

MARKETBEAT

NORTHERN NEW JERSEY OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q10

ECONOMY

The economic landscape is improving, albeit slow. The national unemployment rate registered 9.7% in May, a 0.2 percentage point decrease since April; on par with the first three months of this year. In New Jersey, the unemployment rate declined minimally to 9.7%, from 9.8% in April. Total non-farm employment rose by 7.6% from April to May of this year. According to the New Jersey Department of Labor, the net job gain was catalyzed by an increase in public sector jobholding (+11,200), including temporary work created by the federal government for the 2010 Census. In addition, other sectors such as manufacturing (+2,500) and financial activities (+1,400) contributed to employment gains. Though these gains are minor, the changing climate illustrates preliminary signs of stabilization, which is anticipated to trend towards recovery.

OVERVIEW

In the Northern portion of the state, market fundamentals remain influx. Though the overall vacancy rate, now 16.7%, increased by 0.3 of a percentage point from last quarter, it represents a 0.3 percentage point year-over-year decline. After experiencing its highest peak of 19.8% at third quarter 2009, the Class A overall vacancy rate finally leveled throughout the last 2 quarters and currently rests at 18.2%. Average weighted asking rents, currently \$25.74 per square foot (psf), declined modestly, representing a -2.5 year-over-year, percent change.

In the second quarter of this year, 1.0 million square feet (msf) of new leases were recorded, representing a 280,625-sf drop from first quarter. However, when comparing year-to-date activity from this time last year to mid-point this year, it represents an approximate increase of 11.0%. Morris County led the pack and was home to two of the top three deals signed this quarter. BASF Corporation and The Rockefeller Group Development Corporation executed the largest lease of the year. The Rockefeller Development Corporation will construct a 325,000-square foot (sf) build-to-suit North American headquarters facility for BASF in Florham Park. The project will commence this summer. In Parsippany, global specialty pharmaceutical company, Watson Pharmaceuticals signed a long-term lease for 148,708 sf in two buildings located within 400 Interpace Parkway.

During the first six months of this year, the investment market proved to be healthier than expected; recording twelve deals, ten of which were over 100,000 sf. Year-over-year sales activity improved significantly, surpassing totals recorded at this time last year by more than 50.0%. The most notable sale occurring this quarter included Horizon Blue Cross Blue Shield of New Jersey's \$145.8-million purchase of 3 Penn Plaza East in Newark, which is currently occupied by the health insurance provider. In Parsippany, 399 South Jefferson Road was re-purchased by Prism Capital Partners for \$5.13 million. The commercial real estate investment firm previously acquired the 180,000-sf asset back in 2003 and sold it to HSBC in 2006 for primary use as a data center; which never actually came to fruition. Prism is now planning full capital improvements for this property to be marketed for single or multiple tenant use.

FORECAST

We are seeing pockets of improvement throughout the market; however, leases in the form of renewals and extensions will likely continue throughout the second half of 2010. While the economy slowly recovers, the majority of companies currently seeking new space will look for financially feasible deals by securing lower rental rates and flexible lease terms. Once recovery is in full swing, taking rents will likely begin to mirror true market value as Landlords and tenants alike rebuild their confidence in a market that was recently destroyed.

BEAT ON THE STREET

"The Capital Markets have made a tremendous turn around in the past 3 months and we are seeing very strong pricing for stabilized, core assets."

David Bernhaut - Vice Chairman


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	10.0%	9.9%	9.7%
Employment Growth	-1.0%	-0.3%	1.4%

Source: Moody's | Economy.com

*regional data used is on a state level

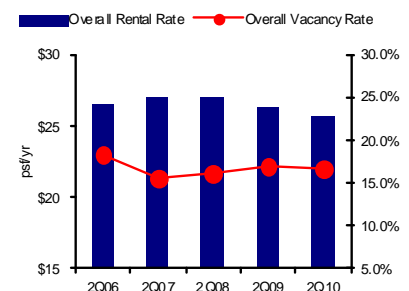
MARKET FORECAST

NEW LEASING ACTIVITY though significant this quarter, posted totals approximately 300,000 sf lower than first quarter totals. However, activity is expected to remain steady during the second half of this year. 

