

Industrial Q3 2023

5.0%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

-4.3M

Net Abs. YTD, SF



\$17.22

Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS
Q3 2023

4.7M

New Jersey
EmploymentYoY
Chg12-Mo.
Forecast

4.2%

New Jersey
Unemployment Rate

3.7%

U.S.
Unemployment Rate

Source: BLS

ECONOMY: Port Volumes Ahead of Pre-Pandemic Levels

Following a bustling July, when the Port of New York and New Jersey (PNYNJ) achieved its highest cargo volume since October 2022, August signaled the return to more familiar pre-pandemic operational levels. The PNYNJ moved 662,740 TEUs, reflecting a 24.1% decline in cargo volume compared to the 843,191 TEUs handled in the same period last year, bringing the year-to-date (YTD) volume through August to 5.1 million TEUs.

These declines were mainly attributed to retailers drawing from their surplus inventory reserves accumulated during the unprecedented cargo surges of the past two years. While this adjustment reduced cargo volume, it is important to recognize it as part of a broader inventory optimization process and the return to more sustainable supply chain practices. The PNYNJ remains a pivotal gateway for trade in the northeast and a key driver of New Jersey's industrial market demand.

OVERVIEW: Demand Stabilizes Amid Wave of New Vacant Deliveries

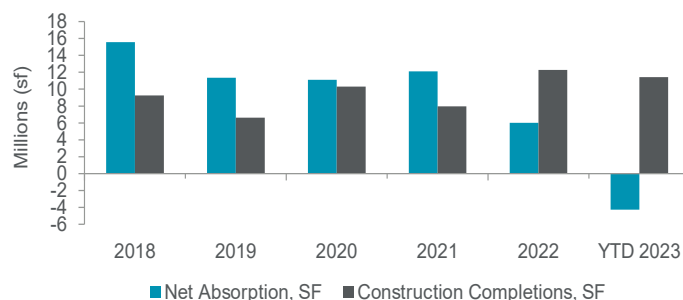
Recent trends in leasing activity have further emphasized the abnormal surge in 2021, as the industrial market transitioned back to a state of relative equilibrium following the peak of activity in that year. Concurrently, a substantial influx of new completions introduced an additional 3.7 million square feet (msf) of new supply to the market, propelling the vacancy rate to 5.0%. Nevertheless, the rate of under-construction projects is anticipated to decelerate, enabling the absorption of existing new developments. Developable land is also dwindling in specific regions of the State, setting the stage for constraints on new supply in the coming years.

SUPPLY: Rising Vacancy Levels Triggered by Vacant Completions and New Non-Class A Supply

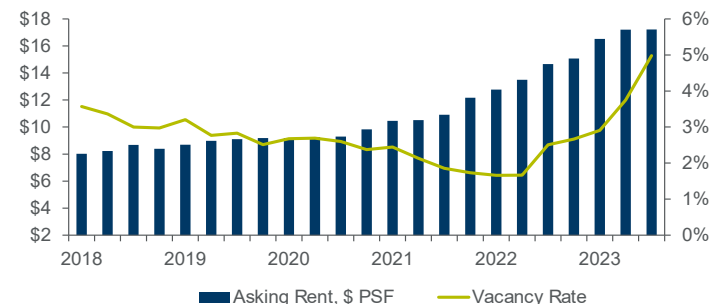
At negative 4.0 msf, net absorption remained in the red for the second consecutive quarter, bringing the YTD total to negative 4.3 msf. Occupancy losses were primarily attributed to the acceleration of newly vacant non-Class A space. In contrast, the Class A segment demonstrated resilience, maintaining positive net absorption for the 33rd consecutive quarter at 730,881 square feet (sf).

A wave of new construction deliveries entered the market in the third quarter, comprising a total of 17 buildings, spanning 4.3 msf. Of this space, 3.5 msf remained unoccupied, bringing the vacancy rate up by 130 basis points (bps) to 5.0%. The rise in sublease space has continued in the current quarter, albeit at a moderated pace of new additions. Vacant sublease space has expanded by 3.2% since the previous quarter, totaling 3.7 msf, accounting for 11.1% of the overall vacant space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





DEMAND: Class A Properties in Central New Jersey Drives Demand

New leasing activity totaled 5.4 msf during the third quarter, nearly approaching the two-year quarterly average of 5.5 msf. Several prominent Class A lease transactions, including Efulfill, East Coast Warehouse, Fabuwood Cabinetry, and Weida Freight Services, affirmed the persistent demand for new Class A product in New Jersey. Central New Jersey (CNJ) remained a focal point for demand within the state, accounting for 58.2% of new leasing activity. At 3.1 msf, leasing activity in CNJ is up 37.7% year-over-year (YOY). Notably, the top five new leases and renewals occurred in the Exit 8A and I-287/Exit 10 submarkets, further highlighting tenant demand for modern facilities along the I-95 corridor.

