

Industrial Q4 2023

5.6%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

-5.5M

Net Abs. YTD, SF



\$17.14

Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS
Q4 2023

4.6M

New Jersey
EmploymentYoY
Chg12-Mo.
Forecast

4.7%

New Jersey
Unemployment Rate

3.7%

U.S.
Unemployment Rate

Source: BLS

ECONOMY: Port Container Volume Remains Above Pre-Pandemic Norms

The Port of New York and New Jersey (PNYNJ) ranked as the nation's second-busiest seaport for loaded containers handled year-to-date (YTD) through November. This sustained high level of container volume aligns with the PNYNJ's strategic initiative to enhance port capacity, as evidenced by the recent \$220 million project announcement. This investment aims to redesign and rebuild the northern entrance of Port Newark, emphasizing the port's commitment to continuous improvement and expansion. Year-to-date container volume totaled 7.2 million TEUs, marking a 19.2% year-over-year (YOY) decrease but substantially surpassing pre-pandemic norms. November of 2023 witnessed a 7.5% increase in cargo transport compared to November of 2019, indicating a steady flow of trade activity.

OVERVIEW: Leasing Activity Surges as Vacancy Continued to Climb

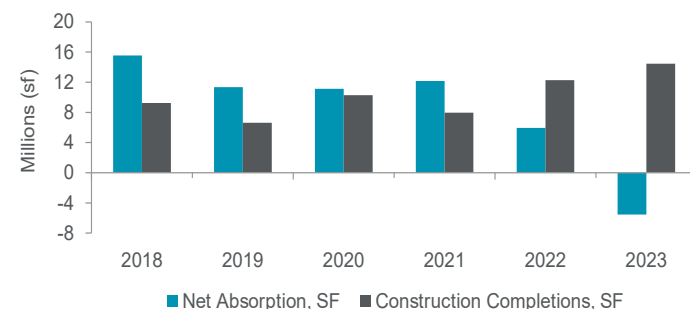
New Jersey's industrial market closed the year with robust momentum, with fourth-quarter activity recording the most significant quarterly new leasing total since the first quarter of 2022. Alongside the increase in new leases, there was a notable uptick in lease renewals. The combined total of new leasing and renewal activity peaked at 11.6 million square feet (msf) in the fourth quarter—the highest volume achieved since 2021's second quarter. However, this increase in demand coincided with a consistent growth in the vacancy rate. Record numbers of vacant completions this year led to a vacancy rate of 5.6%, reaching its peak level since the fourth quarter of 2015. Despite these shifts influenced by economic factors, recent tenant activity indicates a probable sustained demand, keeping pricing levels above rates observed before the pandemic.

SUPPLY: Surge in Vacant Completions Outpaces Easing Occupancy Losses, Driving Higher Vacancy

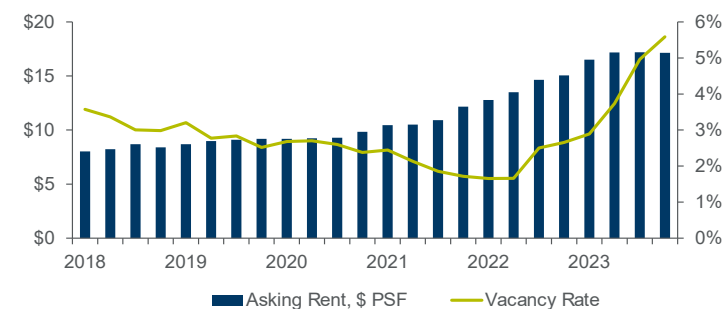
After recording more than 6.3 msf of negative net absorption in the previous two quarters, occupancy losses slowed in the fourth quarter to negative 1.3 msf. The yearly net absorption reached negative 5.5 msf, predominantly fueled by the 5.1 msf of occupancy losses recorded in Northern New Jersey (NNJ) region. Negative absorption was widespread, with all but five submarkets posting annual occupancy losses. Notably, the Exit 7A/8 and Port South submarkets demonstrated the highest absorption totals, each registering 1.2 msf of gains.