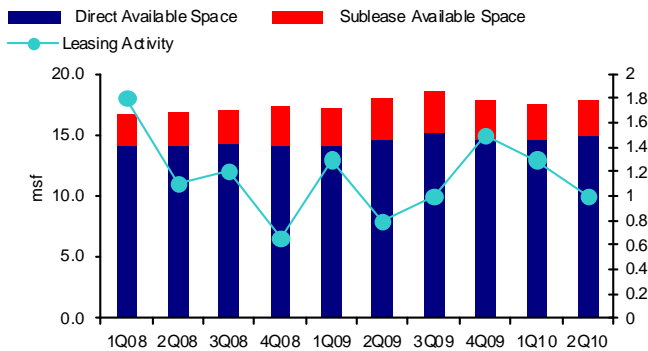
LANDLORDS will likely begin raising asking rental rates and modifying tenant concessions in markets where demand is now increasing. 

SPECULATIVE CONSTRUCTION remains flat in this market with no immediate development plans for mid to large-sized office buildings. 

OVERALL RENTAL VS. OVERALL VACANCY RATES

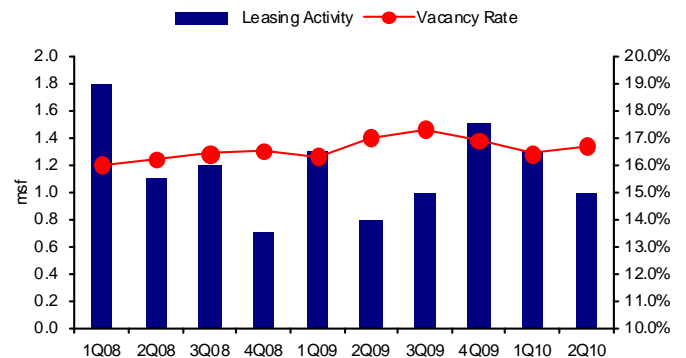


AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



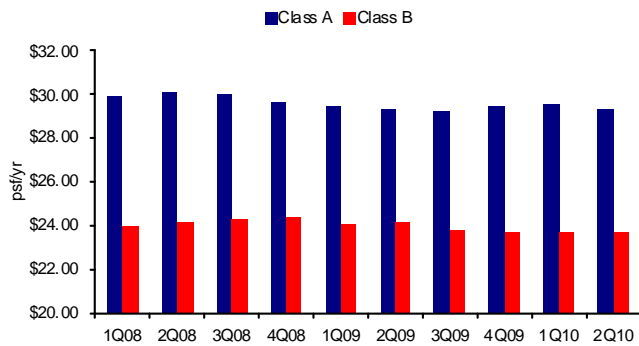
- After an uptick during fourth quarter 2009, leasing activity now continues to decline. Not since first quarter 2008 has leasing activity neared 2.0 msf. Sublease space represents 15.6% of total available product, most of which is located in Hudson and Morris Counties.
- The most plentiful pockets of direct space are found within the Newark (1.8 msf), Parsippany (1.9 msf), GW Bridge Market (1.0 msf) and Morris Route 206 Corridor (1.0) submarkets.

OVERALL LEASING ACTIVITY VS. VACANCY RATE



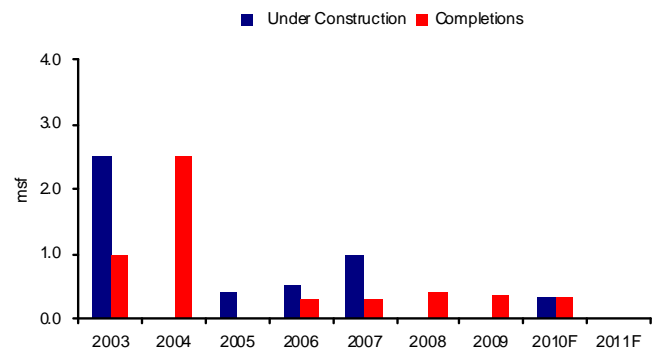
- Second quarter leasing activity, primarily driven by BASF Corporation (325,000 sf) and Watson Pharmaceuticals, Inc. (148,708 sf), mirrored that of third quarter 2009, registering approximately 1.0 msf.
- Though the overall vacancy rate trended downwards since third quarter 2009, the current rate of 16.7% is a 0.3 of a percentage point increase since first quarter 2010.

