CBRE

RECORD CONSTRUCTION DELIVERIES PUSH VACANCY HIGHER AS DEMAND STEADIES IN SECOND HALF

▲ 4.5% Vacancy Rate

▲ -0.67 Sq. Ft. Net Absorption

▼ 10.4M Sq. Ft. Under Construction

▶ 5.4M Sq. Ft. Leasing Activity

▼ $18.64 NNN / Class A Lease Rate Per Sq. Ft.

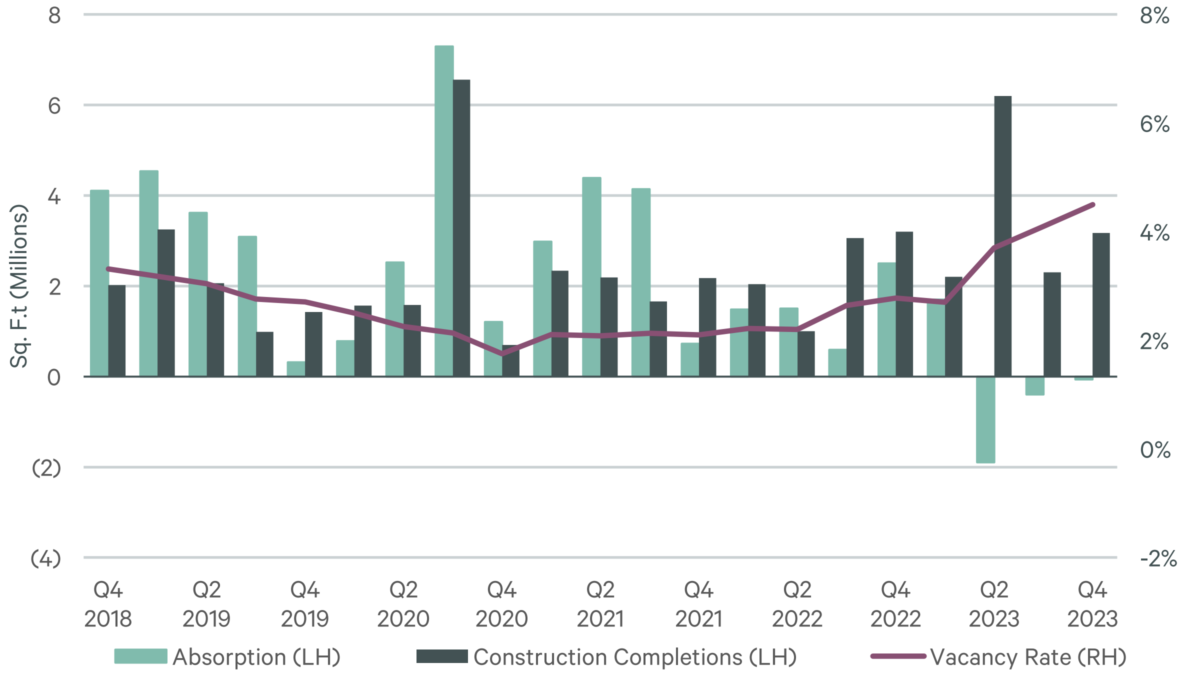
▶ $17.53 NNN / Lease Rate Per Sq. Ft.

Note: Arrows indicate change from previous quarter.

Market Overview

Record-breaking construction deliveries and continued moderation in demand drove vacancy up 170 basis points (bps) by year-end 2023, but a reduced development pipeline and leasing momentum in the second half of the year point toward slowing vacancy growth over the short term. After overcoming a slight slowdown in the second quarter of the year, leasing activity in 2023 returned to a pace on par with 2022 levels as 22.5 million square feet (sq. ft.) of new or expansion leases were completed. As leasing steadied, vacancy continued expanding as the result of more than 14 million sq. ft. of new product delivering to the market with only 23% being pre-leased. As a result, developers curbed construction starts and land acquisition during 2023. The 10.2 million sq. ft. of space that broke ground through the year was 19% below last year's level and 31% below 2021's starts.