The influx of supply due to a record-breaking volume of new deliveries in 2023 contributed to escalating vacancy levels. During the fourth quarter, 15 buildings amounting to 3.0 msf were delivered, with 2.5 msf remaining unoccupied. Consequently, the vacancy rate spiked by 60 basis points quarter-over-quarter to 5.6%. With an additional 9.8 msf currently under construction and scheduled for delivery in the upcoming year, strong demand becomes imperative to prevent further increases in the vacancy rate.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





DEMAND: New Leases and Renewals Soar to Close out 2023

New Jersey's industrial market recorded 7.1 msf of new leasing activity during the fourth quarter, reaching a high unseen since 2022's first quarter. Breaking down by property type, the warehouse/distribution asset type hit its highest quarterly new leasing activity level in two years, securing 6.4 msf. This reflected a 21.4% increase over the two-year quarterly average of 5.3 msf. A resurgence in substantial large-scale transactions fueled this demand, with 22 new leases surpassing the 100,000-square-foot mark. This starkly contrasts last year's eight leases and the 13 recorded during the fourth quarter of 2022. The strong year-end finish resulted in 21.5 msf of new leasing activity, up 2.5% from the previous year.

Central New Jersey (CNJ) continued to dominate the state's demand, claiming a significant 68.2% share of the total activity throughout 2023. Leasing activity for warehouse/distribution space in CNJ reached 14.7 msf, marking a 20.9% increase compared to the previous year. Conversely, NNJ recorded 6.8 msf of new leasing activity in 2023, reflecting a 22.6% YOY decline. However, this demand was closely aligned with pre-pandemic levels, down only 6.3% from the 7.3 msf leased in 2019. Amid increased new leasing activity, the volume of lease renewals also surged to 11.9 msf—the second highest in the last decade—trailing only behind the pandemic-fueled total of 2021.

PRICING: Rent Holds Firm Amid Escalating Supply Pressures

The average asking rent for warehouse space in New Jersey continued its upward trend, as new completions establish an elevated pricing standard, hitting a record-high of \$17.56 per square foot (psf), a 14.5% increase YOY. Despite an anticipated slowdown in the average asking rent, pricing dynamics in core submarkets, particularly along the New Jersey Turnpike, remained at unprecedented high levels. Notably, the Meadowlands and Exit 8A submarkets exhibited substantial improvements in warehouse asking rents, boasting impressive YOY escalations of 29.1% and 20.2%, respectively.

CONSTRUCTION: Record Number of New Deliveries Increases Supply

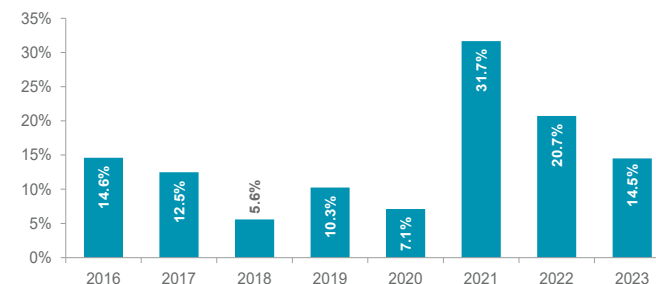
In 2023, Northern and Central New Jersey recorded a historic 14.4 msf in new construction deliveries, driven by key submarkets like Port South, I-287/Exit 10, Port Region, and Meadowlands. Of this substantial delivery, only 4.1 msf was pre-leased, marking a pre-lease rate of 28.8%. This figure represents a decrease from the 54.4% pre-lease rate recorded last year and 77.0% in 2021.

Construction starts reached a high of 14.2 msf in 2022 but has since slowed with a total of 9.6 msf in new starts in 2023. Factors such as the capital landscape, rising vacancy rates, limited land availability, and challenges within the entitlement process have constrained the start of new projects this year. While certain noteworthy developments remain in the pipeline, it is projected that new construction starts will continue to lag behind the recent peak levels experienced in prior years.

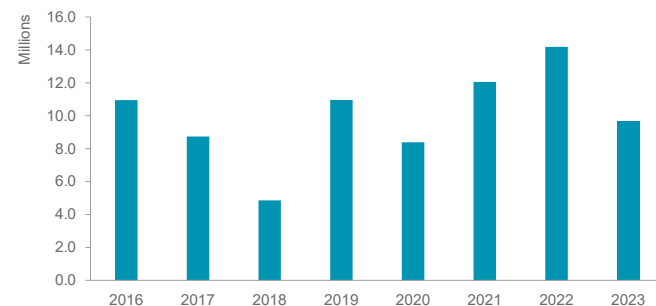
Outlook

- The introduction of new construction supply alongside returning vacancies may further impact vacancy in the first half of 2024.
- Potential labor negotiation hurdles could lead to an East Coast International Longshoremen's Association strike, potentially disrupting the supply chain operations.
- The renewed demand observed this quarter suggests potential sustained leasing improvements as we head into 2024.

