

NJ INDUSTRIAL MARKET ENDS STEADY YEAR WITH SOLID QUARTER

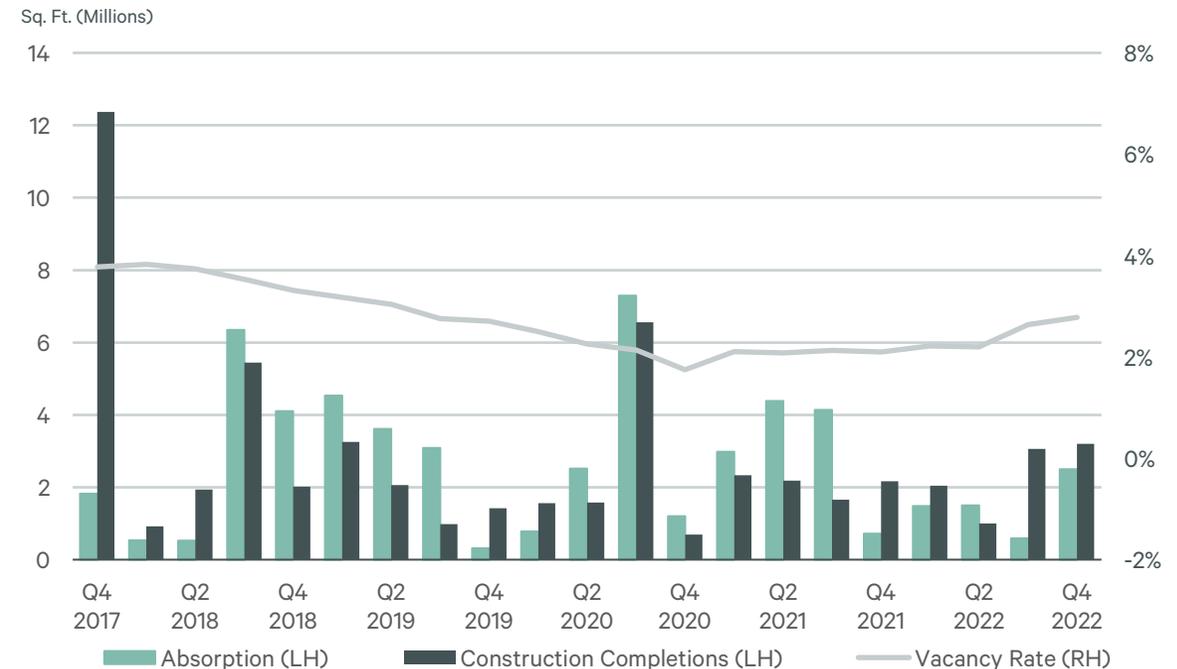


Note: Arrows indicate change from previous quarter.

Market Overview

The combined Northern and Central NJ industrial market showed initial signs of cooling in 2022 compared to 2020 and 2021 as overall leasing activity slowed and occupancy growth fell to half the prior year’s level. These market fundamentals, in addition to vacancy and construction measures, were more in line with a market seeking equilibrium rather than one void of supply in the face of unceasing demand. But signs that the market may further soften were not present as the fourth quarter marked the strongest performance of the year, tallying 6.1 million square feet (sq. ft.) of absorption for 2022. While the frenzied demand that characterized the NJ market in quarters past has eased, the overall availability rate still achieved a reduction of 30 basis points (bps) landing at 4.1%. An exception to this was Class A availability which climbed 70 bps during Q4 2022 following the delivery of two large Class A buildings in Central NJ, adding much-needed supply to that portion of the market. As a result, overall vacancy in the market inched up 10 basis points to 2.8% and 130 bps to 3.9% for Class A inventory. Overall, annual leasing was down 19% compared to 2021, partly due to successful efforts by the Federal Reserve Bank to slow economic activity but also due to the continued scarcity of quality product. Despite the modest easing of demand, Class A rents continued their climb to an average of \$19.02 per sq. ft., an increase of 3.4% quarter-over-quarter and 8.0% year-over-year. Average rents for all classes rose 7.9% to \$15.39 per sq. ft., closing the gap between Class A and quality Class B. Finally, as the intense rate of leasing eased to a more sustainable pace, construction starts followed suit; with just three projects commencing construction in Q4 2022 totaling 1.08 million sq. ft., down 10% from Q3 2022 and down 72% from Q4 2021.