FIGURE 1: NJ Overall Historical Absorption, Construction Completions, and Vacancy



Source: CBRE Research, Q4 2023

Demand

The increasing probability of the highly anticipated soft landing for the US economy resulted in improved strength in leasing activity in Q4 2023 as larger transactions were completed prior to year-end. Consumer confidence showed optimism as the year ended with inflation moderation and increases in monthly Personal Income.

This improved confidence in general economic conditions and helped to push larger space commitments in Q4 after several quarters of meager activity above the 100,000 sq. ft. threshold. The number of new leases in the 100,000-200,000 sq. ft. tranche more than doubled in the quarter to 13 while the number of new leases in above 200,000 sq. ft. remained steady quarter over quarter absorbing new product, legacy product, and sub-lease spaces. Larger requirements continued to drive current and future demand with the number of tenants in the market over 100,000 sq. ft. increasing robustly quarter over quarter because of increasing activity from 3PLs.

The largest deals in the market remained in the form of subleases and renewals. Marc Fisher renewed 608,000 sq. ft. at 1240 South River Rd in Cranbury and TFH Publications renewed 550,000 sq. ft. at 965 Cranbury South River Rd. in Monroe. Three of the quarter's top five new leases were subleases: LC Logistics at 44 Station Rd in Cranbury for 311,000 sq. ft.; 1 Stop Electronics Center at 1365 Lamberton Rd. for 233,000 sq. ft.; and Health Care Co. at 45 Patrick Ave. in Edison for 215,000 sq. ft. Sublease activity totaled 1.3 million sq. ft. in Q4, an increase of 20% quarterly.

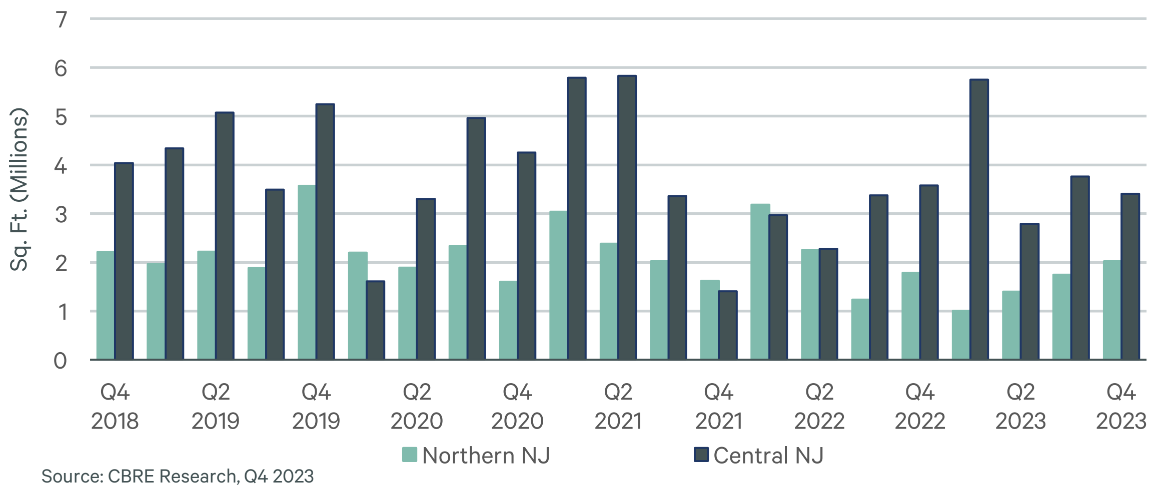
Retail/Wholesale occupiers were the most active industry type during Q4 representing 66% of activity over 50,000 sq. ft. Within this category, there was a strong showing from clothing

FIGURE 2: Notable Lease Transactions, Q4 2023

Size	Tenant	Address	City	Transaction Type
607,739	Marc Fisher	1240 1248 S River Rd	Cranbury	Renewal
550,050	TFH Publications Inc.	965 Cranbury S River Rd	South Brunswick	Renewal
427,155	CVS	110 Van Keuren Ave	Jersey City	New Lease
310,937	LC Logistics	44 Station Rd	Cranbury	New Lease
285,362	Staci US Corp	10 Sigle Lane	Dayton	New Lease