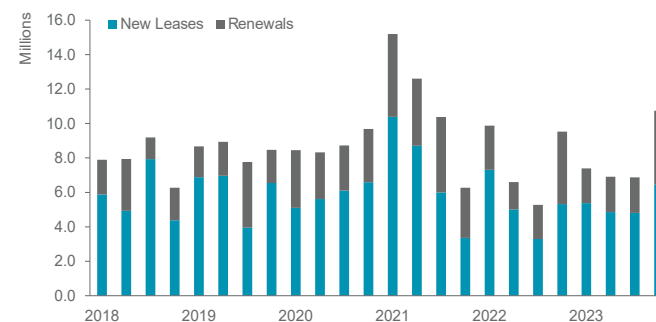
ANNUAL WAREHOUSE RENT GROWTH (%)



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	88,936,152	6.7%	2,945,889	-411,987	-1,746,291	689,167	2,212,918	\$18.11	\$15.94	\$20.19
Essex County	49,097,631	5.4%	1,475,963	-233,473	-753,979	143,000	650,224	\$14.81	\$13.71	\$18.46
Hudson County	78,218,298	5.3%	2,349,707	545,752	-767,326	1,338,638	892,882	\$21.00	\$30.21	\$19.36
Morris County	42,744,367	4.6%	800,485	126,739	-226,992	78,035	824,637	\$15.17	\$14.32	\$15.76
Passaic County	42,927,098	5.1%	524,253	-656,204	-1,623,734	295,506	25,714	N/A	\$14.90	\$15.92
NORTHERN NJ TOTAL	301,923,546	5.6%	8,096,297	-629,173	-5,118,322	2,544,346	4,606,375	\$16.78	\$15.11	\$18.83
Mercer County	35,967,406	10.9%	2,226,755	-318,076	201,095	160,462	1,238,123	\$12.27	\$8.16	\$13.00
Middlesex County	227,304,289	5.0%	9,741,856	-123,630	-1,237,455	5,231,261	5,663,000	\$13.52	\$13.92	\$17.40
Monmouth County	15,202,695	8.5%	399,955	-255,450	-295,407	171,509	609,082	\$13.82	\$12.36	\$13.59
Somerset County	33,230,188	2.9%	1,050,204	253,963	852,722	1,172,076	880,754	\$17.68	N/A	\$15.82
Union County	61,016,693	5.6%	2,345,258	-248,475	62,667	1,036,644	1,461,000	\$18.82	\$14.18	\$18.62
CENTRAL NJ TOTAL	372,721,271	5.6%	15,764,028	-691,668	-416,378	7,771,952	9,851,959	\$13.37	\$12.99	\$16.62
NEW JERSEY TOTALS	674,633,817	5.6%	23,860,325	1,320,841	5,534,700	10,316,298	14,458,334	\$14.87	\$14.24	\$17.56

*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 Q4 2023

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET	LEASE TYPE
1005 West Middlesex Avenue	737,620	DSV Solutions	Warehouse/Distribution	I-287/Exit 10	Expansion, Renewal*
1240-1248 Cranbury South River Road	607,739	Marc Fisher	Warehouse/Distribution	Exit 8A	Renewal*
965 Cranbury South River Road	550,050	TFH Publications	Warehouse/Distribution	Exit 8A	Renewal*
50 Meadowlands Parkway	450,318	Ferguson Plumbing	Warehouse/Distribution	Meadowlands	Renewal*
110 Van Keuren Avenue - Building 1	427,155	Confidential Tenant	Warehouse/Distribution	Port Region	New