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



Source: CBRE Research, Q4 2022

Demand

Despite a slowing economy and rising rents, the combined North and Central NJ Industrial market posted an uptick in leasing activity to finish the year with a total of 5.4 million sq. ft., 16% above the previous quarter but 14% lower than the five-year quarterly average of 6.2 million sq. ft. The annual leasing total for 2022 reached 19.9 million sq. ft., 23% below the five-year annual average.

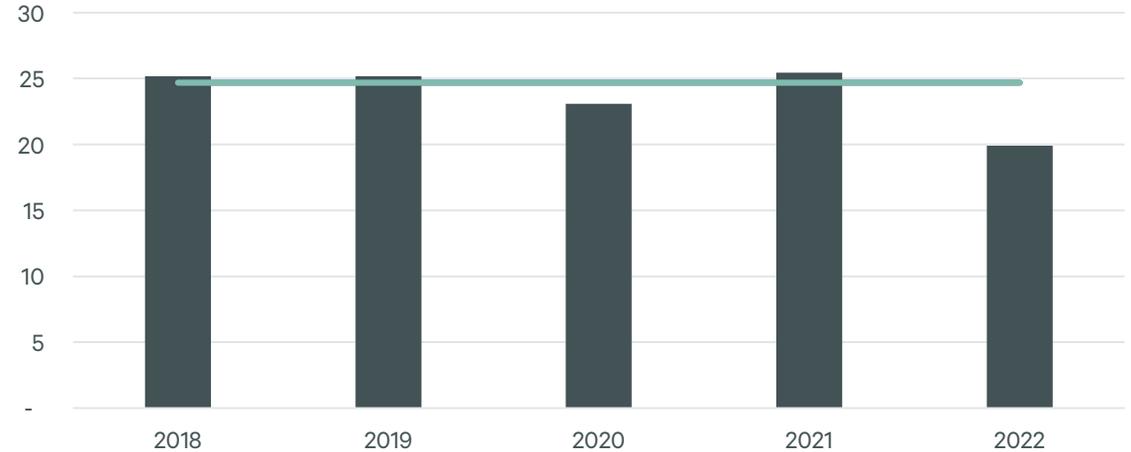
Wholesale/retail and third-party logistics occupiers propelled leasing velocity during the quarter and accounted for 40% and 39% of velocity, respectively. This is a marked shift from Q3 2022 when E-commerce and wholesale/retail drove demand the market. E-commerce tenants, specifically, were a smaller portion of leasing during 2022 compared to 2020 or 2021 as rising consumer spending was met by retailers more with omni-channel options that necessarily resulted in more warehouse leasing.

FIGURE 2: Notable Lease Transactions, Q4 2022

Size	Tenant	Address	City	Transaction Type
1,282,000	Home Depot	904 Cranbury South River Rd	Monroe Township	New Lease
429,426	Quaker Sales & Distribution Inc	20 40 Harry Shupe Blvd	Wharton	Renewal
406,437	Continental Terminals Inc	200 Middlesex Ave	Carteret	Renewal
384,895	United Distribution Services	1365 Lambertson Road Bldg 2	Trenton	New Lease
318,290	JD.com	245 Mountain Ave	Middlesex	New Lease