In the third quarter, there were 1.2 msf of sublease deals completed, surpassing the cumulative volume achieved in the preceding two quarters. The uptick in sublease activity underscores the persistent demand for such spaces and, as such, prevented any significant escalation in sublease vacancy rates within the State. The largest new sublease this quarter was signed by Efulfill, who will occupy 469,600 sf at 600 Ridge Road in Piscataway. Also notable was Advanced Distribution's 100,326-sf sublease at 251 Union Street in Northvale. These transactions serve as clear indicators of the attractiveness of sublease spaces in meeting various tenant needs.

PRICING: Rent Stability Maintained Despite Rising Supply

The average asking rent remained steady throughout New Jersey this quarter, reaching \$17.22 per square foot (psf). This historic high figure showcases the market's resilience despite minimal quarterly fluctuations. Furthermore, the market's strength becomes even more apparent when considering the annual growth rate, which surged 17.5% from the previous year. Segmenting by property type, the average asking rent for warehouse/distribution space increased by 18.2% YOY, now at \$17.54 psf. This growth was attributed to substantial rises in the Port Region and Exit 8A submarkets, which have recorded annual rental growth rates of 24.7% and 24.3%, respectively. Despite the annual increase, rent growth has been decelerating following record-breaking rates over the last two years.

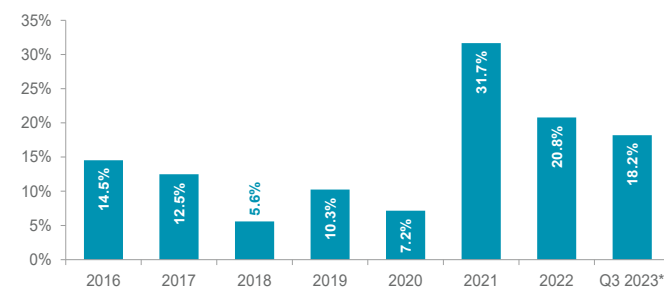
CONSTRUCTION: Wave of New Deliveries is Met with Slower Pace of Construction Starts

The third quarter exhibited a surge in new developments, culminating in the completion of 17 buildings covering 4.3 msf. However, construction starts slowed, reaching its lowest quarterly total since 2021's first quarter at 1.4 msf, bringing the YTD total to 6.2 msf, down from 11.4 msf during the same period last year. While there has been a broader slowdown, it is worth highlighting that a significant portion of the under-construction pipeline remains concentrated in key submarkets. Specifically, the Port Region boasts 1.2 msf of active construction projects, while the Exit 9 submarket has a substantial 2.8 msf under construction, underscoring the area's appeal as a hub for industrial development.

Outlook

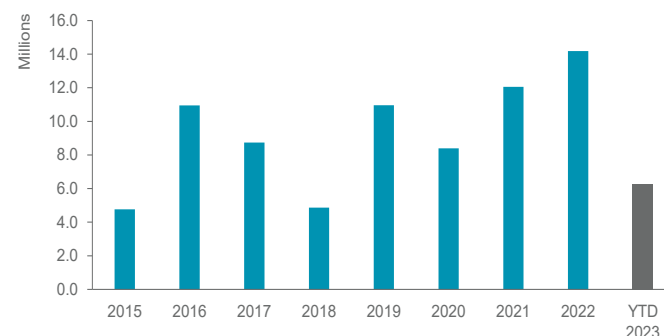
- The vacancy rate is expected to increase further by year-end, as additional new construction projects are scheduled to deliver vacant.
- A slowdown in construction starts over the next 12-24 months, can potentially lower vacancy rates, especially if existing properties are absorbed successfully.
- Owners and developers are maintaining current market pricing, but in response to moderated demand, they anticipate offering increased concessions such as free rent and potentially subdividing large blocks of space to incentivize and fuel new transactions.