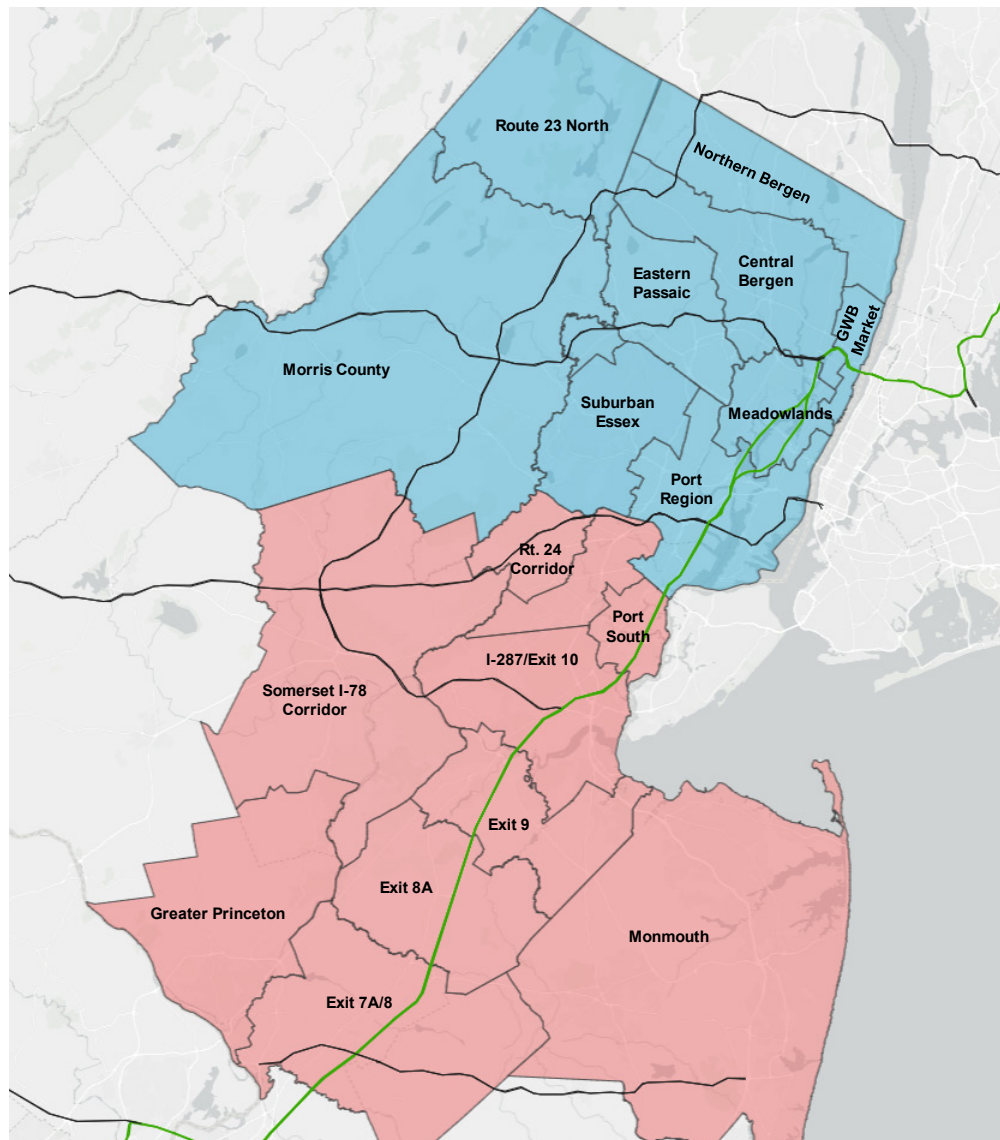
*Renewals not included in leasing statistics

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SF	DEVELOPER	PROPERTY TYPE	MAJOR TENANT	SUBMARKET
Jake Brown Road - Building 3	818,395	2020 Acquisitions	Warehouse/Distribution	N/A	Exit 9
1160 State Street - Building B	800,000	Bridge Development	Warehouse/Distribution	N/A	I-287/Exit 10
85 Main Street	654,640	Rockefeller Group	Warehouse/Distribution	N/A	Exit 9
Jake Brown Road - Building 6	495,086	2020 Acquisitions	Warehouse/Distribution	N/A	Exit 9
1075 Secaucus Road	490,428	National Retail Systems	Warehouse/Distribution	N/A	Port Region



INDUSTRIAL SUBMARKETS



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