CBRE

NJ INDUSTRIAL MARKET POSTS STRONG START TO 2023 AS ECONOMIC UNCERTAINTY BUILDS

▼ 2.7% Vacancy Rate

▼ 1.7M Sq. Ft. Net Absorption

▲ 13.3M Sq. Ft. Under Construction

▲ 6.8M Sq. Ft. Leasing Activity

▲ $19.25 NNN / Class A Lease Rate Per Sq. Ft.

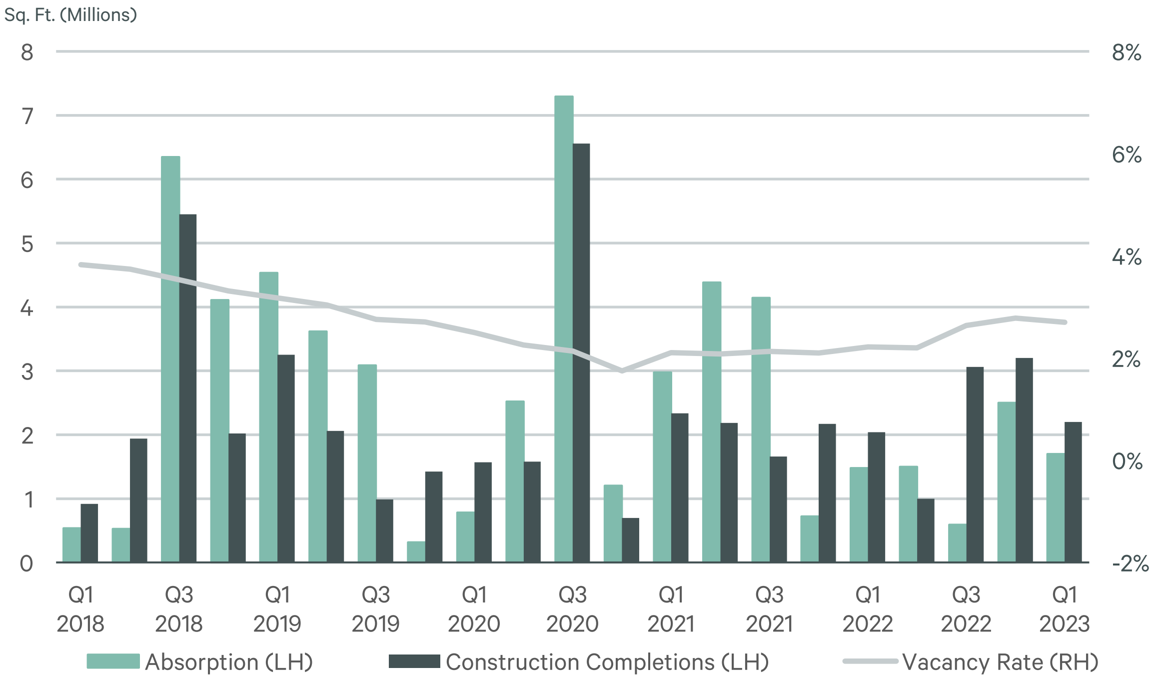
▲ $16.51 NNN / Lease Rate Per Sq. Ft.

Note: Arrows indicate change from previous quarter.

Market Overview

The combined Northern and Central NJ industrial market showed meaningful resilience in Q1 2023 as leasing activity increased for the second straight quarter and rose above the five-year quarterly average. This is the first time in seven quarters that activity has surpassed the five-year average, outperforming predictions of an economic slowdown driven by a reduction in demand. Absorption remained positive for the 25th consecutive quarters, posting a quarterly total of 1.7 million sq. ft. Despite the positive total, the combination of absorption through pre-leased completions and adjustments for changes in inventory led to a vacancy rate of 2.7%, a decrease of 10 basis points (bps) from last quarter. Class A vacancy drifted 23 basis points bps higher to 4.8% due to several vacant new completions in Central NJ. Class A average asking rents increased 1.2% quarter-over-quarter to $19.25 per sq. ft, marking a slowdown in asking rent growth as Class A rents stabilize after several years of large quarterly gains. The average asking rent across all classes continued its recent climb increasing by 7.2% quarterly to $16.51 per sq. ft. as owners grew more aggressive in pricing their Class B availabilities. Concerns about the economic prospects later this year and financial disruptions suppressed new construction starts to 1.2 million sq. ft., 37% below the five-year quarterly average.