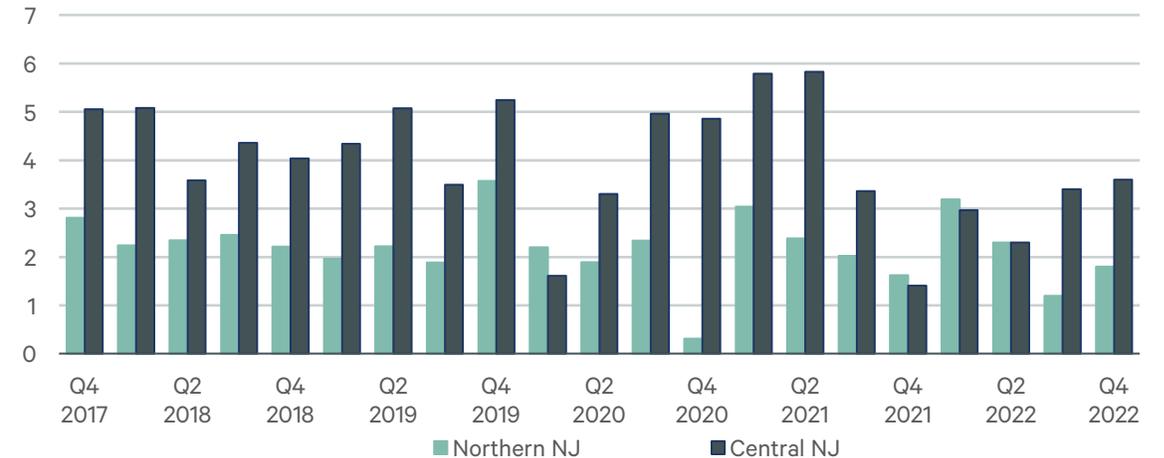
Source: CBRE Research, Q4 2022

FIGURE 3: NJ Overall Annual Historical Industrial Leasing Activity (Million Sq. Ft.)



Source: CBRE Research, Q4 2022

FIGURE 4: Historical Industrial Leasing Activity by Market (Million Sq. Ft.)



Source: CBRE Research, Q4 2022

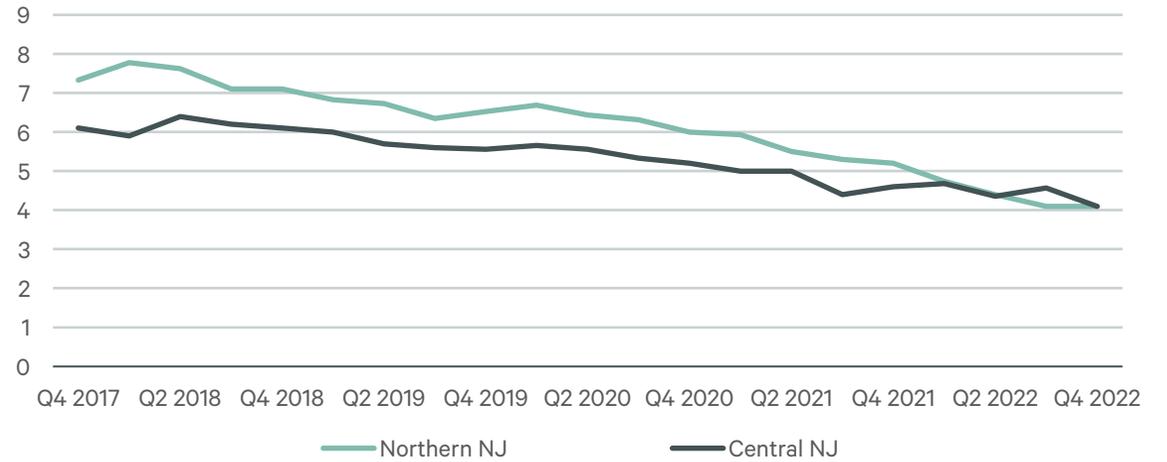
Supply

Despite growing occupancy, the availability rate for existing Class A space increased 70 bps to 4.1%, the highest since Q3 2019. Newly delivered, unleased logistics space totaled 1.8 million sq. ft. mostly contained within Central NJ. Outside of new deliveries, there were four existing Class A availabilities totaling 690,000 sq. ft. added to the market. While overall Class A available supply grew, most of the space was clustered in larger-sized offerings in Central NJ, providing little supply relief to the market at large.