DIRECT RENTAL RATES CLASS A VS. CLASS B



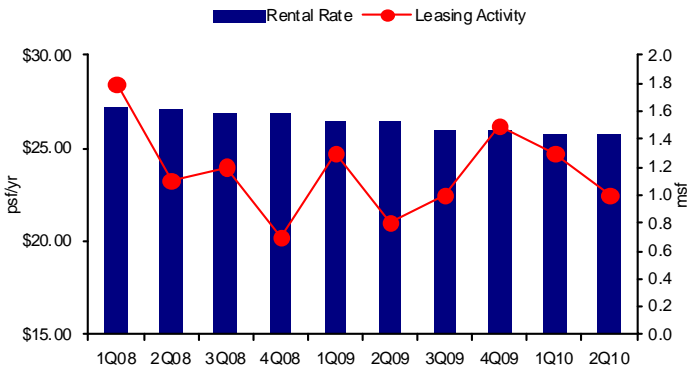
- After registering \$30.08 psf during second quarter 2008, class A direct weighted average asking rental rates declined, slowly picking up at fourth quarter 2009, yet falling to \$29.34 psf at second quarter 2010.
- Class B direct weighted average asking rental rates have not surpassed the \$24.00 psf mark since second quarter 2009 and currently stand at \$23.72 psf.

SF UNDER CONSTRUCTION VS. COMPLETIONS



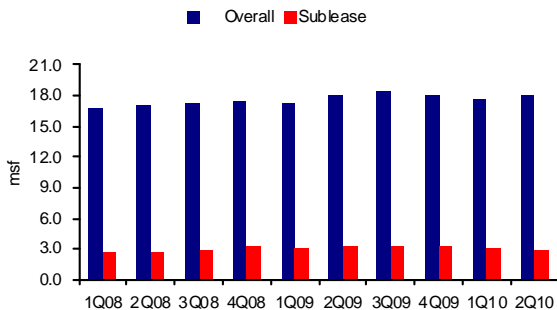
- The overall demand in this market has decreased and not since 2004 has there been an abundance of construction deliveries. There were no completed projects during the first half of this year and only one 32,000-sf property is expected to be completed in Newark by the end of this summer.
- There are no significant large office construction projects in the immediate pipeline. As a result of the recent increase in health employment, many developers are focusing on medical office construction throughout the state.

OVERALL RENTAL RATE VS. LEASING ACTIVITY



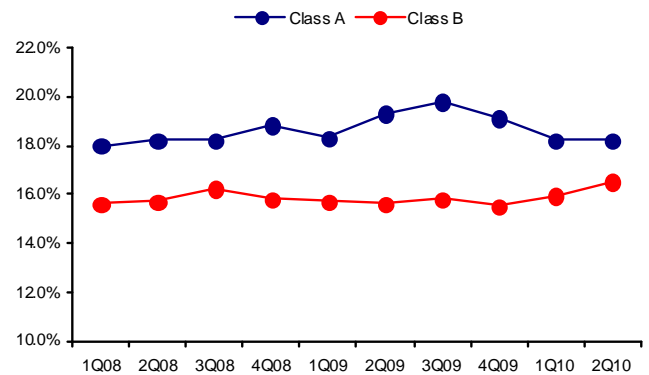
- After peaking during first quarter 2008 (1.8 msf) and again in fourth quarter 2009 (1.5 msf), during the first half of this year, new leasing activity posted two quarterly declines. At the end of second quarter 2010, 1.0 msf of new leasing activity was recorded. The overall weighted average asking rental rate, currently \$25.74 psf, also posted its lowest total over the last ten consecutive quarters.
- Though leasing activity declined, some of the mid-sized deals driving activity this quarter included NuVasive, Inc. (65,000 sf) at 117 West Century Road in Paramus (32,968 sf), National Union Fire Insurance Co. of PA (29,242 sf) at 5 Wood Hollow Road in Parsippany and Frenkel & Co., Inc. (24,325 sf) at Harborside Financial Center III in Jersey City.