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



Source: CBRE Research, Q1 2023

Demand

The combined North and Central NJ Industrial market posted a strong start to the year with a leasing activity total of 6.8 million sq. ft., 26% above the previous quarter and 9.4% higher than the five-year quarterly average of 6.2 million sq. ft. This quarter's robust performance was a function of several factors. The economy, particularly consumer spending, has been resilient despite rising interest rates, negative economic prognosticating and stress in the banking sector.

The BEA recently reported an increase in consumer spending of 0.2% for February, a modest gain compared to January's 2.0%, but on aggregate, a strong start to the new year after a slower Q4.

NJ port activity remains historically strong as companies diversified supply chains to mitigate risks after Covid related Chinese port closures and labor disputes at west coast ports. These west coast disturbances have pushed NJ ports closer to surpassing The Port of Los Angeles as the busiest port in the country.

Q1 leasing activity was mainly driven by pent-up demand carried forward from Q4. Occupiers, especially 3PLs, revived requirements after a pause in the second half of 2022 caused by recession concerns. These concerns have started to subside as positive economic growth, better spending statistics, and improved recession forecasts persuaded some of these occupiers off of the sidelines. Given the persistent challenges of finding suitable space in a supply constrained market, occupiers saw it prudent to secure space rather than wait for the prospect of increased tenant demand and occupancy competition as economic stresses subside over the coming quarters.

Third-party logistics occupiers drove leasing velocity during the quarter and accounted for 48% of the total, an increase of 800 bps from the previous quarter. Leasing by Wholesale/Retail companies fell off dramatically from 40% in the previous quarter to 11% in Q1. E-Commerce leasing was very quiet again with HongMall's 63,000 sq. ft. lease at 930 New Durham Rd in Edison being the industry's only major lease.