From a development perspective, thirteen buildings completed construction in Q4 2022, totaling 4.7 million sq. ft. with a cumulative pre-lease rate of 57.6%, up from Q3 2022's pre-lease rate of 30.6% and Q4 2021's pre-lease rate of 47.0%. In total, the market added 33 buildings in 2022 totaling 11.0 million sq. ft. Only three buildings completed in 2022 remained unleased, all of which were delivered in the latest quarter. The cumulative pre-leasing rate for completed properties in 2022 was down 13 basis points to 82% compared with 2021's astounding mark of 95%

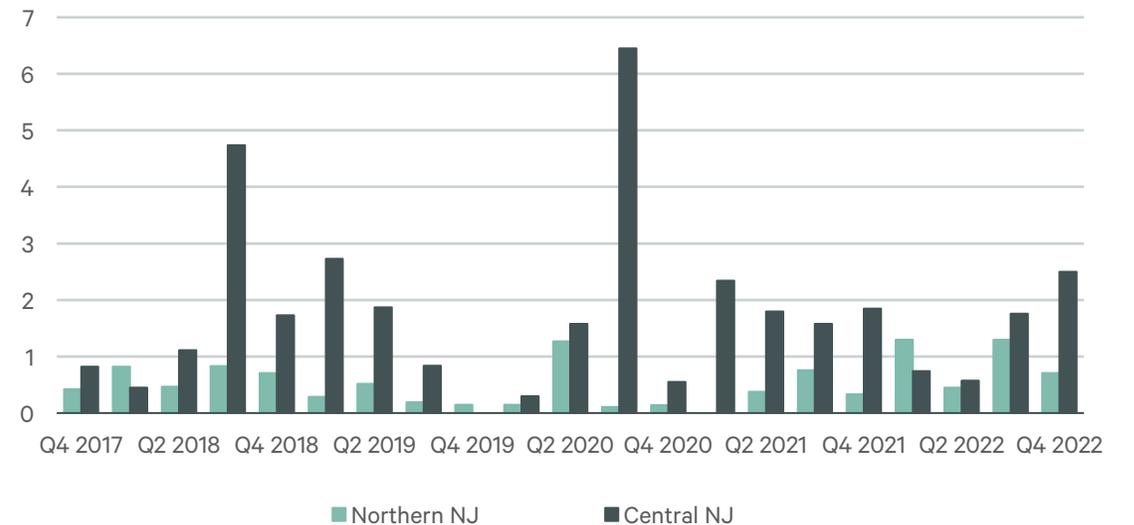
There was a total of 12.3 million sq. ft. of new industrial product under construction at the end of the year, 14% less than Q3 2022 but still 10% above the five-year quarterly average. Three projects broke ground in Q4 2022 totaling 1.1 million sq. ft., down 10% from Q3 2022 and down 72% from Q4 2021. The slowing is partly a response to slowing economic activity but was also a result of growing opposition to warehouse developments – a trend driven both at the state and local levels. The combination of limited developable land and the growing resistance against warehouse development will further dampen construction activity in the near term despite persistent demand.

FIGURE 3: Historical Availability Rate by Market (%)



Source: CBRE Research, Q4 2022

FIGURE 4: Historical Construction Completions by Market (Million Sq. Ft.)



Source: CBRE Research, Q4 2022

Rent Trends

Northern and Central New Jersey’s Class A average industrial rents ended the year at \$19.02 per sq. ft., up 3.4% from the prior quarter and 8.0% year-over-year. The pace of rent appreciation for Class A space in the market, while still strong, decelerated compared to late 2021 and early 2022 as owners became less aggressive with pushing rents and more focused on securing good-credit tenants for long term leases with aggressive escalations.