AVAILABLE SPACE TRENDS OVERALL VS. SUBLEASE



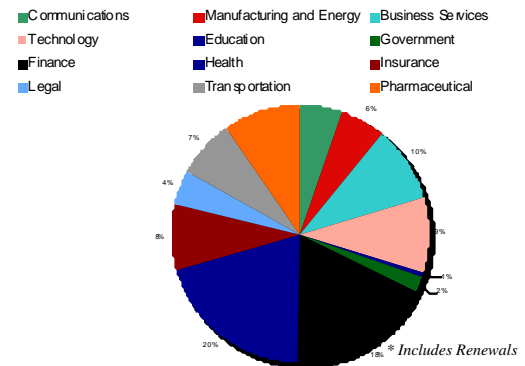
- Since the last peak of 18.4 msf during third quarter 2009, overall available space recorded quarterly declines. From first quarter to second quarter 2010 there was an increase of nearly 500,000 sf in Northern New Jersey, most occurring in Bergen, Essex and Hudson counties.
- The amount of available sublease space remained flat at 3.3 msf from second quarter 2009 through fourth quarter 2009. To start the year, there has been a steady decline in sublease space, now standing at 2.8 msf, the lowest total since third quarter 2008.

OVERALL VACANCY RATES CLASS A VS. CLASS B



- The class A overall vacancy rate decreased from 19.8% at third quarter 2009 to 18.2% at first quarter and second quarter 2010 respectively. Due to some significant space additions within Bergen Route 17 GSP North, Bergen Route 4, Bergen Route 95 South, Fairfield and Newark, the class B overall vacancy rate, currently 16.5% reached its highest peak since third quarter 2008.
- Several available blocks of contiguous space 150,000 and greater can be found within 3000 Continental Drive North (970,000 sf) in Mount Olive, 1750 Route 23 North (166,000 sf) in Wayne, 125 Chubb Avenue (248,984 sf) in Lyndhurst and Mack-Cali Centre VI (190,572, sf) in Paramus.

2010 YTD LEASING ACTIVITY 10,000 sf + BY INDUSTRY



- In Northern New Jersey, 2.1 msf of leases 10,000 sf and greater were secured during the first half of the year. Renewals accounted for approximately 38.0% of this total.
- Health Services led the way in leasing activity, accounting for 20.14% of all deals; followed by Financial (17.74%), Pharmaceutical (9.80%) and Business Services (9.73%).

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Bergen County	26,156,484	364	18.4%	16.3%	589,098	0	0	(453,948)	(362,341)	\$29.71
Essex County	23,695,270	214	14.7%	13.6%	239,662	32,000	0	(92,097)	(87,157)	\$27.90
Hudson County	23,612,349	103	11.5%	7.3%	284,242	0	0	(174,603)	(128,225)	\$32.87
Morris County	28,310,075	298	20.9%	17.4%	1,069,187	0	0	52,583	75,881	\$29.03
Passaic County	5,156,196	76	17.7%	17.6%	130,978	0	0	79,196	79,196	\$24.90
Selected Submarkets										
Meadowlands	7,052,622	61	24.4%	21.2%	158,945	0	0	(73,803)	(81,121)	\$29.49
Parsippany	12,212,050	113	21.1%	15.6%	394,794	0	0	(115,329)	(9,249)	\$29.54
Hudson Waterfront	20,185,034	76	9.1%	5.1%	232,769	0	0	(118,526)	(72,148)	\$35.00
Newark	13,524,389	57	14.8%	13.4%	46,699	32,000	0	(11,866)	(36,628)	\$29.29
Northern NJ Total	106,930,374	1,055	16.7%	14.1%	2,313,167	32,000	0	(588,869)	(422,646)	\$29.34

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
The Green at Florham Park	Morris Route 10/24 Corridor	BASF Corporation	325,000	A
400 Interpace Parkway	Parsippany	Watson Pharmaceuticals, Inc.	148,708	A
117 West Century Road	Route 4 Corridor	NuVasive, Inc.	65,000	A
5 Wood Hollow Road	Parsippany	National Union Fire Insurance Co. of PA	29,242	B
Harborside Financial Center III	Hudson Waterfront	Frenkel & Co., Inc.	24,325	A
123 Tice Boulevard	Route 17/ GSP North Corridor	I.D. Systems	21,400	B

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
3 Penn Plaza East	Newark	Horizon Blue Cross Blue Shield of New Jersey	781,627	\$145,800,000
2100 North Central Avenue	GW Bridge Market	Confidential	150,500	\$10,000,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
535 Martin Luther King Jr. Blvd.	Newark	N/A	32,000	8/10



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

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