ANNUAL WAREHOUSE RENT GROWTH (%)

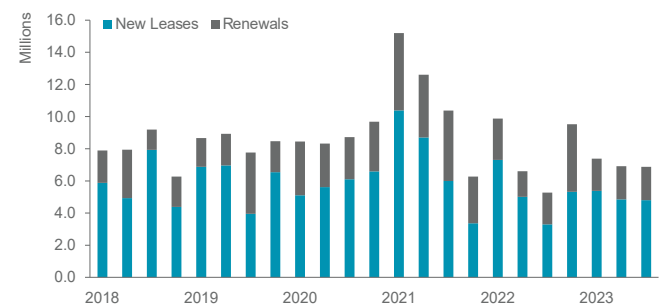


*Q3 2023 rent growth represents increase from Q3 2022

CONSTRUCTION STARTS



YTD WAREHOUSE LEASING BY SUBMARKET (MSF)



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANCY RATE	YTD LEASING ACTIVITY (SF)	CURRENT QUARTER NET ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT (HT)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Bergen County	87,541,227	5.6%	2,421,424	-798,699	-1,378,791	1,152,156	1,602,429	\$17.38	\$15.78	\$19.08
Essex County	48,642,318	5.0%	891,146	-214,643	-520,506	143,000	650,224	\$14.41	\$13.47	\$18.90
Hudson County	78,309,566	6.0%	1,489,971	-636,895	-1,327,778	819,074	870,496	\$21.00	\$29.18	\$19.93
Morris County	42,352,149	5.0%	383,233	-206,185	-361,554	48,235	824,637	\$15.44	\$10.00	\$15.87
Passaic County	42,586,792	3.6%	350,773	-501,169	-967,530	0	25,714	\$15.00	\$16.13	\$15.74
NORTHERN NJ TOTAL	299,432,052	5.2%	5,536,547	-2,357,591	-4,556,159	2,162,465	3,973,500	\$15.95	\$15.66	\$18.62
Mercer County	35,126,624	8.3%	1,849,750	-665,457	559,095	812,608	585,977	\$13.99	\$7.00	\$12.83
Middlesex County	226,247,017	4.3%	6,417,791	-602,423	-1,122,825	5,233,312	4,229,517	\$14.16	\$13.70	\$17.18
Monmouth County	15,120,305	6.8%	324,527	-88,302	-39,957	171,940	609,082	\$13.67	\$12.60	\$14.23
Somerset County	33,159,536	3.6%	641,273	-133,796	596,759	551,221	880,754	\$17.19	\$13.75	\$15.77
Union County	60,774,726	4.7%	1,998,278	-194,952	303,142	949,210	1,139,235	\$22.00	\$14.95	\$19.14
CENTRAL NJ TOTAL	370,428,208	4.8%	11,231,619	-1,684,930	296,214	7,718,291	7,444,565	\$14.40	\$12.94	\$16.68
NEW JERSEY TOTALS	669,860,260	5.0%	16,768,166	-4,042,521	-4,259,945	9,880,756	11,418,065	\$14.97	\$14.17	\$17.54

*Rental rates reflect weighted net asking \$psf/year

**Leasing activity totals do not include renewals

HT = High Tech/Flex MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET	LEASE TYPE
100 Riverside Drive	470,867	Home Depot	Warehouse/Distribution	I-287/Exit 10	Renewal*
600 Ridge Road	469,600	Efulfill	Warehouse/Distribution	I-287/Exit 10	New Lease
20 Sigle Lane	387,744	East Coast Warehouse & Distribution	Warehouse/Distribution	Exit 8A	New Lease
100-200 Saw Mill Pond Road	269,362	NFI Industries	Warehouse/Distribution	I-287/Exit 10	Renewal*
283 Prospect Plains Road	218,169	Graybar Electric	Warehouse/Distribution	Exit 8A	Renewal*