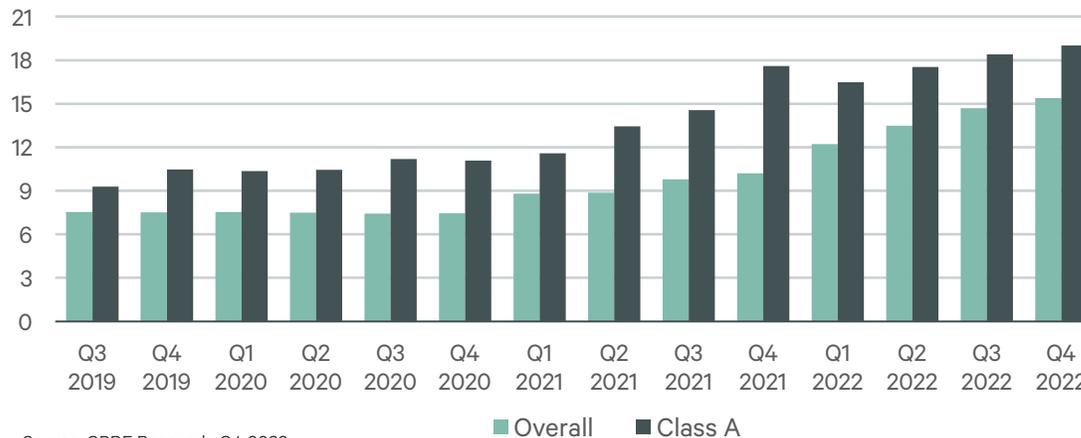
In Northern New Jersey, the Newark submarket, which has excellent access to the Port and Newark Airport, had the highest Class A average asking rent in Q4 at \$34.00 per sq. ft., up 13% quarter-over-quarter and 58% year-over-year, reflecting a severe shortage of high-quality space near the port submarkets. Similarly, in Central New Jersey, Class A average asking rent were highest in the Linden/Elizabeth submarket at \$21.12 per sq. ft., up 2.1% quarter-over-quarter and 17% year-over-year. Rents here were boosted by increased activity at the Port resulting in spill-over demand from the neighboring, supply-constrained Newark submarket. Finally, move-in-ready quality Class B space grew increasingly scarce over the last two years pushing rents closer to Class A levels. Until an ample supply of new Class A space is available, expect upward pressure on Class B rents, creating opportunity for those landlords to significantly add value to their assets in the short term.

Economic Overview

The Consumer Price Index decelerated due to improved supply chains, lower energy prices, and higher interest rates. However, inflation fears persisted as wage growth only recently showed signs of modest slowing. Elevated volatility in the financial markets reduced expectations of earnings growth in 2023 and firms were looking to cut costs as consumer spending falls, resulting in a rising level of layoffs.

Trade, transportation, and utilities, an employment sector which includes warehouse and logistics firms, increased to 3.0% above the pre-pandemic level, up from 2.6% at mid-year. The manufacturing sector, another major user of industrial space, saw a modest decline to just 97.5% of pre-pandemic employment levels, down from 97.8% at the end of Q3 2022.

FIGURE 5: NJ Overall Historical Industrial Asking Rents (\$/Per Sq. Ft.)