Source: CBRE Research, Q4 2023

FIGURE 3: Historical Industrial Leasing Activity by Market



Source: CBRE Research, Q4 2023

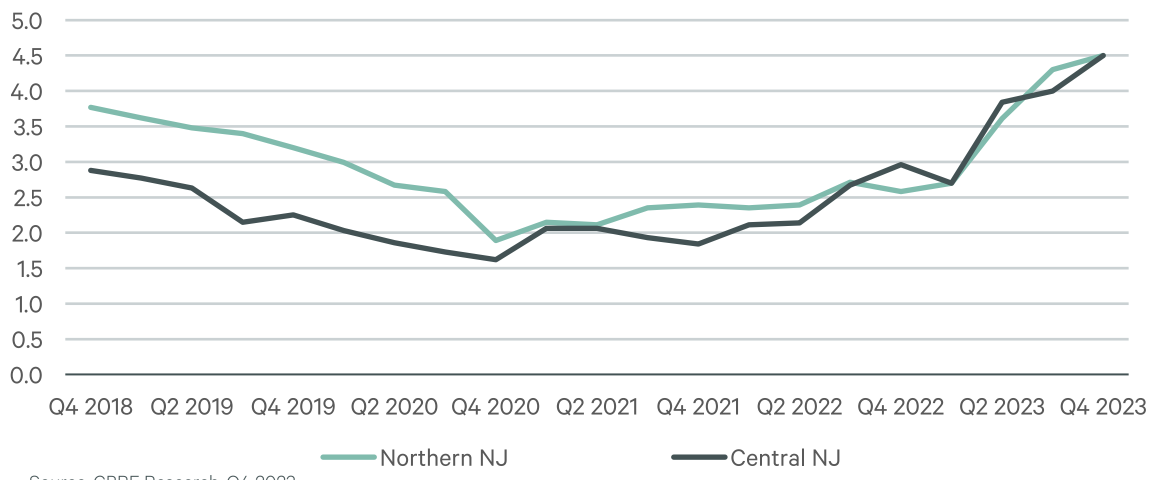
companies, chemical distributors, paper goods companies and several new leases from stage and film equipment businesses. 3PL's represented 31% of the market's activity. Asian 3PL and e-commerce requirements returned to the market and four deals were signed during the quarter: LC Logistics at 44 Station Rd. in Cranbury (311,000); Health Care Co. at 45 Patrick Ave. in Edison (215,000 sq. ft.); Smart Supply at 45 Patrick Ave. in Edison (160,000 sq. ft.); and SINO Trading at 1 Brick Plant Rd. in South River (119,000 sq. ft.).

Supply

Vacancy increased 40 bps to 4.5%, the third consecutive quarter of escalating vacancy in the NJ industrial market. Class A distribution/logistics vacancy grew by 120 bps quarterly and 800 bps year-over-year to 11.8% with the delivery of 2.3 million sq. ft. of new product to the market. Product composition of new vacancy continued to shift in Q4 2023. Newly delivered space improved from a vacancy rate of 45% in Q3 to 23% in Q4. Concurrently, Class B and C product experienced weakening over the same period as vacancy moved from 53% to 66%. Newly delivered space accounted for 23% of new vacancy compared to 45% last quarter, Class B, C moved higher from 53% to 66%, and existing Class A ticked up to 11% of new vacancy.