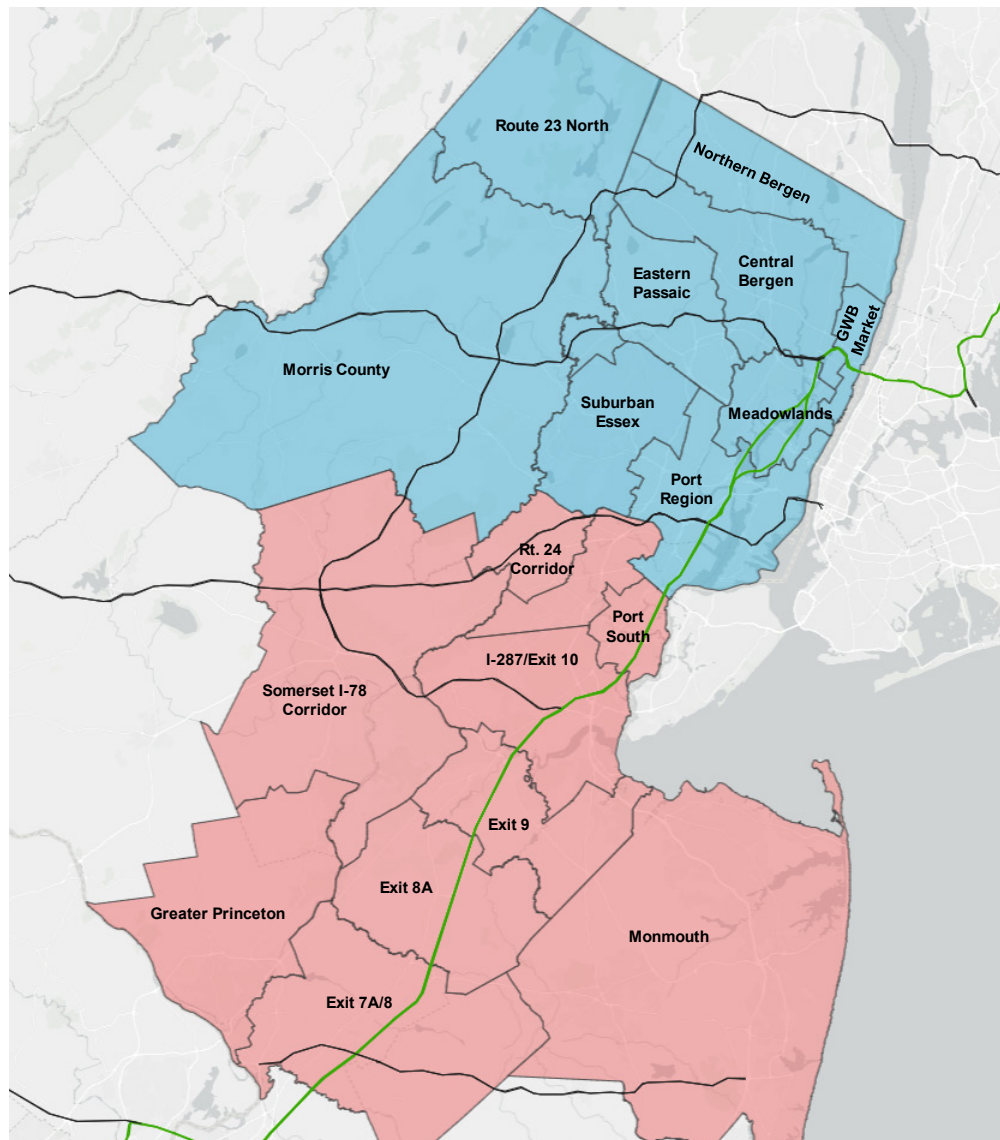
*Renewals not included in leasing statistics

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SF	DEVELOPER	PROPERTY TYPE	MAJOR TENANT	SUBMARKET
Jake Brown Road - Building 3	818,395	2020 Acquisitions	Ware-house/Distribution	N/A	Exit 9
1160 State Street - Building B	800,000	Bridge Development	Ware-house/Distribution	N/A	I-287/Exit 10
30 Sigle Lane	674,209	Heller Industrial Parks	Ware-house/Distribution	N/A	Exit 8A
85 Main Street	654,640	Rockefeller Group	Ware-house/Distribution	N/A	Exit 9
1 Malcolm Avenue	515,421	Hartz Mountain	Ware-house/Distribution	N/A	Meadowlands



INDUSTRIAL SUBMARKETS



JOHN OBEID

Senior Research Manager, New Jersey

Tel: +1 201 351 0885

john.obeid@cushwake.com

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