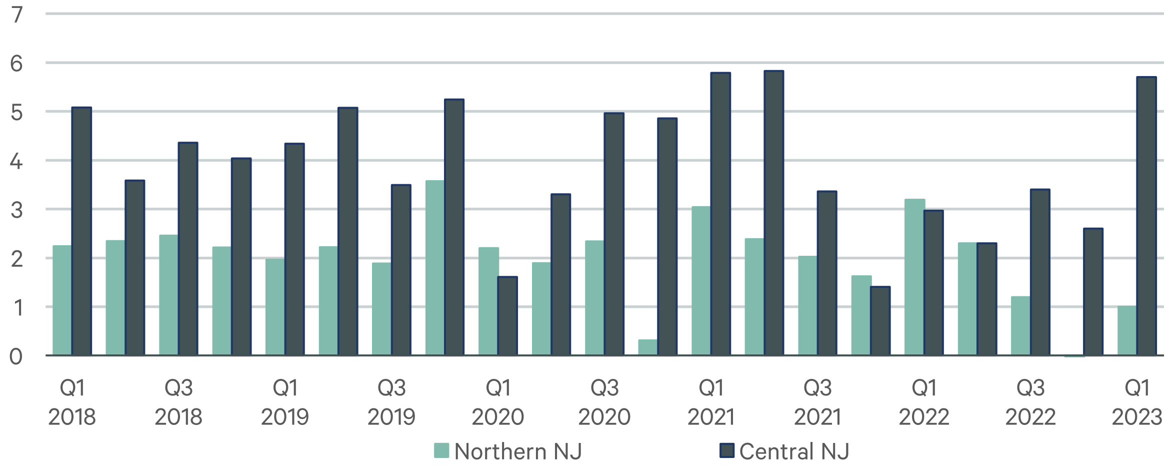
Source: CBRE Research, Q1 2023

FIGURE 2: Notable Lease Transactions, Q1 2023

Size	Tenant	Address	City	Transaction Type
845,078	DMI Inc	1365 Lamberton Rd Bldg 1	Trenton	New Lease
610,949	GXO Logistics	301-321 Herrod Blvd	South Brunswick Township	New Lease
547,334	Pioneer Commodities	1665 Jersey Ave	North Brunswick	Renewal
372,159	Vanguard Logistics	400 Linden Logistics Way	Linden	New Lease
321,765	Coda Logistics & Distribution	1601 W Edgar Rd	Linden	New Lease

Source: CBRE Research, Q1 2023

FIGURE 3: Historical Industrial Leasing Activity by Market (Million Sq. Ft.)



Source: CBRE Research, Q1 2023

Supply

The vacancy rate in Q1 for existing Class A space increased 23 bps to 4.8%. Newly delivered, unleased logistics space totaled 1.3 million sq. ft., down 500k sq. ft. from Q4. Outside of new deliveries, there was only one existing Class A availability totaling 238,000 sq. ft. in Central NJ added to the market . While overall Class A vacancy grew, most of the vacant Class A space remains in 750k sq. ft. and greater blocks in Central NJ. These spaces have lingered on the market as big block demand has shifted towards smaller requirements in recent quarters.

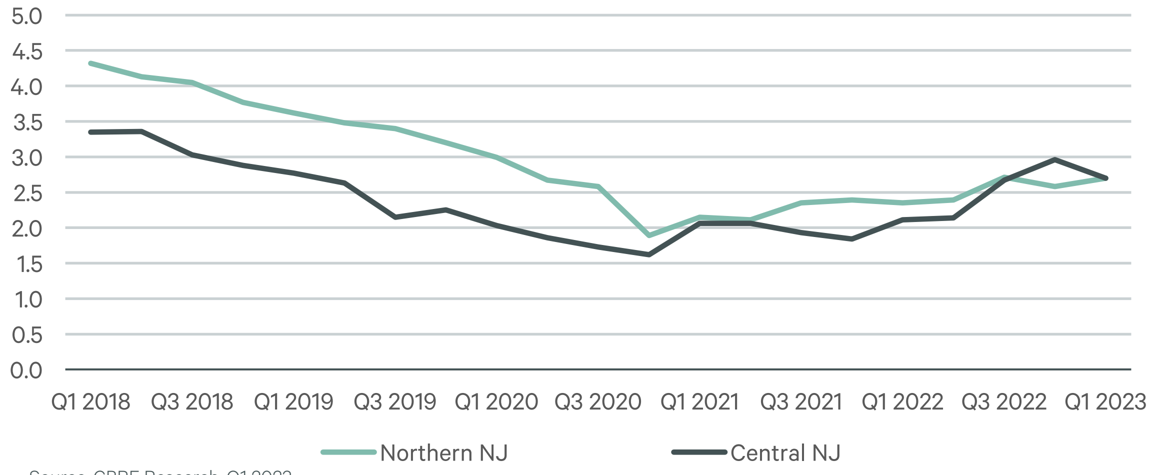
The Meadowlands, once one of the tightest submarkets in Northern NJ, has seen its overall vacancy rate incrementally normalize over the last year and reach 4.5% in Q1. New vacancy was mostly the result of a cluster of lease expirations in the second half of 2022 and the first quarter of 2023. Less depth in the occupancy pool compared to the scorching markets of 2019 and 2020 also played a significant role in pushing up vacancy.

Seven buildings completed construction in Q1 2022, totaling 2.2 million sq. ft. with a cumulative pre-lease rate of 52%, down from Q4 2022's pre-lease rate of 58%

There was a total of 13.3 million sq. ft. of new industrial product under construction at the end of Q1, 8% more than Q4 2022 and 15% above the five-year quarterly average. Six projects began construction in Q1 2023 totaling 1.2 million sq. ft., up 9% from Q4 2022 but 37% below the five-year quarterly average. The average size of construction starts has also decreased, matching smaller requirements in the market. The average size of construction starts in Q1 2023 was 189,000 sq. ft.; 26% below the trailing four-quarter average. There has also been more willingness by owners to demise new spaces to accommodate occupiers' smaller space needs.