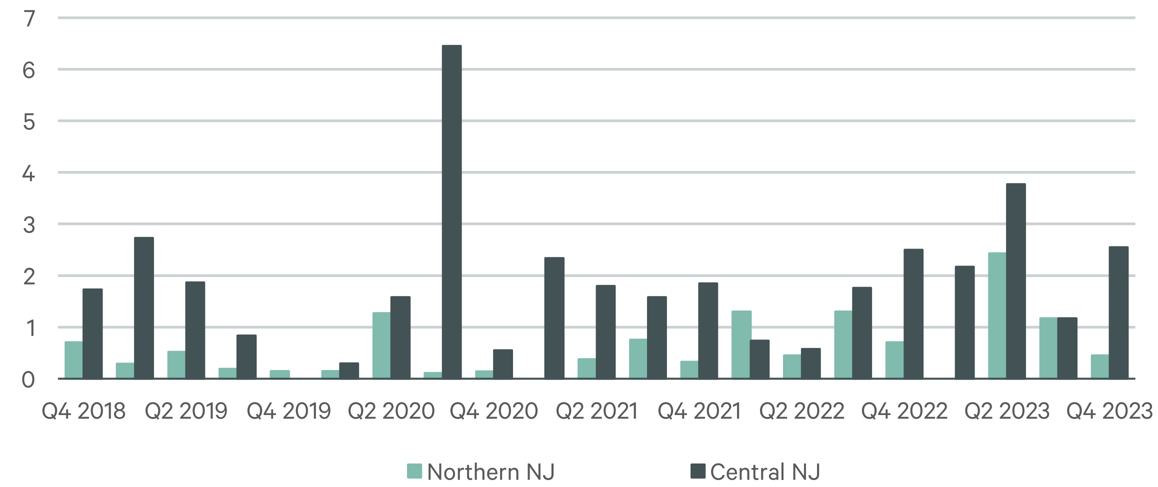
As deliveries of new product continued at a steady pace in 2023, new starts began to decline in the earlier part of the year. New industrial product under construction totaled 10.4 million sq. ft. at the end of Q4 2023, 5.5% less than Q3 2023, 12.0% below the five-year quarterly average. and the lowest level since Q3 2020. The average size of projects under construction has also decreased over the prior four quarters. The average size of projects under construction in Q4 was 199,000 sq. ft., down 32% compared to Q4 2022.

FIGURE 4: Historical Vacancy Rate by Market (%)



Source: CBRE Research, Q4 2023

FIGURE 5: Historical Construction Completions by Market (Million Sq. Ft.)



Source: CBRE Research, Q4 2023

Rent Trends

Northern and Central NJ's Class A average asking rents ended the quarter on par with prior periods at $23.88 per-sq.-ft. and $18.05 per-sq.-ft., respectively. Northern NJ's average asking rent was unchanged over the 12-month period while Central NJ posted a 2.1% increase. Class B and C average asking rents for each market were also unchanged quarterly at $16.51 per-sq.-ft. and $15.54 per-sq.-ft., respectively. Both markets posted year-over-year increases for Class B and C asking rents of 3% and 7% respectively.

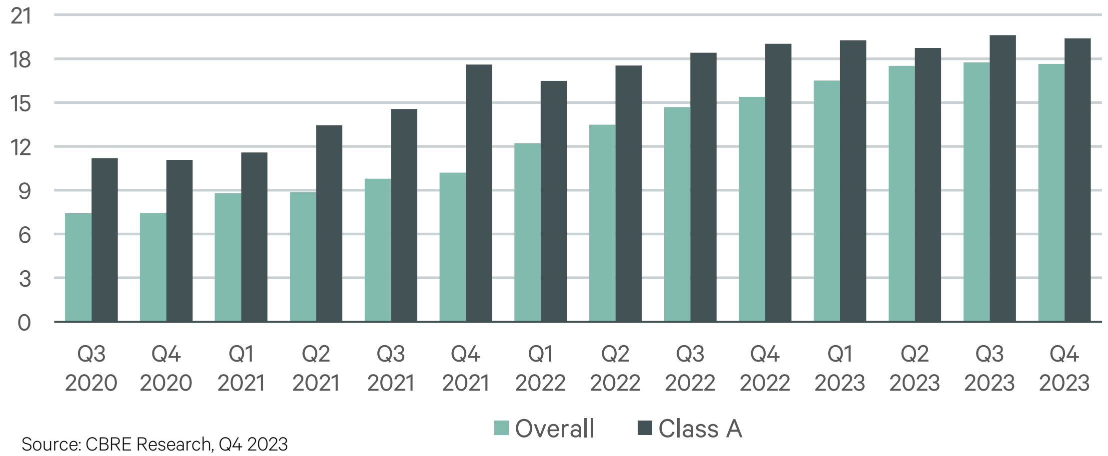
Class A rent appreciation stalled as vacancy increased through the year and select owners chose to compete on price to attract tenants. Competition among landlords for larger occupiers resulted in increased concessions so that base rents hold steady against vacancy headwinds. Smaller-sized Class A product proved more competitive given stronger demand for that size range.