Source: CBRE Research, Q4 2022

FIGURE 6: NJ Trade, Transportation, and Utilities Employment (Thousands)



Source: BLS

FIGURE 7: Submarket Statistics

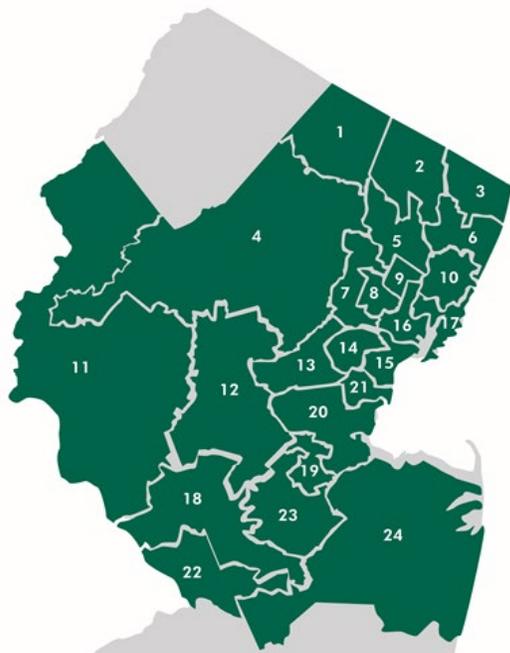
District	Inventory (Million Sq. Ft.)	Availability Rate (%)	Class A Avg. Asking Rent (\$/Sq. Ft.)	All Space Avg. Asking Rent (\$/Sq. Ft.)	Leasing Activity (Thousand Sq. Ft.)	Net Absorption (Thousand Sq. Ft.)	Under Construction (Thousand Sq. Ft.)
Central Bergen	34.1	4.0	-	12.93	42.3	-112.1	532.0
Fairfield Market	18.9	5.0	-	13.31	312.5	165.7	0.0
Hudson Waterfront	65.7	2.4	24.64	19.50	77.3	40.0	1,037.1
Meadowlands	93.8	6.4	28.08	18.00	841.6	-770.5	1,034.6
Morris Region	40.4	4.0	15.00	13.39	295.3	257.8	470.0
Newark	54.3	1.4	30.00	10.96	56.5	101.2	100.3
North East Bergen	8.1	5.2	-	16.81	0.0	-23.1	0.0
North West Bergen	19.4	5.7	22.00	12.92	49.7	-31.8	208.3
Rt 23 North	0.60	0.0	-	0.0	0.0	0.0	0.0
Rt 280 Corridor	4.4	1.4	-	15.00	0.0	-58.7	0.0
Rt 46/23/2 Interchange	58.2	4.4	-	12.94	103.7	73.1	0.0
Suburban Essex	11.4	3.6	23.00	22.25	6.5	-350	0.0
Northern NJ Total	409.4	4.1	23.99	16.55	1,785.5	-134.6	3,382.4
Brunswicks/Exit 9	27.6	4.5	18.08	16.45	73.8	52.6	191.5
Carteret/Avenel	27.9	3.1	19.53	19.95	122.1	-123.3	2,652.2
Central Union	25.1	4.5	-	14.79	23.0	-6.4	0.0
Exit 8A	79.4	3.4	14.50	14.25	1,403.1	1,192.0	133.8
Hunterdon/Warren	13.9	3.2	-	6.49	0.0	1,147.8	0.0
Linden/Elizabeth	45.3	4.5	21.12	20.34	282.1	-517.9	2,267.0
Monmouth	26.6	10.0	14.50	14.04	234.4	276.6	0.0
Princeton	15.8	6.4	14.25	14.24	0.0	1.99	160.5
Route 287/Exit 10	110.2	2.9	18.30	15.37	741.8	-172.8	1,767.6
Route 78 East	9.7	2.4	-	22.00	8.0	267.1	0.0
Somerset	39.6	3.4	17.78	12.09	157.5	67.3	1,013.1
Trenton/295	33.4	5.4	13.52	12.66	530.6	423.5	779.4
Central NJ Total	454.5	4.1	17.67	14.76	3,576.3	2,617.4	8,965.1
NJ Total	863.9	4.1	19.02	15.39	5,361.8	2,482.8	12,347.5

Source: CBRE Research, Q4 2022.

- 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

Associate 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

Sonia Tomkowska

Research Data Analyst
 +212 984 8058
Sonia.Tomkowska@cbre.com

Cameron Carton

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

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