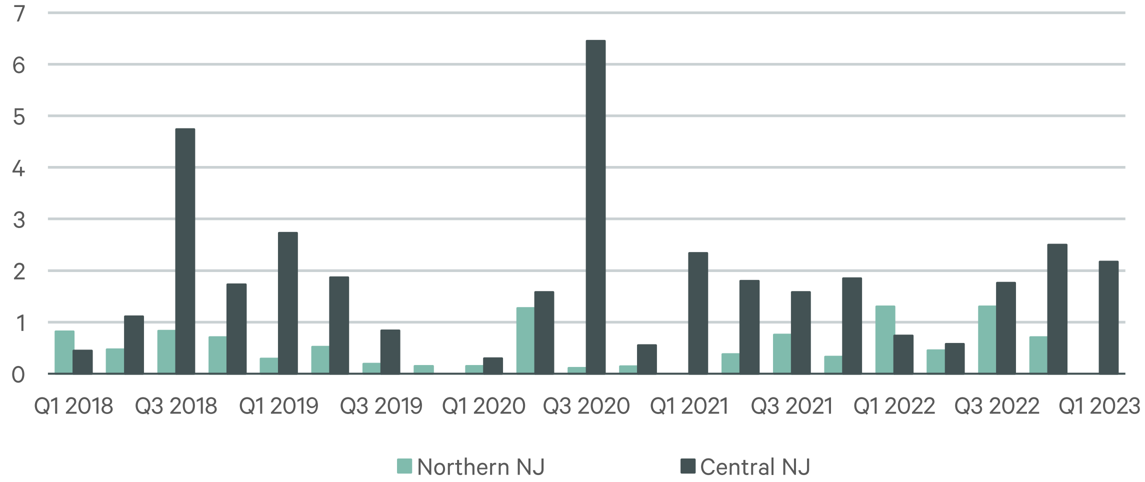
The slowdown in construction starts is a logical reaction to recessionary concerns and increased borrowing costs. Developers and owners have become more risk sensitive due to slowing demand, lower pre-lease activity, and more construction completions remaining vacant for extended periods. The prospect of future construction remains unclear as the volatility in financing markets and land constraints impact construction underwriting.

FIGURE 4: Historical Vacancy Rate by Market (%)



Source: CBRE Research, Q1 2023

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



Source: CBRE Research, Q1 2023

Rent Trends

Northern and Central New Jersey's Class A average industrial rents ended the quarter at $19.25 per sq. ft., up 1.2% from the prior quarter and 17% year-over-year. Overall asking rents were $16.51 per sq. ft., up 7.2% quarter-over-quarter and 35% year-over-year. After several years of rapid appreciation, Class A asking rents have stabilized, marked by this past quarter's increase being the least in Class A asking rents since 2018. However, overall asking rents have continued their rapid ascent as strong demand for quality Class B has driven pricing, especially in smaller size segments. As owners have become more risk averse due to recession concerns, a renewed focus on asset stabilization is driving a push for financially stable tenants. The desire for stability can lead to, more aggressive concessions for quality tenants. Class B assets continue to position more aggressively as occupier demand for smaller ready-to-occupy spaces remains strong. The delta between overall asking rents and Class A rents compressed to 17%, down 18 bps from Q1, reflecting the contrasting rent dynamics between Class A and overall rents.