Local Economic Overview

Economic momentum along with the likelihood that the Fed's aggressive tightening cycle is now complete makes an economic 'soft landing' appear more likely for early 2024 as the pace of growth moderated from recent quarters. This moderation was apparent in New Jersey where employers added just 800 new positions in Q4 (+0.2%). Year-over-year job gains amounted to 62,700 positions (+1.5%).

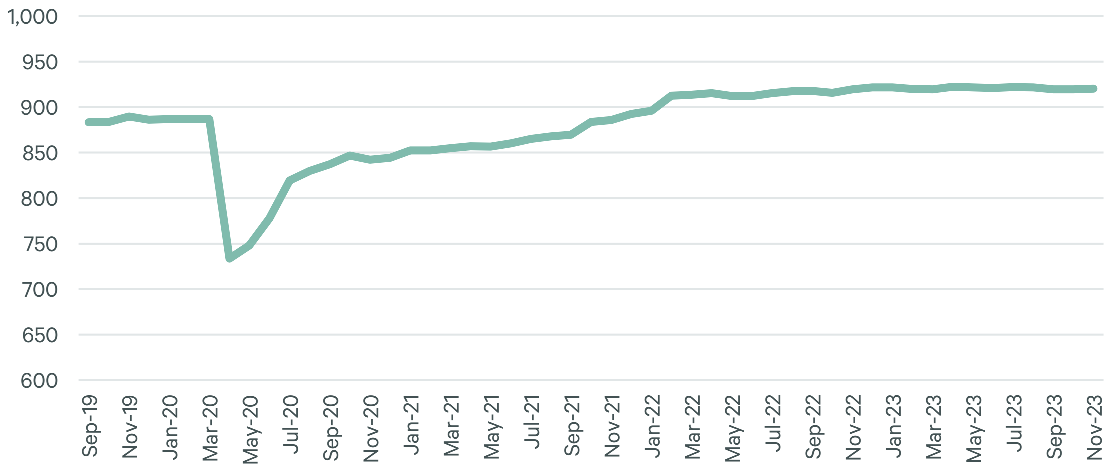
New Jersey's industrial employment remained steady in Q4 2023 with the manufacturing sector cutting minimal positions and the large trade, transportation, and utilities sector, which includes logistics and fulfillment center employment, adding 800 new jobs (+0.1%). Altogether, New Jersey's industrial-using sector increased by 700 positions since the end of Q3 2023. Year-over-year, manufacturing employment rose 2,500 positions (+1%) and trade, transportation and utilities is up 700 positions (+0.1%).

FIGURE 6: NJ Overall Historical Industrial Asking Rents ($/ Per Sq. Ft.)



Source: CBRE Research, Q4 2023

FIGURE 7: NJ Trade, Transportation, and Utilities Employment (Thousands)



