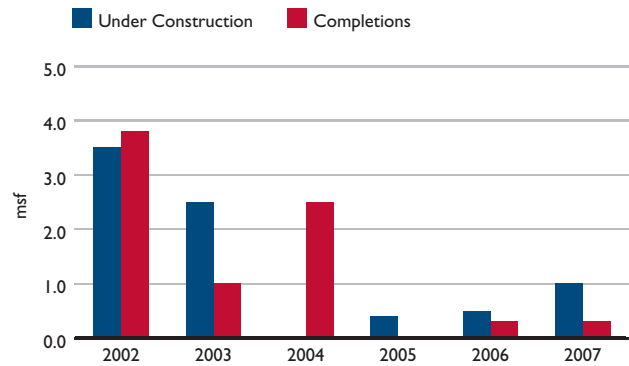
- Almost 1.5 msf of leasing activity occurred in fourth quarter 2007, representing the highest total recorded this year in Northern New Jersey.
- Parsippany leasing activity outpaced all other markets, where over 1.6 msf was leased this year. Last year, the Hudson Waterfront proved to be the leader in leasing, registering 1.4 msf.

DIRECT RENTAL RATES CLASS A VS. CLASS B



- Although class A direct rents decreased slightly in third quarter 2007, they have once again gained momentum and currently stand at \$30.16 psf, surpassing mid-year 2007 rents. This increase in rent can be attributed to an increased demand and falling vacancy rates.
- Class B direct rents have remained flat with little movement since second quarter 2007 and currently register \$24.20 psf, only a \$0.17 psf increase.

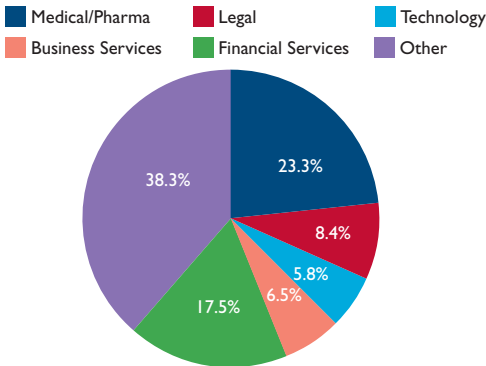
SF UNDER CONSTRUCTION VS. COMPLETIONS



- Construction completions this year are off the pace set in 2002 when completions registered nearly 3.8 msf. There were only two properties delivered to the market this year; both were build-to-suit.
- There is currently 961,000 sf under construction in Northern New Jersey, approximately 50% more than in 2006. Among those under construction is the 120,000-sf build-to-suit corporate headquarters for the NY Jets football team, located in Florham Park.

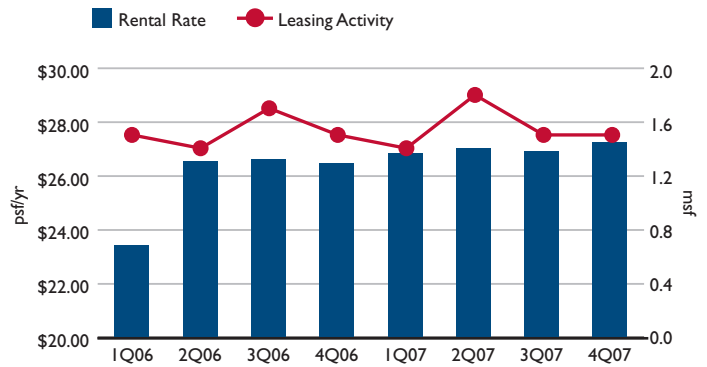
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2007 LEASING ACTIVITY BY INDUSTRY



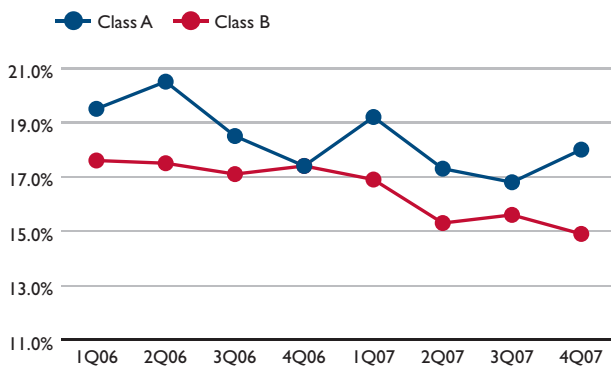
- Medical and pharmaceutical firms accounted for approximately 23.3% of all leasing activity in Northern New Jersey this year. Financial services firms registered 17.5% of the overall leasing in this region.
- This year, the financial services industry still maintained a strong presence in this region despite the recent concerns of a credit crisis. However, it is expected that in 2008, leasing in this market will present less robust activity as the demand for new employees declines, limiting expansion.