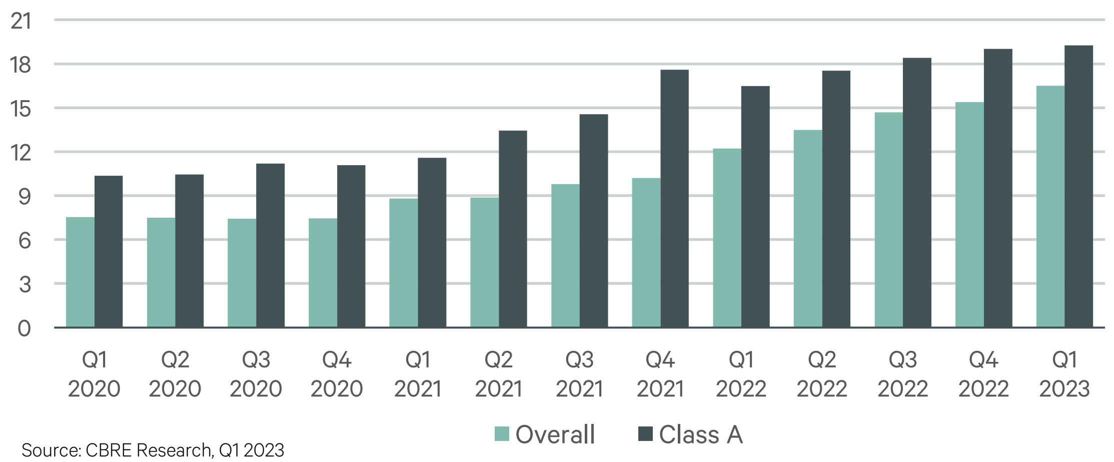
Economic Overview

Downstream consequences of the Fed's tightening program are surfacing throughout the economy and industrial markets, signaling slower growth ahead. Several factors are beginning to weigh on employment most important being an elevated cost of capital which is causing firms to shelve plans for expansion and investment.

Despite mounting challenges in the economy, New Jersey's employment landscape pushed through Q1 2023 and remained in positive territory, picking up 24,000 new jobs since the end of 2022 – a quarterly growth rate of 0.6%. The manufacturing sector gained 2,400 employees in Q1, translating to a growth rate of 1.0% for the quarter. Trade, transportation, and utilities – a sector which includes logistics and fulfillment center employment – shed 700 positions, for a modest contraction of -0.1%. Both sectors remain above their pre-pandemic employment level.

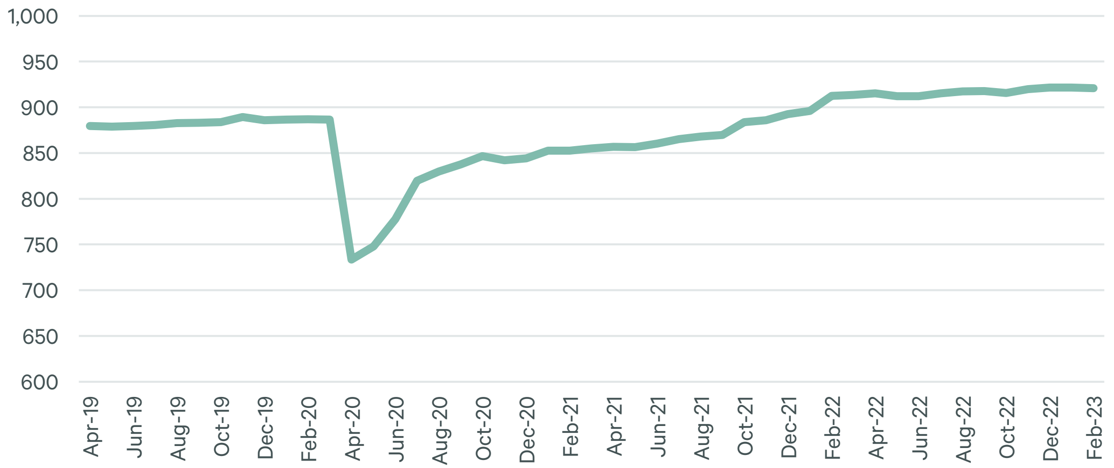
New Jersey's overall unemployment rate remained low at 3.5% in Q1, up from 3.3% at the end of 2022 but down considerably from the pandemic peak of 15.8% in May 2020, and below the national unemployment rate of 3.6%.