Source: BLS

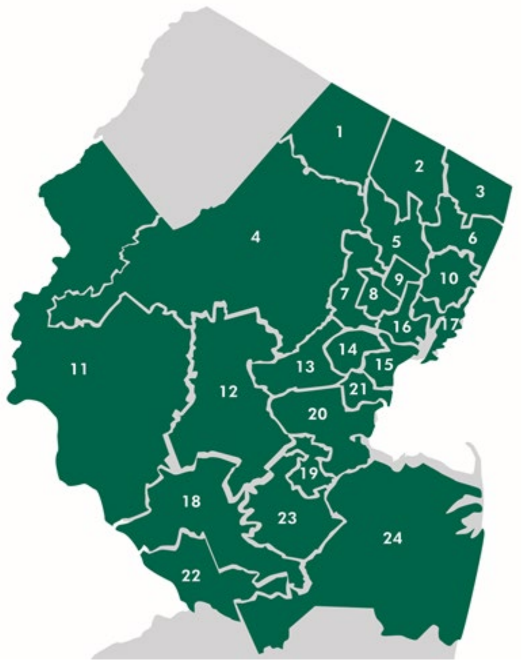
FIGURE 8: Submarket Statistics

District	Inventory (Million Sq. Ft.)	Vacancy Rate (%)	Class A Avg. Asking Rent ($/Sq. Ft.)	All Space Avg. Asking Rent ($/Sq. Ft.)	Leasing Activity (Thousand Sq. Ft.)	Net Absorption (Thousand Sq. Ft.)	Under Construction (Thousand Sq. Ft.)
Central Bergen	33.2	3.3	-	15.37	131.0	-109.3	394.4
Fairfield Market	18.9	3.4	-	15.97	218.3	-63.3	0.0
Hudson Waterfront	65.9	3.9	24.26	20.36	525.9	-80.2	1,338.7
Meadowlands	93.9	6.3	22.73	19.34	312.4	-47.5	867.5
Morris Region	41.1	6.5	16.15	15.19	261.3	-485.4	121.4
Newark	53.9	3.0	27.03	21.36	74.0	229.4	366.4
North East Bergen	8.1	3.4	-	14.15	184.2	35.8	0.0
North West Bergen	19.1	4.9	22.00	19.23	82.9	159.0	208.3
Rt 23 North	0.60	0.0	-	0.00	0.0	0	0.0
Rt 280 Corridor	4.4	2.9	-	11.00	113.0	-88.0	0.0
Rt 46/23/2 Interchange	57.9	3.9	-	15.04	125.5	-141.8	295.5
Suburban Essex	6.8	4.0	23.00	21.98	169.2	-.075	0.0
Northern NJ Total	**404.0**	**4.5**	**21.85**	**18.10**	**6,184.4**	**-599.0**	**3,592.2**
Brunswicks/Exit 9	28.5	6.1	17.91	17.43	654.0	415.1	129.7
Carteret/Avenel	30.9	12.3	19.66	19.48	293.0	-210.9	0.0
Central Union	24.5	2.1	19.25	18.41	0	.049	209.2
Exit 8A	80.7	3.2	15.88	15.79	700.4	-435.0	292.0
Hunterdon/Warren	14.9	2.9	-	8.72	82.5	-66.4	40.0
Linden/Elizabeth	46.0	5.4	21.98	19.94	103.0	664.2	677.4
Monmouth	27.2	7.8	14.37	14.31	222.4	-146.3	2,172.8
Princeton	15.9	5.0	14.25	14.19	0	227.0	160.5
Route 287/Exit 10	110.5	3.4	18.48	17.87	734.8	46.4	1,703.3
Route 78 East	9.8	3.5	18.48	15.44	25.2	-166.9	0.0
Somerset	40.3	3.3	18.00	16.45	329.6	.060	732,7
Trenton/295	32.8	2.8	14.57	14.02	267.8	-231.1	652.1
Central NJ Total	**461.9**	**4.5**	**17.84**	**17.18**	**3,412.7**	**531.9**	**6,769.7**
NJ Total	**865.9**	**4.5**	**18.64**	**17.53**	**5441.2**	**-67.1**	**10,361.9**

Source: CBRE Research, Q4 2023,
- Indicates no direct space available for rent analysis

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

Contacts

Nicole LaRusso
Head of US Field Research & Data Intelligence
+1 212 984 7188
Nicole.LaRusso@cbre.com

Joe Gibson
Director, Research
+1 610 727 5922
Joseph.Gibson@cbre.com

Brian Klimas
Field Research Manager
+1 201 712 5633
Brian.Klimas@cbre.com

Anna Schaeffer
Senior Field Research Analyst
+1 212 984 6653
Anna.Schaeffer@cbre.com

Cameron Carton
Research Data Analyst
+201 712 5671
Cameron.Carton@cbre.com