OVERALL RENTAL RATE VS. LEASING ACTIVITY



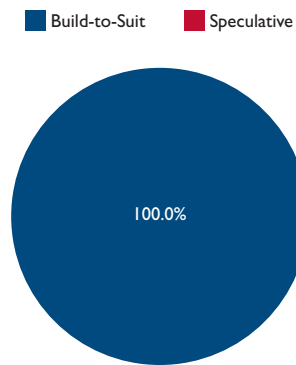
- Although leasing activity has been fluctuating since third quarter 2006 and reached its peak during second quarter 2007, leasing activity showed a slight increase from last quarter. Leasing activity totaled almost 1.5 msf with direct average rents of \$27.27 psf.
- Barr Pharmaceuticals, Inc. signed a long-term lease to occupy the entire 144,000-sf class A office property at 225 Summit Avenue in Montvale. The space will serve as their executive headquarters.

OVERALL VACANCY RATES CLASS A VS. CLASS B



- Although class A overall vacancy rates have increased since first quarter 2007, class B overall vacancy rates continue a steady decline and currently register 14.9%. However in Newark, class B space is more abundant than class A product, currently 1,033,769 msf.
- Class A overall vacancy rates in the Meadowlands remain high at 35.9%. Large vacancies can be found within 1 Meadowlands Plaza and 500 Plaza Drive.

2007 CONSTRUCTION COMPLETIONS BTS VS. SPECULATIVE



- Of the 285,383 sf of construction completions this year, all were build-to-suit, representing 100% of the total completions within Northern New Jersey.
- At the newly completed 100 Tice Boulevard in Woodcliff Lake, Esai, Inc. relocated their corporate operations from Glenpointe Centre in Teaneck and leased the full building. In Whippany, CAE, a designer for in-flight simulators, leased the entire 76,383-sf property at 4 Apollo Drive.

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*
Bergen County	25,912,185	358	16.1%	13.7%	1,594,141	191,000	209,000	267,146	\$30.16
Essex County	23,242,404	213	13.2%	12.5%	802,653	0	0	(672,641)	\$30.73
Hudson County	23,480,809	101	11.9%	8.0%	1,030,027	550,000	0	57,937	\$38.07
Morris County	26,885,193	283	20.1%	17.4%	2,526,691	220,000	76,383	207,004	\$28.88
Passaic County	4,949,244	75	19.8%	19.2%	164,356	0	0	(173,465)	\$20.02
Northern N.J. Total	104,469,835	1,030	15.7%	13.4%	6,117,868	961,000	285,383	314,019	\$30.16
<i>Selected Submarkets</i>									
Meadowlands	6,970,509	60	25.2%	22.6%	374,981	0	0	86,159	\$30.50
Parsippany	11,586,265	109	16.9%	14.7%	1,628,752	100,000	0	69,518	\$29.89
Hudson Waterfront	20,236,409	76	9.6%	5.2%	948,309	550,000	0	70,123	\$38.07
Newark	13,045,086	56	13.0%	12.2%	287,757	0	0	(291,887)	\$31.80

* Asking rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2007 NEW LEASE TRANSACTIONS

Building	Submarket	Tenant	Square Feet	Building Class
Sylvan Way	Parsippany	Wyndham Worldwide	250,000	A
8 Sylvan Way	Parsippany	The Medicines Company	173,156	B
100 Kimball Drive	Parsippany	Deloitte & Touche	160,000	A
225 Summit Avenue	Bergen Rt 17/GSP N Corridor	Barr Pharmaceuticals, Inc.	144,000	B
11 Waterview Boulevard	Parsippany	IMS Health, Inc.	120,000	A
525 Washington Boulevard	Hudson Waterfront	BNP Paribas	110,174	A

SIGNIFICANT 2007 SALE TRANSACTIONS

Building	Submarket	Buyer	Square Feet	Purchase Price
Meadows Office Complex I & II	Bergen Meadowlands	Onyx Equities, LLC and SL Green	571,876	N/A
Rockaway 80 Corporate Center I	Western Morris Region	Grosvenor Investment Management US	249,248	\$55,118,000
Waterview Corporate Centre I	Parsippany	McMorgan & Co.	208,639	\$37,500,000
I Harmon Plaza	Hudson Meadowlands	Prism Capital Partners and New Boston Fund	187,954	\$25,350,000

SIGNIFICANT 2007 CONSTRUCTION COMPLETIONS

Building	Submarket	Major Tenant	Square Feet	Completion Date
100 Tice Boulevard	Bergen Rt 17/GSP N Corridor	Eisai, Inc.	209,000	6/07
4 Apollo Drive	Morris Route 10/24	CAE	76,383	4/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

Building	Submarket	Major Tenant	Square Feet	Completion Date
Waterfront Corporate Plaza III	Hudson Waterfront	N/A	550,000	11/09
930/940 Sylvan Avenue	GW Bridge Market	Unilever Bestfoods	125,000	1/08
NY Jets Football Company Headquarters	Route 10/24	New York Jets	120,000	8/08
I Jefferson Road	Parsippany	N/A	100,000	12/08
117 West Century Road	Route 4 Corridor	N/A	66,000	1/08



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