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



Source: CBRE Research, Q1 2023

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



Source: BLS

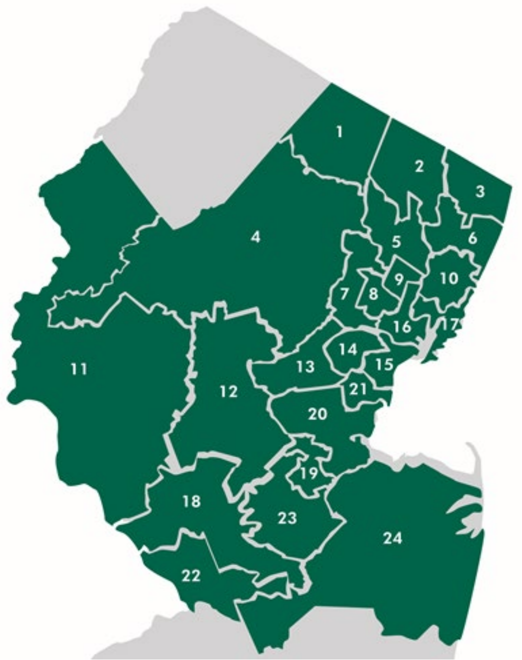
FIGURE 8: Submarket Statistics

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	33.9	1.9	-	13.33	43.4	-72.2	5.32
Fairfield Market	18.9	4.6	-	15.72	18.5	-178.8	0.0
Hudson Waterfront	64.9	1.8	24.64	18.22	85.3	155.4	1,154.4
Meadowlands	93.4	4.5	25.34	18.10	200.1	-705.6	1,598.8
Morris Region	40.4	2.7	16.15	13.44	374.9	36.2	783.5
Newark	53.8	1.1	26.04	19.47	31.0	-194.9	533.6
North East Bergen	8.1	2.2	-	13.37	15.0	-76.6	0.0
North West Bergen	19.1	3.2	22.00	12.86	118.3	-80.3	360.4
Rt 23 North	0.6	0.0	-	0.00	0.0	0.0	0.0
Rt 280 Corridor	4.4	0.9	-	0.00	59.2	25.1	0.0
Rt 46/23/2 Interchange	57.9	1.9	-	14.60	60.4	-57.6	0.0
Suburban Essex	6.7	6.1	23.00	22.39	0.0	-6.5	0.0
Northern NJ Total	**402.3**	**2.7**	**23.21**	**16.98**	**1,006**	**-1,156**	**4,963**
Brunswicks/Exit 9	27.2	1.9	18.03	16.46	123.8	82.5	846.1
Carteret/Avenel	29.3	5.2	19.61	19.41	246.5	-54.6	1,817.4
Central Union	24.5	1.2	-	15.79	138.0	117.6	0.0
Exit 8A	80.1	2.7	14.21	14.10	1,003	351.7	133.8
Hunterdon/Warren	14.8	2.3	-	9.40	338.8	357.1	0.0
Linden/Elizabeth	44.3	2.9	21.63	22.16	960.4	931.5	1,532.1
Monmouth	26.9	6.8	14.50	13.59	9.8	-123.2	429.6
Princeton	15.8	6.4	14.25	13.82	252.0	-79.1	160.5
Route 287/Exit 10	109.2	1.8	18.52	15.87	1,012.3	187.8	1,656.7
Route 78 East	9.7	1.2	-	19.62	1.8	-82.1	0.0
Somerset	39.9	1.9	17.62	14.47	297.3	233.9	662.1
Trenton/295	32.4	1.5	15.25	13.03	1,257.8	919.2	1,095.0
Central NJ Total	**454.2**	**2.7**	**17.65**	**16.09**	**5,746**	**2,842**	**8,333**
NJ Total	**856.5**	**2.7**	**19.25**	**16.51**	**6,752**	**1,686**	**13,296**

Source: CBRE Research, Q1 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

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